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**A New Model
for
Retirement Education
and
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A New Model for Retirement Education and Counseling

Abstract

This paper discusses research from multiple sources on the subject of retirement planning combined with original research conducted by the International Foundation for Retirement Education (InFRE) that was part of the InFRE® Retirement Readiness Project.

This paper provides information about the current state of retirement readiness and why workers' perceptions about their retirement futures are generally not matching their actions. The purpose of this is to demonstrate the changes that are needed to the current approach to retirement education and counseling/guidance services that are part of the employee benefit structure.

The InFRE Retirement Readiness Profile® was developed to provide a qualitative measure of total retirement well-being. The importance of the Profile to a comprehensive retirement education program is explained through the findings of the InFRE® General Population Retirement Readiness Survey that InFRE conducted in January 2007.

This paper goes beyond a normal research document that reports on findings and also explains what they mean and how they can be addressed through changes to the design, education and counseling services provided as part of employer-sponsored retirement benefits, specifically defined contribution plans.

A New Model for Retirement Education and Counseling

The retirement crisis in America is growing. Studies are continuing to show that, on average, we are not adequately planning and preparing for our golden years. Employer funded benefits, such as defined benefit plans and health care for retirees, are being reduced, replaced, or even eliminated and more responsibility to be financially prepared for retirement has shifted to employees.

Of immediate concern is the baby boom generation which is just beginning to enter retirement age. Various reports have shown that they are far from financially prepared for this life phase, particularly considering the new challenges they may face that makes their future even more uncertain. These challenges include the potential risks that make the adequacy of Americans' retirement planning efforts even more questionable. For example, few workers understand or consider the following in relation to their retirement planning:

- increased health care costs
- solvency of the Social Security system
- personal longevity and how long money will last
- market volatility and its impact on distributions
- issues about working in retirement
- potential responsibility for financial and emotional caring of aging parents, children and/or grandchildren

The Problem – Perception Doesn't Match Reality

Research suggests that one of the reasons for the state of planning is that workers' perceptions and attitudes about retirement do not match the reality of their actions. Studies, such as the EBRI Retirement Confidence Surveys¹, show that workers are much more optimistic about their future than they should be based on the steps they have taken to plan for retirement.

¹ The Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates conduct the Retirement Confidence Survey each year. Copies of these reports can be found at www.ebri.org

For example, according to the 2006 Retirement Confidence Survey², more than two-thirds (68%) of workers are somewhat to very confident they will have sufficient money to live comfortably in retirement, which is statistically the same as the 2005 findings. But when asked what they are doing to prepare for their financial futures, it appears that they are basing their confidence on something other than their personal planning as:

- Less than half (45%) say they are currently contributing to a workplace savings plan while three-quarters (75%) are expecting to receive retirement income from this plan. In addition, more than one in ten (14%) expect this to be their largest source of retirement income.
- Although seven in ten (70%) say they have saved something for retirement, over half (53%) of all workers, and more than four in ten (43%) who are age 55 and older, have accumulated less than \$25,000 in total retirement savings and investments. Only two in ten (23%) have accumulated \$100,000 or more. At the same time, almost half (48%) of all workers expect personal savings (both in and out of an employer plan) to be their largest source of retirement income.
- Nearly six in ten (58%) have not tried to calculate how much they need to accumulate for retirement and more than four in ten (44%) admit they guess when estimating how much they need to save.

Another unrealistic perception that many workers seem to have is the level of income they will need to maintain their desired standard of living in retirement. Again according to the 2006 EBRI survey, half of workers (50%) think they will need 70% or less of their pre-retirement income to live comfortably in retirement and only about one in ten (12%) believe they will need 95% or more. But when this is compared to the amount of income that retirees state they currently have in retirement to support their lifestyle, the discrepancies are evident as only about one-third (36%) say they live on less than 70% of their pre-retirement income and more than half (55%) are living on about the same, or more, income as when they were working. (See Table A).

Table A - Percentage of Pre-retirement Income*		
	Workers Expectations	Retirees Current Income
Lower / don't know %	NA	6%
Less than 50%	14%	17%
50% to 70%	36%	13%
70% to 85%	28%	6%
85% to 95%	7%	1%
95% to 105%	6%	34%
105% or more	6%	21%

** Percentages do not total 100 as this table only illustrates the responses providing a percentage answer and does not include the don't know or refused responses.*

² “2006 Retirement Confidence Survey: Many Americans’ Retirement Hopes Are Filled With Holes” at www.ebri.org

The 2007 version of the EBRI Retirement Confidence Survey³ included questions to examine worker behaviors and attitudes considering the changes that are occurring in employer-provided benefits. Even though news of pensions and benefits being reduced or eliminated are reported frequently in the media, few workers recognize how this may impact their retirement futures. In the 2007 report, seven in ten (70%) workers were very or somewhat confident they will have enough money to live comfortably throughout their retirement and many continue to count on employer provided benefits for their retirement security, as evidenced by the following:

- Although only four in ten (41%) say they or their spouse are participating in a defined benefit pension plan, six in ten (62%) expect to receive retirement income from this source.
- Four in ten (41%) workers are counting on having access to employer-provided health insurance in retirement, which is about the same as retirees report they are receiving it (43%), even though many employers have stated they anticipate reducing or eliminating this benefit for future retirees.

Although benefits may be reduced, employers are trying to do more to help workers prepare for retirement, such as by offering investment advice as part of their defined contribution plan. However, the 2007 EBRI survey suggest that few workers who take advantage of this service will actually take actions based on the advice they are given:

- Over half (54%) of workers said they would be very to somewhat likely to take advantage of advice offered through the worksite at a modest cost.
- For those who indicate they likely would seek these services, one in ten (11%) said they would likely implement none of the recommendations and two thirds (66%) indicate they would only act on recommendations they felt were in line with their own ideas. Only two in ten noted they would likely implement all recommendations that they received, as long as they trusted the source.

Although this is just a sample of the research data that is available, what the EBRI studies as well as other reports continue to indicate is that the current education and guidance services that are part of an employer's benefits package are not proving to be effective in changing the behavior of workers to financially prepare for retirement. Even though there have been significant improvements in the quality and frequency of worksite education and

³ "The Retirement System in Transition: The 2007 Retirement Confidence Survey" at www.ebri.org

guidance programs and national media attention has raised the level of awareness on this issue, there has been no real indication that it is having a significant impact on the retirement readiness of today's workforce.

Retirement Education Message

As retirement plan sponsors, administrators and educators, we must ask ourselves what needs to be done to help workers better prepare for their retirement. Why aren't employees taking actions that will lead to their financial security after work ends? Are they just not interested or is the education they are receiving not effective?

When you look closer at this issue, however, it may be that employees are not interested in taking actions because the education they are receiving isn't focused on the right message or provided effectively and in a medium that they are comfortable using.

In regard to the message, most retirement education today is structured to inform workers that it is their responsibility to financially prepare for retirement and provide information on the "how-to's" of establishing an investment plan. But where education comes up short is helping workers understand what it means to plan and prepare for their retirement lifetime.

Retirement educators often try to motivate workers to save and invest by using a comparison between retirement and vacation planning and the amount of time that is spent on each. But has anyone actually examined why people generally spend more time planning their one or two weeks of vacation than they do the 20 or 30 years or more that they will likely spend in retirement?

The reason may be as simple as people spend time planning vacation because they know exactly what they are planning for and can visualize an immediate, attainable goal. They know where they are going; when they will get there; how long they will be on vacation; what they will be doing; and so on. People recognize that to have fun and do everything that is desired for the one or two weeks of vacation, planning is critical to avoid running out of money. But when it comes to retirement, few workers have given much thought to what they really want to do when

they reach this life phase⁴. For example, when you ask those nearing retirement what plans they have for their retirement lifetime, often the response is “I don’t know – I’ll figure it out when I get there. I’m just looking forward to not going to work everyday.” With this type of response, it’s easy to see why worker perspectives of their retirement futures may be unrealistic and why planning is a real problem.

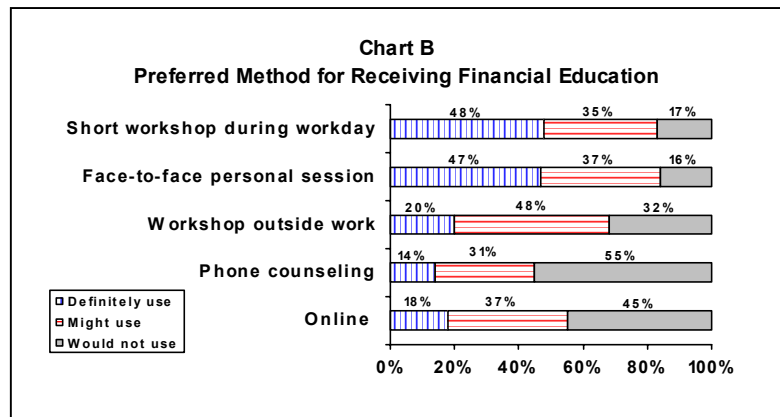
Considering the fact that retirement is no longer an event and is now recognized as a life stage – with a beginning, middle and end – that can last decades, retirement education needs to be refocused to go beyond instructions on “how to” save and invest for the future and include information about the “why, where, when and what” that will make up a retirement lifetime. When workers have a general idea of what they would like to do, where they want to live, how they are going to approach life to stay healthy and so on for their entire retirement life stage, and are also able to identify if this can be supported through their guaranteed income sources (such as pensions and Social Security), they will be better able to calculate how much needs to be accumulated in their retirement account. This may encourage them to put as much or more effort into planning for retirement as they do their vacations.

Presentation and Delivery Method

It is more than just changing the educational message that is needed to alter behaviors so employees are better prepared for retirement. How it is presented and tailored to the audience also needs to be examined.

In regard to how it is presented, research shows that worker preferences are varied but personal interaction is most often the medium of choice to receive retirement and financial education. For instance, research discussed in the

2006 report “Trends in Public Sector Retirement Plans” from the Nationwide Retirement Education Institute⁵, found that workers preferred short workshops during the work day and face-to-face one



⁴ This was demonstrated in the InFRE Retirement Readiness Survey, discussed later in this paper.

⁵ This research data was identified in the Nationwide report as from a 2005 Public Employee Plan Participant Satisfaction Survey, Nationwide, 2005. The full report can be found at www.nrsforu.com

on counseling for retirement and financial education (see Chart B.).

How the educational message is tailored to the audience was the topic of another study documented in a 2003 report⁶ “*Adult Learning Principles and Pension Participant Behavior.*” The report’s authors suggest that to influence behaviors and produce the desired results, the educational message should be established following five principles of adult learning identified as:

- Assess – Determine needs and develop a plan of action
- Gain interest – Introduce key points of learning and action
- Educate – Deepen understanding
- Reinforce – Solidify learning and action steps
- Measure – Determine results from the affected audience (participant/plan sponsor)

This research examined two case studies that applied these principles and produced positive behavior changes in plan participants to provide them with a better chance at a financially secure retirement. In the first case study, a new approach was established in the call center, referred to as the “Consultive Approach.” Instead of making call volume a priority, call center staff were trained to apply a three-step process to each call to: assess - listen and learn from the caller about their situation; educate - engage in dialogue to inform and educate; and influence - encourage actions and decisions.

The research demonstrated that the Consultive Approach, which allowed call center staff to proactively engage in conversation with participants to educate them about retirement investing instead of merely reacting to requests, resulted in substantial increases to annual deferrals into the plan. The cost associated with this new model was offset by the asset fees received on higher participant account balances. Also, because call center staff were more challenged and satisfied in their job as a result of their increased role in providing consulting services, it led to less employee turnover and a more productive team environment that ultimately reduced staffing costs.

⁶ *Adult Learning Principles and Pension Participant Behavior*, by Victor Saliterman and Barry G. Sheckley, PRC WP 2003-17 Pension Research Council Working Paper at <http://rider.wharton.upenn.edu/~prc/PRC/WP/WP2003-17.pdf>

In the second case study, a plan integrated adult learning principles into all of their education and communication programs. These programs were customized for the audience, reflecting their different backgrounds, interests and life stage and put in place for six to twelve week periods to focus on specific goals, such as enrolling, maximizing savings, diversifying, consolidating assets, and so. They were established to be consistent and fully integrated among all communication platforms including print (e.g., e-mails and statements), informational resources (e.g., call center and Web site), and educational activities (e.g., workshops). Activities and events were planned to reinforce the message and illustrate how the information pertained to participants' individual retirement situation.

After each program, an assessment was made regarding its effectiveness in meeting participant needs. This review was then considered before a new program began. This cycle of assessing needs and measuring effectiveness was identified as a critical component of incorporating adult learning principles into the plan's education and communication program. Although the comparison sample from this second case study was small, the initiatives that were developed based on the adult learning principles were shown to be effective in influencing participant behavior, such as through significantly increasing contributions.

Looking at a new approach to the retirement education message and how it is tailored and delivered to employees is where research that was conducted by the International Foundation for Retirement Education (InFRE) begins.

InFRE[®] Retirement Readiness Project

The InFRE[®] Retirement Readiness Project was established to create a comprehensive profile of retirement readiness and develop an effective education message and delivery approach based on adult learning principles to help employees prepare for their total retirement lifetime and well-being. As more is learned about retirement planning, it is becoming increasingly apparent that the educational message needs to be about more than just money and accumulating assets⁷. The research conducted by InFRE suggests that when employees recognize and take actions

⁷ A recently published book "What Color is Your Parachute for Retirement?" written by John Nelson and Richard N. Bolles, provides an excellent look into total retirement well-being and why it is important to take a much broader approach to retirement planning.

to plan for their retirement lifetime (what they will do, how they will live, etc.), their financial preparations also improve.

Most people would agree that the goal for a successful retirement is to be happy, healthy and financially secure. The problem is that retirement education (as well as most research) has only focused on the financial side, without much discussion or examination of the happiness and health components. Without knowing what it will take to be happy in retirement (desired lifestyle) and the health that may be expected (good or bad), calculating future income need is really nothing more than a guess. As a result, few workers actually attempt a savings needs calculation. Instead they take an approach to save what they think they can afford, and then hope for the best.

To address this shortcoming, the InFRE project is designed to broaden the topic of retirement planning and help workers, employers and the retirement industry recognize that planning should take into consideration what it really means to be:

- *Happy and engaged:* What are workers' life plans for retirement? What type of activities are they planning for? Will they work or volunteer? Do they have a network of friends outside of work? Will they relocate, or stay where they are? If married, does the spouse or partner have the same retirement goals and dreams?
- *Healthy:* Do workers recognize and understand their potential personal longevity and that of their spouse? Are they maintaining good health habits in order to remain active in retirement? Have they considered their personal health situation in relation to their retirement lifespan and the number of years their money will likely need to last?
- *Financially secure:* Are workers adequately planning to support the lifestyle they want throughout retirement? Have they established realistic income goals for their future and considered potential risks to their income that can negatively affect their retirement years? Do they understand how much of their income is guaranteed to be there for their lifetime and can they really afford to retire as soon as they want?

As part of this project, the InFRE Retirement Readiness Profile[®] was designed to provide a qualitative measurement that considers the above three dimensions of total retirement well-being to evaluate the actions and attitudes that workers have about their planning efforts and retirement futures. In addition, the Profile will raise awareness of issues that may not otherwise be considered when planning for retirement.

The profile was created with the help of a panel of experts in the fields of retirement, financial planning and adult learning.⁸ In recognition that the level and type of planning that should be undertaken is dependent on how many years employees have before their expected retirement date, there are three separate readiness profiles based on the following:

- Early career: at least 25 years until retirement
- Mid career: 10 to 24 years until retirement
- Late career: less than 10 years before retirement

The panel determined that, although a certain level of planning for total retirement well-being should occur at each of the three career stages, the focus needs to shift away from financial planning to concentrate more on the health and engagement issues as retirement nears. Therefore, the early and mid career profiles are more heavily weighted to reflect a greater importance on the financial aspects of retirement planning, while there is a greater emphasis on health and engagement planning for late career workers.

The InFRE Retirement Readiness Profile[®] is formulated from responses to a survey consisting of approximately 50 questions that workers complete based on their personal situation and the planning steps they have taken for retirement. The answers to this questionnaire are evaluated and scored based on InFRE's panel of expert's determination of how planning should be proceeding for the individuals' specific career stage (early, mid or late). This data provides a comprehensive profile of the workers' state of retirement readiness, with an assessment of being "on-track" for a successful retirement meaning that the profile results are between 80% and 100% of where experts say the worker should be for his or her career stage.

⁸ InFRE assembled a group of 30 plus experts from fields related to retirement, financial planning and aging to identify what it really means to be ready for retirement and aid in the development of the retirement readiness profile.

The InFRE Retirement Readiness Profile[®] and the complimenting education materials are designed to meet the needs of multiple audiences – workers, employers and plan providers. The goal is to provide a new approach to education and counseling services, including a diagnostic tool to measure success, to motivate employees in all career stages to prepare for their total retirement well-being, leading to improved financial security throughout retirement years.

- From the employees' perspective: the Profile provides a method to identify how well they are currently planning for retirement – as compared to where experts say they should be – and increase their awareness of issues that should be considered to successfully prepare for total retirement well-being.
- From the employers' perspective: the Profile provides an aggregate assessment of their workforce to determine where future education/guidance should be targeted and a method to monitor and evaluate the effectiveness of their efforts.
- From the plan providers' perspective: the Profile offers a tool that can help customer service staff and guidance counselors more productively meet employees' retirement planning needs in face-to-face or over-the-phone encounters by better understanding the unique needs of the participant audience and developing ways to motivate them to take action.

InFRE[®] General Population Retirement Readiness Survey

As part of the InFRE project, a survey of American workers was conducted⁹ to test the InFRE Retirement Readiness Profile[®] and evaluate how well workers are currently planning for total retirement well-being. The survey was prepared, based on the work of the panel of experts, to explore the three dimensions of planning – happiness, health and wealth – for workers in each of the three career stages – early, mid and late.

⁹ InFRE contracted with Mathew Greenwald & Associates to conduct this survey as part of the larger Retirement Readiness Project that is underway to create education and tools to help employees prepare for total retirement well-being. The survey was conducted via the Internet from January 3rd to 12th, 2007. A total of 20,154 invitations were sent via e-mail and 1,008 usable responses were received for a response rate of 5%. Only individuals who were at least 25 years old and not yet retired were considered in the survey responses. The survey report can be found at www.infre.org

This is the first time that qualitative measures have been applied across multiple dimensions that consider both attitudes and actions about retirement planning. In regard to the financial aspect of retirement planning, the InFRE findings were consistent with other research efforts as it demonstrated that the majority of workers are far from prepared regardless of where they are in their career. However, because it is multidimensional, this effort was also able to evaluate the interactions of the three components of total retirement well-being and found that there is a correlation between planning for happiness and health in retirement and planning for financial security.

The results of the survey illustrate the state of retirement preparedness of the American workforce based on the InFRE Retirement Readiness Profile[®] and support the earlier discussion of why it is important to address total retirement well-being in education and guidance programs.

Happiness – Networking and Engagement

Currently, happiness in retirement is rarely planned for and generally left to chance. However, when you consider retirement as a life stage - not an event, and something that will last decades - not just years, the importance of preparing for a lifestyle that will be fulfilling becomes clearer.

To examine how well workers are planning for “happiness” in retirement, the InFRE survey explored the following topics:

- Retirement age (when worker and spouse expect to retire)
- Planning for activities and challenges in retirement
- Finding meaning and fulfillment outside of work
- Forming social networks beyond co-workers
- Discussing retirement plans and finances with spouse or partner
- Retirement location (where retiree intends to live)

The results of the survey show that few workers have given much thought to the above topics and how they may affect their retirement lifestyle. In fact, almost nine in ten (87%) say they have few or no plans as follows: 32% have some plans but are mostly just looking forward to more leisure time; 29% haven't really thought about it but

are looking forward to no longer working; 26% aren't sure or don't know what they will be doing. Only one in ten (13%) have made many plans and, when you look at late career workers, this only increases slightly to three in twenty (16%).

Most people will need something more than leisure activities to be truly happy and fulfilled in retirement. However, few workers are preparing for this as less than two in ten (19%) – including less than three in ten (29%) in their late career – have planned a great deal or a lot for what they will do in retirement to remain challenged and engaged. Workers are thinking slightly more about where they intend to live in retirement than what they will be doing, as about one-quarter (26%) of all workers and four in ten (41%) of those in their late career have given their retirement location a great deal to a lot of thought. More than four in ten workers (42%) – two in ten in their late career (20%) – have given where they would like to live in retirement only a little or no thought.

When it comes to married workers, few are communicating and agreeing on retirement plans with their spouse or partner. About half of workers say they have discussed retirement plans and how to finance them with their spouse a little (25%) or not at all (23%). When late career workers are examined, only three in ten (32%) say they are discussing retirement plans a great deal or a lot with their spouse, while about four in ten (37%) say they discuss plans some, and three in ten note they discuss this only a little (23%) or not at all (9%).

When you consider a retirement lifestyle, developing or retaining social networks outside of work is also important to retiree happiness. One of the positive findings of the survey is that half (51%) of workers, which is the same for those in their late career (50%), say 75% or more of their close friendships are outside of work. However, three in ten (30% for all workers, 29% for late career) say 25% or less of their close friendships are outside of work. For these workers, it may be important for them to begin developing new friendships and associations, particularly as they get closer to retirement. However, few workers (18% for both all and late career) are focusing a great deal or a lot of attention on building new friendships outside of work.

The results of the general population survey in regard to planning for happiness and engagement in retirement have been compiled based on the InFRE Retirement Readiness Profile[®] and are shown in the following table and the pie charts on page 28.

Retirement Readiness Profile – Happiness: Networking and Engagement				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	26%	47%	19%	4%
Not there yet: 60% to 79%	33%	40%	31%	25%
Long way to go: 40% and 59%	25%	12%	32%	32%
Barely started: 20% and 39%	14%	1%	16%	34%
What's retirement? Less than 20%	2%	0%	3%	5%

The profile shows that one-quarter of total workers (26%) are on-track in preparing to be happy and engaged in retirement. While the profile has been developed to place a greater emphasis on lifestyle issues for those closer to retirement, it is the early career workers who are receiving a greater percentage of the happiness and engagement points than those in the other peer segments. This is particularly concerning for late career workers as less than one in twenty (4%) are identified as on-track.

When examining workers in all peer segments who received 80% or more of the total points, their being on-track appears to correlate to their feelings about their likely activities in retirement, as follows:

- 49% state they have so many plans they can't wait to retire
- 30% have some plans, but mostly are just looking forward to more time for current leisure activities
- 20% haven't thought much about what they will do and are just looking forward to not working
- 17% are not sure how they will fill their time

Health in Retirement

As part of planning for total retirement well-being, it is important that workers understand their health, how it impacts their personal longevity and the steps that can be taken to improve their chances for remaining healthy and active throughout retirement. To address this, the InFRE general population survey explored the following topics:

- Current health, family history and expectations for retirement years
- Actions to preserve health, such as exercise, diet, weight, physical check ups and so on

- Knowledge of certain health factors (blood pressure, cholesterol levels)
- Personal life expectancy estimates and, if applicable, spouse's life expectancy

The survey shows that about two-thirds (65%) of workers expect to be healthy through all or most of retirement, while one-quarter (25%) believe they will have some health limitations and 4% expect to suffer from poor health.

Income and financial assets appear to have some influence as to expectations on health as:

- 33% of workers with annual household income of \$100,000 or more anticipate being healthy for as long as they live, compared to 19% with less income
- 35% of workers with financial assets of \$150,000 or more also expect to remain healthy throughout retirement, compared to 19% with less total assets

In general, a majority of workers are taking at least some actions to support a healthy lifestyle, with a greater percentage of late career workers than early or mid, saying that all or most of the time they eat a healthy diet (60%, 40%, 46% respectively), have routine physical checkups (77%, 48%, 59%), take medications and treatments as prescribed (86%, 71%, 73%) and know their blood pressure (88%, 63%, 78%) and cholesterol (71%, 38%, 61%) levels. Fewer workers report exercising regularly all or most of the time (34% all workers, 40% late career workers).

Women and married couples are also doing more to remain healthy. Women are more likely than men to have regular physical check-ups and screenings (64% versus 54%), and take medications or treatments as prescribed (80% versus 70%). Married workers are more likely than single workers to have regular check-ups (64% versus 52%), eat a healthy diet (52% versus 40%), exercise regularly (37% versus 31%) and know their blood pressure (81% versus 68%) and cholesterol levels (63% versus 46%).

An additional finding, consistent with data from other research studies, is that many workers do not appear to have a good understanding of their personal longevity, or the number of years they will likely have in retirement.

Generally, there is a 50/50 chance that an individual worker will live shorter or longer than this average when a random group of Americans are examined. The InFRE survey demonstrates that almost seven in ten workers (67%)

identify their life expectancy to be shorter than the average while slightly more than two in ten (24%) anticipate a life expectancy beyond the average age. In addition, more than four in ten workers (43%) state they have no idea as to the age they can expect to live, with the likelihood of providing this response increasing as household income, financial assets or health status decrease.

The results of the general population survey regarding planning for a healthy retirement have been compiled based on the InFRE Retirement Readiness Profile[®] and are shown in the following table and in the pie charts on page 29.

Retirement Readiness Profile – Health				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	9%	9%	9%	9%
Not there yet: 60% to 79%	22%	22%	18%	30%
Long way to go: 40% and 59%	33%	30%	33%	38%
Barely started: 20% and 39%	24%	25%	26%	18%
What’s retirement? Less than 20%	12%	13%	15%	6%

The profile shows that less than one in ten workers (9%) across all career peer groups are on-track for a healthy retirement. When comparing late career workers to those in the early or mid career peer segments, those nearing retirement are taking at least some actions to support a healthy lifestyle as evidenced by almost eight in ten (77%) of these workers earning 40% or more of the total points and only about one in twenty (6%) receiving less than 20%. When examining the responses to the health readiness profile questions, workers receiving a higher percentage of points are generally those individuals who are expecting to have better health throughout their retirement years.

Wealth Accumulation and Financial Planning

The InFRE survey explored both wealth accumulation and financial planning attitudes and actions. As with previous studies, the InFRE survey finds that workers are not adequately preparing to support their retirement income needs as few are taking the necessary steps to be financially prepared.

To examine wealth accumulation and financial planning for retirement, the profile questionnaire examined topics that included:

- Employer provided retirement benefits

- Personal savings and investments
- Current year contributions to retirement savings and total amount accumulated
- Debt and how it is affecting ability to save and invest for retirement
- Calculating retirement income needs
- Investment allocations
- Home equity
- Sources of retirement income, including income from working and an inheritance

Not surprisingly, few workers are adequately preparing for their financial futures in retirement. While six in ten (62%) report they are participating in a savings plan at work [such as a 401(k), 403(b), 457 plan], over half of all workers report saving nothing at all for retirement (30%) over the past year or less than 5% of their income (25%). This only changes slightly for late career workers to 22% having saved nothing for retirement over the past year and 19% saving less than 5%.

When asked about their total accumulated assets that have been set aside for retirement as a percentage of current household income, over one-quarter (26%) of all workers and two in ten (19%) late career workers report they have no retirement savings at all. Another three in ten (34%) of all workers and two in ten late career workers (21%) have saved less than 50% of their household income for retirement. On the positive side, two in ten (19%) of all workers and almost four in ten (38%) late career workers have at least twice their current income in savings earmarked for retirement.

Consumer debt has a significant impact on workers ability to save for retirement with more than six in ten (65%) saying it has a great deal to some affect on their retirement savings. Late career workers report similar issues as more than half (51%) say that consumer debt has a great deal to some impact on their ability to save for retirement. Less than two in ten (19%) total workers and three in ten late career workers (28%) state that it has no impact. The good news is that one in ten (10%) of all workers report no debt, increasing to 16% for late career workers, and another three in ten (32%) workers and four in ten (42%) late career workers report that their debt has decreased over the past five years.

When estimating the amount of income that workers will likely need in retirement, the InFRE survey again points out less than realistic expectations as three in ten workers (29%) and late career workers (31%) estimate they will need less than 50% of their current annual household income (based on today's dollars) to maintain their desired retirement lifestyle. One-quarter of workers (24%) and three in ten (31%) late career workers say they will need between 50% and 70% of pre-retirement income. Only three in ten workers (29%) and two in ten late career workers (22%) estimate needing 90% or more of their current household income in retirement.

When financial planning steps were examined, more than six in ten workers (66%) and more than half late career workers (56%) say they don't know how much money they need to accumulate for retirement. Of the 33% of the workers who know either the exact (3%) or the approximate amount (30%), more than four in ten estimated this by guessing (22%) or using an on-line calculator/computer program (23%). Half of workers (51%) who knew the amount needed for retirement state they have made or reviewed this determination within the past 12-months and one-quarter (25%) made this determination more than two years ago.

As to the savings goal needed to secure the necessary retirement income, another unrealistic finding is uncovered. Generally, experts estimate that the amount that workers should accumulate to provide sufficient retirement income is approximately 10 times current household income or more. Unfortunately, less than four in ten workers (38%) and one-quarter late career workers (26%) identify savings goals that are intended to produce at least ten times their current household income, while two in ten workers (21%) and three in ten late career workers (31%) say their savings goals are less than three times household income.

One important aspect to financial planning for retirement is recognizing and understanding that alternatives need to be considered to address the unexpected, such as the death of a spouse, disability, and any other unforeseen circumstances that may occur. The survey, however, shows that most workers have not considered contingency planning as they prepare for retirement, with more than six in ten workers having considered alternatives either a little (23%) or not at all (41%). For late career workers, this statistic is not much different, showing more than half are planning for contingencies only a little (26%) or none at all (26%).

When looking at the investment side of financial planning, only slightly more than one in ten workers (13%) state they believe they are extremely or very knowledgeable about investing. This increases to two in ten late career workers (20%). More than half of workers state they are not too (28%) or not at all (26%) knowledgeable about investing. It should be no surprise that when asked how frequently they review and adjust their investment allocations that more than a third (35%) state they do this every two years or less often. One-quarter (25%) of workers indicate they review and rebalance their investments once a year. Only about one in ten (11%) state they use an automated approach (e.g., lifecycle/lifestyle fund or other automated method) or financial planner to manage their investment portfolio.

The results of the general population survey regarding wealth accumulation and financial planning have been compiled based on the InFRE Retirement Readiness Profile[®] and are shown in the following table and the pie charts on page 30 to provide a profile of readiness for early, mid and late career workers.

Retirement Readiness Profile – Financial Preparedness				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	12%	7%	13%	17%
Not there yet: 60% to 79%	16%	11%	16%	25%
Long way to go: 40% and 59%	5%	5%	7%	3%
Barely started: 20% and 39%	24%	24%	26%	19%
What’s retirement? Less than 20%	43%	54%	38%	36%

When comparing the three dimensions of retirement readiness, the profile shows that workers have the most trouble with financially preparing for this life phase as two-thirds (67%) of the workers received less than 40% of the available score. For late career workers, however, there is some slight improvement with four in ten (42%) earning 60% or more of the total points compared to 18% of early and 29% of mid career workers.

When workers say they know how much they need to accumulate for retirement, they are more likely to be financially prepared for this life stage. This is evidenced as more than half of total workers (52%) who say they have identified how much they need to save received 60% or more of the total financial readiness points, compared to only 15% of workers who have not made this determination receiving this same score.

InFRE Retirement Readiness Profile[®] for Total Retirement Well-Being

The scores for all three segments of the general population survey have been compiled to produce the InFRE Retirement Readiness Profile[®] for total retirement well-being. The results are shown in the pie charts on page 31 and the following table to provide a profile of readiness for early, mid and late career workers.

Retirement Readiness Profile – Percentage of Total Points Earned				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	6%	6%	7%	6%
Not there yet: 60% to 79%	19%	13%	20%	28%
Long way to go: 40% and 59%	10%	7%	11%	14%
Barely started: 20% and 39%	40%	43%	36%	43%
What's retirement? Less than 20%	25%	32%	26%	9%

The InFRE Retirement Readiness Profile[®] provides a qualitative measurement of how well workers are preparing for total well-being in retirement. The findings are that they are far from ready regardless of where they are in their working career. Late career workers, who have the fewest remaining years to plan, are slightly better prepared than the mid and early career workers, but are significantly lagging where the experts say they should be. More than half (52%) of late career workers received less than 40% of the available points for all three retirement planning dimensions, compared to 65% of all workers who scored less than 40%.

When the responses of workers who are identified as “on-track” are examined, these individuals are more likely to score higher marks overall in all three of the planning dimensions. This finding suggests that there is a correlation between happiness and health planning and financial/wealth planning. For instance:

- Workers who report they know how much money they need to save for retirement are more likely than those who do not to indicate they have many (20% versus 9%) or some (45% versus 26%) plans for activities in retirement.
- Those who have discussed retirement plans with their spouse a great deal or a lot are more likely to know how much they need to save for retirement (40% versus 13% who do not).
- Those who know how much they need to save for retirement are more than twice as likely as those who do not to have given considerable thought to where they would like to live in retirement (41% versus 17%).

- Workers who have planned for retirement challenges either a great deal or a lot are more likely to know how much money they need for retirement (33% versus 12% who don't know) and have accumulated \$50,000 in financial assets (29% versus 14% who have less), have income of at least \$100,000 (27% versus 17% with less) and homeowners (25% versus 11% of non-owners).
- Workers who expect to be healthy for as long as they live are more likely to have household income of \$100,000 or more (33% versus 19% with less) or have financial assets of \$150,000 or more (35% versus 19% with less).

A New Model for Retirement Plan Design, Education and Guidance

The InFRE[®] Retirement Readiness Project and the General Population Retirement Readiness Survey suggest that a new direction for employer-sponsored 457, 401(k) or 403(b) retirement plans is needed that can be more effective in helping workers prepare for their future years. In consideration of the project findings, the new model is proposed as follows:

- Step 1: Provide a simpler, more automated plan design to address what is known about behaviors regarding money decisions.
- Step 2: Expand the education message to address total retirement well-being, how to make informed decisions about when and how to retire, and the risks that retirees face when trying to make their assets last throughout their lifetime.
- Step 3: Develop more effective education programs, based on application-oriented adult learning techniques, to increase the relevance of education and motivate employees to take appropriate actions.
- Step 4: Implement a more productive, and cost effective, model for delivering education and guidance that is tailored to meet the needs of the aging workforce.

Step 1: Simpler, Automated Plan Designs

One of the problems most often demonstrated in research is that employees are not making timely or appropriate decisions in regard to their retirement plan – they delay or never enroll, and even those who begin participating, don't increase their contributions or rebalance investments when appropriate.

Employers are beginning to recognize that these issues can be addressed by adopting certain automated procedures in their plan, such as the following:

- *Enrollment*: employees are automatically enrolled at a standard deferral amount and investment choice – e.g., 3% of salary deferral into a lifecycle investment option based on employee age.
- *Deferral increases*: deferrals are periodically increased based on a set schedule – e.g., 1% a year until the deferral equals 7% of salary, coinciding with employees’ payroll increases.
- *Rebalancing*: account balances are automatically readjusted on a periodic basis to match the participants’ pre-selected model investment portfolio.

With an automated plan design, employees always have the discretion to opt out and elect to either not participate or make alternate decisions. However, research¹⁰ is showing that many will stay in the plan once automatically enrolled and appreciate the simplified approach that deferral increases and rebalancing options provide.

These automated functions have been aided by legislation passed last year – the 2006 Pension Protection Act – that encourages employers to establish automatic enrollment and deferral increases and set a balanced, diversified option as the default investment. The Department of Labor will soon be issuing guidance to help employers make decisions regarding default choices associated with the automated plan designs and provide fiduciary safe harbors for plans subject to ERISA¹¹.

If the employer is not comfortable with the automated approach, another alternative is to simplify the plan design and decision making process. With this approach, enrollment and investment forms offer a simple “check-the-box” option for:

- *Enrollment*: participants can select a standard deferral amount and investment choice as established by the plan (e.g., model portfolio or lifecycle fund based on age), or make their own initial decisions.

¹⁰ Multiple studies are available regarding this issue, such as the *EBRI 2006 Retirement Confidence Survey* previously referenced; *The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement* by Sarah Holden, ICI, and Jack VanDerhei, Temple University and EBRI Fellow located at: http://www.ebri.org/pdf/briefspdf/EBRI_IB_07-20054.pdf

¹¹ Although public sector plans are not subject to ERISA and subsequent regulations, often state and local government employers look to these for guidance.

- *Deferral increases*: participants can elect to have deferrals increased at a set schedule established by the plan, or create their own advance direction as to when and how much deferrals increase.
- *Rebalancing investments*: participants can select an automatic rebalancing option to periodically readjust their account based on an established model portfolio, or chose to make their own future decisions regarding diversification and rebalancing.

Employers should examine their workforce to determine which approach to plan design – automated or simplified – can be the most effective in helping employees achieve financial security for retirement.

Step 2: Expanded Education Message

Once the plan design is modified to create a more user-friendly approach to enrollment and investment decisions, the next step is to review employee education. Employees are provided considerable worksite education in multiple forums – print, on-line and workshops. However, many still are not participating in their employer-sponsored retirement plans and even those who do, may find the amount they are saving will not produce sufficient income for all their retirement years.

The InFRE[®] Retirement Readiness Project demonstrates that broadening the educational message beyond saving and investing to address total retirement well-being can be more effective in motivating employees to be financially prepared for their future. The education and tools to help workers plan for the 20, 30 or more years they can expect to live in retirement should be about more than just generating replacement income based on their needs at the time they retire. Employees who understand what their retirement lifestyle will be like and how their health will affect the number of years they need their money to last are more motivated to take necessary actions to be financially secure throughout their retirement life stage.

Today's education is centered on savings and investing goals. What's missing is helping employees recognize that they should be setting goals for their lifestyle that includes being happy and healthy throughout their retirement years. Being able to answer questions about “what, when, where and how” they intend to live will help employees establish financial goals that can be met by participating in their retirement plan.

Step 3: Relevant and Effective Education Programs

Another important factor regarding the effectiveness of education to help employees plan for retirement is how it is developed and presented. Research, such as the study discussed in this report¹², has shown that education based on adult learning techniques has a positive impact to change employee and participant behaviors.

The first step in developing a more effective educational program is to assess the needs of the workforce and develop a plan of action. Tools, such as the InFRE Retirement Readiness Profile[®], provide an excellent method for the employer to evaluate employee knowledge and attitudes about retirement planning and generate information that can be used to establish both short- and long-term retirement education goals. This can produce a benchmark of the retirement readiness of the employee population before education programs are initiated to create a basis for measuring the results and effectiveness of this effort.

Once the needs of the workforce have been identified, the next step is to develop an action plan to establish key points of learning that are to be accomplished through the educational program and the behavior changes that are being sought. For instance, if the employer has identified that a significant portion of their workforce will be eligible for retirement over the next one to five years, an important goal may be help these employees determine if they are really ready for retirement and, as a result, potentially retain these valued, knowledgeable employees in the workforce beyond their earliest retirement date. In this situation, the key learning points would be to inform employees of the risks they face in making their money last for their entire retirement life stage and how this may be mitigated by working a few more years (thus delaying receipt of pensions and Social Security benefits) and accumulating additional savings and investments.

This step is followed by developing education that strengthens employees understanding of the message and reinforces the actions that they are expected to take. For example, the InFRE Retirement Readiness Profile[®] has been developed to improve the knowledge of employees regarding how to plan for total retirement well-being. After completing the questionnaire, employees receive immediate feedback to tell them if their planning is on-track or not for a successful retirement and suggest actions they can take to improve their planning efforts. This

¹² *Adult Learning Principles and Pension Participant Behavior*, by Victor Saliterman and Barry G. Sheckley

information can also be used by retirement counselors to better understand the needs of the audience and identify potential actions that can produce the highest probability of success for individuals' specific situations.

The final step in establishing an effective education program is to evaluate and measure its success in accomplishing the attitude and behavior changes that were expected. This process is also instrumental in establishing goals for the next educational effort, starting the cycle of creating an adult learning experience all over again.

Step 4: Productive and Cost Effective Delivery of Education and Guidance

Establishing delivery methods for education and guidance that can meet the varied needs of the workforce is also critical to help employees be prepared for retirement. While research demonstrates that many prefer personal interactions when it comes to making decisions, providers are moving more of the education and guidance services to the Internet or automated call centers in an attempt to lower costs.

Personalized services, however, do not need to be expensive and can be established in a cost effective manner. For instance, research that established a *Consultive Approach* to call center management (discussed on page 8) offers personalized service by telephone and was demonstrated to be effective in increasing employee deferrals. Although there were increased staffing costs, these were offset by the additional asset fees that were generated from higher participant account balances and less employee turnover in the call center.

Another personalized approach that is proving to be effective for retirement counseling is to offer small group sessions to employees at the worksite. Instead of a formal workshop, this session provides an opportunity for smaller groups – such as six to twelve employees – to meet to discuss retirement issues and ask questions about their personal situation. Those participating benefit from all the questions and answers that are provided in the group setting and often learn more than they would in an individual session.

Employers that adopt this approach are finding that the number of one-on-one counseling appointments (in-person or by phone) as well as the time spent with each employee is often reduced as a result of the group sessions. This

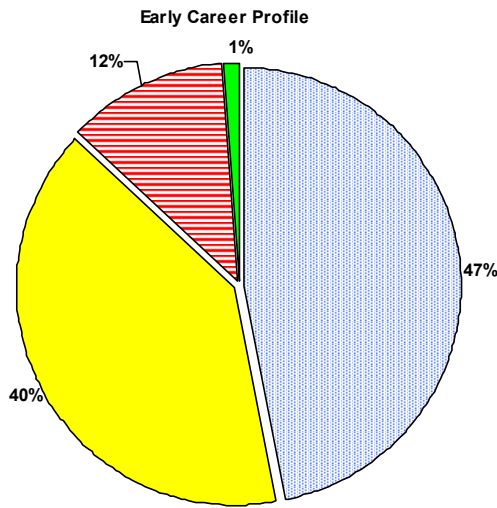
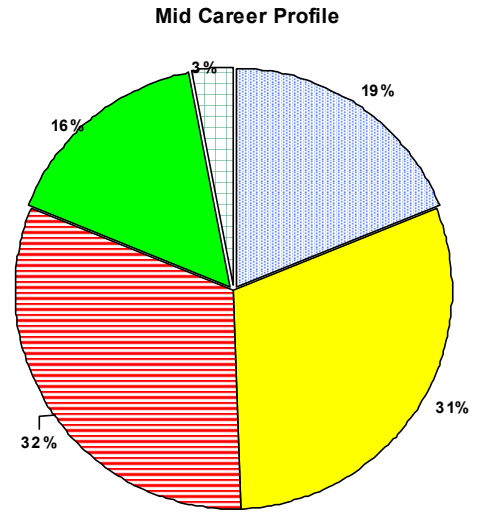
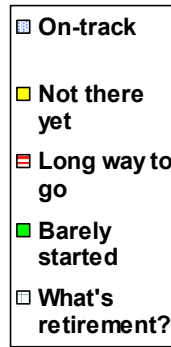
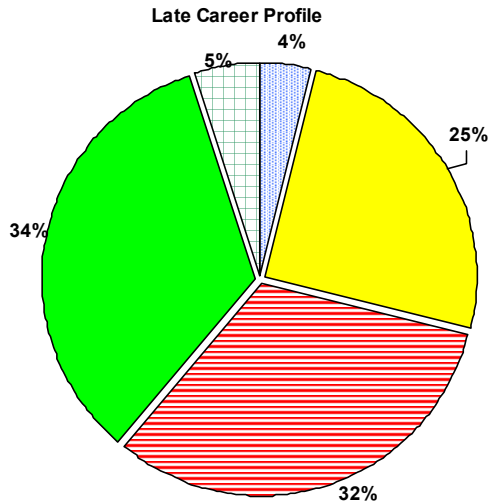
group approach increases the opportunity for employees to receive personal interactions and can be more effective in modifying behaviors to increase and improve employee participation in the retirement plan.

The aging workforce and imminent retirement of the baby boomer generation is creating an urgency to find solutions that can help employees recognize what it really means to be ready for retirement and how to prepare for this entire life stage. It is hoped that this paper and the resulting recommendations will be looked at closely by plan sponsors and generate new discussions within the industry that will lead to improvements in retirement plans, education and counseling services that are provided to both public and private sector employees. Diagnostic tools, such as the InFRE Retirement Readiness Profile[®], are a critical component of an effective retirement education program to raise awareness and measure results of the retirement readiness of the American workforce.

Retirement Readiness Profile

Happiness: Networking and Engagement

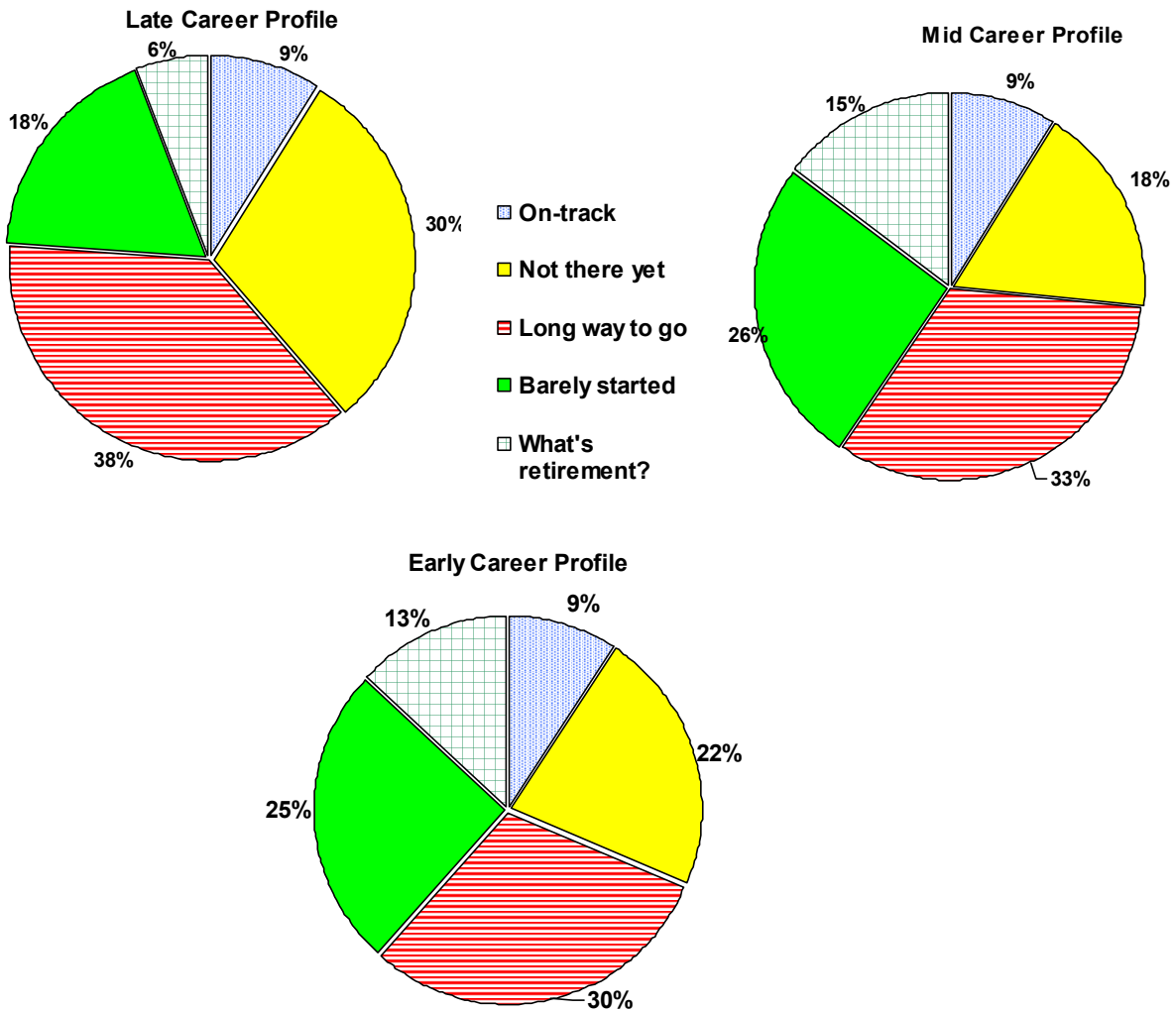
Retirement Readiness Profile – Happiness: Networking and Engagement				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	26%	47%	19%	4%
Not there yet: 60% to 79%	33%	40%	31%	25%
Long way to go: 40% and 59%	25%	12%	32%	32%
Barely started: 20% and 39%	14%	1%	16%	34%
What's retirement? Less than 20%	2%	0%	3%	5%



Retirement Readiness Profile

Health

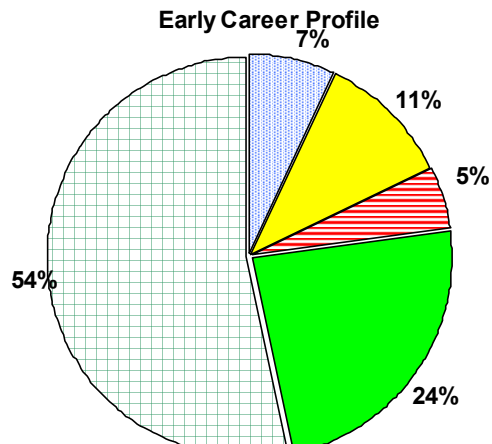
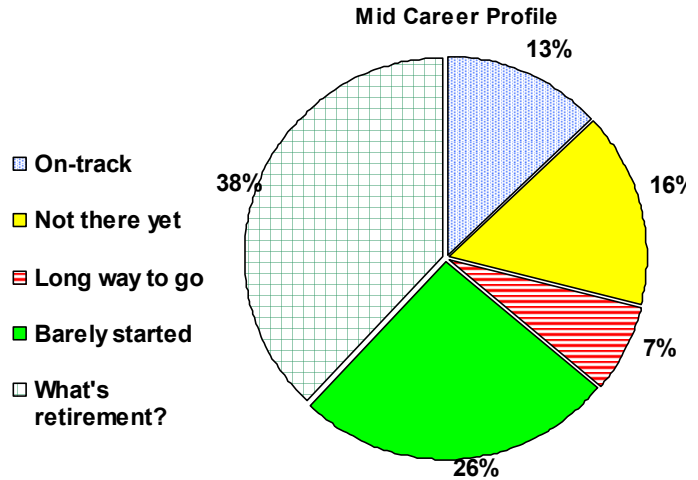
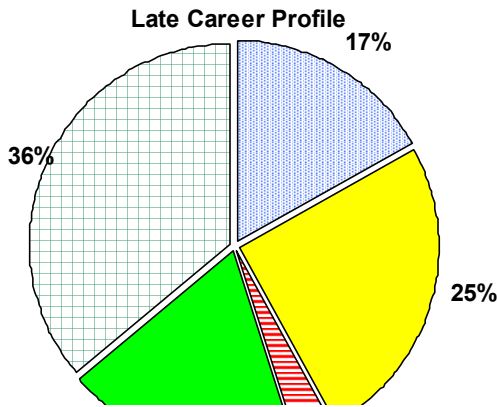
Retirement Readiness Profile – Health				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	9%	9%	9%	9%
Not there yet: 60% to 79%	22%	22%	18%	30%
Long way to go: 40% and 59%	33%	30%	33%	38%
Barely started: 20% and 39%	24%	25%	26%	18%
What's retirement? Less than 20%	12%	13%	15%	6%



Retirement Readiness Profile

Financial Preparedness

Retirement Readiness Profile – Financial Preparedness				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	12%	7%	13%	17%
Not there yet: 60% to 79%	16%	11%	16%	25%
Long way to go: 40% and 59%	5%	5%	7%	3%
Barely started: 20% and 39%	24%	24%	26%	19%
What's retirement? Less than 20%	43%	54%	38%	36%

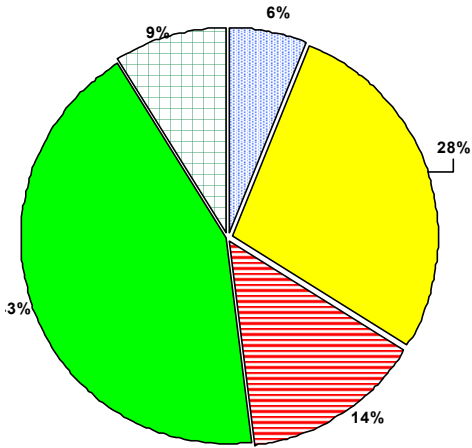


Retirement Readiness Profile

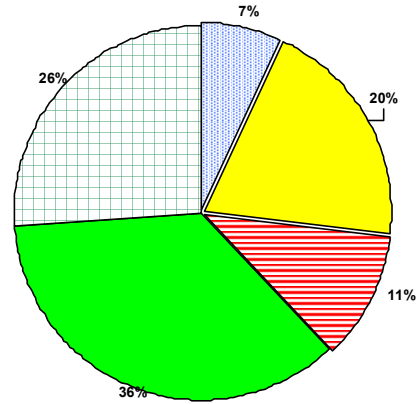
Total Retirement Well-Being

Retirement Readiness Profile – Percentage of Total Points Earned				
	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	6%	6%	7%	6%
Not there yet: 60% to 79%	19%	13%	20%	28%
Long way to go: 40% and 59%	10%	7%	11%	14%
Barely started: 20% and 39%	40%	43%	36%	43%
What's retirement? less than 20%	25%	32%	26%	9%

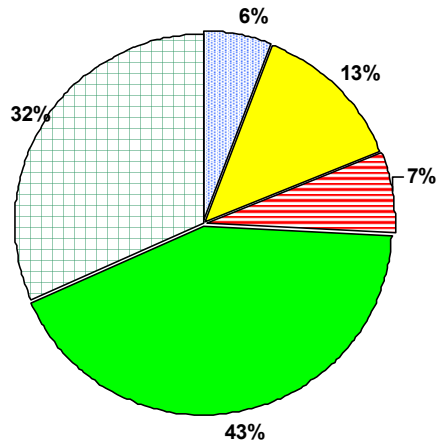
Late Career Profile



Mid Career Profile



Early Career Profile



About the author:

Mary Willett, Willett Consulting: Mary is a benefit plan consultant in Oregon Wisconsin with more than twenty years experience in the field of public employee retirement benefits. Prior to starting her consulting business in 2002, Mary was Director of the Office of Supplemental Retirement Plans and Federal Compliance for the State of Wisconsin Retirement System and was responsible for the Wisconsin Deferred Compensation Plan, an unbundled Section 457 plan.

Mary was the 2001/2002 President of the National Association of Government Defined Contribution Administrators (NAGDCA) and has been involved with the International Foundation for Retirement Education (InFRE) since its inception in 1997. She serves on the InFRE Board of Standards and holds both the Certified Retirement Administrator (CRA) and Certified Retirement Counselor (CRC) designations. Mary is an expert in public sector retirement plans, specializing in Section 457, 403(b) and 401(a) defined contribution plans. She has co-authored and updated textbooks used in the coursework for the CRA designation and authored many articles for various newsletters and industry publications on topics pertaining to retirement plan issues. She is also a frequent speaker at industry conferences.

Special thanks to Betty Meredith for her valuable feedback and assistance in the development of this paper.

Betty Meredith, CFA[®], CFP[®], CRC[®], is the Director of Education & Research for the International Foundation for Retirement Education (InFRE), an organization dedicated to increasing the retirement preparedness of the American worker through leading retirement education for professionals. She has 25 years experience in financial services, fifteen of those years in employee, client and professional retirement education. She is one of the principal authors of a new series of six professional education courses, “Strategies for Managing Retirement Income,” and has authored dozens of consumer financial education self study books, financial and retirement planning education workshops for employees and retail clients.

Betty is the editor of InFRE's newsletter, “Sharing Ideas for Retirement Education and Administration.” She is a regular speaker at national conferences in the public and private employer plan markets as well as the financial services industry on retirement education, retirement income management, retirement readiness, and advice. She is an adjunct instructor for the International Foundation for Employee Benefit Plans (IFEBC), an active member of the inter-disciplinary Post Retirement Needs Task Force sponsored by the Society of Actuaries, a Past Chair of the Communication and Education Committee for the Profit Sharing/401(k) Council of America (PSCA), and is a past member of InFRE's Board of Governors.

Special thanks to Ruth Helman for her tremendous work on the InFRE[®] Retirement Readiness Project

Ruth Helman, research director for Mathew Greenwald & Associates provided invaluable insights and assistance throughout the InFRE project. She is the author of the report on the InFRE[®] General Population Retirement Readiness Survey – which can be found at www.infre.org – that provided the basis for this paper. She is one of the primary authors of the EBRI Retirement Confidence Surveys that have also been referenced throughout this paper.