Retirement Throughout the Ages:

An examination of preparations and expectations among American workers

A White Paper by **Catherine Collinson**

TRANSAMERICA CENTER FOR RETIREMENT STUDIES®

The ***16th Annual Transamerica Retirement Survey*** finds American workers are continuing to recover from the Great Recession and its aftereffects. While the economy is recovering, the U.S. retirement landscape is also continuing to evolve, with increases in life expectancies, the need for Social Security reform, and an even greater need for individuals and families to plan and save for their future financial security. Most workers are rising to the challenge by saving, but are they saving enough? Are they properly planning?

Workers of all ages face opportunities and challenges for improving their retirement outlook. As we progress through our working lives, our circumstances change over time with age. While workers in their twenties are embarking on their careers with decades to plan and save, retirement for workers in their fifties and sixties is much closer on the horizon, with many needing to shore up the size of their nest eggs.

This white paper examines workers in their twenties, thirties, forties, fifties, and sixties and older to compare and contrast their retirement preparations and shed light on how they can navigate the future and improve their retirement outlook.

American Workers Are Retooling the U.S. Retirement System Into a Four-Legged Table

The U.S. retirement system has long been characterized as a three-legged stool comprised of Social Security, employer pensions, and self-funded savings. Today's workers are transforming this traditional icon into a four-legged table by adding a fourth income component: working.

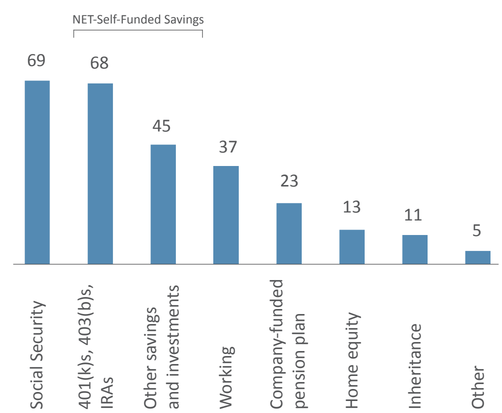
The survey found that half of workers plan to continue working, at least part-time, in retirement. Thirty-seven percent of workers expect working to be a source of income in retirement.

When asked about their expected *primary* source of income, the survey found a wide disparity of responses across the age ranges:

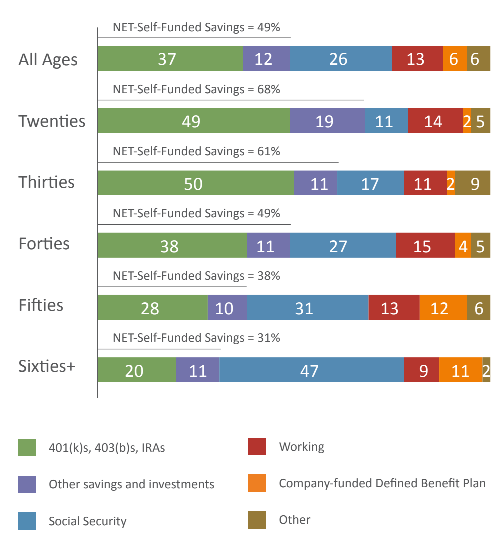
- Retirement accounts (e.g., 401(k)s, 403(b)s, IRAs) are most frequently cited by workers in their twenties (49 percent), thirties (50 percent), and forties (38 percent);
- Social Security is most frequently cited by workers in their fifties (31 percent) and sixties and older (47 percent); and,
- A noteworthy 13 percent of workers expect working to be their primary source of income in retirement, an expectation that is shared among workers in their twenties through fifties, but somewhat less so among those in their sixties and older (9 percent).

By continuing to work as they transition into full retirement, workers can earn income, bridge savings shortfalls, and even mitigate some of the risks of fluctuations of their account values caused by market conditions. However, it does not preclude the need to prepare, save, and have a Plan A, as well as a Plan B. Unforeseen circumstances such as health issues or job loss can wreak havoc with the best intentions.

Expected Sources of Retirement Income Among Workers of All Ages (%)



Primary Source of Retirement Income (%)



A Portrait of Workers of All Ages

Who wants to be a millionaire? Workers of all ages estimate that they will need to save $1,000,000 (median) in order to feel financially comfortable in retirement and many have based their estimate on guesswork. They share retirement dreams of travel, time with family and friends, and pursuing hobbies – and fears of outliving their savings and investments. About half plan to continue working, at least part-time, in retirement. One in five say that paying off credit card or consumer debt is their greatest financial priority. While workers of all ages share much in common, the survey also found striking differences based on age and life stage.

Twentysomethings: Committed, Cautious, and Concerned

Today's workers in their twenties are embarking on their careers and juggling financial priorities, yet many are already saving for retirement. By starting to save at a young age and investing wisely, they can grow their nest eggs over four to five decades and enjoy the compounding of their investments over time.

The survey found that 67 percent of workers in their twenties are saving for retirement, despite competing financial priorities such as credit card debt and student loans. They are starting to save for retirement at an impressively young age of 22 (median). However, a concerning 37 percent know "nothing" about asset allocation principles, which are fundamental to retirement investing. Some (24 percent) are investing in low-risk, low-return investments, which may be too conservative given their time horizon, while others (27 percent) are "not sure" how their savings are invested.

Eighty-one percent of twentysomethings are concerned that Social Security will not be there for them when they are ready to retire, and less than half (45 percent) are expecting Social Security to be a source of their retirement income.

Thirtysomethings: Strong Savers but Weak Planners

Thirtysomething workers are now well into their careers, albeit with the major disruption of the Great Recession. The good news is many are saving for retirement. For those who are not yet saving, now is the time for them to get started. For those who are saving, now is the time to save even more and expand their efforts to include building knowledge and planning.

Three out of four (76 percent) workers in their thirties are saving for retirement – and they began at age 25 (median). Among those participating in a 401(k) or similar plan, an impressive 30 percent are contributing more than 10 percent of their annual pay.

Eighty-seven percent of thirtysomethings prefer to make their own decisions about their retirement investments, either after doing their own research or seeking advice, yet two-thirds (68 percent) say they don't know as much as they should about retirement investing. Fifty-seven percent say they "guessed" their retirement savings needs.

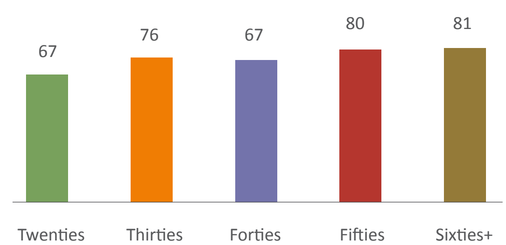
$1 million

Workers of all ages estimate they will need to save $1 million (median) to feel financially secure when they retire

53%

Of workers say they "guessed" their retirement savings needs

Workers who are saving for retirement through an employer-sponsored retirement plan and/or outside of work (%)

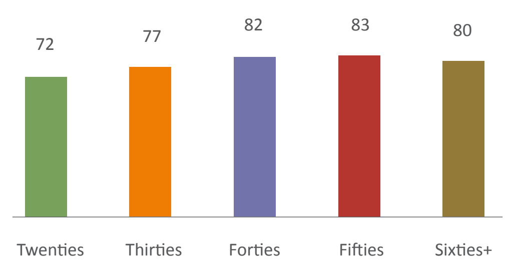


Age Started Saving (Median)

22 Years | 25 Years | 30 Years | 31 Years | 35 Years

Participates in 401(k) or similar plan

Yes (%)



Median Annual Contribution Rate (%)

7% | 8% | 7% | 8% | 10%

Fortysomethings: Financially Frazzled but Focused

Fortysomething workers endured the Great Recession and are in their "sandwich years" which can include a delicate balancing act of work, kids and possibly aging parents – and they are feeling financially frazzled.

Only 10 percent of workers in their forties are "very" confident that they will be able to fully retire with a comfortable lifestyle. Twenty-two percent cite paying off credit card or consumer debt as their greatest financial priority. Nevertheless, 76 percent are saving for retirement and started at age 30 (median).

Among workers in their forties who are offered a 401(k) or similar plan, 82 percent are participating in the plan and they are contributing seven percent (median) of their annual pay, yet only 23 percent are contributing more than 10 percent. Almost one in four (24 percent) has taken a loan or early withdrawal from their plan.

Total household retirement savings of workers in their forties is $63,000 (estimated median). Just 46 percent agree that they are building a large enough retirement nest egg, including 11 percent who "strongly" agree and 35 percent who "somewhat" agree. Sixty-one percent expect to work past age 65 or do not plan to retire.

It's important for them to remember that they can improve their long-term prospects. They still have 20 or more years to save.

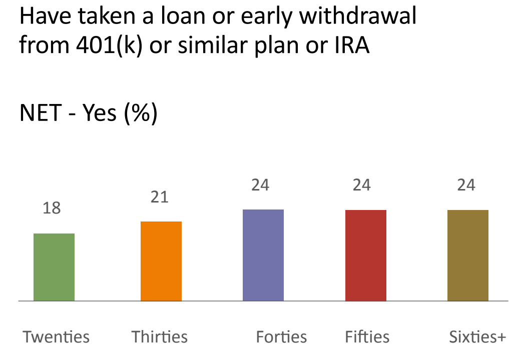
Fiftysomethings: Facing Future Retirement Realities

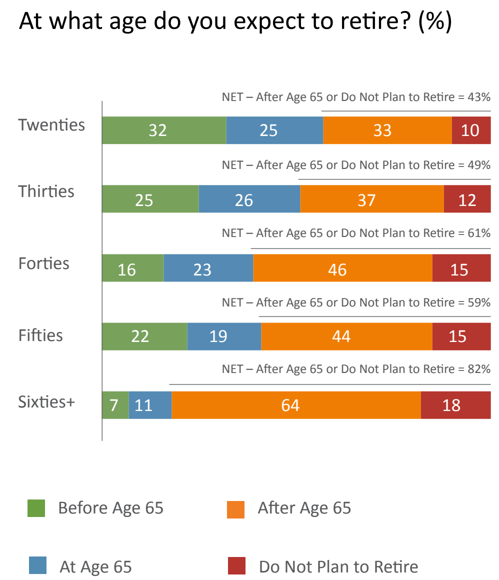
Fiftysomething workers are serious about saving for retirement but can do much more in terms of planning. By doing so, they can change their retirement destiny.

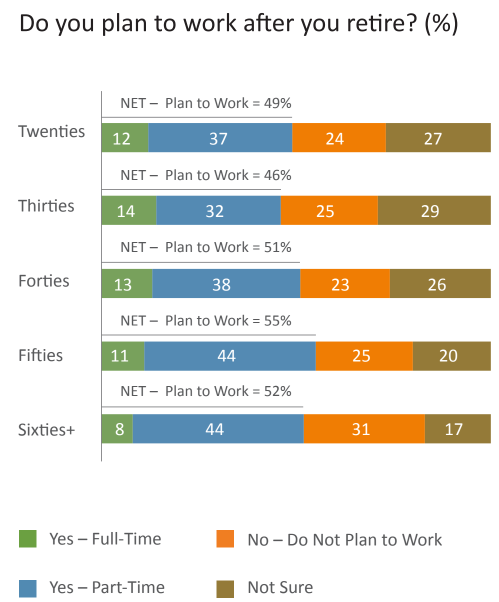
Eighty percent of fiftysomethings are saving for retirement and they started at age 31 (median). Among those who are offered a 401(k) or similar plan, 83 percent participate in the plan. Of those who participate, 31 percent contribute more than 10 percent of their income to the plan.

A major opportunity for fiftysomethings is to take an assessment of their current situation and formulate a retirement strategy. While the survey found that 60 percent say that they have a retirement strategy, only 14 percent have a written plan (46 percent have an unwritten plan). Fifty-two percent say that they "guessed" their retirement savings needs.

With total household retirement savings of $117,000 (estimated median), most fiftysomething workers (59 percent) plan to work past age 65 or do not plan to retire. Forty-two percent expect their standard of living to decrease when they retire.







Sixtysomethings and Older: Transforming Retirement as They Retire

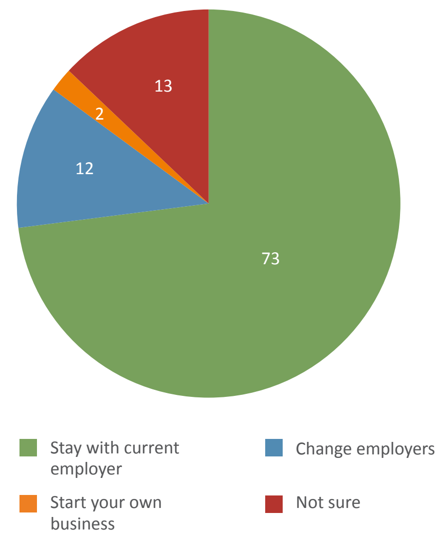
Workers in their sixties and older have cast aside long-held societal notions about fully retiring at age 65. They are literally transforming retirement as they retire. Eighty-two percent expect to or are already working past age 65 – or they do not plan to retire. Among them, 56 percent are doing so because they can't afford to or for income or health benefits.

Seventy-three percent of workers in their sixties and older believe their retirement transition, phased or otherwise, will take place at their current employer. However, few say that their employers have formal business practices in place that could accommodate a phased retirement. It's incumbent on them to do their homework and recalibrate their expectations accordingly.

Forty-seven percent expect to rely on Social Security as their primary form of income in retirement, but only 29 percent know a great deal about it. Total household retirement savings among workers in their sixties and older is $172,000 (estimated median), with 39 percent reporting that they have saved $250,000 or more.

When you think about working past 65 or working while you transition into retirement, which of the following is the most likely to happen? (%)

Sixties and Older

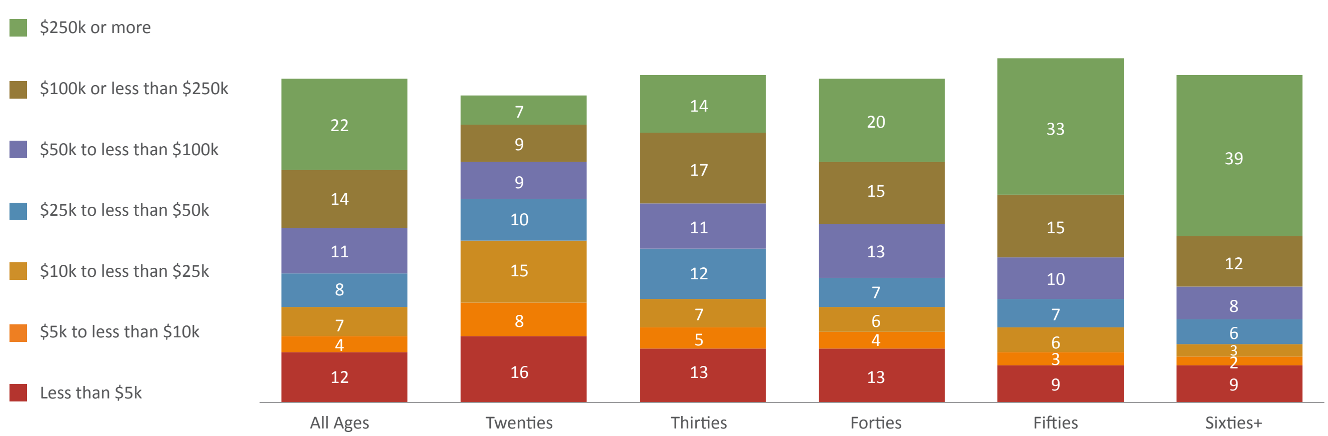


Total Household Retirement Savings

The total household savings in retirement accounts is $63,000 (estimated median) among workers of all ages. Total retirement savings steadily increases by age range: Workers in their twenties have saved $16,000 (estimated median) while those in their thirties have saved $45,000, forties have saved $63,000, and fifties have saved $117,000. Workers in their sixties and older have saved $172,000 (estimated median) – notably, 39 percent of them have saved $250,000 or more.

Are workers saving enough? With the estimated median savings among workers of all ages being relatively low, especially among those nearing retirement, the survey findings suggest that many are not. However, from the worker's perspective, it's a very personal question based on one's individual financial circumstances and can only be answered by calculating a savings goal and retirement income needs.

Total Household Retirement Savings by Age Range (%)



Not sure	11	19	11	10	8	7
Decline to answer	11	7	10	12	9	14
Estimated Median	$63,000	$16,000	$45,000	$63,000	$117,000	$172,000

Note: The median is estimated based on the approximate midpoint of the range of each response category. Non-responses are excluded from the estimate.

Everyone Needs a Retirement Strategy

Retirement planning inherently involves strategic planning, yet 42 percent of American workers do not have a retirement strategy. It's difficult if not impossible to reach a destination without a compass or roadmap. As workers approach retirement age, more have a plan. Workers in their Sixties and older (73 percent) are most likely to have some form of plan compared to those in their Forties (52 percent). However, the percentage of workers with a written plan is low (14 percent), with workers in their Forties (9 percent) least likely to have a written plan.

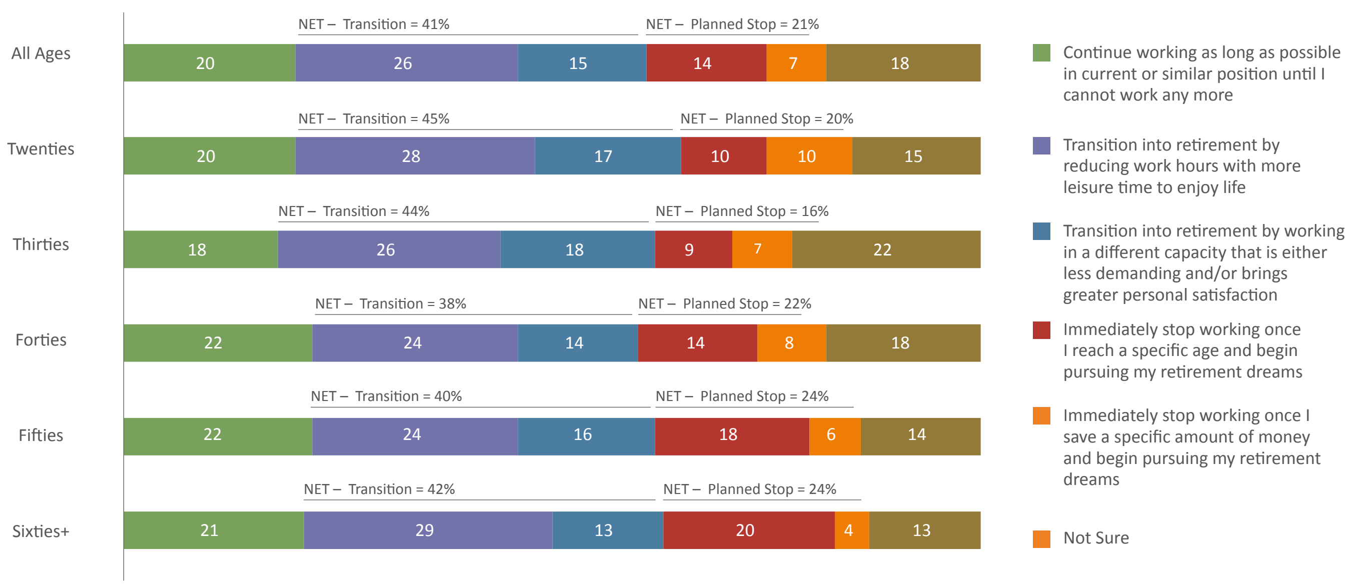
Among workers who have a retirement strategy (written or unwritten), many are overlooking critical components in their strategies. While most are considering on-going living expenses and government benefits, few are considering factors such as investment returns, inflation, tax planning, contingency plans – and pursuing their retirement dreams.

A backup plan is an essential component of retirement planning, especially considering that many workers plan to work past age 65 and to continue working in retirement. However, few have a backup plan if retirement happens unexpectedly due to unforeseen circumstances such as a job loss, health issues, or family responsibilities. Only 34 percent of workers in their Sixties and older have a backup and even fewer in their Fifties (23 percent) have one.

Farewell to the "Gold Watch" Retirement

The long-held view that retirement is a moment in time when a person reaches a certain age, immediately stops working, fully retires, and begins pursuing their dreams – is more myth than reality. Retirement has become a transition which may be phased in over time and or may happen abruptly due to intervening circumstances. Just 21 percent of workers expect to immediately stop working and fully retire when they reach a certain age or savings goal. While this vision is consistently clear among workers of all ages, relatively few workers say that their employers have business practices in place that would accommodate them.

How do you envision transitioning into retirement?



As the U.S. retirement landscape continues to evolve, American workers of all ages are adjusting their expectations. Their vision of transitioning and working in retirement can help address savings shortfalls and provide opportunities for them to stay active and involved. However, their success is dependent on lawmakers and employers updating public policy and employment practices to help facilitate people working longer. At the same time, workers can and should take additional steps to improve their retirement outlook by saving, planning, and preparing – including a Plan A and a Plan B if forced into retirement sooner than expected due to health issues or job loss.

Tips for Workers of All Ages

It is never too soon or too late to save, invest and plan for retirement. As the retirement landscape continues to evolve, workers of all ages will likely face different challenges and opportunities as their circumstances inevitably change with age. However, the proactive tactics to help prepare for retirement are fundamentally common to all. Here are seven tips toward achieving retirement readiness:

1. **Save for retirement**
   Start saving as early as possible and save consistently over time. Avoid taking loans and early withdrawals from retirement accounts.

2. **Consider retirement benefits as part of total compensation**
   Ask an employer for a plan if they don't offer one.

3. **Participate in employer-sponsored retirement plans, if available**
   Take full advantage of matching employer contributions, and defer as much as possible.

4. **Calculate retirement savings needs, develop a retirement strategy, and write it down**
   Factor in living expenses, healthcare needs, government benefits and long-term care. Envision future retirement and have a backup plan in case retirement comes early due to an unforeseen circumstance. Seek assistance from a professional financial advisor, if needed.

5. **Get educated about retirement investing**
   Whether relying on the expertise of professional advisors or taking a more do-it-yourself approach, gain the knowledge to ask questions and make informed decisions. Also learn about Social Security and government benefits.

6. **Take advantage of the Saver's Credit**
   Make Catch-Up Contributions, if available and you are eligible.

7. **Enlist trusted loved ones and start a dialogue about retirement**
   Have frank conversations with family and close friends about retirement dreams, fears, and financial matters to help ensure a common understanding.

How Employers Can Help Their Employees

Employers can play a crucial role in helping Americans save for retirement. Working with their retirement plan advisors and providers, employers can help improve their employees' retirement outlook through these opportunities:

1. **Offer a retirement plan along with other health and welfare benefits if not already in place**
   Take advantage of the tax credit available for starting a plan.

2. **For employers that offer a plan, extend eligibility to part-time workers**
   Seek expertise of retirement specialists familiar with plan design on how to best accomplish this.

3. **Proactively encourage participation in existing retirement plans**
   Consider adding automatic enrollment and automatic escalation features to increase participation rates and salary deferral rates.

4. **Discourage loans and withdrawals from retirement accounts**
   Limit the number of loans available in the plan. Ensure participants are educated about the ramifications of taking loans and early withdrawals. Allow for an extended loan repayment time for terminated participants.

5. **Consider structuring matching contribution formulas to promote higher salary deferrals**
   For example, instead of matching 100 percent of the first three percent of deferrals, change the match to 50 percent of the first six percent of deferrals or even 25 percent of the first 12 percent of deferrals.

6. **Ensure educational offerings are easy-to-understand and meet the needs of employees**
   Provide education on calculating a retirement savings goal, principles of saving and investing, and, for those nearing retirement, ways to generate retirement income and savings to last throughout their lifetimes.

7. **Offer pre-retirees greater levels of assistance in planning their transition into retirement**
   Provide education about distribution options, retirement income strategies, and the need for a backup plan if forced into retirement sooner than expected (e.g. health issues, job loss, family obligations).

8. **Create opportunities for workers to phase into retirement**
   Allow for a transition from full-time to part-time and/or working in different capacities.

9. **Promote incentives to save, including the Saver's Credit and Catch-Up Contributions.**

About the Author

Catherine Collinson is a champion of everyday people including those who are at risk of not achieving a financially secure retirement. She currently serves as president of nonprofit Transamerica Institute® and Transamerica Center for Retirement Studies®. In May 2015, she was also named executive director of Aegon Center for Longevity and Retirement.

With two decades of experience, Catherine has become a nationally recognized voice on retirement-related trends. She has testified before Congress on matters related to employer-sponsored retirement plans among small business, which have featured the need to raise awareness of the Saver's Credit.

Catherine oversees research, publications, and outreach initiatives including the Annual Transamerica Retirement Survey. She is regularly quoted in top media outlets on retirement-related topics, including: Time, Forbes, CNBC, and Yahoo! Finance. She co-hosts ClearPath: Your Roadmap to Health & Wealth on WYPR, Baltimore's NPR news station. In 2015, Catherine was named an advisory board member of the Milken Institute's Center for the Future of Aging.

Catherine is currently employed by Transamerica. Since joining the organization in 1995, she has held a number of positions with responsibilities including the incorporation of Transamerica Center for Retirement Studies as a nonprofit private foundation in 2007 and its expansion into Transamerica Institute in 2013.

About Transamerica Center for Retirement Studies®

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About the 16th Annual Transamerica Retirement Survey

The analysis contained in *Retirement Throughout the Ages: Expectations and Preparations of American Workers* was prepared internally by the research team at TCRS. The online survey was conducted within the United States by Harris Poll on behalf of Transamerica Center for Retirement Studies between February 18 and March 17, 2015 among a nationally representative sample of 4,550 full-time and part-time workers, including workers in their twenties (579), thirties (853), forties (895), fifties (1,243), sixties and older (948), and 32 workers ages 18 and 19. Potential respondents were targeted based on employment status and company size. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted to account for differences between populations available via the Internet versus by telephone, and to ensure that each quota group had a representative sample based on the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated.

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