THE ASPPA Journal

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Back on Track: Helping Pre-retirees Improve Their Retirement Outlook

by Catherine Collinson

Most American workers and their prospects for a comfortable retirement have suffered from the recent economic downturn. Workers age 50 and older, or "pre-retirees," are among the hardest hit. Unlike younger workers, pre-retirees have less time for their retirement accounts to recover from market losses before they reach retirement age.

For years, retirement experts and policymakers have researched and articulated concerns that Baby Boomers and older workers nearing retirement age have inadequate financial resources to achieve a financially secure retirement. The need to help them save and plan for retirement has led to extensive media coverage, educational campaigns, the development of new product and service offerings and passing of legislation. Now, in light of the economic downturn, pre-retirees are in even greater jeopardy of not achieving a financially secure retirement.

The Tenth Annual Transamerica Retirement Survey[1], conducted by the Transamerica Center for Retirement Studies, provides insights to the challenges faced by pre-retirees. It also highlights opportunities to help pre-retirees recover from declines in savings balances and improve their chances of achieving a financially secure retirement.

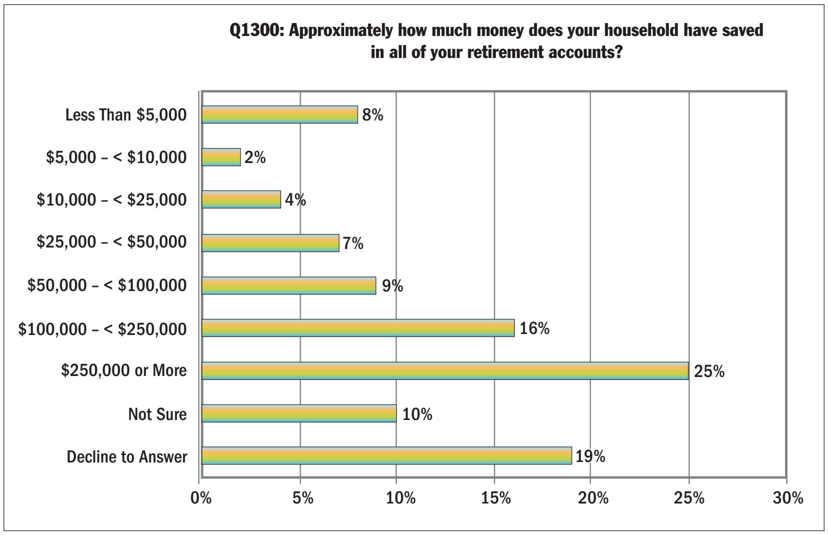
Retirement Confidence

The majority of pre-retirees (65%) are less confident in their abilities to achieve a financially secure retirement than they were 12 months ago. Now, only 10% are "very confident" that they will be able to fully retire with a comfortable lifestyle.

Despite their low levels of confidence, the survey found encouraging news that pre-retirees are continuing to save for retirement. For those who are offered a 401(k) or similar plan, participation (80%) and annual salary contribution (median 10%) rates remain high. Even more encouraging, 23% have increased contributions to their plans over the last 12 months. Nearly three out of four (74%) are saving for retirement outside of work.

For the most part, pre-retirees are resisting the temptation to tap into their retirement accounts. Fewer than 10% have taken out a loan (6%) or hardship withdrawal (3%) in the past 12 months—although it should be noted that 18% have an outstanding loan.

However, 61% agree that they could work until age 65 and not have saved enough. Based on their reported levels of household retirement savings, their concerns are well founded.



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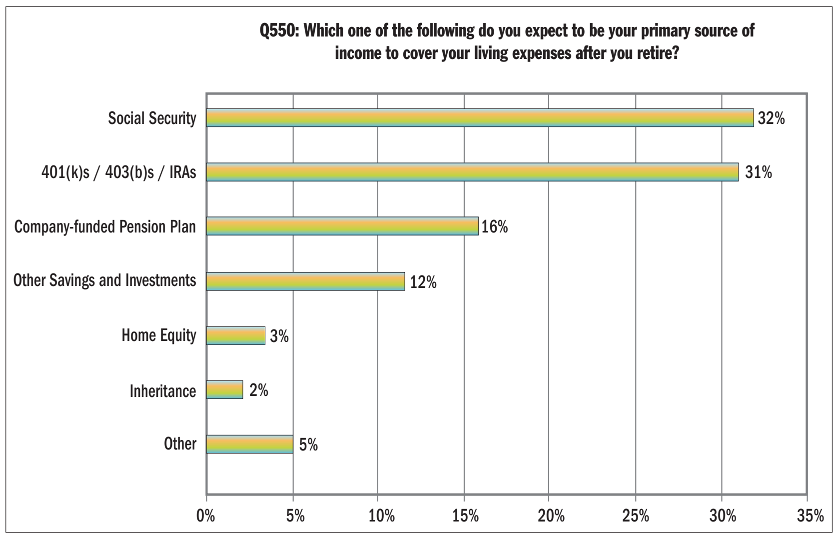
1 This survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies between December 16, 2008 and January 13, 2009 among 3,466 full-time and part-time workers, including 957 full-time workers age 50 or older and 598 part-time workers age 50 or older. Potential respondents were targeted based on job title and full-time and part-time status. Respondents met the following criteria: All US residents, age 18 or older, full-time workers or part-time workers in for-profit companies and employer size of ten or more. Results were weighted as needed for the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Pre-retirees estimate that they need to save $500,000 (median) for retirement, yet only one-in-four pre-retirees indicated that they have saved more than $250,000 in total retirement accounts. 21% of pre-retirees indicated that they have saved less than $50,000 for retirement including 16% of single pre-retirees who have saved less than $5,000.

With longer life expectancies, rising healthcare costs and the risk of inflation, many experts would agree that a $500,000 retirement nest egg may be insufficient. However, mathematically speaking, the required level of savings to reach even $500,000 may be out of reach for many. A 50-year old worker who earns $50,000 per year and has saved only $5,000 in retirement accounts would need to save more than $16,000 per year, assuming a 6% investment growth rate, to reach $500,000 by age 65. A 50-year old worker who has saved $50,000 would need to save approximately $13,000 per year.

Sources of Retirement Income

Given the relatively low levels of household retirement savings, it should be no surprise that pre-retirees most frequently cite Social Security (32%) as what they expect to be their primary source of income when they retire.



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While reliance on Social Security is a reality for many, current levels of benefits are insufficient to cover basic living expenses in many parts of the country. Saving for retirement through a defined contribution plan, IRA or other types of personal savings is critical even for those who plan to live off of Social Security.

401(k), 403(b) and IRA accounts are the second most frequently cited sources of retirement income (31%). This number may seem relatively low at face value; however, the number should be considered as quite high. It is important to remember that employer adoption of 401(k) plans is a relatively recent phenomenon with sponsorship rates, especially among small businesses, not taking off until the mid-1990s.

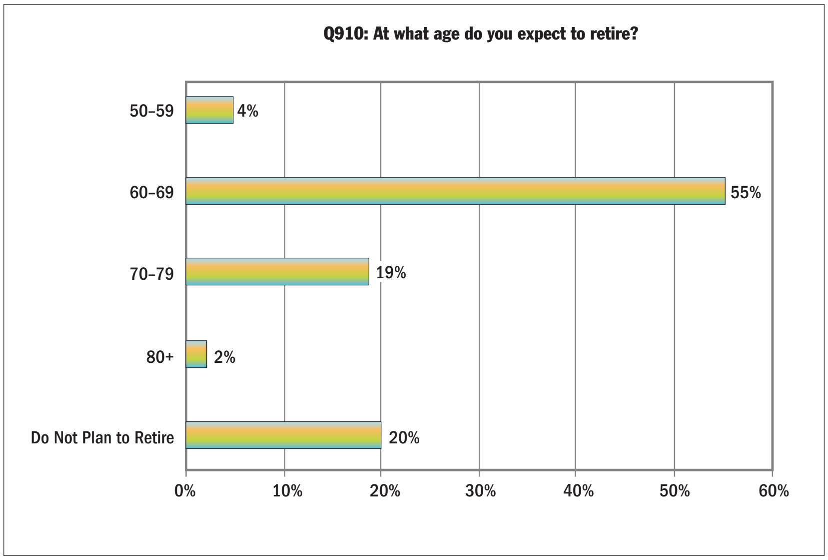
The fact that so many pre-retirees, most of whom did not have access to 401(k) plans until fairly recently, have amassed savings and expect to rely on them underscores the importance that such plans have attained in our society.

Bridging Shortfalls

Common sense says that the best way to help pre-retirees mitigate shortfalls in retirement savings is to work longer, save more, invest wisely and make informed decisions along the way. Pre-retirees are ultimately responsible for taking control of their retirement. However, the survey findings also highlight ways that policymakers and industry providers can help.

Working Longer

The survey found that many pre-retirees have already adjusted their expectations about working beyond the traditional retirement age of 65. Over the last 12 months, one-third (34%) expect to work longer and retire at an older age. Many (41%) now expect to work past the age of 70 including one-in-five who do not plan to retire.



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Working longer is an important way to bridge shortfalls in retirement savings; however, no one should count on it as their sole strategy. Life offers no guarantees and unforeseen circumstances such as a health crisis or job loss may force people to retire sooner than they had planned.

Opportunities to Save More

Given the recession and state of the economy, many pre-retirees may find it difficult if not seemingly impossible to find opportunities to save more for retirement. The survey found two meaningful opportunities to help pre-retirees save more: access to company-sponsored retirement plans and catch-up contributions.

Expanding Retirement Plan Coverage

Retirement plan coverage varies dramatically by employment status. 88% of full-time pre-retirees are offered an employee-funded plan compared to only 43% of part-time pre-retirees. More than half of part-time pre-retirees (51%) are offered no retirement benefits at all.

One approach to expanding coverage for both full-time and part-time employees is to increase awareness so that they will consider retirement benefits when evaluating employment opportunities.

Moreover, a greater opportunity is to enact legislation to expand retirement plan coverage by offering incentives to employers without a qualified plan to establish one. These incentives should include an expanded tax credit for establishing a plan and, for both new and existing plan sponsors, additional tax credits to help cover the cost of ongoing administration and employer contributions.

Legislation should also include incentives to extend coverage to part-time employees such as safe harbors, non-discrimination testing relief and tax credits to help offset any additional costs to the plan sponsor.

Several bills have already been introduced in Congress to mandate that employers offer Automatic IRAs to employees who are not covered by a defined contribution retirement plan. If enacted, the law would apply to certain employers who do not presently sponsor a defined contribution plan as well as to plan sponsors who do not extend eligibility to part-time employees.

In crafting legislation that would mandate Automatic IRAs, care must be given to ensure that they would not detract employers from sponsoring defined contribution plans that offer greater benefits to employees. Therefore, any proposals for Automatic IRAs should also include incentives for employers to sponsor and maintain defined contribution plans and support expansion of SIMPLE 401(k) and multiple employer plans, among other measures.

The key to success with any legislative reform will be to meaningfully expand retirement plan coverage in such a way that helps to preserve and complement current employer plan sponsorship rates and qualified defined contribution plans.

Catch-up Contributions

Catch-up contributions offer an opportunity for workers age 50 and older to save an additional $5,500 in 2009 in company-sponsored retirement plans and $1,000 in IRAs. Familiarity with this opportunity, since it was legislated in 2001, has increased, but the survey found that only 66% of pre-retirees are aware of it and fewer than half of them have taken advantage of it in their company's plan (21%) or an IRA (27%).

Of those who are not currently making catch-up contributions, the most frequently cited reason is "can't afford to" (48%). Other reasons include: "don't need to" (20%), "don't want to" (18%), "haven't gotten around to it" (6%) and "other" (8%).

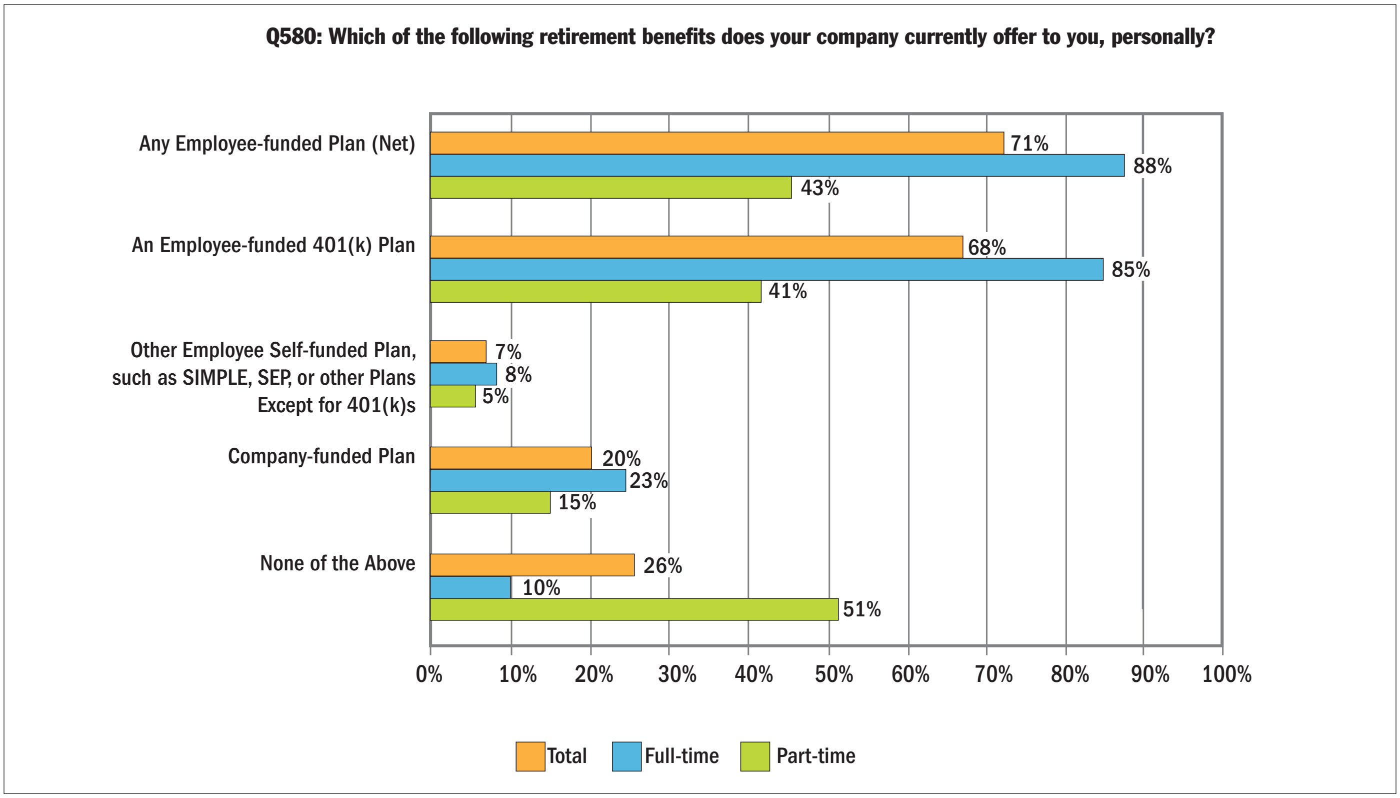
Promoting awareness of catch-up contributions is an obvious opportunity for the retirement industry and practitioners to encourage pre-retirees to save more.

Education & Investment Advice

Most people will agree that it's pretty much impossible to plan a trip without a destination, a means of transportation or a road map. Yet, that is exactly how many pre-retirees are unwittingly approaching their retirement savings.

An Estimated Savings Goal—the Destination

While pre-retirees estimate they will need to have saved $500,000 (median) by the time that they retire, 42% indicated that they had "guessed" at this amount. Fewer than 15% had completed a worksheet or done a calculation (11%) or had the amount given to them by a financial advisor (3%).



TOTAL BASE:	1,555
FULL-TIME BASE:	957
PART-TIME BASE:	598

Knowledge of Retirement Investing—a Means of Transportation

More than two-thirds of pre-retirees (67%) indicated that they do not know as much as they should about retirement investing. Very few (8%) indicated that they know a great deal about asset allocation principles related to retirement investing. And, given that pre-retirees are nearing retirement age, a relatively large number (14%) were "not sure" about how their retirement savings are currently invested.

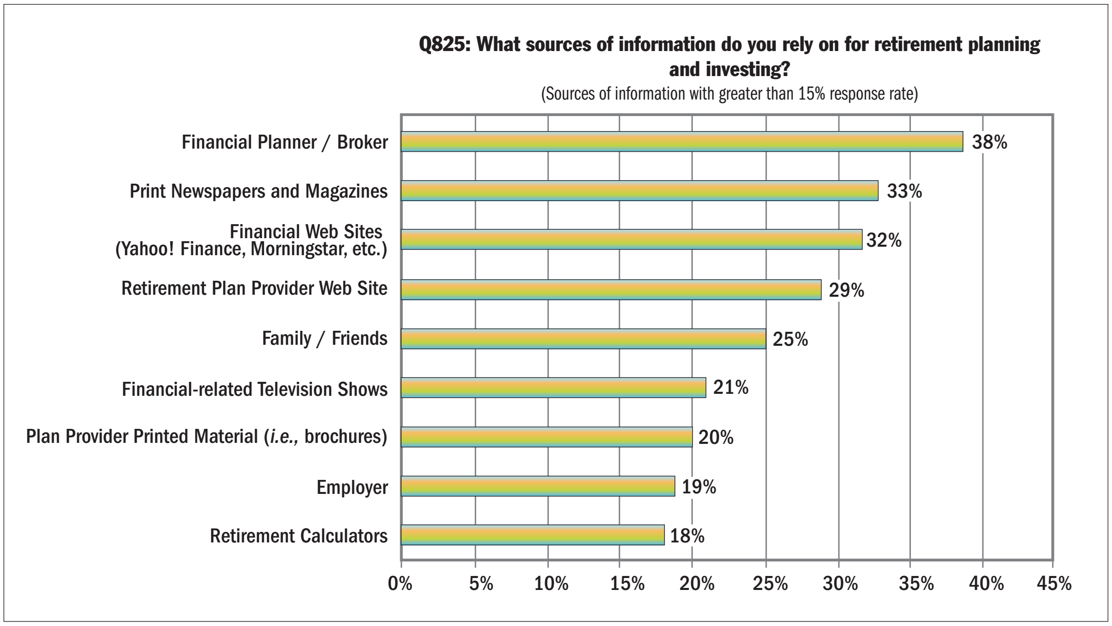
A Retirement Strategy—the Road Map

Only 14% have a written plan as their retirement strategy.

Given the extensive efforts that the retirement industry, policymakers and media have put into retirement educational offerings, it may seem frustrating that pre-retirees have not taken advantage in a way that is meaningfully reflected in the above findings.

The survey results offer a glimmer of hope that outreach efforts are working. More pre-retirees are now relying on financial Web sites, retirement plan provider Web sites, retirement calculators, print newspapers, magazines and television shows than had been reported in last year's Ninth Annual Transamerica Retirement Survey.

Many pre-retirees also reported using a financial advisor to assist them with their retirement savings (43%) and many would like to receive more information and advice on how to reach their retirement goals from their employers (48%).



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The economic downturn has prompted the need for policymakers and regulators to assess the effectiveness of recently implemented solutions, such as Qualified Default Investment Alternatives, as well as reopening the review and comment period for the recently finalized investment advice regulations. It is critical for policymakers and the retirement industry to address and resolve these issues in addition to finding new solutions.

Now more than ever, pre-retirees need education as well as access to professional advice to get back on track with planning and saving for retirement.

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Catherine Collinson serves as the Transamerica Center for Retirement Studies' president and as a retirement and market trends expert. She directs the Annual Transamerica Retirement Survey, which explores the attitudes and behaviors of American workers and employers regarding retirement security and workplace benefits. The survey has been referenced in publications such as The Wall Street Journal*,* USA Today *and* Money*. With more than a decade of experience in retirement services, Catherine has become a recognized voice on retirement trends for the industry and in Washington, DC.*

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