

# Retirement Attitudes

## Part II: Employee Attitudes Toward Risk

The economic crisis compelled employees to rethink their attitudes toward risk. A new Towers Watson survey shows that even in a somewhat brighter economic climate, employees continue to be wary about their long-term retirement prospects. As a result, they are postponing their retirement, spending less, saving more and are more willing to pay for guaranteed benefits in the future.

These changes will have a significant impact on employers. As just one example, “hidden pensioners,” employees who are ready to retire but cannot afford to do so, could create a drain on resources, block the career paths of key talent and even stymie engagement overall. As companies respond to these shifts in retirement attitudes, the right total rewards strategy that allows for workforce planning and management will be critical.

### About the Survey

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

### Key Findings

The survey found that:

- 40% of workers plan to retire later than they did two years ago.
- More than three-quarters of older workers plan to spend less in retirement than they are spending today.
- Employees are more willing to pay a higher amount for certainty in their retirement and health care benefits compared to 15 months ago.
- Employees across all age groups and plan types are willing to trade higher pay increases for more generous retirement benefits and more predictable health care benefit costs.

### Employees are taking action to shore up their household balance sheet.

In 2009, most employees were cutting back on daily spending in the wake of a faltering economy and significant declines in their retirement accounts. Today, however, even in a slightly improved economic environment, employees are even more fiscally conservative. For example, 63% of employees are actively paying off their debt (versus 33% in 2009) and 55% (versus 41% in 2009) are reviewing their financial situation. In addition, 34% of employees are increasing their monthly savings (versus 19% in 2009), and 38% are considering doing so. However, in the next 12 months, employees’ anticipated actions reflect conflicted attitudes about investment strategy directions — 25% of employees are considering a less risky investment strategy, while 20% are considering a more risky strategy (Figure 1).

Today, almost two-thirds of respondents are paying off debt, almost twice as many compared to 2009.

**Figure 1. Given recent financial events, which of the following actions have you taken and/or are considering taking in the next 12 months?**

	Actions taken		Actions considering in next 12 months
	February 2009	June 2010	
<b>All employees</b>			
Pay off debt	33%	63%	17%
Review my financial situation	41%	55%	31%
Cut back on my daily spending	55%	54%	26%
Review how much I need to save for retirement	20%	38%	37%
Increase my monthly savings	19%	34%	38%
Adopt a less risky investment strategy	13%	20%	25%
Borrow/withdraw money from my retirement savings	9%	13%	9%
Reduce my monthly savings	13%	10%	12%
Adopt a more risky investment strategy	3%	9%	20%

**Older workers are adopting more conservative saving and investment strategies.**

Increasing numbers of older employees are saving more compared with the overall employee group. They are also beginning to rethink how far those savings will take them. Compared with two years ago, fewer employees think they will need to save much more in the future to achieve a comfortable level of income in retirement. This may suggest that older workers are

coping with their current situation — diminished savings coupled with the realization they have fewer working years to accumulate more — by cutting back on their expectations and possibly settling for a lower standard of living in retirement (*Figures 2 and 3*).

However, this finding could also be reflective of higher balances in retirement savings accounts, since equity prices have gained ground from where they were in the beginning of 2009.

**Figure 2. Given recent financial events, which of the following actions have you taken and/or are considering taking in the next 12 months?**

Employees 50+	Actions taken		Actions considering in next 12 months
	February 2009	June 2010	
Pay off debt	33%	67%	16%
Review my financial situation	39%	58%	27%
Cut back on my daily spending	55%	53%	23%
Review how much I need to save for retirement	25%	48%	33%
Increase my monthly savings	15%	38%	34%
Adopt a less risky investment strategy	20%	27%	27%
Borrow/withdraw money from my retirement savings	7%	13%	7%
Reduce my monthly savings	11%	8%	9%
Adopt a more risky investment strategy	2%	9%	13%

Even those close to retirement are changing their behavior toward saving more and adopting less risky investment strategies.

However, even at this stage of their careers, a number of these employees are choosing to switch to more risky investment strategies.

**Figure 3. Compared to what I thought two years ago, I will need to save much more in the future to achieve a comfortable level of income in retirement.**

	February 2009	June 2010	Percentage point change
<b>All</b>	63%	57%	-6%
<b>Age</b>			
Less than 40	58%	54%	-4%
Age 40 – 49	67%	61%	-6%
Age 50+	68%	55%	-13%
<b>Plan type</b>			
DB plan active	59%	53%	-6%
DC-only active	67%	60%	-7%

Despite the fact that the number of older employees saving more has doubled since 2009 (from 15% to 38% in Figure 2), older employees are also less likely to say they need to save more.

Older workers are not the only group that may be calibrating its expectations for retirement. Even younger and mid-career workers (those who are more than 20 years from retirement) are expecting their household levels of spending to decrease when they retire (Figure 4). In addition, 61% expect to save significantly more to achieve a comfortable level of income in retirement, suggesting they are close

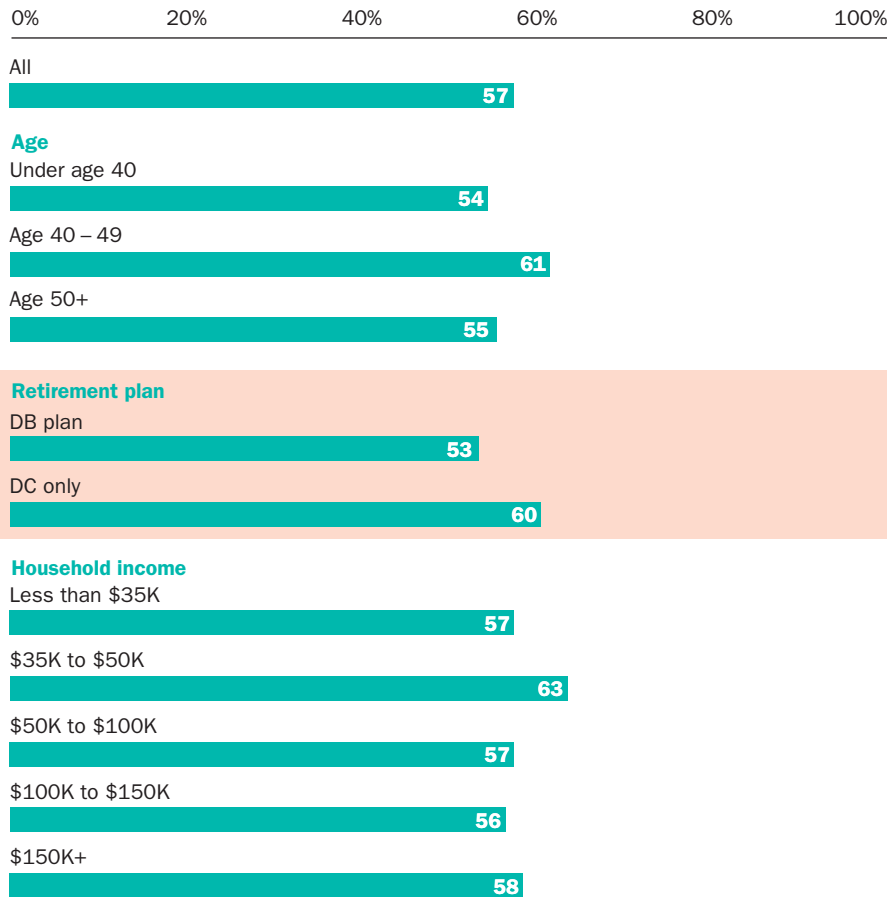
enough to retirement to be concerned, but believe they can still take actions that will have an impact today. Employees with only a defined contribution (DC) plan, which is more directly exposed to market fluctuations than defined benefit (DB) plans, are also concerned. Three out of five employees with DC-only plans expect to save significantly more, as Figure 5 shows.

**Figure 4. Do you expect your household's spending in retirement to be more, less or about the same as your spending before retirement?**

	Under age 40		Age 40 – 49		Age 50+	
	February 2009	June 2010	February 2009	June 2010	February 2009	June 2010
A lot less than before I retire	17%	21%	27%	28%	29%	36%
A little less	34%	49%	41%	40%	48%	40%
About the same as before I retire	35%	21%	22%	25%	18%	18%
A little more	10%	6%	7%	6%	4%	4%
A lot more than before I retire	4%	3%	3%	2%	2%	2%

Younger employees planning to spend less in retirement increased by nearly 40% between 2009 and 2010 (51% vs. 70%).

**Figure 5. Compared to what I thought two years ago, I will need to save much more in the future to achieve a comfortable level of income in retirement.**



Just over half of employees with a DB plan feel the need to save significantly more than they did two years ago, compared to 60% of those with a DC-only plan.

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

**Employees with DC plans recognize a need to save more. Similarly, they have started to increase contributions to their plans, and many expect to continue to do so over the next 12 months.**

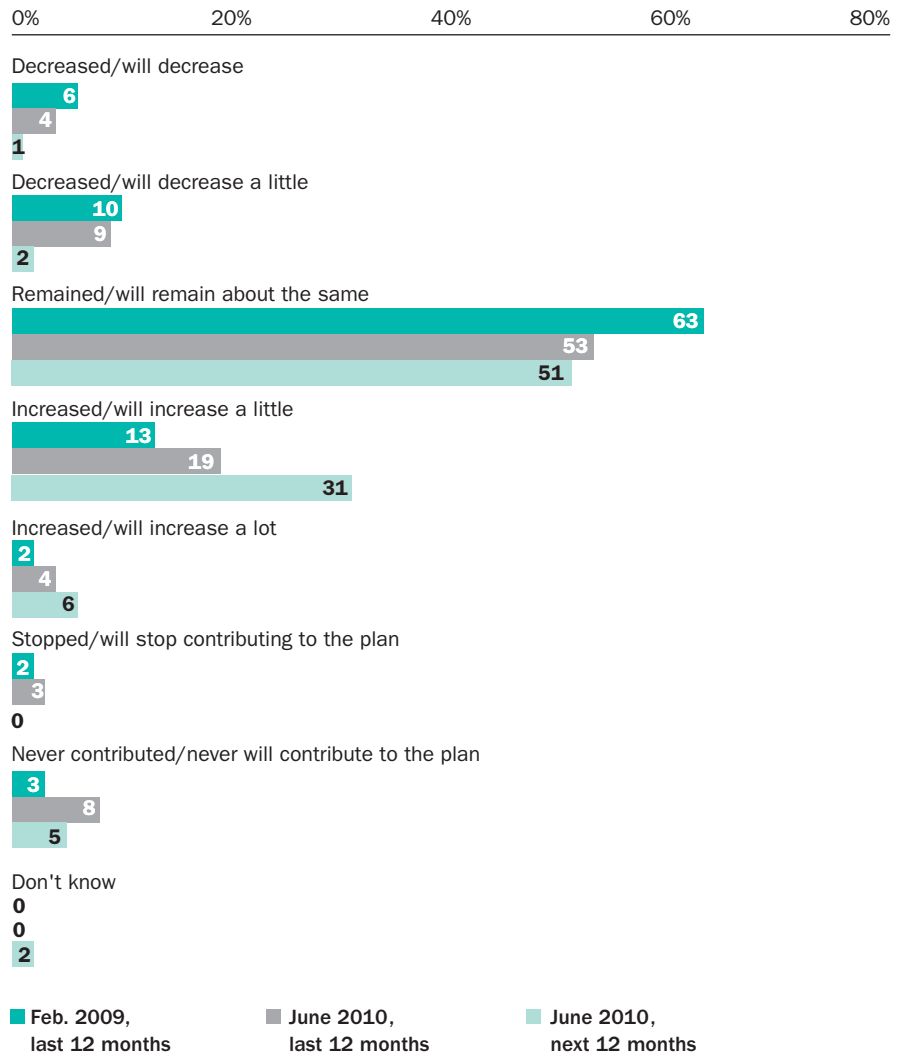
More than one-third (37%) of employees with a 401(k) account expect to increase their contributions to the plan over the next 12 months. The number of employees whose contributions remained the same decreased by over 10 percentage points since February 2009. Unfortunately, this shift toward increased contribution levels could be coming at a time when employees are least able to afford it due to cutbacks in pay and other benefits (Figure 6).

**Less than half of employees are comfortable making their own retirement decisions.**

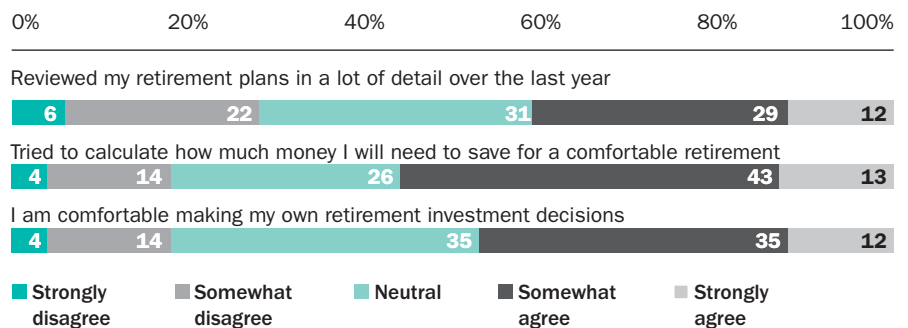
During the financial crisis, it was speculated that one of the reasons investors suffered so much at the hands of fluctuating markets was an incomplete understanding of, and education around, their investment-related decision making.

Now, almost two years after the financial crisis, it is troublesome that less than half (47%) of employees are comfortable making their own retirement investment decisions. Since many employees are currently reviewing their retirement plans and recalculating their needs (as Figures 1 and 2 showed), employer programs focused on retirement plan education would likely be a welcome benefit. Investment education is even more critical given the growing prevalence of account-based plans, which require employees to play an active role in deciding both how much to contribute and how to invest those savings to provide for a secure retirement (Figure 7).

**Figure 6. In the last 12 months, have you increased or decreased the percentage of pay you are contributing to your 401(k) account? How do you expect the percentage of pay you are contributing to your 401(k) account to change in the next 12 months?**



**Figure 7. Extent to which active employees have reviewed their retirement plans and are comfortable making their own retirement investment decisions**

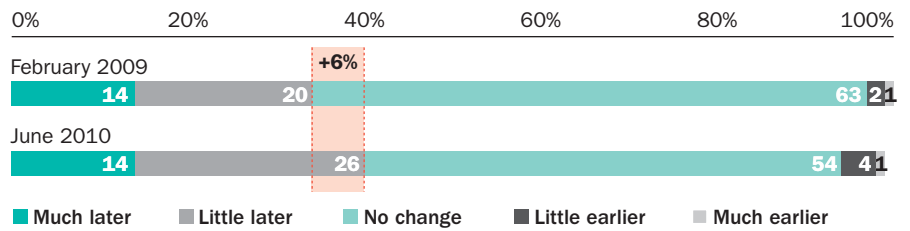


**Today, 40% of employees plan to retire later than they did two years ago.**

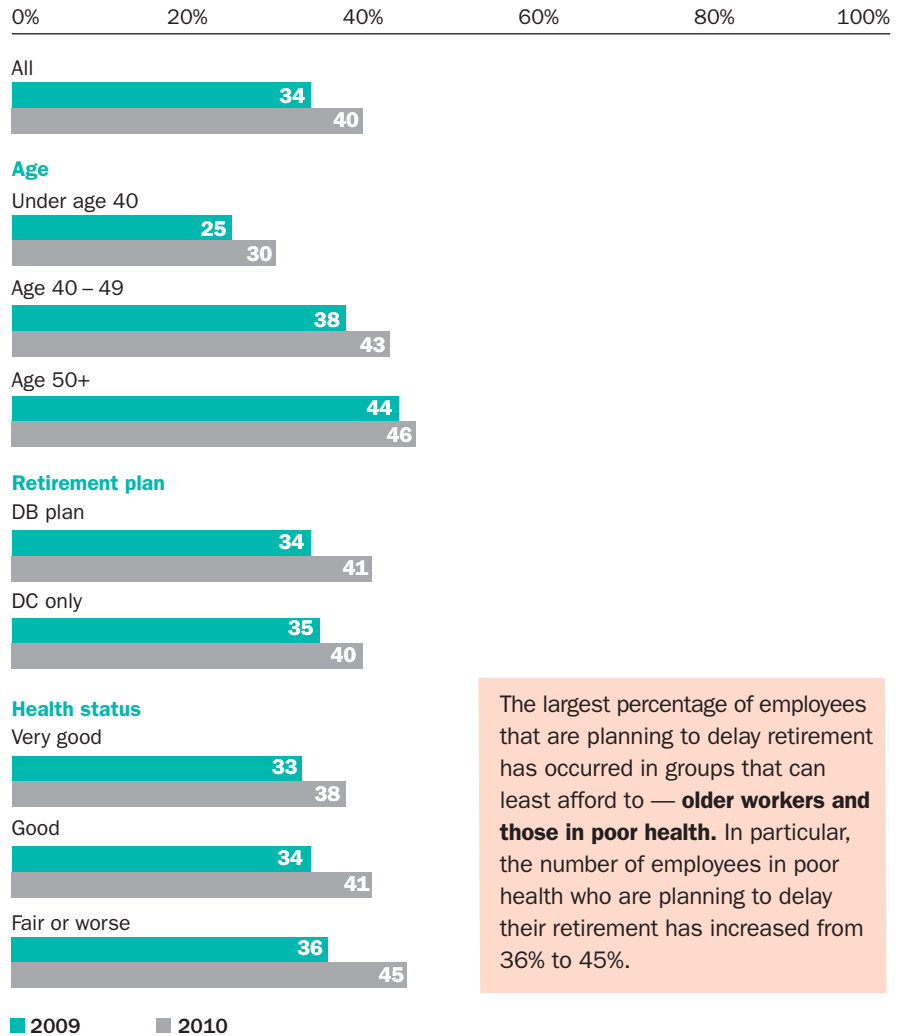
Perhaps the most significant action employees are taking is delaying their retirement. Since February 2009, the number of employees who are planning to retire later has grown by six percentage points (Figure 8). This change is consistent across all age groups and plan types, and there is an even larger jump (nine percentage points) among those in poor health.

When it comes to saving more, employees with DB plans are not feeling as much pressure as those with DC plans (Figure 5 on page 3). However, similar numbers of employees enrolled in DB and DC plans are retiring later (Figure 9). This may reflect employees' overall uncertainty about their ability to pay for their needs in retirement. Indeed, the high and increasing cost of health care may be weighing heavily on all employees.

**Figure 8. Has the age at which you plan to retire from full-time employment changed over the last two years?**



**Figure 9. Has the age at which you plan to retire from full-time employment changed over the last two years? (by age, plan type and health status)**



The largest percentage of employees that are planning to delay retirement has occurred in groups that can least afford to — **older workers and those in poor health**. In particular, the number of employees in poor health who are planning to delay their retirement has increased from 36% to 45%.

Note: Percentages indicate responses of “little later” or “much later.”

**The majority of workers plan to work at least three years longer than they had expected.**

**Figure 10. Approximately how much longer do you expect to work?**

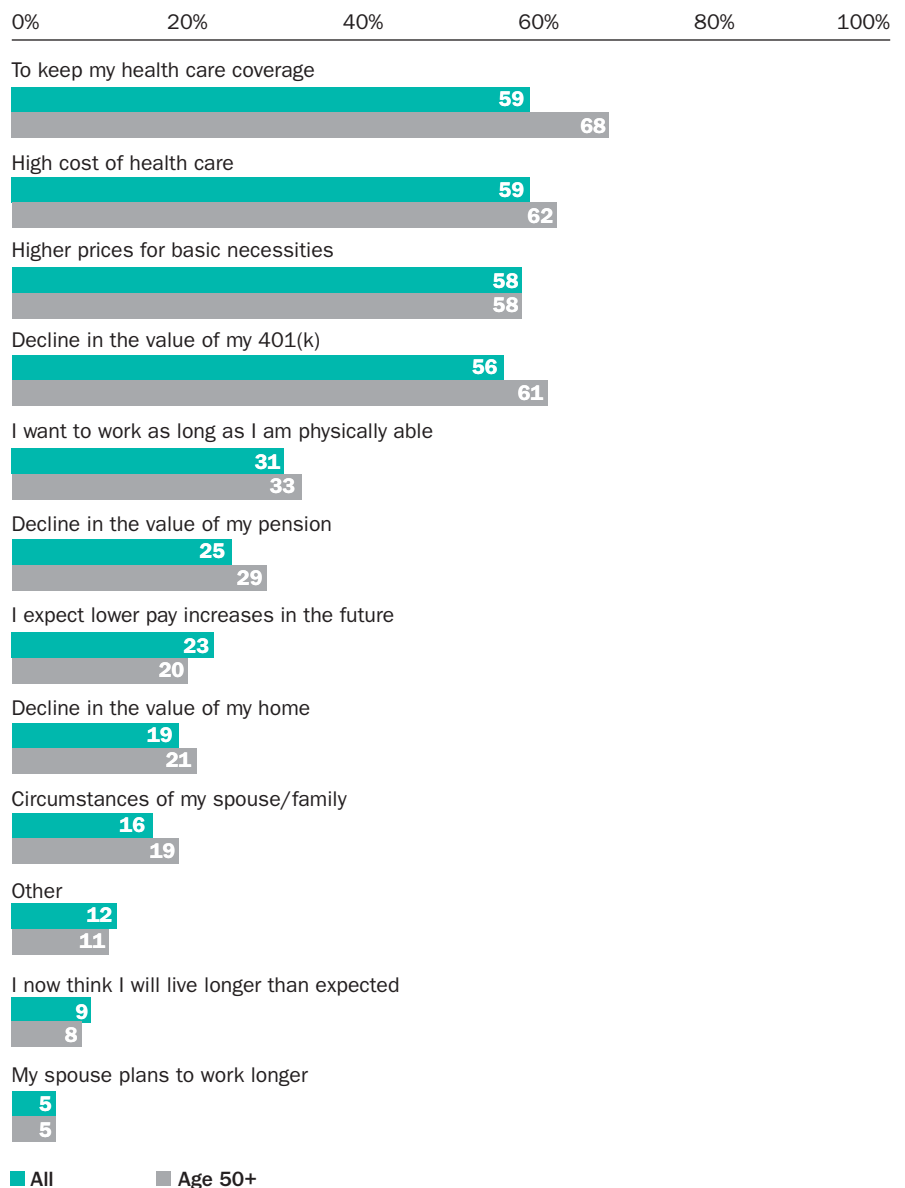
	All		Age 50+	
	February 2009	June 2010	February 2009	June 2010
Less than 1 year	0%	1%	1%	1%
1 year to less than 2 years	8%	8%	13%	11%
2 years to less than 3 years	17%	23%	23%	24%
3 years to less than 5 years	22%	27%	20%	28%
5 years or more	41%	34%	34%	31%
Don't know	11%	7%	8%	4%

Although the percentage of the overall employee pool planning to delay retirement has dropped by close to 20% since February 2009, almost a third of employees aged 50 to 64 still plan to work five years or more longer than they had expected.

Note: Respondents who plan to work later due to the financial crisis

Health care coverage and costs are the most-cited reasons for delayed retirement, especially among older workers. Over two-thirds (68%) of older workers cite keeping their health care coverage as a reason to delay retirement, while 62% cite the higher cost of health care (Figure 11).

**Figure 11. Which of the following are the most important reasons you expect to retire later?**



Notes: Respondents who plan to work later due to the financial crisis. Respondents were given the option to select all that apply.

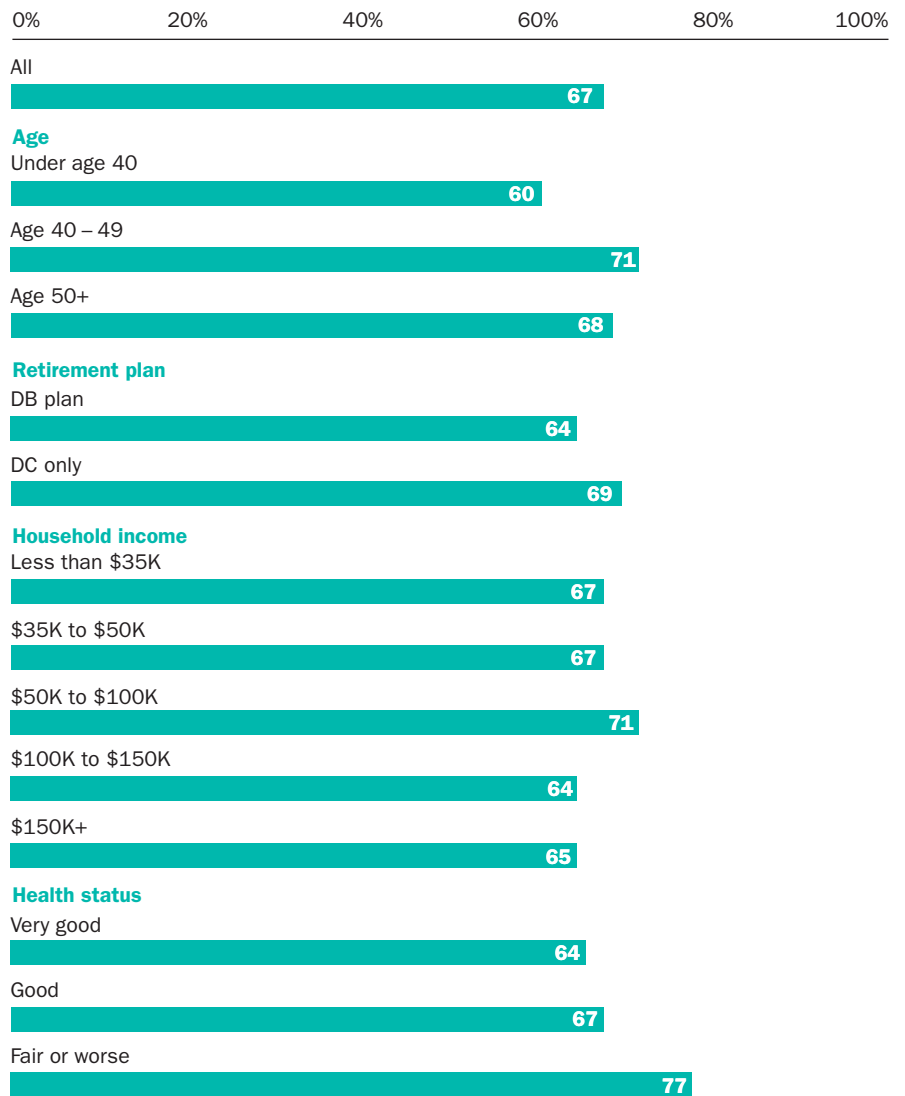
### Two-thirds of workers are timing their retirement around Medicare eligibility.

Reinforcing these findings, an overwhelming majority (77%) of employees in poor health say they will likely work to keep their health care benefits until they are eligible for Medicare. As noted earlier in this report, employees in their 40s are also starting to plan ahead. A surprising 71% (more than those in their 50s) are expecting to work later to keep their health care benefits (Figure 12). Regardless of these findings, the recently passed Patient Protection and Affordable Care Act (PPACA) could go a long way toward improving access to affordable care for many U.S. citizens, potentially removing an important barrier to exiting the workforce.

### More than half of employees are willing to pay a higher amount for certainty in retirement and health care benefits.

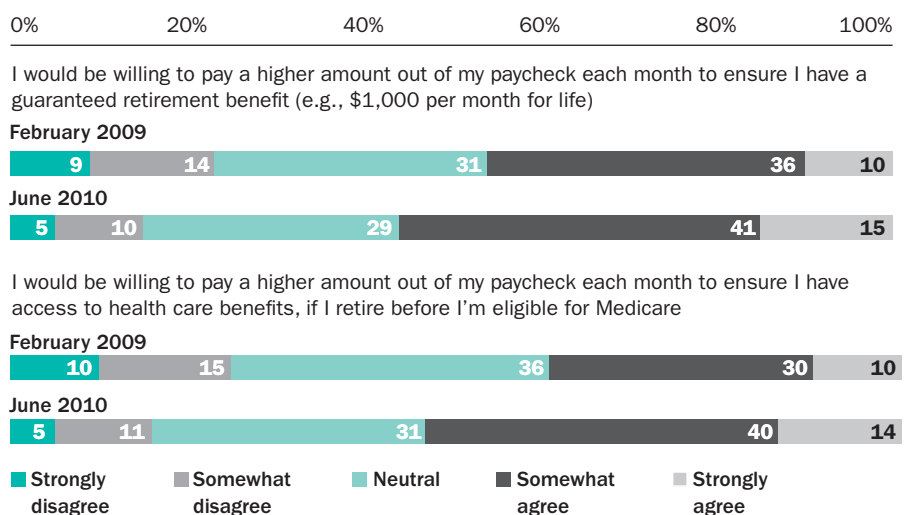
Despite the push employees are making to save more and spend less, it is telling that a majority are nonetheless willing to pay more for guarantees in retirement and health care benefits. This may suggest employees are still worried that the economy will remain unsettled and that their benefits will continue to be cut back. As Figure 13 shows, 56% of respondents would be willing to pay a higher amount out of their paycheck to ensure a guaranteed retirement benefit, compared with 46% in February 2009. Surprisingly, this trend is more pronounced for younger workers, and those with DB plans (Figure 14, page 8).

**Figure 12. I will likely work longer in order to keep my health care benefits before I'm eligible for Medicare.**



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

**Figure 13. Willingness to pay more for guarantees in retirement and health care benefits**



**Figure 14. Willingness to pay more for guarantees in retirement and health care benefits**

	Age	DB plan			DC Only		
		February 2009	June 2010	Percentage point change	February 2009	June 2010	Percentage point change
I would be willing to pay a higher amount out of my paycheck each month to ensure I have a guaranteed retirement benefit (e.g., \$1,000 per month for life)	Less than 40	39%	66%	27%	44%	46%	2%
	Age 40 – 49	50%	55%	5%	57%	55%	-2%
	Age 50+	51%	61%	10%	47%	60%	13%
I would be willing to pay a higher amount out of my paycheck each month to ensure I have access to health care benefits if I retire before I'm eligible for Medicare	Less than 40	37%	66%	29%	38%	41%	3%
	Age 40 – 49	50%	58%	8%	41%	51%	10%
	Age 50+	52%	61%	9%	42%	54%	12%

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

\*This finding is from Towers Watson's 2010 Defined Contribution Study, conducted in April and May 2010.

The need for more guarantees reinforces other Towers Watson research findings that lifetime income options are gaining traction. Currently, 18% of employers that offer DC plans either currently offer annuities to participants or plan to do so this year or next, and 30% are considering offering this option.\*

**Figure 15. Degree of preference toward each of the following retirement plan design features**

Option A	Prefer A		Neutral			Prefer B		Option B
	1	2	3	4	5	6	7	
<b>Retirement versus health care</b> Getting a higher retirement benefit when I retire and higher, less predictable health care costs during my working career	11%	15%	17%	30%	13%	8%	6%	Getting a lower retirement benefit when I retire and lower, more predictable health care costs during my working career
<b>Pay versus retirement</b> Getting larger pay increases today and a lower retirement benefit when I retire	9%	11%	11%	24%	15%	15%	15%	Getting smaller pay increases today and a higher retirement benefit when I retire
<b>Bonus versus retirement</b> Getting a larger bonus opportunity today and a lower retirement benefit when I retire	8%	9%	9%	20%	14%	20%	22%	Getting a smaller bonus opportunity today and a higher retirement benefit when I retire
<b>Pay versus health care</b> Getting larger pay increases today and higher, less predictable health care costs	8%	8%	11%	26%	17%	17%	13%	Getting smaller pay increases today and lower, more predictable health care costs
<b>Bonus versus health care</b> Getting a larger bonus opportunity today and higher, less predictable health care costs	6%	8%	9%	22%	16%	19%	19%	Getting a smaller bonus opportunity today and lower, more predictable health care costs
<b>Pay versus bonus</b> Getting larger pay increases today with a smaller bonus opportunity	29%	23%	13%	18%	6%	6%	5%	Getting smaller pay increases today with a larger bonus opportunity

Employees across all groups show a strong preference for more generous retirement benefits and certainty in their out-of-pocket health care costs. In short, employees are shifting toward a preference for lower paychecks and bonuses today in exchange for guaranteed and more predictable benefits tomorrow — in retirement.

Interestingly, despite the fact that less than half of employees are comfortable making their own retirement decisions (shown earlier in Figure 7 on page 4),

they would prefer the freedom to make their own investment decisions, rather than having their retirement plan sponsors make them — even if the latter offers more stability in the long run. Although these findings reflect an age-old employee preference for more control, they also speak to the need for better employee education and employer communication about managing retirement plans, particularly in the current economic environment.

**Figure 16. Degree of preference toward each of the following retirement plan design features**

Option A		Prefer A		Neutral			Prefer B		Option B
		1	2	3	4	5	6	7	
<b>Benefit accumulation</b> Getting a guaranteed benefit amount in retirement, but no opportunity for higher returns and no chance of lower returns	<b>2009</b>	11%	14%	18%	31%	15%	9%	3%	Getting no guaranteed benefit amount in retirement, but with an opportunity for higher returns or a chance of lower returns
	<b>2010</b>	12%	16%	18%	28%	12%	9%	6%	
<b>Investment responsibility</b> Having your retirement plan make the investment decisions with no opportunity for higher returns and no chance of lower returns	<b>2009</b>	2%	3%	5%	24%	16%	24%	26%	Having the freedom to make your own investment decisions with an opportunity for higher returns or the chance for lower returns
	<b>2010</b>	3%	3%	5%	22%	15%	24%	27%	

## Conclusion

The effect of the economic crisis on employee attitudes toward risk is significant and long lasting. Almost two years after the start of the crisis, employees continue to save more, spend less and reduce debt — while many are taking more extreme steps, such as delaying their retirement by up to five years. Unfortunately, the groups of employees that feel most compelled to take these actions may be those that can least afford to — older workers and those in poor health. In addition, many older employees are compensating for their diminished financial resources by preparing to spend less in retirement, which may suggest they are resigning themselves to a lower standard of living.

Given these deep-seated changes, it comes as little surprise that an increasing number of employees are willing to pay more now to avoid these issues later in their working lives or if they fall into poor health. Even workers far from typical retirement age are more risk-averse. In fact, some of the most dramatic behavior changes reflected in our findings are those of employees not yet in their 40s. Along with their need for more security, employees also want flexibility in their retirement plan investment decisions, regardless

of the type of plan they are currently enrolled in. These dramatic shifts may signal that employees are no longer looking for only security or only flexibility. Instead, employees could be clamoring for a middle ground where they're protected against extreme market fluctuations, but still have a hand in planning their own future.

Today's retirement and health care affordability challenges could be creating groups of "hidden pensioners," employees who want to retire but are unable to do so. This could lead to a host of workforce management issues as these presumably less engaged and less productive employees remain on company payrolls. If this trend continues, it will create a drain on resources, block the career paths of key talent and even stymie engagement overall.

Ultimately, this sea change in employee attitudes toward retirement could have myriad long-term implications for workforce planning, talent management, attraction, retention and engagement. That's why employers that want to proactively address these pressing issues should start developing total rewards and retirement plan design strategies now.

## 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.