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Retirement Confidence on the Rise, Survey Finds

Workers who said either they or their spouse had money in a retirement account were more than twice as likely to be very confident in their retirement prospects as those who did not.

Retirement confidence seems to have improved from record lows over the past five years, according to the 24th Annual Retirement Confidence Survey (RCS) cosponsored by the Employee Benefit Research Institute (EBRI) and Greenwald & Associates. In early 2014, 18% of American workers said they were "very confident" they will have enough money to retire comfortably, compared to just 13% last year; 37% are "somewhat confident." A closer look at the trends indicates that the rise came largely from higher income households ($75,000 and up) and those who had money in retirement plans, including work-sponsored plans and individual retirement accounts (IRAs).

"Retirement confidence is strongly related to retirement plan participation," said Jack VanDerhei, research director at EBRI. "In fact, workers reporting they or their spouse have money in a defined contribution plan or IRA or have a defined benefit plan from a current or previous employer are more than twice as likely as those without any of these plans to be very confident (24% with a plan versus 9% without a plan)." Nearly half (46%) of those without a plan were "not at all confident" about their retirement, compared to just 11% of those who do have money in a retirement account.

That's the good news. The not-so-good news is that American workers, particularly those without a retirement account, still have far to go.

The link between retirement accounts and retirement confidence

Perhaps not surprisingly, 9 of out 10 workers participating in a retirement investment plan had set aside money for retirement, compared with just 2 out of 10 of those who don't have a plan. When asked about how much they had in savings and investments (excluding the value of a primary residence), nearly half of respondents with a retirement plan (47%) said they had at least $50,000 set aside; 17% had at least $250,000. By comparison, 73% of workers without a retirement plan had less than $1,000.

In addition, although less than half of all workers had ever tried to calculate how much they will need to retire, those who had money in some sort of a retirement account were twice as likely to have crunched the numbers as those who do not have a plan. And as the RCS demonstrates year after year, calculating a retirement savings goal can lead to retirement confidence.

To save or not to save

Workers seemed to understand the importance of saving for retirement, as 68% said they should be saving at least 10% of their income annually. Also not surprisingly, given their low level of reported savings, those who do not have a retirement account were more likely to say they needed to set aside at least 50% of their household income for retirement than those with a retirement account. They were also more likely to say they did not know how much they need to save.

So if workers generally understand the need to save and invest, why aren't they doing so? The reasons they gave include the cost of everyday living (53%), unemployment or underemployment (14%), non-mortgage debt (6%), mortgage or housing expenses (5%), and education expenses (5%).

Other findings

The Retirement Confidence Survey revealed several other interesting points:

- Last year, the Department of Labor issued a proposal requiring employer-sponsored retirement plan statements to illustrate how a worker's current account balance would translate into a lifetime income stream. A large majority (85%) of plan participants in this year's survey said the illustration was at least somewhat helpful, though most said the projected income stream was about what they expected. Of those who said it was less than expected, 35% said they would increase their plan contributions.
- The vast majority of plan participants (88%) said that it would be at least somewhat valuable if the financial services company that handles their retirement plan offered recommendations about how much to withdraw from their plan in order to make their account values last.
- While the expected retirement age of today's workers has inched upward over the past two decades, the actual age of retirement for most retirees has changed very little. For example, in 1991, 11% of workers said they expected to retire after age 65, but in 2014, that proportion rose to 33%. In actuality, in 1991, just 8% of retirees said they retired after age 65, and in 2014, that percentage had risen to just 16%.
- In the current year, less than 1 in 10 workers said they plan to retire before age 60, but the reality shows otherwise: 35% of current retirees said they retired before age 60, and not always for positive reasons. Nearly half of retirees left the workforce earlier than planned, with 61% of them saying they did so due to health reasons or disability. Eighteen percent did so because of a layoff or closure of their business, while the same percentage retired early to care for a family member. On a positive note, 26% said they were able to afford to retire earlier than planned, while 19% said they simply wanted to do something else.

About the survey

The RCS was cosponsored by EBRI, a private, nonprofit, nonpartisan public policy research organization that focuses on health, savings, retirement, and economic security issues, and Greenwald & Associates, a Washington, DC-based market research firm. The survey was conducted in January 2014 through 20-minute telephone interviews with 1,501 people, including 1,000 workers and 501 retirees. Full results can be viewed at www.ebri.org.

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