

Retirement Attitudes

Part I: Confidence in Retirement

Last year, the financial crisis had a deep impact not only on employees' savings, but also on the confidence they had in their ability to retire comfortably. A Towers Watson survey finds that this impact may be more long term than previously thought and, despite the onset of a gradual economic recovery, employees continue to be apprehensive about securing their retirement.

About the Survey

The Towers Watson Retirement Attitudes survey was conducted in May and June of 2010 and includes responses from 9,080 full-time U.S. employees at nongovernment organizations. In this brief, the first in a series of three, primary results reflect a subset of questions about retirement and health care programs completed by 3,099 respondents.

Key Findings

The survey found that:

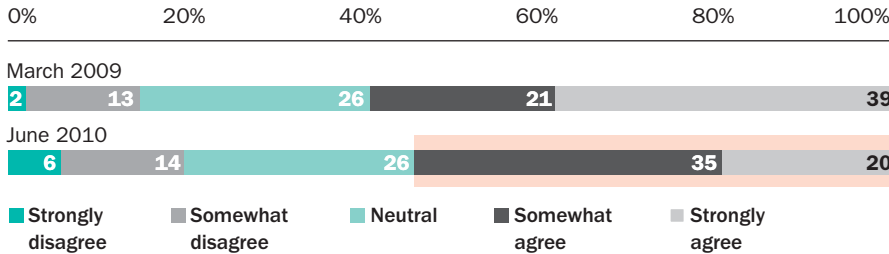
- More than half of employees across all ages report significant declines in their savings over the last two years.
- Employee confidence in having enough savings to live comfortably in retirement has recovered from February 2009 levels, but remains well below pre-crisis levels.

- While confidence is higher for those who participate in a defined benefit (DB) plan rather than a defined contribution (DC) plan, such as a 401(k), more younger employees are beginning to express concerns about their DB plans.

Employees of all ages continue to report significant declines in savings, but those nearest to retirement have been hardest hit.

Although the economic outlook is showing some signs of improvement, the survey found that the number of employees that have seen significant declines in their savings has not lessened to any great extent. A majority (55%) of all respondents surveyed said they had seen significant declines in 2010 (compared to 60% in March 2009). In general, declines hit older workers, who are closer to retirement, more than younger workers. Declines also hit higher-income workers, who are likely to have had greater savings, more than lower-income workers (*Figure 1*, and *Figure 2* on page 2).

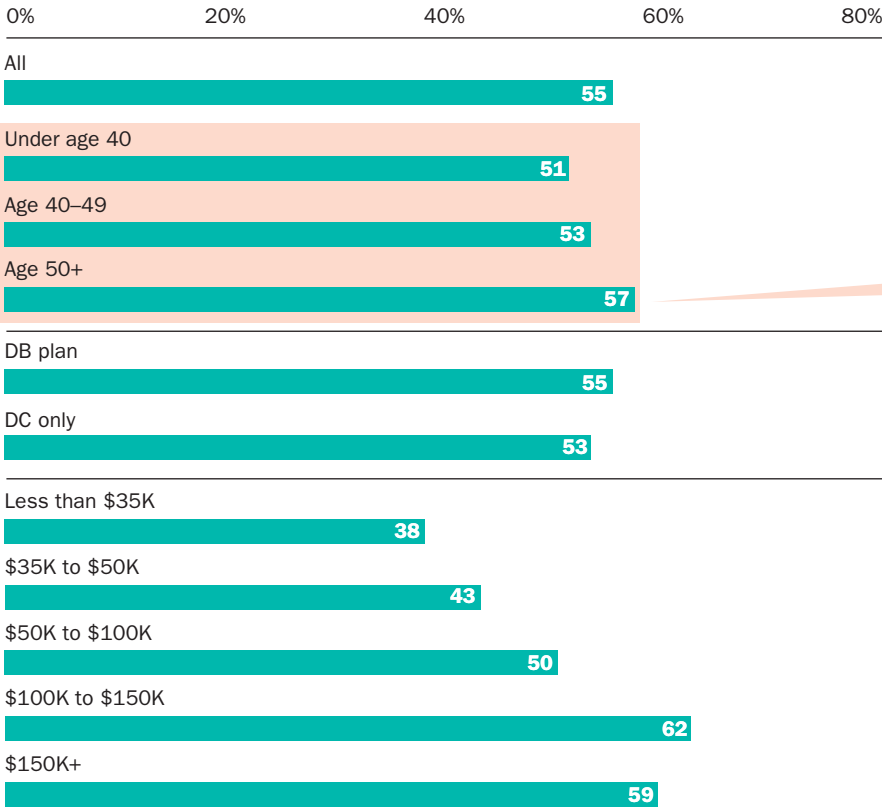
Figure 1. I have experienced significant declines in my pension/retirement savings due to recent events in the economy and financial markets



Overall, 55% of employees report significant declines in their savings over the last two years.

The number of people who have experienced significant declines in savings has fallen only 5 percentage points in 15 months.

Figure 2. I have experienced significant declines in my pension/retirement savings due to recent events in the economy and financial markets



These declines have been more significant for older workers, particularly those aged 50+.

“In general, declines hit older workers, who are closer to retirement, more than younger workers.”

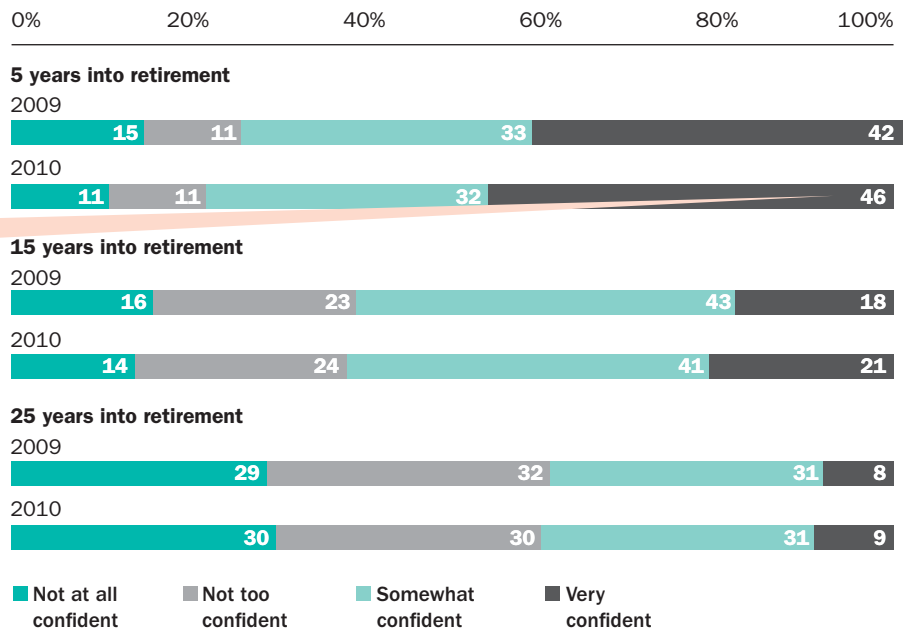
Note: Percentages indicate responses of “somewhat agree” or “strongly agree.”

As savings have declined, so has confidence in retirement resources. Confidence continues to plunge the longer employees look into retirement.

Many employees continue to doubt that their savings will carry them through a comfortable retirement, especially over the long term (Figure 3). As a result, employees are likely to delay their retirement, which could create workforce planning issues for employers as they look to keep both older and younger employees engaged.

Confidence in retirement resources has only increased slightly in the short term: Looking five years into the future, 78% are somewhat or very confident in their retirement resources in 2010, compared with 75% in 2009.

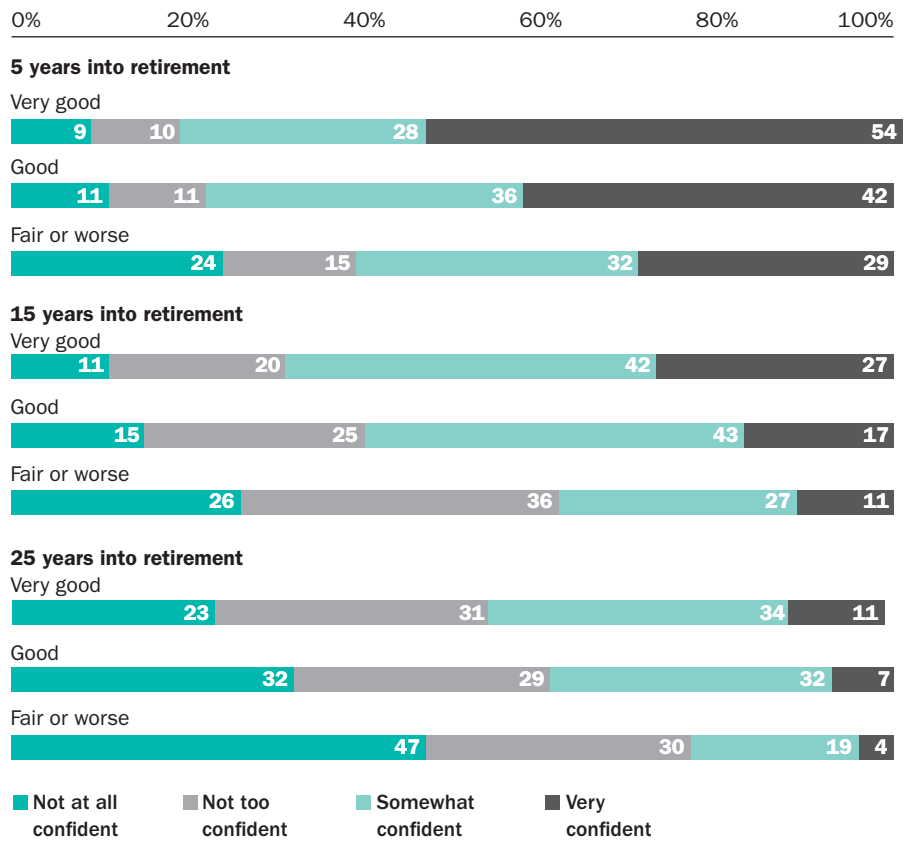
Figure 3. Employees’ confidence in having enough resources to live comfortably in retirement



As Figure 4 shows, employee confidence in their retirement savings is much lower among those in poor health, reflecting the burden that high health care costs have on these individuals. As companies increasingly move toward a consumer-directed health plan model — requiring employees to take on greater responsibility for managing their own health and health care costs — those in poor health may find it increasingly difficult to save enough during their careers to provide for a secure retirement.

Interestingly, older workers' confidence levels are slightly higher overall than those of the general employee group. Looking five years into retirement, 50% of older workers are very confident in their retirement resources (compared with 46% overall), reflecting a 6 percentage-point increase over 2009. However, this increase has not been enough to make up for a 19 percentage-point drop from 2007 to 2009. A similar pattern emerges for confidence levels 15 years into retirement (Figure 5).

Figure 4. Employees' confidence in having enough resources to live comfortably in retirement (by health status)



Source: Responses to June 2010 survey

Figure 5. Older workers' (50 to 64) confidence in having enough resources to live comfortably in retirement

	5 Years			Change	
	2007	February 2009	June 2010	2007 to 2009	2009 to 2010
Not at all confident	6%	10%	9%	4%	-1%
Not too confident	4%	10%	9%	6%	-1%
Somewhat confident	27%	35%	32%	8%	-3%
Very confident	63%	44%	50%	-19%	6%

	15 Years			Change	
	2007	February 2009	June 2010	2007 to 2009	2009 to 2010
Not at all confident	9%	15%	12%	6%	-3%
Not too confident	15%	21%	24%	6%	3%
Somewhat confident	42%	46%	40%	4%	-6%
Very confident	34%	18%	24%	-16%	6%

For older workers, although confidence levels have risen slightly from 2009 to 2010, this does not compensate for the sharp drop between 2007 and 2009.

Source: 2007 numbers based on T. Hill (2008), *Towers Watson 2007 U.S. Surveys of Older Employees' and Retirees' Attitudes Toward Lump Sum and Annuity Distributions From Retirement Plans*.

However, employees nearing retirement with DB plans have considerably more confidence in their resources than those with DC-only plans.

Respondents who have DB plans show clear differences from those who rely solely on DC plans (such as a 401(k)). A majority (52%) of those who have DB plans are somewhat or very confident in having enough resources to live 25 years into retirement, compared with only 40% of the total employee population (Figure 6).

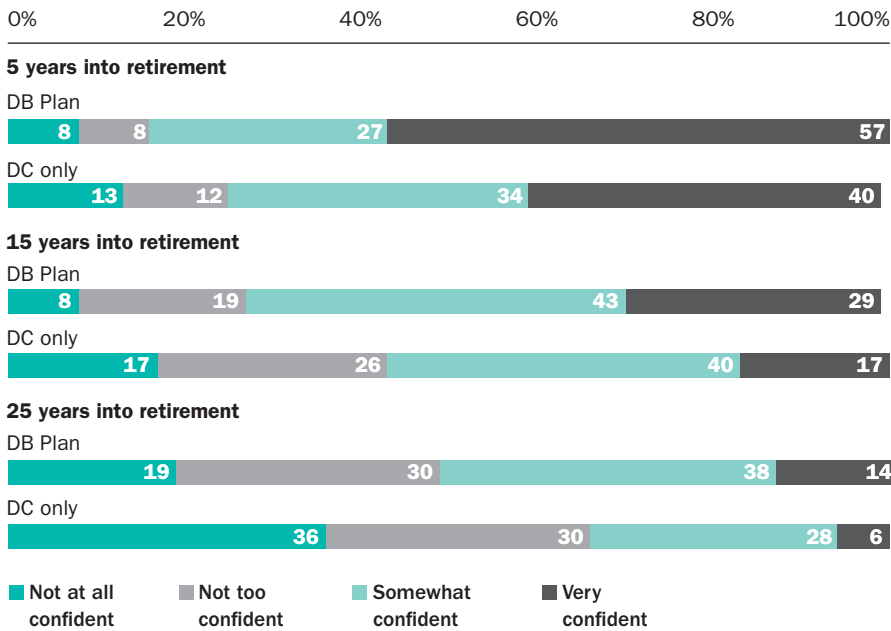
This confidence gap persists the further one looks into retirement. At 25 years, only 6% of those with DC-only plans are very confident in being able to retire comfortably, compared to 14% of those with traditional DB plans. Not surprisingly, this finding suggests that employees currently enrolled in a plan that leaves

them less vulnerable to market risk are more at ease. Whether they offer annuities or lump-sum payment options, DB pensions guarantee plan value during employment, and this security may be just what employees are looking for after being burned by fluctuations in their retirement investments.

Although employees' satisfaction with their financial situation has increased since the financial crisis, the greatest recovery has been among those with DB plans.

Despite worries about retirement savings, the percentage of employees who are satisfied with their financial situation today has increased slightly — 33%, compared with 26% in 2009 (Figure 7).

Figure 6. Employee confidence in having enough resources to live comfortably in retirement

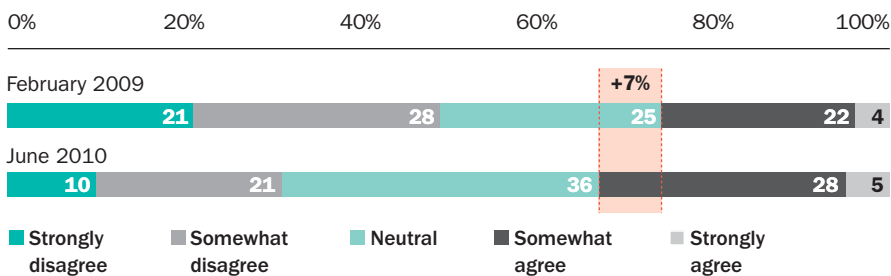


Source: Responses to June 2010 survey

“A confidence gap persists the further one looks into retirement.”

Looking 25 years into retirement, only a third (34%) of employees with DC plans are somewhat or very confident in their retirement resources, compared to over half (52%) of those participating in DB plans.

Figure 7. Thinking of all aspects of my finances, I am satisfied with my situation today



However, three employee groups show the greatest increase in satisfaction with their financial situation: employees under age 40, employees enrolled in DB plans and employees who are in good health, as *Figure 8* shows.

Employee concerns about their DB plans have abated in the last 16 months, but many are still anxious about reduced benefits in the future.

Compared to our 2009 findings, fewer employees are concerned about reduced or eliminated benefits. In addition, fewer employees are concerned that their employer will be unable to pay some or all of the benefits they've already earned. Most significantly, in 2009, 30% of employees were worried that their employers would be unable to pay benefits they've already earned, versus 16% in 2010, signaling greater employee confidence in the economy and the security of these benefit plans (*Figure 9*).

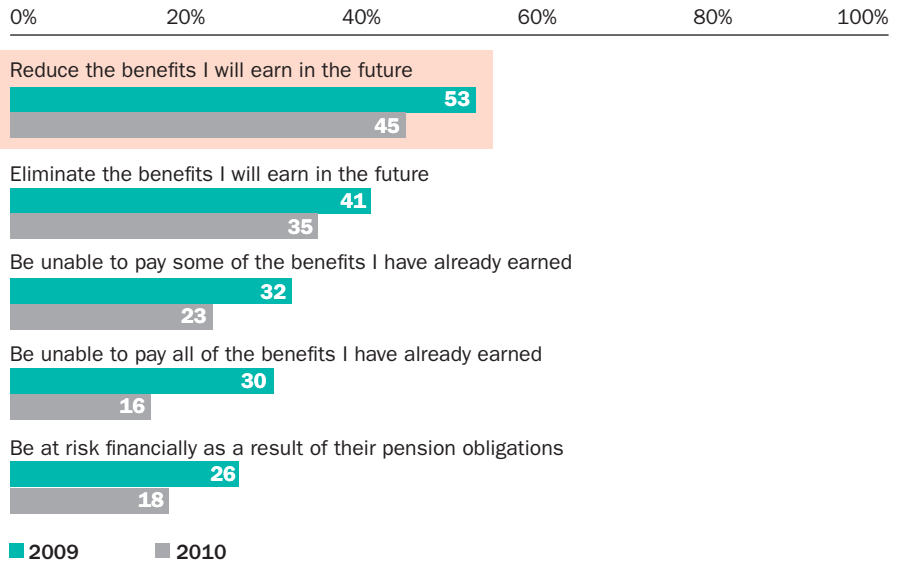
Figure 8. Thinking of all aspects of my finances, I am satisfied with my situation today

	February 2009	June 2010	Percentage Point Change
All	26%	33%	7%
Age			
Under age 40	28%	42%	14%
Age 40–49	22%	29%	7%
Age 50+	24%	32%	8%
Plan type			
DB plan active	29%	40%	11%
DC only active	25%	27%	2%
Health Status			
Very good	33%	43%	10%
Good	24%	27%	3%
Fair or worse	12%	18%	6%

Satisfaction with employees' financial situation has increased by 7% overall; however, for those with DB plans, it has increased by 11%, compared with only 2% for those with DC-only plans.

Note: Percentage indicate responses of "somewhat agree" or "strongly agree."

Figure 9. Due to the financial crisis, I am concerned that my employer will...



The total number of employees who are concerned about reduced benefits in their DB plans has dropped by almost 10 percentage points from 2009.

“Employee concerns about their DB plans have abated in the last 16 months, but many are still anxious about reduced benefits in the future.”

Note: Actives only. Percentages indicate responses of "somewhat agree" or "strongly agree."

Interestingly, as *Figure 10* shows, concerns among older employees (age 50 and older) have abated the most, while younger workers have grown increasingly concerned about losing their benefits. This finding has broad implications for employers. Notably, if the financial crisis has contributed to increasing younger workers' concerns about securing their own financial future after seeing what their older colleagues have experienced, employers may want to take advantage of this opportunity to engage them in retirement planning now.

Conclusion

During the economic crisis, as employees' savings continued to plunge, so did their confidence in being able to retire comfortably. Although there are signs that the economy is gradually improving, and employees may be recovering some of their savings, doubts about retirement linger.

Poor health status is another stumbling block to reviving employee confidence in retirement that is likely to remain — particularly as the number of employers offering retiree medical coverage continues to decline and health care reform sparks more uncertainty about coverage.

While confidence is low across the board, employees participating in traditional DB plans (which are less exposed to market risk) are more optimistic in their ability to have a comfortable retirement than employees with DC-only plans. Despite this finding, concerns with DB plans remain — particularly among younger employees who may be wary of finding themselves in the same situation their older colleagues have found themselves in this past year.

Figure 10. Due to the financial crisis, I am concerned that my employer will...

	Under age 40		Age 40–49		Age 50+	
	2009	2010	2009	2010	2009	2010
Reduce the benefits I will earn in the future	61%	68%	52%	43%	44%	39%
Eliminate the benefits I will earn in the future	42%	59%	42%	31%	38%	30%
Be unable to pay some of the benefits I have already earned	37%	45%	31%	24%	29%	18%
Be unable to pay all of the benefits I have already earned	33%	43%	30%	11%	27%	11%
Be at risk financially as a result of their pension obligations	30%	43%	25%	17%	22%	12%

Note: Actives with a defined benefit plan. Percentages indicate responses of "somewhat agree" or "strongly agree."

More than two in five of workers younger than 40 are now concerned about losing their benefits — up from a third last year.

Given all this uncertainty, one thing is clear: A slight turnaround in the economy will not be enough to shake employee doubts about their ability to retire. As a result, employers may have to prepare for the impact delayed retirement patterns will have on workforce planning, talent management and employee productivity. Employers may also want to take advantage of this opportunity to engage employees in retirement planning earlier in their careers and consider the effect that an emerging workforce tendency toward risk aversion will have on benefit design overall.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.