Most Behind in Retirement Saving

NEW STUDY: MORE THAN HALF OF AMERICANS BEHIND IN SAVING FOR RETIREMENT

Related Survey Shows Almost 3 Out of 5 Expect Lifestyle Decline; Wide Differences Noted Among Groups in Retirement Preparedness.

Washington, D.C., April 26, 2000 -- The United States may be in the midst of the longest running economic boom in its history, but more than half of American households (56 percent) are behind where they should be in saving for a comfortable retirement, according to a new Federal Reserve data-based economic analysis commissioned by the Consumer Federation of America (CFA) and DirectAdvice. A related CFA/DirectAdvice public opinion survey finds that an even larger majority of Americans (59 percent) expect that their standard of living in old age will be "lower" than it is now.

To help Americans save more effectively for retirement, DirectAdvice and CFA are releasing not only the study and survey but also a related "retirement savings toolkit" Web site (www.consumerfed.org) with five powerful financial calculators.

The study and opinion survey reveal three important factors that explain most differences in household retirement savings -- the level of household income, the development of a financial plan, and participation in an employment-related retirement program.

"The bad news is that most U.S. households will not be able to sustain their present standard of living into retirement," said CFA Executive Director Stephen Brobeck. "The good news is that most of the unprepared households could get ready by taking advantage of the magic of interest compounding. Saving just $25 a week for 40 years, with a 5 percent yield, will result in an accumulation of more than $165,000."

DirectAdvice President and Chief Executive Officer Brian L. Hollander said: "Research shows that people with a financial plan have twice the money saved for retirement as those without. The key is to develop and follow a comprehensive financial plan that maps out your strategy for retirement and all of your other financial goals. The good news is that technology and the Internet make it easier than ever today to develop a financial plan that will work for you."

MILLIONS OF AMERICANS FINANCIALLY UNPREPARED FOR RETIREMENT

An analysis prepared for CFA and DirectAdvice by economist Catherine P. Montalto, a professor at Ohio State University, concludes that only 44 percent of households with a currently employed householder will accumulate adequate retirement savings. The new study applies a previously published methodology to data from the 1998 Survey of Consumer Finances. That data, released by the Federal Reserve Board this past February, is the best and most current available information on retirement savings of American households. The adequacy analysis compares the resources available to the household for spending during retirement to the resources needed to maintain the household's pre-retirement level of living throughout the retirement years.

A related public opinion survey conducted by Opinion Research Corporation International (ORC) for CFA and DirectAdvice supports and supplements Montalto's research. According to this survey of a representative sample of 1,006 adult Americans (3 percent margin of error), only 36 percent said that, "if you retired at age 65, [your] retirement savings including Social Security would provide the same or a higher standard of living than you currently enjoy." Another 40 percent said that these savings would provide a "lower but adequate standard of living" while 19 percent said the savings would supply a "less than adequate standard of living."

HOUSEHOLD INCOME STRONGLY RELATED TO RETIREMENT SAVINGS LEVELS

Both Montalto's Fed-based study and the ORC opinion survey revealed that income is the demographic variable most closely related to household levels of retirement savings. According to the Montalto analysis, only 27 percent of households with less than $10,000 in annual income, and a somewhat smaller share (23 percent) of those with incomes between $10,000 and $25,000, will have adequate retirement savings. By contrast, 54 percent of those with incomes between $50,000 and $100,000, and 69 percent of those with incomes over $100,000, will be able to retire with adequate savings.

According to the ORC survey of consumer opinion, only 23 percent of those with household incomes under $15,000, and 26 percent of those with incomes between $15,000 and $25,000, would expect to retire at age 65 with the same or a higher standard of living than they now enjoy. By comparison, 44 percent of those with incomes above $50,000 would expect to retire at this age with the same or a higher standard of living.

It should be noted that low incomes do not destine households to a low standard of living, nor do high incomes ensure, for affluent households, a high standard of living in retirement. These differences can be explained, in part, by the close association between current income and adequate retirement income. Low-income households need lower incomes than do upper income households to achieve a satisfactory standard of living.

"Financial planning has always been available to the wealthiest individuals in America but not always to the less fortunate," said DirectAdvice President and CEO Brian L. Hollander. "Now that has all changed. The power and efficiency of the Internet brings comprehensive, affordable financial planning to all levels of American society."

FINANCIAL PLANNING INCREASES HOUSEHOLD RETIREMENT SAVINGS

The lack of a perfect fit between incomes and retirement savings adequacy, however, also can be explained, in part, by differences in the willingness of households to develop a financial plan that anticipates retirement. A 1996 CFA/NationsBank study, which controlled for other variables, revealed that households that developed a financial plan had accumulated twice as much wealth as households that had not. The CFA/DirectAdvice, research released today supports this earlier finding.

The new ORC opinion survey asked adult respondents whether they had "developed a plan to ensure adequate retirement income and, if so, how?" In response, 45 percent said that they had while 38 percent said that they had not. (The remainder said they did not know.)

More importantly, those who had developed a financial plan were far more likely to say they were prepared for retirement than were those who had not. Nearly half (49 percent) of those with a plan -- but only 23 percent who had not developed one -- said that they expected to retire with the same or a higher standard of living. Only one in 10 (10 percent) of the planners (as compared to 26 percent of non-planners) said their standard of living would be less than adequate. Most of the other planners and non-planners said they expected a lower but adequate standard of living.

"In real life, retirement savings has to be balanced and integrated with all the other financial goals in a person's life, such as home purchase, children's schooling, caring for an aging parent and so forth," Hollander said. "DirectAdvice is dedicated to pulling this together for the consumer, giving him or her an integrated multi-goal picture."

EMPLOYMENT-RELATED PLANS ARE THE EASIEST WAY TO BUILD RETIREMENT SAVINGS

In addition to financial planning, gaining access to an employment-related retirement plan is the most important step consumers can take to build retirement savings. Montalto's research found, for example, that an estimated 55 percent of those participating in an employer sponsored retirement plan would have adequate retirement savings while only 24 percent of those not in such a plan would have adequate retirement wealth. According to the 1998 Fed data, 54 percent of households participate in an employer-sponsored retirement plan. Of that group, 18 percent are currently part of a defined benefit pension plan while 33 percent currently participate in the rapidly growing category of defined contribution plans (401k or 403b).

Lower income workers are the least likely to participate in these retirement plans. According to Fed data, only 11 percent of those with incomes under $10,000, and 33 percent of those with incomes between $10,000 and $25,000, participate in an employer-sponsored retirement plan. By contrast, 77 percent of those with incomes between $50,000 and $100,000, and a nearly equal share (76 percent) of those with incomes over $100,000, participate in these plans.

The lower participation rate by lower income workers can be explained by several factors: For any employer, lower income employees are less likely to be offered a retirement plan than are higher paid workers. Such individuals are also more likely to work for small or medium sized employers who are much less likely than larger employers to offer such a plan. In addition, lower income workers are less likely to participate in a voluntary program than are higher paid employees.

"Retirement savings would dramatically increase if all workers had access to a retirement plan at work," said Brobeck. "Payroll deductions are the easiest way to save, and matched contributions provide a powerful incentive to do so."

SOCIAL SECURITY REMAINS IMPORTANT PART OF EXPECTED RETIREMENT INCOMES

The importance of Social Security to ensuring adequate standards of living in retirement was revealed by the ORC survey, which asked respondents what percentage of their retirement income they expected to come from Social Security. The average percentage was 29 percent.

Not surprisingly, the level of expected dependency on Social Security was far higher for lower income households than for affluent ones. Households with incomes under $15,000 said they expected that, on average, 49 percent of their retirement incomes would come from social security. For households with incomes between $15,000 and $25,000, that proportion was 39 percent. But for households with incomes over $50,000, the proportion was much lower: 20 percent.

CFA AND DIRECTADVICE.COM MAKE AVAILABLE SAVINGS "TOOLKIT"

WEBSITE

In order to encourage more Americans to get into the retirement savings habit, DirectAdvice and CFA are making available at www.consumerfed.org a "retirement savings toolkit" featuring five powerful financial calculators. Prepared by experts at DirectAdvice, the five calculators are designed to be an easy starting point for those who want to start saving. The calculators show:

- How small savings on a regular basis can add up to big money over time.
- The power of compounding interest as a way to make money grow.
- The best asset allocation mixes when saving and investing.
- How to get the most out of your IRA.
- Why it makes sense to maximize an employer "match" in a company retirement plan.
- The two groups cautioned that the five calculators in the "toolkit" are intended to be a starting point, but do not
- Provide all the information needed to draw up a comprehensive financial plan.

ABOUT THE TWO ORGANIZATIONS

CFA is a nonprofit association of more than 260 pro-consumer groups, which, since 1968, has sought to advance the consumer interest through advocacy and education. The present research is the fourth in a series of CFA studies on household savings and wealth.

Based in Hartford, CT, DirectAdvice is a leading U.S. provider of comprehensive, online financial planning services. Through its proprietary technology and interactive service approach, the Company enables households to consider all their financial goals when making sound savings and investment decisions. For more information about DirectAdvice, visit www.directadvice.com.

FOR THE SAVINGS TOOLKIT, ECONOMIC ANALYSIS AND SURVEY, GO TO: www.consumerfed.org