SAVER

The National Summit on Retirement Savings

June 4-5, 1998

Washington, DC

Agenda Background Materials

1998 National Summit on Retirement Savings

June 4-5
Washington, DC

Author/Acknowledgements

This agenda briefing book was drafted by Christopher Conte, a freelance journalist since 1995, and previously a reporter with The Wall Street Journal from 1979 to 1994. Mr. Conte has also had an appointment as an EBRI-ERF Fellow since 1995. Research support was provided by Ken McDonnell, Paul Yakoboski, Dallas Salisbury and Don Blandin of the Employee Benefit Research Institute (EBRI). Layout and production was under the direction of Cheri Meyer of the American Savings Education Council (ASEC), with copy editing by Deborah Holmes of EBRI. Coordination of review by the legislative and executive branch was conducted by Dallas Salisbury and Don Blandin of EBRI/ASEC. This document is a publication of ASEC, and not a government publication. Full responsibility for the content rests with the publisher.

About the American Savings Education Council

The American Savings Education Council (ASEC) is a coalition of private- and public-sector institutions, including ASEC Charter Partners American Association of Retired Persons (AARP), American Council of Life Insurance (ACLI), American Express Company, Employee Benefit Research Institute (EBRI), Fidelity Investments, IBM Corporation, Investment Company Institute (ICI), Prudential Investments, ReliaStar Financial Corp., State Street Corporation, VALIC (The Variable Annuity Life Insurance Company), U.S. Department of Labor, U.S. Department of the Treasury, and U.S. Securities and Exchange Commission. ASEC is part of the Education and Research Fund of the Employee Benefit Research Institute. ASEC, through its coalition of institutional partners, undertakes initiatives to raise public awareness about what is needed to ensure long-term personal financial independence. ASEC works to build individual and employer awareness of the basic principles of saving and retirement planning, including all potential sources of economic security. ASEC's goal is to make saving and retirement planning a vital concern of Americans.

American Savings Education Council
ERF/EBRI, Suite 600
2121 K Street NW
Washington, DC 20037-1896
Tel: (202) 775-9130
Fax: (202) 775-6360
Web Site: www.asec.org

Summit Agenda

Leaders from across the country will gather June 4 and 5, 1998, at the Hyatt Regency, Capitol Hill, in Washington D.C., for the first National Summit on Retirement Savings. Established by the bipartisan **Savings Are Vital to Everyone's Retirement Act (SAVER)** of 1997, the meeting is the first of three, with additional summits scheduled for 2001 and 2005.

The 239 participants, representing a cross-section of organizations involved in employee benefits and retirement education, will examine the state of retirement savings and explore how to educate Americans about the need to create a secure financial future. They also will discuss problems Americans have with saving for retirement, as well as ways to encourage employers to help workers save.

Day One

Day One of the Summit will begin with welcoming remarks, followed by a panel discussion on the current state of retirement savings and education today. The panel also will explore the barriers faced by workers trying to save for retirement and by employers who want to help them do so. Special attention will be paid to the unique challenges faced by low-wage workers and others most at risk when it comes to retirement planning.

Following the panel discussion, the President, Speaker of the House, and other Congressional leaders will address the delegates. Delegates will split into breakout sessions for the rest of the day to engage in more detailed discussions of these issues. That evening, delegates are invited to a White House reception in their honor and a dinner hosted by the Congressional leadership of both the Democrat and Republican parties.

Day Two

Day Two will begin with a working breakfast during which participants will reconvene with their breakout groups to review the results of the previous day's breakout sessions. Breakfast will be followed by a panel presentation on best practices in the private and public sectors that they can emulate in their own companies, organizations and communities. Following the panel, each breakout group will have an opportunity to report on their deliberations to the full plenary session. Day Two will end with a call to action from the White House and Congressional Leadership.

This summit agenda book examines the topics that will be covered during the summit meeting. Each section is designed to give delegates a sense of the challenges facing workers who want to prepare for retirement, and to describe some of the work that is being done to help overcome those problems.

Call to Action

When it comes to retirement, the current generation of Americans may be on a collision course with destiny.

On one hand, we are moving toward our later years with high hopes: 72% of us want to retire by the traditional retirement age of 65, which could mean spending 30 or more years in retirement.[1] But such aspirations may well be dashed against unforgiving financial realities. Many of us simply are not taking the steps necessary to achieve our dreams.

Consider these facts:

- The vast majority of Americans depend on Social Security for the major part of their retirement income. But while Social Security ensures a *minimum* income for older Americans, it never was intended to provide enough to enable people to maintain the same standard of living they enjoyed during their working years. Currently, Social Security replaces just one-half of pre-retirement income for an individual who earned $15,000. It replaces less than one-quarter of the income of an individual who earned $68,400.[2]

- While 62% of civilian wage and salary workers currently have access to some kind of pension plan at work, 38% do not. Pension coverage is particularly low among people who work for small employers: 19% of people who work for organizations employing fewer than 25 workers have access to pension or retirement-savings plans at work, compared with 48% of those working for organizations that employ 25–99 people and 83% of those in organizations that employ 100 or more people.[3]

- Traditional, defined benefit pension plans, which provide predictable, secure lifetime benefits for 42 million workers and retirees, play a fundamental role in the nation's retirement system, especially for older workers in large organizations. But they generally pay the largest benefits to people who put in 20 or 30 years with the same employer, and are of less value to the majority of Americans who change jobs more frequently.

- Women and minorities face special challenges in saving for retirement. Women tend to have shorter job tenure than men and are disproportionately employed in the service and retail sectors, where pension coverage tends to be lower than in other sectors. Some 39% of female full-time workers in the private sector are covered by pension plans, compared to 46% of male workers. At the same time, 32% of Hispanic Americans and 38% of African-Americans participate in pension plans at work, compared to 51% of Whites. That difference largely reflects the fact that job tenure and wages tend to be lower among minorities, not due to invidious discrimination by employers or public policy.[4]

- Employers of all sizes have greatly increased the availability of defined contribution plans such as 401(k) plans, which offer short-term employees a much greater chance to accumulate retirement savings, in part through their own voluntary contributions. Forty three percent of private wage and salary workers participate in such plans in their current jobs. In 1995, the average 401(k) contribution among the average contributor making $20,000–$30,000 was $1300.[5]

- In 1996, 60% of all distributions from defined contribution plan individual accounts made to people changing jobs were not rolled over into tax-deferred retirement savings accounts. While nearly all distributions above $100,000 were rolled over, the figures suggest nevertheless that every year individuals are spending tens of billions of dollars initially saved for retirement.[6]

- 10% of eligible taxpayer households made tax-deductible contributions to individual retirement accounts (IRAs) in 1992 (the most recent year for which figures are available). Over two-thirds were eligible to do so. New rules that took effect in 1998 could make IRAs more popular, but it is too early to determine what impact they will have.[7]

- 72% of Americans have at least some money earmarked for retirement in accounts set up in their names, and 44% of workers over age 52 have accumulated $100,000 or more (including employer contributions). But 37% have saved less than $50,000, and 10% have set aside less than $10,000. A $100,000 nest egg would buy an annuity that would provide $10,627 a year in retirement income. A $50,000 retirement fund would provide an annuity that would pay $5,313 a year, and $10,000 would provide an annuity worth $1,063 a year.[8]

It's little wonder, considering figures like these, that many Americans face retirement with either fear or resignation. Much as we want to retire while still relatively young, 49% of us actually expect to be able to do so before age 65, and 15% think the goal of retiring before age 55 is realistic.[9]

Despite the challenging future that may be in store, however, many people are failing to take even rudimentary steps to close the gap between their hopes and reality. Less than one-half (45%) of current workers have tried to determine how much they need to save by retirement. As the research group Public Agenda put it recently, "Americans are simply not doing what logic—and their own reasoning—suggest they should be doing."[10]

The Savings Are Vital to Everyone's Retirement Act of 1997 (SAVER) is designed to educate Americans about the steps they must take to achieve their hopes for comfortable retirement. It will be no easy task. But for the future's sake, the time to act is now.

---

1. 1998 Retirement Confidence Survey, forthcoming. For preliminary results, see www.ebri.org/rcs/index.htm.

2. Employee Benefit Research Institute tabulations of data from Dale R. Detlefs, Robert J. Myers, and J. Robert Treanor, *1998 Guide to Social Security and Medicare* (Louisville, KY: William M. Mercer, 1998): 11.

3. Paul Yakoboski, et al., "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey," *EBRI Issue Brief/Special Report* no. 153/SR-25 (Employee Benefit Research Institute, September 1994): 22.

4. Pension and Welfare Benefits Administration tabulations of the Employee Benefits Supplement to the April 1993 Current Population Survey.

5. U.S. Department of Labor, Pension and Welfare Benefits Administration, "Abstract of 1993 Form 5500 Annual Reports," Private Pension Plan Bulletin no. 6 (Winter 1997): 4.

6. Paul Yakoboski, "Large Plan Lump-Sum Rollovers and Cashouts," *EBRI Issue Brief* no. 188 (Employee Benefit Research Institute, August 1997): 7.

7. Paul Yakoboski, "IRA Eligibility and Usage," *EBRI Notes,* no. 4 (Employee Benefit Research Institute, April 1995): 6.

8. 1998 Retirement Confidence Survey, forthcoming. For preliminary results, see www.ebri.org/rcs/index.htm. These figures assume $9.41 will buy an annuity of $1/year payable monthly. From D.M. McGill, K.N. Brown, J.J. Haley, and S.J. Schieber, *Fundamentals of Private Pensions,* Seventh edition (Philadelphia, PA: University of Pennsylvania Press, 1996).

9. 1998 Retirement Confidence Survey, forthcoming. For preliminary results, see www.ebri.org/rcs/index.htm.

10. Steve Farkus and Jean Johnson, *Miles to Go: A Status Report on Americans' Plans for Retirement* (New York, NY: Public Agenda Foundation, 1997): 27.

The SAVER Challenge

Why Retirement Savings Are Important to Individuals

For more than 60 years, Americans have viewed the financing of retirement as a responsibility to be shared by government, employers and individuals. That principle holds today, but the role of each partner is in flux.

Government, bracing for the retirement of the baby boom generation, is grappling with mounting financial pressures on the Social Security system. Employers, encountering competitive forces and trying to manage a diverse work force, are revamping traditional pension programs.

These forces underscore the need for individuals to play a major role in providing for their own retirement. Fortunately, individuals have more opportunities than ever to save for themselves, either through work-based retirement-savings plans or through tax-deferred individual retirement accounts (IRAs). For a variety of reasons, however, many people have failed to take full advantage of these tools.

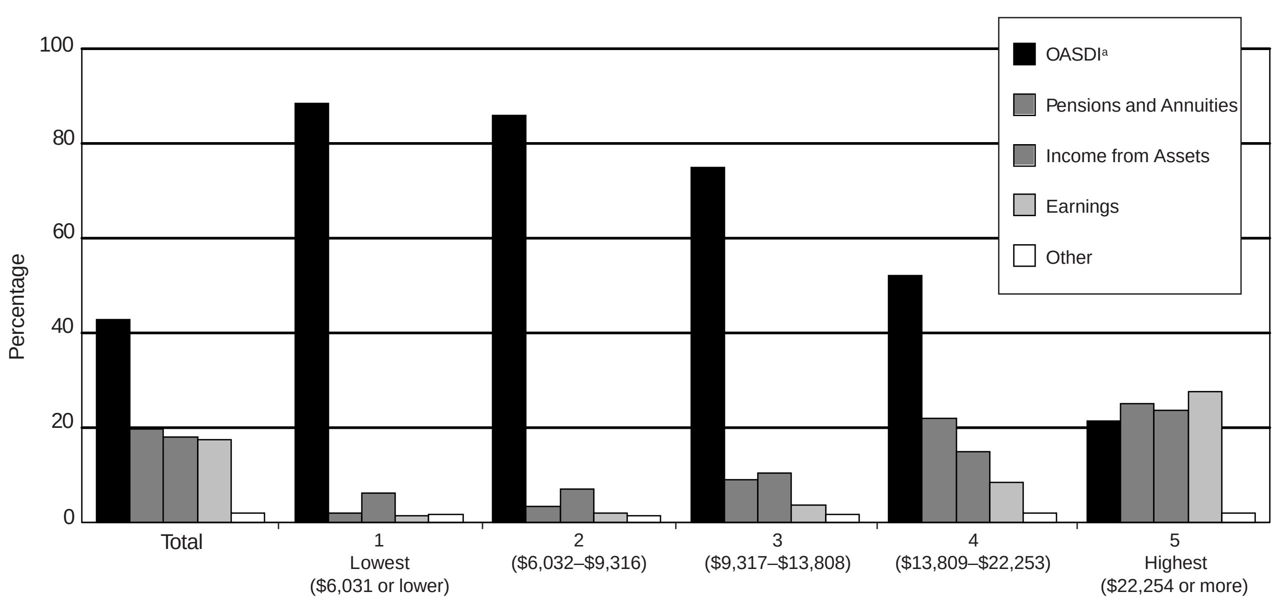
As a first step toward building public understanding of the retirement-savings issue, then, we need to clarify what today's workers can expect from government and employers concerning retirement, and what individuals must demand of themselves. The simple fact is that for most people, Social Security and employment-based pensions alone do not provide everything that is needed for a secure retirement—and these sources surely won't suffice in the future.

Social Security alone won't provide adequate income for tomorrow's retirees.

As Chart 1 demonstrates, Social Security is the most important source of income for more than 80% of elderly Americans—and virtually the only source for the lowest income 40% of Americans. The highest income 20% rely on other sources—pensions, savings and work—as much as on Social Security to meet their financial needs in retirement.

Chart 1

Income of Elderly Individuals (Ages 65 and Older) from Specified Sources, by Income Quintile, 1996



Source: Employee Benefit Research Institute tabulations of the March 1996 Current Population Survey.
[a]Old-Age, Survivors and Disability Insurance.

Table 1
Estimated Annual Social Security Benefits and Replacement Rate for a Married Couple One-Earner Household Where the Working Spouse Retires in 1998

Earnings at Retirement	Worker	Replacement Rate Worker Only	Nonworking Spouse	Total Household	Replacement Rate Household Income
$15,000	$7,536	50.2%	$3,768	$11,304	75.4%
$24,000	10,152	42.3	5,076	15,228	63.5
$36,000	13,548	37.6	6,768	20,316	56.4
$52,000	15,108	29.1	7,548	22,656	43.6
$68,400	16,104	23.5	8,052	24,156	35.3

Source: Employee Benefit Research Institute tabulations of data from Dale R. Detlefs, Robert J. Myers, and J. Robert Treanor, *1998 Guide to Social Security and Medicare* (Louisville, KY: W.M.Mercer, 1998).

But Social Security was never intended to meet *all* of the needs of retirees. By design, it ensures that everybody has at least a minimal level of income in retirement. But it does not pay enough to enable people—even those with relatively low levels of income—to maintain their standard of living once they retire. Table 1 shows, for instance, that a person who earned $15,000 a year and retires in 1998 at age 65 can expect Social Security to replace one-half of his or her income. The "replacement rate" drops steadily for individuals in higher income brackets; an individual who earned $68,400 before retirement, for instance, will receive the maximum $1,248 monthly benefit, but that will equal less than one-quarter of his or her pre-retirement income. (See Table 3, page 17, for wealth accumulation by income.)

When spousal benefits are included, the replacement rates for households are somewhat more favorable. But they still fall short of what most Americans would consider adequate. And the death of a spouse can bring a very sharp drop in household benefits.

Private pensions won't close the gap completely.

Some Americans also look forward to receiving private pensions when they retire. But few receive pensions that will meet all their retirement-income needs, even when pension income is combined with Social Security benefits.

Sixty two percent of all civilian wage and salary workers have access to a retirement plan at their current jobs. Forty seven percent of all civilian wage and salary workers actually participate in employment-based plans; this varies from 10% of workers in very small organizations to 67% in large organizations.[1]

One out of four workers participates in an employer-sponsored defined benefit plan insured by the Pension Benefit Guaranty Corporation.[2] Traditional defined benefit plans provide fixed retirement benefits based on a formula that includes length of service and often salary. Defined benefit plans offer many advantages for workers and employers. Because benefits are not affected by investment results, defined benefit plans provide predictable, secure income, and help employers retain valuable workers. Bureau of Labor Statistics computations in 1993 suggest that defined benefit plans replace 37% of pre-retirement income for workers with 30 years of service and $15,000 of final earnings. (Table 2)

In today's economy, however, many workers do not stay in their jobs long enough to achieve the highest income replacement rates possible under such plans. Moreover, while Americans have always been frequent job changers, there are indications that the amount of time workers typically spend

Table 2
Income Replacement Rates for Private-Sector Workers Retiring at Age 65 Who May Have a 30-Year Career, a Pension, and Social Security

	Pension Only		Pension and Social Security	
Final Earnings	Dollars	Percent	Dollars	Percent
$15,000	$ 5,500	37%	$12,600	84%
$35,000	10,500	30	22,750	65
$55,000	29,150	28	29,150	53
$65,000	18,850	29	32,500	50

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employee Benefits in Medium and Large Private Establishments, 1993 (Washington, DC: U.S. Government Printing Office, 1994).

in jobs has been declining in recent years for middle-aged and older males. Among men over the age of 45, the average job tenure was just over 10 years in 1996. This figure is significant since people tend to earn the majority of their pension benefits from the jobs they hold toward the end of their working lives. (Chart 2)

Financial planners say that most individuals need retirement income between 60% and 80% of pre-retirement earnings to maintain the same standard of living in retirement that they enjoyed while working. The Bureau of Labor Statistics' figures suggest that many defined benefit plans may not provide enough to reach such a target even when combined with Social Security—especially for workers who do not participate in employment-based pension plans for two decades or more. According to the Bureau, the average total replacement rates for Social Security and defined benefit pension plans in 1993 would range from 38% for a 20-year plan participant with final salary of $65,000 to 84% for a 30-year plan participant with final salary of $15,000.

The cost of retirement could rise in the future.

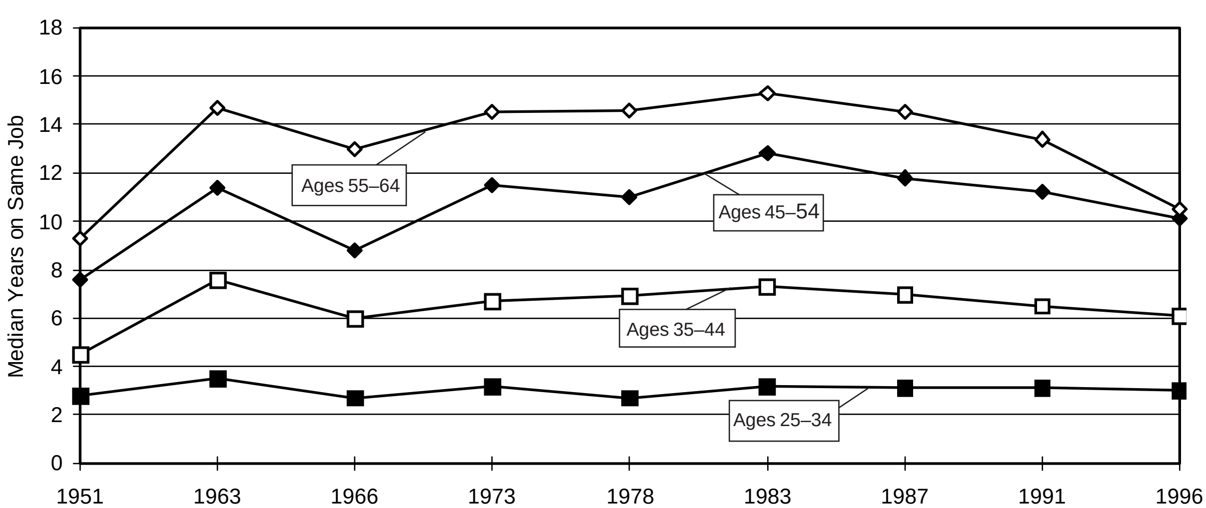
Many of us, including some financial planners, underestimate how long we will live—and hence, how much we will need to save for retirement.

We assume, for instance, that our life expectancy will equal that of the average American's at birth—currently 73 years for men and almost 80 years for women. But those are just *average* figures. Many people will live considerably longer. Indeed, even now, half of all men who reach age 65 can expect to live beyond age 80, and half of all women who reach age 65 can expect to live past 84. For men who reach 70, average life expectancy is 12.5 more years; for women it's more than 15 years. At age 75, life expectancy for men is 9 years, and for women it's 12 years (Table 3).

Not only do we underestimate current life expectancy, there is a very good chance that we will live even longer lives in the future, judging from recent trends as well as advances in health care. By the middle of the next century, some believe, a person who reaches age 65 might well be able to look forward to living 35 or 40 more years.

This possibility is especially important to ponder because individuals almost surely will have to take much of the responsibility for filling any financial gaps created by longer life expectancy. In particular, the cost of medical and nursing home care could become increasingly important financial issues as life expectancy increases. While many Americans express interest in purchasing long-term care insurance, few have actually done so. Forty five percent of individuals express interest in purchasing annuities that would provide a steady stream of income no matter how long they live, ac-

Chart 2
Prime Aged Male Job Tenure Trends, by Worker Age, 1951–1996



Source: Employee Benefit Research Institute compilation: (for years 1951, 1963, 1966, 1973, and 1978), U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979); (for 1987), unpublished data from U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics; (for years 1983 and 1991), U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure and Occupational Mobility in the Early 1990s," News release USDL 92-386, 26 June 1992; (for 1996), EBRI tabulations of the February 1996 Current Population Survey research file (final, edited public use tape will be available in late January).

Table 3

Expectation of Life by Race, Sex and Age, 1994

Age in 1990	Expectation Of Life In Years				
		White		Black	
	Total	Male	Female	Male	Female
55	25.1	23.0	27.3	19.6	24.5
60	21.1	19.1	23.1	16.5	20.7
65	17.4	15.6	19.1	13.6	17.2
70	14.1	12.5	15.4	11.0	14.1
75	11.0	9.6	12.0	8.9	11.2
80	8.3	7.2	9.0	6.8	8.6
85 and older	6.1	5.2	6.4	5.3	6.3

Source: U.S. Department of Commerce, Economics and Statistics Administration, Bureau of the Census, *Statistical Abstracts of the United States*, 1997

Note: U.S. Bureau of the Census publication p25–1130 provides data on Asian and Hispanic populations, for age 65 only.

cording to a 1997 survey conducted by Mathew Greenwald & Associates for the American Council of Life Insurance.

"Our analysis indicates that people do not take their long life expectancy into account when they plan for retirement," Greenwald said. "Those who think it is likely that they will live into their 70s and 80s basically plan the same way as those who think they will live into their 90s."

Individuals now have more opportunities to save for retirement.

As Americans have begun to recognize that individuals will have to meet more of their retirement income needs out of personal savings, several tools have emerged to help them meet this challenge.

In 1992, the most recent year for which figures are available, over two-thirds of taxpayers were eligible to make tax-deductible contributions to IRAs.[3] What's more, Congress expanded opportunities to set aside funds in IRAs beginning in 1998.

At the same time, employers increasingly are sponsoring defined contribution, instead of more traditional defined benefit, retirement plans. In defined contribution plans, employers do not promise their employees a certain level of benefits based on age and years of service. Instead, they help employees save and invest for themselves. The actual retirement income a worker receives depends on how much he and his employers contribute, and on the returns the worker achieves through his own investment decisions.

The number of qualified defined benefit pension plans dropped from 103,000 in 1975 to an estimated 53,000 in 1997. Most of the attrition has been among small employers, the number of workers and retirees covered by these traditional pension plans has remained fairly steady at 33–40 million. Meanwhile, the number of defined contribution plans almost tripled, from 208,000 in 1975 to an estimated 647,000 in 1997, and the number of participants in these plans soared from 12 million to 46 million (Table 4). Most of these defined contribution plans are 401(k) plans that supplement large employers' defined benefit plans, however, suggesting that employees of small businesses still have far fewer opportunities to save for retirement than their counterparts in large companies.

Defined contribution plans have gained popularity among both employers and employees for a number of reasons. First, they provide much greater value for the vast majority of workers who do not spend full careers with a single employer than defined benefit plans, which reward primarily long-term employees. Second, they enable employers to make their retirement contributions up-front, with no future liability. And third, during this time of rapid job changes, many individuals are eager to have greater personal control over their own assets. In a 1994 EBRI/Gallup poll, for instance, 56% of respondents said they would prefer to make their own

Table 4

Private Pension Plans and Participants

Summary of Private-Sector Qualified Defined Benefit (DB) and Defined Contribution (DC) Plans and Participants, Selected Years 1975–1997

	1975	1980	1985	1990	1997
			(thousands)		(estimate)
Total Plans[a,b]	311	489	632	712	700
Defined benefit[a]	103	148	170	113	53
Defined contribution[a]	208	341	462	599	647
Defined contribution as percentage of total	67%	70%	73%	84%	92%
			(millions)		
Total Participants[b,c]	45	58	75	77	86
Defined benefit[c]	33	38	40	39	40
Defined contribution[c]	12	20	35	38	46
Defined contribution as percentage of total	26%	34%	47%	50%	53%
Active Participants	31	36	40	42	45
Primary plan is defined benefit[d]	27	30	29	26	25
Primary plan is defined contribution[d]	4	6	12	16	20
Defined contrbution as percentage of total	13%	16%	30%	38%	42%

Source: Employee Benefit Research Institute tabulations and estimates based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1997); and Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 1996: PBGC Single-Employer Program*, No. 1 (Summer 1997).

[a]Excludes single-participant plans.

[b]Due to rounding, sums of individual items may not equal totals.

[c]Includes active, retired, and separated vested participants not yet in pay status. Not adjusted for double counting of individuals participating in more than one plan.

[d]For workers covered under both a DB and a DC plan, the DB plan is designated as the primary plan unless the plan name indicates it provides supplemental or past service benefits.

decisions about how their pension money is invested, while 39% said they would rather entrust such decisions to their employers and receive a fixed amount at retirement.[4]

There is a growing appreciation among older workers for the certainty of benefits afforded by defined benefit plans, though. Employers are responding with new types of defined benefit plans including some which incorporate certain features of defined benefit and defined contribution plans.

While it can be concluded that more employees have more opportunities to accumulate retirement wealth today than at any time in the past, there is a very important caveat: workers will realize this advantage only if they actually put money into retirement savings accounts—and keep the money invested until they actually retire.[4]

The need for more education

While the evidence is compelling that individuals must carry a substantial part of the burden of providing for their own retirement, many people seem almost willfully ignorant of what they must do to make their dreams of retirement a reality. How can we understand this pervasive lack of planning and saving in the face of our strong desire for a comfortable and secure retirement? In 1995, the U.S. Department of Labor, in anticipation of launching its Retirement Savings Education Campaign, convened a series of focus groups to explore how individuals view retirement-planning issues. It found a public that is troubled and hungry for reliable information, but unsure where to seek help.

"Caught between expectations and current realities," many of the focus group participants look to the future with "grand hopes and deep fears," the Department reported. "They seem caught between expectations and their current realities. They want a carefree retirement....But they seem unable either to find enough money to save or to begin the process of reordering their financial priorities."

When forced to face the issue—for instance, when shown how much they will need to save each year to be able to provide themselves an adequate income—most people "listened intently and then appeared truly alarmed, taken aback, and even depressed." But they don't know what to do about their concerns.

"Participants almost unanimously expressed interest in obtaining positive, practical and concrete information," the Department said. But "they don't know where to turn, whom to trust and how to proceed. They want to find a credible financial advisor, but they are wary of people who stand to gain from their savings. They are also scared by the complexity of certain financial information."

The challenge of SAVER, then, is to find ways to channel such fears and uncertainty into constructive planning for the future. But first, we must assess where we stand today when it comes to preparing for retirement.

---

1. Employee Benefit Research Institute tabulations of data from the 1993 Current Population Survey employee benefits supplement.

2. *Pension Insurance Data Book 1996*, (Washington, DC: Pension Benefit Guaranty Corporation, 1997).

3. Yakoboski, Paul. "IRA Eligibility and Usage." *EBRI Notes,* Vol. 16, no. 4 (Employee Benefit Research Institute, April 1995): 6.

4. Employee Benefit Research Institute/Gallup Organization,Inc. *Public Attitudes on Investment Preferences*, *1994*, Report no. G-61 (Employee Benefit Research Institute, December 1994): 19.

5. The capacity to save is affected by the level of disposable income. For those at the lowest income levels, payroll taxes are frequently viewed as "savings," and could impact what is otherwise available to some.

Current State

of Retirement Savings and Education Today

First, the good news: many Americans already are saving for retirement. In 1998, fully 72% of current workers reported that they have some money set aside for retirement in accounts in their names.[1] As Table 1 shows, pension assets in the U.S. more than tripled between 1985 and 1996, climbing from $2.358 trillion to $7.930 trillion.

But are Americans saving enough? A 1993 study by the Congressional Budget Office (CBO) offered a fairly optimistic assessment. The CBO found that, on average, people ages 25–44 in 1989 had higher household income and greater wealth relative to income than their parents had at the same age in 1959 and 1962. The CBO concluded that baby boomers were fairly well positioned, at least at mid-life, to maintain a higher standard of living in retirement than their parents.[2]

That doesn't mean baby boomers will be able to maintain *their own* standard of living in retirement, however. Nor do the CBO findings necessarily prove that the standard of living of current retirees will be palatable to the current generation of workers.

In fact, contrary to fairly widespread popular belief, retirement is far from golden for many of today's elderly. The median income for retirees currently is $11,533. Some 10.8% of Americans age 65 or older have annual income below the poverty rate, and 40.3% earn less than twice the official poverty rate. While 25% of all current retirees report that their standard of living has improved in retirement, another 24% report that it is worse than at the end of their working careers. And while 38% of retirees are very confident they will have enough money to live comfortably throughout their retirement, 23% are not confident (and 36% are somewhere in the middle).[3]

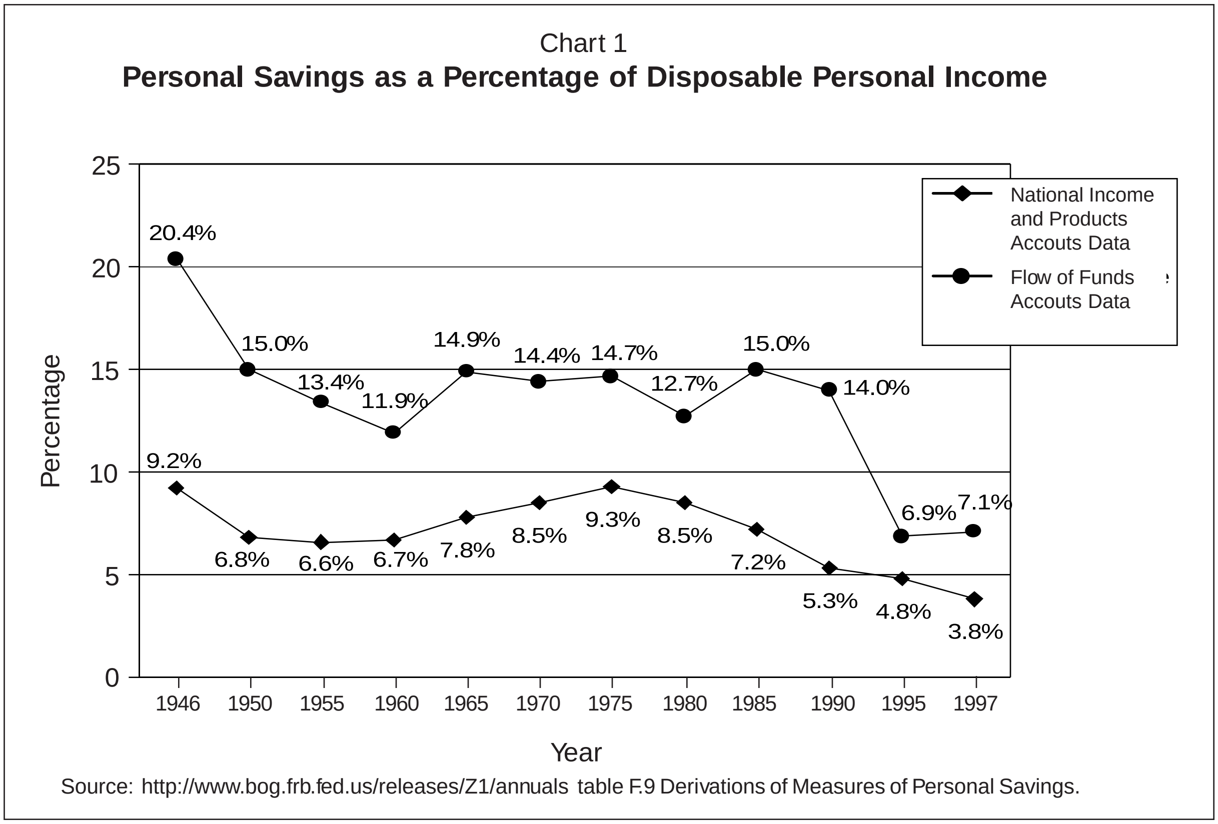
Despite the manifest need to save more for the future, the savings rate has declined since World War II. The most common measure of saving, part of the Commerce Department's National Income and Product Accounts data, subtracts personal consumption expenditures, taxes, including payroll taxes, consumer interest payments and personal transfer payments to foreigners from personal income; it

Table 1

Estimated Total Pension Assets in the United States, 1985–Present

End of	Defined Benefit	Defined Contribution	Private Insured	Federal Government	State and Local Government	Total without IRA and Keogh	IRA and Keogh	Total with IRA and Keogh
1985	814	417	347	154	399	2,130	228	2,359
1986	885	478	410	186	477	2,436	302	2,739
1987	883	523	459	219	524	2,608	361	2,969
1988	883	549	516	262	609	2,819	420	3,239
1989	983	673	572	289	767	3,284	492	3,777
1990	948	690	636	326	920	3,520	571	4,092
1991	1,120	843	678	367	1,032	4,040	680	4,720
1992	1,123	922	695	411	1,168	4,319	778	5,097
1993	1,232	1,043	739	455	1,256	4,725	904	5,629
1994	1,188	1,063	782	523	1,294	4,851	986	5,836
1995	1,414	1,236	860	602	1,518	5,629	1,229	6,858
1996	1,588	1,385	946	692	1,715	6,326	1,422	7,749
1997	1,888	1,636	n/a	n/a	2,099	n/a	n/a	n/a

Source: Employee Benefit Research Institute, *Pension Investment Report*, Forth Quarter 1997 (Washington, DC: Employee Benefit Research Institute, 1997).
Note: 1995 and 1996 data on federal government retirement assets are estimated and 1996 data on Private Insured are estimated.



shows that the savings rate has declined from 9.2% of disposable personal income in 1946 to 3.8% in 1997. A broader measure, the Federal Reserve system's Flow of Funds Accounts, which among other things includes capital gains distributions and does not subtract funds spent to acquire consumer durables, suggests the savings rate was 7.1% in 1997. Though up slightly from 1995, the Federal Reserve figures still show a substantial decline over the last 50 years, from 20.4% of disposable personal income in 1946 and 14% as recently as 1990. (Chart 1)

By either measure, our current rate of saving appears to be inadequate.

Any assessment of financial prospects depends heavily on how one accounts for wealth accumulated through home ownership. Research by Stanford University economist Douglas Bernheim demonstrates the potential importance of housing wealth in evaluating whether Americans are financially prepared for retirement. Discounting housing wealth as a source of retirement income, he found that baby boomers are saving at only one-third the rate necessary to maintain their current level of consumption after they retire. If housing wealth is assumed to be available to help pay retirement costs, however, baby boomers actually are saving at 84% the rate necessary to maintain their standard of living.[4]

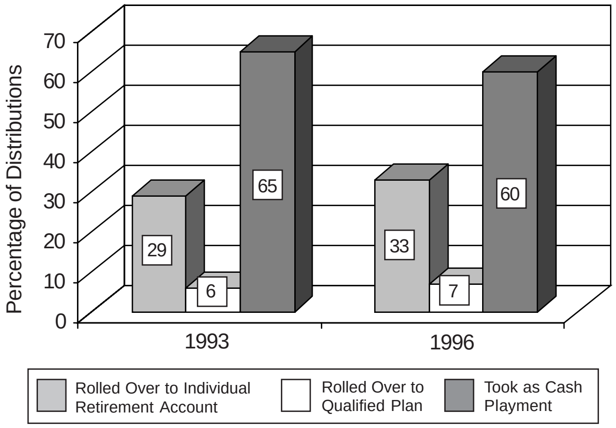
According to Bernheim, current retirees benefited from some good luck on their way to retirement. First, Social Security benefits increased dramatically during the 1970s. Second, private retirement benefits also were significantly expanded. Third, prolonged inflation during the working lives of today's retirees wiped out much of their real liabilities by reducing the real value of their fixed-rate mortgages. And fourth, a sharp increase in the relative price of housing created substantial windfalls for them.

"The typical member of the post-Depression, pre-baby boom generation has achieved a satisfactory degree of financial security through luck rather than through careful planning and prudent saving," Bernheim concluded.

It is, of course, impossible to predict what turns of fortune the baby boom and post-baby boom generations will encounter before they reach retirement. Some question whether they can count on a rising real estate market to help them as it did the current generation of retirees; housing values may have climbed less in the last decade than previously. On the other hand, the unexpected and dramatic rise in stock values during the last decade certainly has improved the balance sheet of many of today's current workers. Fifty nine percent of households have realized no benefit from the rising stock market because they hold no stock either directly or through mutual funds, retirement accounts or other types of trusts, according to the Federal Reserve.[5]

Chart 2

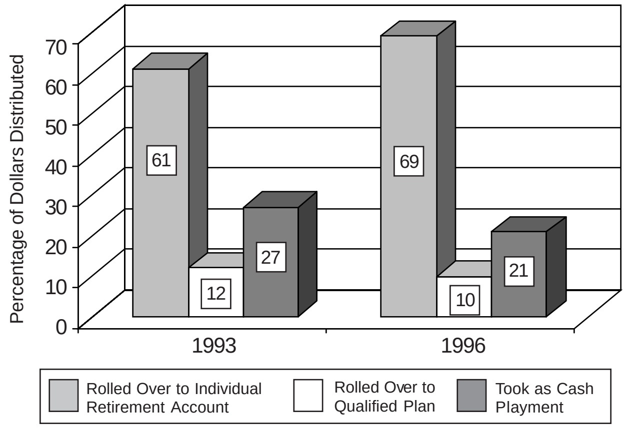
Benefit Preservation among Job Changers, by Percentage of Distributions, 1993 versus 1996



Source: Employee Benefit Research Institute and Hewitt Associates tabulations of Hewitt Associates data.

Chart 3

Benefit Preservation among Job Changers, by Percentage of Dollars Distributed, 1993 versus 1996



Source: Employee Benefit Research Institute and Hewitt Associates tabulations of Hewitt Associates data.

How can workers be encouraged to hold onto their savings until they retire?

Projections based on workers' current wealth assume that workers will hold their assets until they retire. With individuals taking control of their own retirement savings, that may no longer be a safe assumption. In fact, the level of benefit preservation is disappointingly low among people who change jobs.

We have made substantial strides in giving workers an opportunity to retain pension benefits even when they change jobs. Vesting requirements were instituted with the Employee Retirement Income Security Act (ERISA) of 1974, and have grown shorter over time. Currently, retirement plans must provide either full vesting after five years of service (with no vesting prior to that time) or vesting of 20% after three years, followed by an additional 20 percent per year until employees are fully vested at the end of seven years of service.

These changes have accomplished one of their primary objectives: more workers are now vested. In 1965, just 12% of plan participants were vested. In 1975, the year after ERISA was passed, 44% of plan participants were vested. As of 1993, 86% of plan participants were vested.[6]

The changes have been less successful in accomplishing another primary objective—to ensure that workers have more retirement income. Many young workers choose to tap their retirement funds when they change jobs, in effect converting these savings into severance pay. In 1996, 40% of individual lump-sum distributions of retirement funds made to workers changing jobs were rolled over into tax-deferred retirement accounts. (Chart 2)

Fortunately, job changers were more likely to roll over large distributions, preserving them as retirement assets: Just 20% of distributions less than $3,500 were rolled over in 1996, compared to 95% of distributions larger than $100,000. Overall, some 79% of the total amount paid out in lump-sum distributions was rolled over. (Chart 3)

Still, that leaves a substantial amount of pension money that was diverted to shorter-term uses. Exact figures are not available, but in 1990, the most recent year for which data are available, there were 11 million lump-sum distributions totaling $126 billion.[7]

The substantial amounts of lump-sum distributions that are diverted from retirement funds may seem surprising considering the tax code provisions that are designed to encourage benefit preservation. By law, any amounts not rolled over into a tax-qualified savings vehicle are subject to automatic 20% withholding and possibly a 10% penalty tax in addition to regular tax (distributions made after age 59-1/2 and distributions made in the event of death or disability are exempt from the penalty). Moreover, employers are required to offer individuals receiving distributions the option of directly transferring their vested account balances to an IRA or a new employer's plan.

These figures suggest that workers may not understand that even relatively small sums of money can grow substantially during the course of a person's working life. Consider, for instance, an individual who earns $25,000 and begins saving for retirement by contributing 5% of pay to a 401(k) plan, in the process earning a 50% matching contribution from his or her employer. By age 65, assuming the individual's salary grows at 4% a year and he or she realizes an 8% annual return on retirement savings, this worker would accumulate $866,000. That would pay for a $92,000 annual annuity, sufficient to replace 77% of the worker's final salary of $120,000 (assuming $9.41 buys an annuity of $1 per year, payable monthly).

Now suppose the individual were to cash out his or her retirement fund at age 30. By that point, the fund would total $12,000. Even if the individual starts accumulating new retirement money at the same rate with another employer, his or her retirement fund at age 65 would total only $676,625, or $189,129 less than if the accumulation after the first five working years of the person's career had been rolled over. As a result, the worker could afford an annuity that would pay $71,900 a year.

If the person changes jobs a second time at age 35, and once again decides to spend money in the retirement fund instead of rolling it over, his or her savings at retirement would be $346,000 less than if the contributions had been rolled over during the first 10 working years.

Do today's workers have enough financial knowledge to manage their retirement savings?

If workers are to assume more personal responsibility for providing for themselves in retirement, they must understand at least the basics of saving and investing.

A number of surveys have shown, however, that many lack the knowledge they need to be effective investors. In 1996, the Retirement Confidence Survey found that only one-third of workers have a high degree of financial knowledge, while 55% have a moderate level and 11% have a very low level of knowledge.[8] The survey found, in particular, that:

- 44% of those polled knew that a male retiring today at age 65 can expect to live to age 80, on average.
- 61% knew that the U.S. stock market has provided a greater return over the past 20 years than U.S. government bonds.
- 47% did not know that employer stock typically is more volatile than a diversified portfolio of stocks.
- One-half did not know that the probability of losing money on an investment goes down the longer one holds the investment.
- Fully 86% knew that the average person retiring today will need 60–80% of his or her working income to maintain the same standard of living.

Studies that have asked more specific questions about investment fundamentals have come up with rather discouraging results. When Merrill Lynch in 1994 asked people whether stocks, bonds, savings accounts or certificates of deposit have offered the best return over the last 20 years, 45% correctly picked stocks, while one in four said certificates of deposit had offered the best return, and one in five said bonds had.[9]

In February 1997, the National Association of Securities Dealers Inc. (NASD) reported survey results showing that, while 63% of Americans know the difference between a halfback and a quarterback, only 14% can distinguish between a growth stock and an income stock. Moreover, NASD said, while 78% can name a character on a television situation comedy, only 12% know the difference between a "load" and "no-load" fund.[10]

Not surprisingly given such findings, some individuals fail to follow basic rules about diversifying their portfolios, and many appear to invest too conservatively. About 15% of the assets of 401(k) plans, for instance, are invested in securities issued by the sponsoring employer, and some recent surveys indicate that among larger companies one-quarter to one-third of the money in such plans is held in the stock of the employer. (In some cases, this may not reflect the plan participants' decisions, however. Frequently, employers only make matching contributions in the form of company stock).[11]

In a 1996 study of the retirement plans of three large companies, the Employee Benefit Research Institute found that even though equity investments have consistently outperformed other kinds of investments over long periods of time, anywhere from 17% to 34% of plan participants under age 39 had invested none of their funds in stock.[12]

Many people are concerned about their own lack of understanding when it comes to managing their retirement funds. The 1998 Retirement Confidence Survey found that while 44% of the people who are saving for retirement are very confident that they are investing wisely, 48% are only somewhat confident. What's more, 31% said they do not enjoy making investment decisions about retirement savings.

How, then, can we give today's workers the knowledge and help they need to make sure their retirement savings will grow enough to meet their future needs?

---

1. 1998 Retirement Confidence Survey, forthcoming. For preliminary results, see www.ebri.org/rcs/index.htm.

2. Congressional Budget Office, *Baby Boomers in Retirement: An Early Perspective* (Washington, DC: U.S. Government Printing Office, 1993).

3. Paul Yakoboski and Jennifer Dickemper, "Increased Saving But Little Planning: Results of the 1997 Retirement Confidence Survey, *EBRI Issue Brief* no. 191 (Employee Benefit Research Institute, November 1997): 13.

4. Dallas L. Salisbury, *Retirement in the 21st Century Ready or Not* (Washington, DC: Employee Benefit Research Institute, 1994): 73–81.

5. Arthur B. Kennickell, Martha Starr-McCluer, and Annika E. Sunden, "Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, Vol. 83 (January 1997): 1–24.

6. Paul Yakoboski, "Debunking the Retirement Policy Myth: Lifetime Jobs Never Really Existed for Most Workers," *EBRI Issue Brief* no. 197 (Employee Benefit Research Institute, May 1998): 15.

7. Paul Yakoboski, "Retirement Program Lump-Sum Distributions: Hundreds of Billions in Hidden Pension Income," *EBRI Issue Brief* no. 146 (Employee Benefit Research Institute, February 1994): 7.

8. Paul Yakoboski and Allen Schiffenbauer, "The Reality of Retirement Today: Lessons in Planning for Tomorrow," *EBRI Issue Brief* no. 181 (Employee Benefit Research Institute, January 1997): 9.

9. *The Facts on Saving and Investing*, Office of Investor Education and Assistance, Securities and Exchange Commission (February 1998): 10.

10. Ibid, p. 10.

11. Hewitt Associates, *Trends and Experience in 401(k) Plans, 1997* (Lincolnshire, IL: Hewitt Associates, 1997); and Profit Sharing /401(k) Council of America, *40th Annual Survey of Profit Sharing and 401(k) Plans* (Chicago, IL: Profit Sharing /401(k) Council of America, 1997).

12. Paul Yakoboski and Jack VanDerhei, "Worker Investment Decisions: An Analysis of Large 401(k) Plan Data," *EBRI Issue Brief* no. 176 (Employee Benefit Research Institute, August 1997): 13–14.

Barriers

Employer and Employee Barriers to Retirement Savings

Researchers have identified a number of barriers that keep employers and employees from doing more to prepare financially for retirement. Participants in the National Summit on Retirement Savings will meet in small discussion groups to explore ways to surmount them.

Barriers to Individuals

Among the questions facing individuals and those who hope to change individual behavior, are these:

How can individuals be persuaded to make retirement a higher priority?

Americans overwhelmingly believe that individuals should assume greater responsibility for providing for their own retirement: 60% took that position in a 1997 survey conducted by Public Agenda, and 56% predicted that most of the money for their retirement will come from personal savings, not Social Security or pensions. But when asked why they are not saving more, many say they face other, more pressing demands, such as making house or car payments, paying for health care, educating children, and providing for unforeseen emergencies.[1]

The Department of Labor heard this complaint repeatedly in focus groups it conducted as part of its Retirement Savings Campaign. "Retirement may be their number one savings priority, but it is not immediately pressing and is therefore the easiest item to put off," the Department noted. Similarly, Public Agenda found in its 1997 study that very few individuals—2% of those surveyed—identify retirement as their most pressing problem, putting it far behind such relatively near-term concerns as paying bills, obtaining health insurance and financing their children's college education.[2]

The problem is not just that people face short-term financial challenges. For many people, retirement is simply too far away to contemplate. In the 1997 Retirement Confidence Survey, 56% of respondents said they had not tried to calculate what they need for retirement partly because "it is too far in the future to know what will be needed." Some 39% said they could not find the time to do the calculation, and 29% admitted to being afraid to know the answer.[3]

Because retirement for younger people is a long way off, many believe they will be able to catch up on their retirement saving later. They may be overlooking the importance of starting early. Moreover, there is a very real danger that their chance to catch up may not come in time; many baby boomers who postponed having children, for instance, now face rapidly rising college costs at the same time retirement is beginning to loom on the horizon.

Why are women and minorities saving less?

An estimated 39% of female full-time workers in the private sector are covered by private pension plans, compared with 46% of men. Thirty two percent of female retirees ages 55 and older received pension benefits in 1994, compared with 55% of male retirees, and the median pension benefit for new female retirees was half that of men.

These differences in pension coverage and benefits are not the result of invidious discrimination. Rather, they reflect differing employment patterns for men and women. According to the Bureau of Labor Statistics, the median job tenure for female workers ages 55 to 65 was 10.4 years in 1991, while the median job tenure for men in that age group was 15.5 years. Furthermore, more than one-half of all female workers are employed in the service and retail sectors of the economy, which have relatively low pension coverage rates. In addition, full-time working women earn 72% of what full-time working men earn. And finally, 30% of working women hold part-time jobs or work only part of the year, and 15% of part-time or part-time workers are covered by pension plans.

The lower rate of pension coverage among women is a particular concern since older women are twice as likely to be poor as older men, and since women at age 65 have an average life expectancy of 19 years, compared with 15 years for men.[4]

Minorities also face special challenges for retirement savings. While 46% of whites working in the private sector participate in pension plans, 26% of the 2.3 million Hispanic

Americans do, 38% of African-Americans do, and 35% of Asian-Americans do. (Table 1) Some 32% of Hispanics age 55 receive pensions, compared to 40% of African-Americans and 52% of White retirees.

These numbers are heavily influenced by income and job tenure. Both Hispanic and African-American men and women have disproportionately low earnings. In 1996, the median year-round earnings for Hispanic men who were employed full time was $21,056, compared with $26,404 for African-American men and $32,966 for White men. The median income for Hispanic women who worked full time was $18,665, compared with $21,473 for African-American women and $24,160 for White women.[5]

Can we help lower-income people save more for retirement?

According to the 1997 Retirement Confidence Survey, 56% of the respondents who have not attempted to calculate their retirement savings needs said they simply cannot afford to save any more. Public Agenda, meanwhile, found that 34% of Americans are convinced that they cannot save more for retirement because they do not have enough money; three-quarters of the people in this group earn less than $40,000.[6]

As Table 2 demonstrates, lower-income Americans are far less likely to participate in employment-based retirement savings plans than people with higher income. Some 3.7% of people earning under $5,000 participate in a retirement plan, while 30% of people in this income bracket have

Table 1

Pension Participation Rates for Wage and Salary Workers, 1993

	Total	Men	Women
All Workers			
Total	49%	51%	46%
Hispanic	32	32	33
African-American	46	46	47
White	51	55	47
Asian-American	41	41	41
Private-Sector Workers			
Total	43	46	39
Hispanic	26	24	28
African-American	38	40	36
White	46	50	41
Asian-American	35	36	36
Public-Sector Workers			
Total	71	80	74
Hispanic	72	82	74
African-American	71	65	76
White	78	84	74
Asian-American	70	67	68

Source: U.S. Department of Labor tabulations of the 1993 Current Population Survey.

Table 2

Civilian Nonagricultural Wage and Salary Workers, Ages 16 and Older, with Any Retirement Plan Sponsorship (Including Salary Reduction Plans) or Participation by Income, 1988 and 1993

	Total Workers (thousands)		Sponsorship Rate[a]		Participation Rate	
	1988	1993	1988	1993	1988	1993
Total	101,744	105,815	63.1%	64.4%	47.7%	49.3%
Annual Earnings (1993 $)						
Less than $5,000	7,595	7,275	28.3	30.3	4.1	3.7
$5,000–$9,999	10,119	10,419	38.5	40.9	13.9	14.2
$10,000–$14,999	12,463	15,015	52.1	51.0	30.9	30.8
$15,000–$19,999	13,658	14,238	63.6	65.7	46.6	47.5
$20,000–$24,999	10,956	12,408	73.0	75.8	58.6	63.2
$25,000–$29,999	9,841	9,737	77.0	78.3	64.7	67.3
$30,000–$49,999	20,993	19,858	84.5	85.4	75.7	77.9
$50,000 or more	7,876	8,566	86.8	88.1	78.8	82.9

Source: Employee Benefit Research Institute tabulations of the May 1988 and April 1993 Current Population Survey employee benefit supplement.

[a]The fraction of workers whose employer or union sponsors a plan for any of the employees at the worker's place of employment.

access to retirement plans at work. For people earning between $5,000 and $9,999, the participation rate is 14.2%, while almost 41% have plans available to them at work. And for people earning between $10,000 and $14,999, the participation rate is 31%, while 51% have plans at work.

In contrast, 83% of workers earning $50,000 or more participate in employment-based plans. Some 88% of these individuals have plans available to them at work.

Lower-income individuals traditionally have relied primarily on Social Security to provide a basic level of retirement income, and retirement wealth, and that may continue to be the case. (Table 3)[7] But there may be opportunities even for relatively low-income individuals to save more than they currently are setting aside; indeed, lower-income people actually may be more willing to save than wealthier individuals. Public Agenda found, for instance, that while 54% of people with annual incomes over $75,000 say they are not likely to cut back on vacation or travel expenses to save for retirement, 28% of lower-income respondents say they would not make the sacrifice. Similarly, 51% of higher-income individuals say they are unlikely to start shopping for groceries more carefully, 23% of lower-income respondents said they would be unlikely to do so.[8]

Table 3

Mean Value of Pension Wealth for Selected Wealth Deciles, 1992

Wealth Decile	Pension Wealth	Social Security Wealth
1	$1356	$42,312
3	$19,181	$93,920
7	$125,635	$142,981
10	$389,865	$161,605

Source: Moore and Mitchell, 1998.

Note: In this table, wealth is the present value of all defined benefit and defined contribution pension accruals.

Should Americans be encouraged to lower their expectations concerning their current lifestyles?

When Public Agenda first asked people if they could save more for retirement, almost one-half–48%–answered "no," saying they can barely cover expenses. But more than one-third of this group admitted, when pressed, that they actually could cut back on current spending. That suggests, Public Agenda concluded, that more than two-thirds of Americans–68%–really could save more if they made the effort.[9]

Similarly, the 1998 Retirement Confidence Survey found that 57% of people currently saving for retirement believe it is reasonably possible to set aside $20 more per week for retirement; 55% of non-savers said they could save that much.[10]

Being *able* is not the same as being *willing* to save more, however. Public Agenda found that even many people who could save more are reluctant to do so. As Table 4 demonstrates, for instance, 60% of Americans could make room in their budget by eating out less often, but far fewer—16%—say they are likely to do that; 49% say they could shop for groceries more carefully, but 17% say they would; 53% say they could cut back on extras for their children, but 10% would

Table 4

Where Can We Cut Back—And Will We Do It?

Think about your household budget. Is there any room for you to cut back on your personal spending in the following ways in order to save more for retirement?

And realistically, how likely are you to actually do this?[a]

	Room to cut back	Very likely to cut back
Eating out less often	60%	16%
Grocery shopping more carefully	49	17
Cutting back on extras for the kids[b]	53	10
Spending less on clothing	36	18
Cutting back on vacation or travel expenses	32	22
Going out to the movies	28	20
Spending less on beauty care products and services	25	22

Source: Steve Farkas and Jean Johnson, *Miles to Go: A Status Report on Americans' Plans for Retirement* (New York, NY: Public Agenda Foundation, 1997).

a. These questions were asked of respondents who said they do have room in their budget to save more for retirement
b. Asked of parents of children under 18

do so; and 36% say they could spend less on clothing, but 18% say they are likely to take that step.

Far from cutting back, many Americans are hooked on credit to support their current lifestyles. According to Public Agenda, almost one-half of all Americans–47%–carry balances on their credit cards that require them to pay finance charges every month, and all but 20% incur finance charges on unpaid balances at least some of the time.[11]

Personality Matters

"Promises to Keep" found that at least four distinct personality patterns influence how individuals approach financial planning and retirement.[12] Would different educational strategies work best with each group?

The four personality types include:

Planners. About 21% of Americans are firmly in control of their financial affairs. They are twice as likely as others to own three or more investment vehicles intended for retirement–and to put a significant amount of money in them on a regular basis. They generally say they learned about the importance of saving in childhood, say they know what they should be doing to prepare financially for retirement, and believe they have the discipline and habits necessary to save what is needed. They tend to be less conservative than others in their investment strategies, and more likely to respond to incentives designed to increase their savings.

Strugglers. People in this group, about 25% of the population, would like to save for retirement, but they say unpredictable expenses keep setting them back. They complain that they do not make enough money. Most tend to save money according to what they have on hand instead of following a plan. Eager for greater financial discipline, they are more likely than others to prefer investment vehicles that keep money they save beyond their reach. They also prefer retirement investments that do not require their attention.

Deniers. This group, about 19% of the population, consists of people who are almost deliberate in their refusal to deal with retirement, according to Public Agenda. They generally say retirement financing will take care of itself, or that retirement is so far off that saving for it does not seem as important as other concerns. They also are more likely than other groups to argue that they may not live long enough to enjoy retirement anyway. Almost two-thirds of deniers refuse to give up extras to save for retirement. Conventional strategies for helping people save for retirement do not appeal to deniers; people in this group are less likely than others to choose an investment that features an automatic salary deduction, for instance, and they also are less likely to prefer investment vehicles that put their savings out of reach.

Impulsives. People in this group, about 15% of Americans, are motivated primarily by a desire for immediate gratification. They are most likely to admit they buy things they do not need. They say the more money they earn, the more they spend. And they say they do not want to worry so much about saving for retirement that they fail to enjoy their lives now. Unfortunately, impulsives are not eager to embrace savings options that would help them overcome their personal traits; 43% said they would be much more likely to choose a retirement investment if it could be automatically deducted from their salaries, 30% would favor a retirement investment to which access would be difficult.

Table 5

Retirement Plan Sponsorship and Participation Among Private Wage and Salary Workers Ages 16 and Older by Firm Size

Firm Size	Total number of workers	Sponsorship Rate	Participation Rate
Total	88,679,369	55.6%	40.7%
Fewer than 25	22,894,696	17.2	12.9
25–99	11,806,119	41.7	29.6
100 or more	46,986,404	79.4	58.9
Unknown	6,992,150	45.2	28.1

Source: Employee Benefit Research Institute (EBRI) tabulations of the 1993 Current Population Survey employee benefits supplement.

Barriers to Employers

Any effort to increase pension coverage by employers must concentrate on addressing the particular concerns of small organizations. Four-fifths of the 40 million Americans employed in businesses with 100 or fewer employees are not earning pension benefits. While most large employers see offering retirement benefits as a price of entry, a necessary cost of attracting employees and doing business in today's economy, that is not true for many smaller employers (except for some who find themselves in competition with larger firms for qualified employees).

The stark discrepancy between large and smaller employers when it comes to offering pension plans shows up clearly in Census data. As of 1993, the last year for which nationally representative data are available, 84% of all private wage and salary workers whose employers had 1,000 or more workers had access to pension plans at work. Such employers accounted for 36% of the total labor force. In contrast, 69% of workers in companies employing between 100 and 1,000 workers had access to plans. These employers accounted for another 17% of private wage and salary workers.

Pension coverage drops steadily as firm size declines. Some 42% of people who worked for employers with 25 to 99 workers had access to plans. These firms accounted for 13% of the labor force. And 17% of workers whose employers had fewer than 25 workers had retirement plans available to them at work. These smallest employers represented another 26% of the labor force. (Table 5)

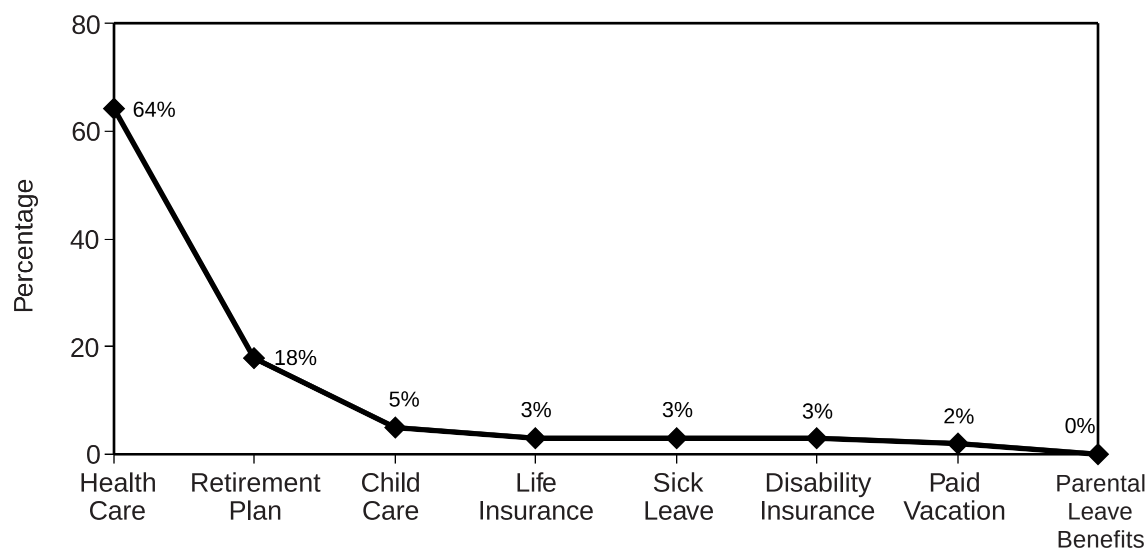
Small employers often cite their own financial uncertainties, as well as the costs and administrative burdens associated with sponsoring retirement plans. But an equally important factor may be that many employees – particularly lower-wage workers – themselves put a relatively low priority on retirement benefits.

Should employers do more to educate their employees about the importance of retirement benefits?

One of the biggest barriers that keeps many small employers from offering plans is the fact that many employees do not consider retirement benefits very important.

One-half of the small employers who do not offer retirement benefits say a major reason is that employees prefer higher wages or other benefits to retirement plans, according to the "1998 Small Employer Retirement Survey" (SERS). Some 22% said lack of employee demand is the single most important reason they do not offer retirement-savings plans. Fully 49% said they would seriously consider offering a retirement plan if employee demand for such benefits were to

Chart 1
Percentage Ranking Each Benefit as "Most Important"



Source: Employee Benefit Research Institute.

increase.

Other poll results have tended to confirm these employers' perceptions. A 1996 EBRI/Gallup poll found that 64% of employees consider health care the most important employer benefit. By contrast, 18% said they believed a retirement plan is the most important employer benefit. Still, significantly more employees judged retirement plans more important than child care, life insurance, sick leave, disability insurance, paid vacation and parental leave. (Chart 1)

In the face of low employee interest in retirement benefits, though, many employers say they get a more enthusiastic response from employees, at lower cost, by offering other benefits. Fully 88% of the small employers who do not offer retirement plans offer paid vacations; 70% offer health insurance; 47% offer paid sick leave; 38% provide life insurance; 38% provide disability insurance, 26% offer education or tuition assistance and 5% offer child-care assistance.

In recent years, moreover, employers have grown increasingly interested in offering "lifestyle" benefits such as employee assistance plans, dependent care, flexible time and other family-friendly programs. Not only are these benefits popular, but they are relatively inexpensive for employers. And many employers believe these benefits are more likely than core benefits such as health and retirement plans to lead to greater productivity gains.

Are Retirement Plans Too Expensive for Small Employers to Administer?

The Hay Group found in a May 1996 study that a typical employer with 15 employees faces $9,299 in administrative costs to operate a defined benefit plan in 1996, or $620 per employee. One with 10,000 employees faces administrative costs totaling $683,258, or $68 per employee. Defined contribution plans are less expensive to operate, with costs totaling $4,308 for an employer with 15 employees ($287 per employee) and $491,868 for one with 10,000 employees or $49 per employee. (Table 5)

The 1998 Small Employer Retirement Survey found that 35% of small employers (those with 100 or fewer employees) who do not sponsor retirement plans cited the high cost of setting up and administering plans as a major reason. Similarly, 35% said there are too many government regulations, and 27% said retirement plans require too much paperwork.

Administrative costs are a major reason why many small employers do not offer retirement plans. According to the 1998 Small Employer Retirement Survey, 14% of small employers who do not offer plans said the high cost of setting up and administering a plan was the most important barrier to doing so, and 4% said they decided against offering plans primarily because of government regulations. Many complained that retirement plans require excessive paperwork, although a scant 2% said that was the most important reason they did not offer plans.

Congress has sought to reduce administrative costs for small employers. The Small Business Job Protection Act of 1996 created a simplified retirement plan with fewer administrative requirements for small businesses. Under that law, employers who have 100 or fewer employees can offer Savings Incentive Match Plan for Employees (SIMPLE) IRA

Table 5
Private-Sector Pension Plan Annual Administrative Costs in 1996 Dollars

	Defined Benefit Plans				Defined Contribution Plans	
Number of Employees	15	75	500	10,000	15	10,000
1981	$ 2,920	$ 10,423	$ 33,927	$ 233,231	$ 2,057	$ 257,109
1985	3,937	13,077	42,880	315,678	2,591	332,078
1990	7,899	22,561	77,722	638,473	3,935	456,897
1995	9,226	25,754	86,477	686,606	4,268	487,796
1996	9,299	25,926	86,810	683,258	4,308	491,868

Source: Retirement Income Plan Administrative Expenses 1981–1996, presented by Edwin C. Hustead of the Hay Group to the Pension Research Council conference, May 1996, p. 10.

or 401(k) plans that involve simplified requirements.

Small employers have established SIMPLE plans in unexpectedly large numbers, confirming that administrative costs indeed have been a barrier keeping some employers from offering retirement plans. Although no nationally representative data are yet available, a nonrandom survey by the Investment Company Institute of its members found that 18,261 SIMPLE IRA plans with 95,431 participants were established between Jan. 1, 1997 and July 31, 1997, and that 42 SIMPLE 401(k) plans with 785 participants were established during the same period. Fully 97% of the SIMPLE plans were established by employers with 25 or fewer employees.[13]

Proposals are pending in Congress that would create simplified defined-benefit plans for small businesses. They would combine the advantages of the traditional defined benefit plans and defined contribution plans, while removing some of the major obstacles to small business defined benefit plans. Funding contributions would be more predictable-employers would contribute an amount each year expected to fund retirement benefits earned that year. Administrative costs would be lowered by reducing complexity and permitting simpler reporting, and benefits would be understandable to workers.

Can Employers Afford to Sponsor Retirement Plans?

More than one-half of all small employers who do not offer retirement plans said their future revenues are too uncertain to commit to a plan, and 16% said this was the single most important reason why they did not provide retirement benefits. By the same token, fully two-thirds of the employers said they would seriously consider offering a plan if their profits were to increase (Table 6).

The small and uncertain profit outlook for many small companies suggests that coverage rates among this class of employers are unlikely ever to approach those of large employers.

Indeed, many employers say financial pressures on companies–including larger ones–have increased in recent years even though profits are high. In today's supercharged markets, investors demand high rates of return year after year, and they harshly judge companies that fail to deliver.

"We live in a much more unforgiving world," observes Francis N. Bonsignore, Senior Vice President of Marsh & McLennan Companies, Inc. "Twenty or 30 years ago, a public company might be able to get over a bad year. Today, with the scrutiny that is given by investors and shareholder groups, a bad year may in fact prove to be your last year."

In this environment, employers are under pressure to manage, control and limit benefits, which represent large fixed costs. Moreover, businesses increasingly are expected to demonstrate that benefit programs help increase productivity.

Many people insist that offering a retirement plan does increase productivity. In a 1993 analysis of survey data on the performance of 500 U.S. companies between 1970 and 1991, Douglas Kruse of Rutgers University found that com-

Table 6
Small Employers
Reasons For Not Offering a Retirement Plan

	Most Important	Major
Employees prefer wages and/or other benefits	22%	50%
Revenue is too uncertain to commit to a plan	16	51
Cost too much to set up and administer	14	35
Required company contributions too expensive	12	45
Vesting gives too much to short term employees	9	42
Too many government regulations	4	35
Benefits for the owner are too small	3	19
Too much paperwork	2	27
Don't know where to start	2	13
Does not reward performace	1	17

Source: Employee Benefit Research Institute, 1998 Small Employer Retirement Survey.

panies that established profit-sharing plans during the period experienced first-year productivity increases that were 3.5% to 5% higher than companies that did not establish plans. And the companies that established profit-sharing plans were able to sustain their productivity increases over time.[14]

Still, some employers believe that retirement plans are a benefit they cannot afford. Finding ways to help such employers offer retirement benefits will be one of the biggest challenges we face in building a retirement security system of the future. One good starting point may be to educate small-business owners about low-cost options such as Simplified Employee Plans (SEPs), SIMPLE, and profit sharing, both of which allow employers to vary their contributions each year according to their profitability, and about payroll deduction IRAs, which cost employers virtually nothing.

---

1. Steve Farkus and Jean Johnson, *Miles to Go: A Status Report on Americans' Plans for Retirement* (New York, NY: Public Agenda Foundation, 1997): 27.

2. Ibid, p. 14.

3. Paul Yakoboski and Jennifer Dickemper, "Increased Saving But Little Planning: Results of the 1997 Retirement Confidence Survey," *EBRI Issue Brief* no. 191 (Employee Benefit Research Institute, November 1997): 7–8.

4. U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 1996* (Washington, DC: U.S. Government Printing Office, 1997): 89.

5. U.S. Department of Commerce, Bureau of the Census, *Money Income in the United States: 1996.* Curent Population Reports, Series P60-197 (Washington, DC: U.S. Government Printing Office, 1997)

6. Yakaboski and Dickemper, op. cit., p. 8.

7. James F. Moore and Olivia S. Mitchell, *Projected Retirement Wealth and Savings Adequacy in the Health and Retirement Study (*Pension Research Council, 1998).

8. Steve Farkus and Jean Johnson, *Miles to Go: A Status Report on Americans' Plans for Retirement* (New York, NY: Public Agenda Foundation, 1997): 17.

9. Ibid, p. 16.

10. 1998 Retirement Confidence Survey, forthcoming. For preliminary results, see www.ebri.org/rcs/index.htm.

11. Steve Farkus and Jean Johnson, *Miles to Go: A Status Report on Americans' Plans for Retirement* (New York, NY: Public Agenda Foundation, 1997): 16.

12. Steve Farkus and Jean Johnson*, Promises to Keep: How Leaders and the Public Respond to Saving and Retirement* (New York, NY: Public Agenda Foundation, 1995): 17–18, a study with the Employee Benefit Research Institute.

13. Survey results were based on responses from 26 firms, including two-thirds of the largest 25 mutual fund firms. The survey objective was to quantify the number of SIMPLE plans and accounts that were established among members of ICI's pension committee between January 1, 1997 and July 31, 1997. Given the limited nature of the sample, these figures probably undercounted the total number of SIMPLE plans established during the period. The survey used "accounts established per employer plan" using mutual funds as a proxy for employer size, which likely understates the average size of each employer to some degree.

14. Profit Sharing/401(k) Council of America, Helping Americans Help Themselves: The Role of Profit-Sharing/401(k) Plans in the Retirement-Income Security Framework (Chicago: Profit Sharing/401(k) Council of America, 1996): 9.

Opportunities

Employer and Employee Opportunities to Increase Retirement Savings

With a public eager to spend many years in retirement and willing to accept much of the responsibility for achieving that goal, there is every reason to believe that a concerted effort to encourage retirement saving and planning will bear fruit.

That is not just idle hope. Americans have demonstrated that they want information about retirement planning, and they respond positively when it is provided to them. The 1997 Retirement Confidence Survey showed, for instance, that 86% of workers participating in employment-based retirement plans use educational materials or attend seminars when these are offered by their employers.[1]

What's more, the educational efforts make a difference. Out of all workers, 39% report receiving material about retirement planning and saving from their employers over the past year. Among those receiving such material, 41% began to contribute to a retirement savings plan, 43% changed the amount they contributed, and 43% changed asset allocation in their retirement saving plans.

Moreover, 56% of those receiving educational materials from their employers have attempted to determine how much they need to save for retirement, compared with 38% of those who have not received information from their employer; 81% of those receiving employer information have money earmarked for retirement in an account in their name, compared with 67% of those who have not received information from their employers; and 51% of savers who have received employer information are very confident that they are investing wisely, compared with 41% of those who have not received employer information.[2]

ICMA Retirement Corp., a nonprofit organization that specializes in retirement programs for state and local employees has encouraging news concerning the impact of education programs aimed at teaching employees about asset allocation. In 1993, it set out to provide asset allocation tools and promote long-term investment in strategically diversified portfolios among 350,000 participants in some 5,000 public-sector retirement plans. At the time the campaign was launched, participants held 34% of their assets in equities and 66% in fixed-income investments. But by 1998, these figures were virtually reversed, with participants holding 62% of their funds in equities and 38% in fixed-income assets — an allocation that closely matches that of professionally managed public pension funds.

The Business Case for Employee Financial Education

For employers, the rewards for getting involved in employee retirement issues may be less tangible, but they are no less real. Companies across the country spend a large percentage of payroll on employee benefits, which they believe help attract and retain workers and improve employee morale, corporate efficiency and productivity. Indeed, in the growing competition for quality workers, employers are finding they must offer strong benefits to attract the best workers.

It is far from certain, however, whether many employees understand, appreciate or utilize the full array of benefits they are offered. Education efforts designed to help employees appreciate existing benefits or to help them build on existing benefits through their own saving and investing can help employers achieve better results and avoid spending money on unappreciated benefits.

Studies show that employees regard financial education as an important and attractive benefit. The February 1997 issue of *Financial Planning* reported that employees surveyed by Wisconsin Energy Co. ranked financial education as one of the most desired benefits. Similarly, a William M. Mercer Inc. study of 800 employers found that 64% said moral increased when employees were offered benefits that help them with their personal lives.

Many organizations believe that financial education programs give employees skills critical to the work place. Such programs do more than teach employees the basic of personal finance. They also teach workers how to think strategically, assess a situation, set goals, design a program to meet those goals and monitor progress. Additionally, they give employees a better understanding of the financial forces that affect their employers. Employees who understand the financial consequences of their personal day-to-day decisions should be more capable of understanding the consequences of decisions that affect organizations.

Moreover, it should be noted that employees and shareholders both seek to maximize wealth. Financial education programs can teach employees how to think like shareholders, realizing that their jobs depend on creating shareholder wealth.

How, then, we can best satisfy the strong public appetite for information on retirement planning? That issue involves at least four separate sets of questions, the answers to which represent some of the most important challenges of the National Summit on Retirement Savings.

What groups should we target for messages about retirement savings?

Almost everybody could benefit from increased awareness about the retirement savings issue. Even many people who have relatively low levels of income could set aside at least modest amounts for their retirement. Moreover, studies of how workers manage retirement portfolios suggest that a need for greater financial literacy exists across all demographic groups.

Some groups may warrant particular attention, though, either because they represent particular challenges or because they may be in the greatest jeopardy of failing to achieve retirement security. They include, among others:

Individuals whose employers do not sponsor retirement plans. These individuals are most likely to be young (54.9% are between ages 21 and 40). They tend to work for small companies (45.5% are employed by companies with fewer than 25 employees). They have spent relatively little time in their current jobs (67.8% have worked for their current employers for less than five years). Their employers are most likely to be in the retail-trade industry (26.2%) or professional services (15%). Finally, 50.7% of workers whose employers do not sponsor plans are full-time employees, and 60.9% have annual salaries of less than $20,000.[3]

Employees who have access to retirement plans at work but decline to participate. Another logical group to target is the roughly one-third of employees who are eligible to participate in employer-sponsored 401(k) plans but choose not to do so.[4]

Workers in this group are likely to be young (63.7% are between 21 and 40). Because retirement plans are more likely to be available at large companies, 74.7% of workers who have access to a plan but fail to participate work for companies with more than 100 employees. Almost 80% have worked for their current employers less than five years. Employers of this group of employees are most likely to be in professional services (21.4%) or retail trade (20.9%). Finally, 51.3% of these workers are full-time employees, and 64% have annual salaries of less than $20,000.[5]

Younger Americans. As the figures above demonstrate, young people are less likely than other groups to participate in pension plans at work. Naturally less inclined to save for retirement, they may require special attention because their chances of securing a comfortable retirement increase substantially the earlier they start saving.

Lower-income people. Low-wage workers face obvious difficulties in finding the funds needed for retirement. How can they be encouraged and helped to find ways to supplement their Social Security benefits?

Owners and employees of smaller businesses. Far less likely to have the opportunity to participate in retirement savings plans at work, people who work for smaller employers may need more of a helping hand than those who work for larger employers with pension plans and sophisticated educational programs. How can we best reach the millions of Americans whose employers do not offer such benefits? Owners of small businesses may need information or assistance in understanding simple and low-cost plan options available to them.

Women. There is a common misconception that women save less than men. In fact, they save just as much when they have a chance. But women are more likely to find themselves forced to finance retirement on their own after divorce or the death of a spouse. They also are more likely to spend at least portions of their working lives as part-time employees or homemakers, so they often have less access to pension plans at work. And they generally live longer than men, making their need for retirement savings greater.

Minorities. As noted, less than one-half of African-American retirees ages 55 and older receive pension benefits, and 34% of elderly African-Americans and 23% of elderly Hispanics live in poverty (compared with 10% of whites). Finding ways to assist these groups, therefore, must be a high priority.[6]

Who should inform workers about retirement issues?

While some analysts believe that employment-based benefits will have less importance in the future than they have in the past, employers are sure to continue playing a major role in the retirement security arena for the foreseeable future.

In the 1997 Retirement Confidence Survey, individuals said employers and plan service providers were the most helpful sources of information on retirement planning. An American Express FES Education Survey reached a similar conclusion, reporting that 85% of consumers prefer to obtain information on financial topics such as retirement through the work place.

The second most helpful sources, according to the Retirement Confidence Survey, are financial professionals, followed by spouses, friends, coworkers, and newspapers and magazines. The least useful sources are computer software, the Internet and online services, followed by radio and television.

What topics should retirement-related educational efforts cover?

Because the size of a worker's pension distribution is directly dependent on several key financial decisions made by the worker, it is crucial for workers — particularly workers participating in defined contribution plans — to become financially knowledgeable.

First, since participation often is not automatic, workers have to understand that they must decide whether to divert money from their paychecks to retirement savings accounts.

Then, they have to decide how much to contribute. To accomplish this, they should estimate the income they will need for retirement and how much they will have to achieve their goals. Knowledge of budgeting and goal-setting are critical components of getting there.

Next, workers have to decide how to allocate their money among investment choices available under their plans. Understanding the principle of compounded earnings and the importance of saving early and often, as well as understanding basic investment principles such as asset allocation, risk tolerance, and dollar cost averaging are crucial.

If workers leave their jobs or for any other reason receive pre-retirement lump-sum distributions from their pension plans, they must decide whether to roll these moneys over to IRAs or other retirement vehicles. Understanding the impact of pre-retirement withdrawals is key to accumulating adequate savings for retirement.

It is also critical to know how one's own retirement plan works and what rights workers have under the law. Knowing where to look and what to look for on a regular basis is an important part of insuring against risk, just as life insurance, disability insurance and long-term care insurance are critical.

Studies suggest substantial progress in training workers about these issues—but serious gaps as well.

The 1996 Retirement Confidence Survey showed, for instance, that 98% of the workers who read materials or attended retirement-planning seminars offered by their employers received information on investment options available in their plans. Almost as many — 96% — said they were told about the advantages of saving in tax-deferred plans.[7]

But noticeably fewer workers—77%—say that their employers provided materials that covered principles of asset allocation and diversification.

Fewer still—66%—report receiving help in estimating how much income they would need in retirement. Apparently, the word is not getting through even to some of these individuals: just 45% of Americans have ever tried to estimate how much they need to accumulate by the time they retire, and one-quarter of those who have tried cannot give an amount when asked. This suggests that even when the issue of how to project future needs is presented to workers, it often is not presented in a form that workers find useful or understandable.[8]

The topics covered the least in employer-provided educational materials are the benefits of dollar cost averaging and the impact of pre-retirement withdrawals on retirement income. The latter is a particular concern. In 1994, one-half of all employers who had fewer than 100 participants in their retirement plans did not cover, or plan to cover, the impact of pre-retirement withdrawals in their investment education materials. Almost 38% of those employing 10,000 or more did not cover this topic and had no plans to do so. Considering the substantial amounts of retirement savings diverted to short-term uses each year, the lack of emphasis on this issue could lead to substantial problems in the future for would-be retirees.[9]

Education on the need for a long-term savings strategy is especially important because some innovations in financial services may actually encourage workers to take an excessively short-term approach to investing. Some research suggests, for instance, that toll-free "800" numbers and daily valuation of portfolios may lead workers to concentrate unduly on avoiding short-term losses, even though they forgo greater long-term gains in the process. Studies show that where workers focus excessively on short-term investment results, they tend to put too much of their retirement moneys in bonds, rather than equities.

As this example demonstrates, providing information for its own sake may not be sufficient. It is important not just to provide workers with information, but to present the information in ways that help them to meet their long-term financial needs. The quality of the information provided, in short, counts as well as the quantity.

What are the best tools for communicating with individuals about retirement savings?

Employers and others are experimenting with numerous techniques for informing workers about retirement saving and planning issues—from individual counseling to group financial-planning seminars, from toll-free telephone numbers to payroll stuffers and newsletters, from sales literature to computer programs.

For employers, choosing a communications strategy is partly a function of cost. Large, employment-based plans, for instance, are more likely to adopt communication methods such as surveys, interactive voice response systems, newsletters, toll-free 800 numbers, videos and payroll stuffers, all of which entail sizable development costs. Smaller plans, on the other hand, tend to focus on less expensive options, such as distributing sales literature, offering individual counseling and arranging for meetings conducted by investment managers.

Despite the different strategies, though, participants in small plans are just as likely to receive the information deemed most important by financial professionals as those in larger plans. That suggests employers can convey essential information about retirement issues using low-cost methods.

It appears that employees respond more to specific information than to generalizations. This helps explain the appeal of strategies—counseling, computer software and simple techniques for projecting retirement savings needs—that help individuals assess their own particular situations rather than merely describe retirement issues to them in the abstract.

For instance, one effective educational device is to help individuals estimate how much they need for retirement. This tool has to be used carefully, though. Many individuals admit they are alarmed, and discouraged, by calculations showing how much they need to save. To some, the projections, which easily can show that people must accumulate $1 million or more, appear to be so high that it seems hopeless even to try to save. But individuals can be encouraged to take positive action if such figures are put in perspective so that they seem more achievable. In a 1994 survey conducted by Public Agenda, for instance, two-thirds of respondents said they would increase their level of savings for retirement if shown that, by saving an additional 5% of income, they could achieve financial security in their retirement years.

One thing people do not want, however, is to be scolded for their retirement shortcomings or told what to do. "People said they already were scared about retirement, and did not want anyone pointing a finger at them," the Labor Department said following its focus group discussions. "For most of them, overt messages of guilt or fear would either turn them off or paralyze them further. Stark numbers telling them how much they need to save provided sufficient information. At most, they wanted a gentle nudge. They did not want a heavy hand; they wanted a helping hand."

What works?

A growing number of information programs aimed at employees are demonstrating that education on retirement finance can be delivered in a way that is appealing, even entertaining, without being heavy-handed.

"Think of it as a 150% tip." That's how Rank America opens a brochure explaining the advantages of the 401(k) plan for employees of its Hard Rock Cafes unit. Employees who contribute 2% of pay in "FutureCare," as the plan is called, qualify for an employer match equal to another 3% of pay—hence the 150% tip.

"For those who haven't gotten it yet, THIS IS FREE MONEY," the brochure adds. It then continues to explain the tax advantages of putting money in the plan, the likely effects of compounded interest, loan features of the plan, vesting rules, investment options and a kicker: the company also has a profit-sharing plan that could lead to further company contributions to the plan — all in a breezy tone.

"This is one of the greatest benefits you get as a Hard Rocker," adds the colorful brochure, which were developed and produced by Hard Rock's own graphics and design group, with help from Buck Consultants in Atlanta. "Don't miss out on it. Search far and wide and you'll have a hard time finding a better deal anywhere!"

The company's efforts won first prize for initial education among companies with 5,000 or more employees in *Pensions & Investments*' 1998 Defined Contribution Investment Education awards.

Like Hard Rock Cafes, some companies have gone to great lengths to customize their education programs to their industries and work forces. Chrysler Corp., working with Merrill Lynch Group Employee Services, included excerpts of the company's television commercials in a video dramatizing retirement-planning issues. In addition, it used the image of a speedometer to illustrate the risk spectrum, digital volume readings on a car radio to show historic returns for various asset classes, and a divided steering wheel to explain asset allocation.

For companies with adequate resources, educating employees about retirement finance can be an adventure in multimedia. IBM Corp., a 1998 *Pension & Investments* winner for ongoing education, reached out to employees with a newsletter, brochures, flyers, electronic bulletin board notices and a Web page.

Some other companies used other creative approaches to make sure employees get the message:

- American Stores Co., mailed a video featuring Coyote Pete and Trigger (his shopping cart) to all 50,000 of its plan participants. To encourage the employees to watch, it enclosed a postcard containing a set of questions based on the video; individuals answering the questions correctly were entered in a drawing to win a car.

- Nash Finch, a grocery wholesale and retail company, placed printed materials—laminated to look like placemats—in its lunchrooms; each two-sided sheet covers an investment option on one side and one or more basic investment concepts on the other.

- J. B. Hunt, a Lowell, Ark., transportation company working with Prudential Defined Contribution Plan Services, explained its new 401(k) plan on audio cassette tapes that truckers could hear while on the road.

- EMI-Capitol Music Group designed a campaign geared to a work force that consists mostly of young, MTV-generation employees. Its education booklet is loaded with "hip" pictures and chapter headings such as "Risk: Can you dig it?" and "A groovy little savings chart." A panel of judges for *Pensions & Investments* awarded the company first prize for initial education efforts by companies with fewer than 5,000 employees, saying that the campaign managed to present all of the necessary investment information.

These and other companies have demonstrated that essential information about planning and saving for retirement can be conveyed to employees, including young people, in ways that are both interesting and compelling. The question for the National Summit on Retirement Saving, then, is this: How can we harness that kind of energy and creativity to get the message about retirement savings out to all Americans?

---

1. Paul Yakoboski and Jennifer Dickemper, "Increased Saving But Little Planning: Results of the 1997 Retirement Confidence Survey," *EBRI Issue Brief* no. 191 (Employee Benefit Research Institute, November 1997): 14. http://www.ebri.org/rcs/1997/97rcs_es.htm

2. 1998 Retirement Confidence Survey, forthcoming. For preliminary results, see www.ebri.org/rcs/index.htm.

3. Yakoboski, Paul, et al., "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey," EBRI *Issue Brief/Special Report* no. 153/SR-25 (Employee Benefit Research Institute, September 1994): 35–36.

4. U.S. Department of Labor, *Pension and Health Benefits of American Workers, New Findings from the April 1993 Current Population Survey*, 1994.

5. Yakoboski, Paul, et al., op. cit.

6. Information extrapolated by the U.S. Department of Labor from reports issued by the U.S. Bureau of the Census and the U.S. Bureau of Labor Statistics.

7. Deborah Milne, Jack VanDerhei, and Paul Yakoboski, "Participant Education: Actions and Outcomes," *EBRI Issue Brief* no. 169 (Employee Benefit Research Institute, January 1996): 7.

8. Ibid, p. 7.

9. Ibid, p. 13.

Outreach Activities

Public- and Private-Sector Outreach Activities

Numerous public and private agencies have joined forces to help Americans prepare financially for retirement. These diverse partners have created and field-tested many of the resources that will be needed to make saving a national priority in the years ahead.

Spreading the Word

The U.S. Department of Labor, along with the U.S. Department of Treasury and 65 public and private organizations, launched a Retirement Savings Education Campaign in July 1996. Through this unique public-private partnership, the Labor Department served as the catalyst for the creation of the non-profit American Savings Education Council (ASEC), which is affiliated with the Employee Benefit Research Institute (EBRI) and today has of over 250 public- and private-sector partners.

The Retirement Savings Campaign's signature brochure, "Top Ten Ways to Beat the Clock and Save for Retirement," describes basic steps individuals should take to ensure their financial security. The Labor Department has established a toll-free Publication Hotline (1-800-998-7542), and now distributes over 25 publications geared to educate participants and employers about savings and protecting their benefits. The "Top Ten Ways" brochure and "What Women Should Know and Do" also are available in Spanish. More than five million copies of these materials have been distributed to individuals, businesses and public organizations. The publications, which have been featured in *Parade Magazine*, also are available on the Department's web site at <www.dol.gov/dol/pwba>.

During the last three years, the Labor Department has distributed several different print public service announcements, in both English and Spanish encouraging individuals to save for retirement. These have, appeared in over 90,000 separate issues of approximately 11,000 newspapers and periodicals. Recently, the Department launched a series of broadcast public service announcements that have been distributed to local television stations throughout the country. These are available to companies or other interested organizations, as well as the media, to be used in conjunction with a savings campaign.

Separately, EBRI and ASEC have developed "Choose to Save™," a media campaign for spreading the word about retirement savings. In its inaugural effort, EBRI and ASEC joined forces with one television station and three radio stations in Washington, D.C., to air a series of public service announcements urging people to save for retirement.

WJLA-7, the local ABC affiliate, produced the television announcements. Specific advertisements were geared to each of the three major groups—"strugglers," "impulsives," and "deniers"—who currently are failing to save enough for retirement. The campaign also highlighted the "Ballpark Estimate," a one-page form developed by ASEC that enables individuals to make quick and easy estimates of what they will need to save and invest each year to meet their retirement objectives.

WJLA-7 also prepared its own weekly news stories on the retirement-savings issue, hosted a town meeting, and will air a one-hour "Choose to Save™" prime-time news special on June 12, 1998.

The Washington-area Choose to Save™ project was underwritten by Fidelity Investments. The public service announcements are generic, and available for use in other media markets.

ASEC's web site, which includes an interactive version of the Ballpark Estimate worksheet along with other retirement-related resources, is <www.asec.org>. The Choose to Save™ Campaign maintains its own web site at <www.choosetosave.org>. The EBRI web site is <www.ebri.org>.

Members of Congress are also working to educate people in their states about the importance of retirement savings. Examples of such efforts include Senator Charles Grassley (R-IA) and Representative Earl Pomeroy (D-ND) each of whom hosted retirement savings workshops in their respective states. These workshops, conducted by Sharon Robinson of the Center for Retirement Education (the Center for Retirement Education is connected with VALIC which is a wholly owned subsidiary of American General Corporation). However, the Center's primary goal is to educate people about retirement savings. There is no emphasis on VALIC as a retailer of financial products nor is there any marketing pitch before, during or after the program), lead participants through a workbook which helped them examine their financial situation and retirement goals. Participants left with individualized savings and investment strategies. Similar workshops are being planned by other Members of Congress.

The Pension Benefit Guaranty Corporation, which provides pension protection for the 42 million workers who are enrolled in 43,000 defined benefit pension plans if their employers have financial difficulty and cannot fund pension plans or pay promised benefits, publishes "Your Guaranteed Pension." The publication can be obtained by writing PBGC, 1200 K Street, NW, Washington, DC, 20005-4026 or calling (202) 326-4000. The agency's Internet address is <www.pbgc.gov>.

Helping Women

The Department of Labor sponsored a Working Women's Summit in 1996. One of the top concerns facing today's working woman is how to make sure that there are sufficient funds available for her retirement security. The Department's brochure, "Women and Pensions—What Women Need to Know and Do," provides a checklist of questions and answers women should consider concerning their retirement savings. The brochure is part of a kit that also includes a fact sheet spelling out issues women face in planning for retirement. The kits are available in both English and Spanish, at speaking events sponsored by leading women's organizations, national Hispanic organizations and various town hall meetings sponsored by members of Congress. The materials also are available on the department's web site or through its toll-free hotline.

Educating Small Business Owners

Through partnerships with the Small Business Administration and the National Association of Women Business Owners, the Labor Department has provided thousands of small businesses with helpful materials about the new SIMPLE plans, SEP/IRAs and other savings vehicles. These materials are available through the Department's website and its hotline.

The most recent addition to the Department's campaign to reach small businesses is the launching of an interactive Internet web site. This site allows businesses to review various plan options available to them, describing options based on responses to key questions such as the number of workers employed and whether the owner is interested in contributing to workers' retirement accounts. The site even provides copies of the forms needed to establish SIMPLE or SEP/IRA plans.

Some private sector organizations have teamed up to help educate employers about retirement plan options they could offer their employees. One such partnership exists between the U.S. Chamber of Commerce and Fidelity Investments. The U.S. CHAMBERplan for Retirement consists of a package of retirement plans and services that are designed to be accessible, affordable and convenient for small employers.

Increasing Financial Literacy

A broad coalition of government, business and consumer organizations has launched a grassroots education project called the Facts on Saving and Investing Campaign. The campaign's slogan: "Get the facts. It's your money. It's your future."

Spearheaded by the Securities and Exchange Commission (SEC), the campaign published "The Facts on Saving and Investing," which explains the need for increased financial literacy. The campaign also has assembled a "Financial Facts Tool Kit," which includes a variety of educational materials on how to get started in developing a financial plan, how to understand investment choices, how to manage money and investments, and how to get more information on saving and investing.

The SEC also holds periodic investor town meetings aimed at increasing financial literacy. At a recent town meeting in Connecticut, for instance, the SEC conveyed basic tips to investors on how they can make informed decisions, monitor their current investments, and avoid investment problems. In addition, there were seminars following the Town Meeting, including a seminar entitled "Women and Retirement: The Difficult Road Ahead," presented by the American Savings Education Council and The National Center for Women and Retirement Research.

More information on SEC activities is available at the SEC's web site <www.sec.gov>, or by calling 1-800-732-0330. The Alliance for Investor Education also maintains a web site on the Facts on Saving and Investing Campaign at <www.investoreducation.org>. Individuals who want more information or are seeking help because they have had trouble with an investment can write to the Office of Investor Education and Assistance, Mail Stop 11-2, 450 Fifth Street, NW, Washington, DC 20549.

One useful tool included in the Financial Facts Tool Kit is The Consumer's Almanac. Developed by the American Financial Services Association, the 32-page booklet is designed to help individuals organize their finances, incorporate long-range goals such as financing retirement or paying for children's education into family budgets and manage credit wisely. Information is available from the AFSA Education Foundation at <www.afsaef.org> or (202) 223-0321.

It is important to recognize that every decision made by employees about their working lives affects their retirement. Recognizing that retirement education must include information about benefits and how they work, the Labor Department has published a number of helpful publications such as "How to Protect Your Pension," "What You Should Know About Your Pension," and "A Look at 401(k) Fees." These are available on the Department's web site or through its toll-free hotline.

Reaching Young People

A number of programs seek to increase financial awareness specifically among young people and children.

The Jump$tart Coalition, a group of about 20 federal agencies, universities and nonprofit associations, seeks to improve understanding of personal finance among young adults. The coalition's initiatives fall into three broad categories.

First, the coalition is evaluating current and future levels of financial literacy among young adults. An initial baseline survey, administered to 1,500 twelfth graders in March and April 1997, showed a serious lack of knowledge about personal finance: students scored, on average, 57.9%. Less than 15% said stocks are likely to have the highest growth over 18 years, while over one-half (54.7%) said a U.S. Government savings bonds would and one-quarter (27.8%) said savings accounts would. Over one-half (51%) said bank certificates of deposit are not protected by the Federal Government against loss, and nearly 20% thought U.S. Savings or Treasury Bonds are not protected. Nearly a one-third (30%) said retirement income received from a company is called Social Security. Similar tests will be repeated every two years for the next decade to determine whether students' knowledge is increasing.

Second, the coalition is disseminating teaching guidelines for grades K-12. Over 20 representatives from elementary schools, middle schools, business and others provided written advice on the guidelines. In addition, a panel of five teachers from across the U.S. provided additional input for the guidelines based on their classroom experiences.

Third, the coalition is operating a national clearinghouse that can serve as a one-stop source for high-quality teaching materials that will help educators teach the skills covered by the coalition's guidelines. The information will be disseminated primarily via the World Wide Web, but print materials also will be available via mail, telephone and direct contact at exhibits, seminars and conferences.

More information about the Jump$tart Coalition can be obtained by contacting the American Financial Services Association Education Foundation at (202) 296-5544. The coalition's Internet address is<www.jumpstartcoalition.org>.

The American Bankers Association sponsors an annual "National Teach Children to Save Day," in which bankers around the country visit elementary schools to teach children about the importance of saving money. Last year, more than 2,500 bankers made 5,000 presentations to 125,000 students. The American Bankers Association Education Foundation can be reached at 1-800-338-0626, and it maintains a web site at <www.aba.com>.

Observing that many women are more economically vulnerable than men, the Girl Scouts of the U.S.A. has developed "Money Smarts," a comprehensive personal finance project and resource guide for girls. Inquiries should be directed to Membership and Program, Girl Scouts of the U.S.A., 420 Fifth Avenue, New York, N.Y. 10018-2702.

Girls Inc., a research, advocacy and educational organization, also is developing a money management curriculum for girls. The project is supported in part by $50,000 in profits donated by OppenheimerFunds from its book, "A Woman's Guide to Investing."

The latter project arose after a nationwide survey of 522 women conducted in March 1997 showed that 41% said learning about investing and money management is one of the most important skills a girl can acquire. Six percent of the women felt they were very knowledgeable about investing, and 56% said they were not very knowledgeable.

Girls Inc. is based in New York, and can be reached at 212-689-3700 or via the World Wide Web at <www.girlsinc.org>.

For More Information

The Cooperative State Research, Education and Extension Service, U.S. Department of Agriculture offers educational programs in personal finance with an emphasis on saving for retirement, through partner universities and county offices nationwide. Contact your local Cooperative Extension office, often located in court houses, post offices or other government buildings. The Internet address is <www.reeusda.gov/statepartners/usa.htm>.

The Internal Revenue Service has many resources to help taxpayers understand financial issues facing them in retirement. One good starting place is Publication 910, Guide to Free Tax Services. It and other publications can be ordered by calling 1-800-TAX-FORM (1-800-329-3676). The TTY/TDD number is 1-800-829-4059. The Internet address is <www.irs.ustreas.gov>.

The General Services Administration offers many free and low-cost publications about retirement planning. For the agency's free "Consumer Information Catalog," call 1-888-878-3256, or write "Consumer Information Catalog," Pueblo, Colo., 81009. The Internet address is www.pueblo.gsa.gov.

The U.S. Federal Trade Commission offers advice on how to guard against fraudulent investment schemes. Write or call: Consumer Response Center, Federal Trade Commission, Washington, DC 20580, (202) 326-2222 or TDD (202) 326-2502 or visit the agency's web site at <www.ftc.gov>.

Bibliography

Individual Retirement Accounts

Attanasio, Orazio, and Thomas De Leire. "IRAs and Household Saving Revisited: Some New Evidence." NBER Working Paper No. 4900. Cambridge, MA: National Bureau of Economic Research, 1994.

Feenberg, Daniel R., and Jonathan Skinner. "Sources of IRA Saving." In *Tax Policy and the Economy*. Vol. 3. Cambridge, MA: MIT Press, 1989: pp. 25–46.

Fronstin, Paul. "IRA and Keogh Assets Grew by 16 Percent During 1996." *EBRI Notes,* Vol. 18, no. 12 (Employee Benefit Research Institute, December 1997): 1–4.
http://ww.ebri.org/store/notes.htm

This article presents information on the amount of assets held in IRA and Keogh accounts and the types of financial institutions holding these assets. It also analyzes trends within the IRA/Keogh plan market and the implications for public policy.

Gale, William G., and John Karl Scholz. "IRAs and Household Saving," *American Economic Review*. Vol. 84 (5) (December 1994): 1233–1260.

Yakoboski, Paul. "IRA Eligibility and Usage." *EBRI Notes,* Vol. 16, no. 4 (Employee Benefit Research Institute, April 1995): 5–7.
http://www.ebri.org/store/notes.htm

This article presents statistical information on who is eligible to make a tax-deductible contribution to a traditional IRA and how many individuals made such a contribution.

Yakoboski, Paul, and Bill Pierron. "IRAs: It's a Whole New Ballgame." *EBRI Notes,* Vol. 18, no. 9 (Employee Benefit Research Institute, September 1997): 1–9.
http://www.ebri.org/store/notes.htm

This article describes the rules for the "traditional IRA" along with the rules for the new "Roth IRA" and the "Education IRA."

Pension Plans - Defined Contribution

Engen, Eric M., and William G. Gale. "Debt, Taxes and the Effects of 401(k) Plans on Household Wealth Accumulation." Mimeo. Washington, DC: The Brookings Institution, 1997.

Poterba, James M., Steven F. Venti, and David A. Wise. "Do 401(k) Contributions Crowd Out Other Personal Saving?" *Journal of Economic Perspectives*. Vol. 10 (4): 91–112.

Salisbury, Dallas L., ed. *Retirement Prospects in a Defined Contribution World*. Washington, DC: Employee Benefit Research Institute, 1997.
http://www.ebri.org/store/books.htm

This collection of papers attempts to put the present realm of change into perspective. What does it mean for future directions, for retirement prospects, for the future of employee benefits, and more? Can individuals anticipate retirement in an increasingly defined contribution world? Will that world allow more people to do better than in the past, as some contend, or will it strip away security and the ability to retire comfortably, as others argue? Should the world return to annuity-paying defined benefit plans as the rule rather than as an increasing exception? Some answers to such questions are set forth in this book. The implications are central to the future of retirement.

Yakoboski, Paul, and Annmarie Reilly. "Salary Reduction Plans and Individual Savings for Retirement." *EBRI Issue Brief* no. 155 (Employee Benefit Research Institute, November 1994).
http://www.ebri.org/store/ebriib.htm

This report explores the issues of salary reduction retirement plan sponsorship, participation, and contributions and how they vary with worker and job-related characteristics. In addition, this report examines whether or not participants view their salary reduction plan as their primary employment-based retirement plan and how contributions vary. The report also discusses the availability of employer matching contributions and their effect on workers' participation rates. Finally, it examines the issues of asset al-

location and benefit preservation.

Pension Plans - Plan Design

The 1997 Replacement Ratio Study. Chicago, IL: Aon Consulting, 1997.

Retirement income replacement ratios are a measure of the amount of retirement income needed to preserve a family unit's pre-retirement level of spendable income. Replacement ratios are driven by three principal factors: personal income and Social Security taxes, personal savings rate, and changes in age- and work-related expenditures after retirement.

Campbell, Sharyn. "Hybrid Retirement Plans: The Retirement Income System Continues to Evolve." *EBRI Issue Brief/Special Report* no. 171/SR-32 (Employee Benefit Research Institute, March 1996).
http://www.ebri.org/store/ebriib.htm

This report examines the continuing evolution of retirement plans by discussing six hybrid retirement plans (cash balance, pension equity, floor-offset, age-weighted profit sharing, new comparability profit-sharing, and target benefit plans). Hybrid plans combine features of both defined benefit and defined contribution plans. Often employers implement a hybrid plan and continue to offer a defined benefit and/or a defined contribution plan. Topics discussed include characteristics of hybrid plans, their advantages and disadvantages, and the types of organizations that are attracted to these plans.

Detlefs, Dale R., Robert J. Myers, and J. Robert Treanor. *1998 Guide to Social Security and Medicare*. Louisville, KY: W.M. Mercer, 1997.

This booklet is a simple practical guide to Social Security and Medicare. It is designed to give the reader a clear overview of these two federal government programs.

U.S. Department of Labor. Bureau of Labor Statistics. *Employee Benefits in Medium and Large Private Establishments, 1995*. Washington, DC: U.S. Government Printing Office, 1998.

U.S. Department of Labor. Bureau of Labor Statistics. *Employee Benefits in Small Private Establishments, 1994*. Washington, DC: U.S. Government Printing Office, 1996.

U.S. Department of Labor. Bureau of Labor Statistics. *Employee Benefits State and Local Governments, 1994*. Washington, DC: U.S. Government Printing Office, 1996.
http://stats.bls.gov/ebshome.htm

These three surveys provide data on employee work schedules and develop information on the incidence and detailed characteristics of employee benefits that are paid for, at least in part, by the employer. These benefits include: paid lunch and rest periods; holidays, vacations and personal, funeral, jury-duty, military, parental, and sick leave; sickness and accident, long-term disability, and life insurance; medical, dental, and vision care; and retirement income plans.

Pension Plans - General Trends

Employee Benefit Research Institute/The Gallup Organization, Inc. "Public Attitudes on Value of Benefits, 1996." Report No. G-63 (Washington, DC: Employee Benefit Research Institute, 1996). Also
Ostuw, Pamela: "Health Insurance Continues to Be Most Valued Benefit According to Recent EBRI/Gallup Survey," *EBRI Notes*, Vol. 17, no. 11 (Employee Benefit Research Institute, November 1996): 9–12.
http://www.ebri.org/gallup.htm
http://www.ebri.org/store/notes.htm

The survey was conducted to determine four objectives. What is the importance of employee benefits? What proportion of the adult population has reported having quit, accepted, or changed jobs based on benefits? What number of individuals report having employment-based medical benefits and/or pension contributions? Includes public opinion information on proposed legislative changes. Some of the findings are the following. A substantial majority say that benefits are very important when choosing a job. Most people are satisfied with their current benefits, yet a majority say they would prefer a different mix. When asked if they would prefer to swap health benefits for pension contributions, or vice versa, a majority say no.

Olsen, Kelly, and Jack VanDerhei. "Defined Contribution Plan Dominance Grows Across Sectors and Employer Sizes, While Mega Defined Benefit Plans Remain Strong: Where We Are and Where We Are Going." *EBRI Issue Brief/Special Report* no. 190/SR-33 (Employee Benefit Research Institute, October 1997).
http://www.ebri.org/store/ebriib.htm

This report presents data on the prevalence of defined benefit and defined contribution plans among private- and public-sector employers. It presents pros and cons of each plan type for employers and employees, and analyzes the current trends influencing pension plan design, provision,

and funding.

Turner, John A., and Daniel J. Beller, eds. *Trends in Pensions 1992*. Washington, DC: U.S. Government Printing Office, 1992.

This book provides a reference for federal government statistics on private pension plans. It contains statistics from more than 50 federal publications, as well as presenting a wealth of previously unpublished statistics. The book presents statistics on all aspects of private pensions. Statistics for Social Security, pensions for government employees, and individuals' retirement accounts are provided only for major aspects of those systems.

In addition to providing a statistical reference, the book describes major trends in private pensions. The overview chapter summarizes the trends, while individual chapters discuss trends in greater detail. The book provides historical and international perspectives on the private pension system in the United States.

Pension Plans - Participation and Assets

U.S. Department of Labor. Pension and Welfare Benefits Administration. "Abstract of 1993 Form 5500 Annual Reports." *Private Pension Plan Bulletin* no. 6 (Winter 1997).

The tabulations presented in this report contain final numbers based on 1993 Form 5500 filings. Reports for 1993 plan years were filed by plans for fiscal years ending any time from December 31, 1993 to December 30, 1994. The report contains detailed information on the number of plans, participants, and assets for private-sector defined benefit and defined contribution plans.

U.S. Department of Labor. Pension and Welfare Benefits Administration. *Retirement Benefits of American Workers: New Findings from the September 1994 Current Population Survey*. Washington, DC: U.S. Department of Labor, 1995.

In September 1994, the Bureau of the Census conducted a survey on retiree pension and health benefits. The survey, conducted as a supplement to the Current Population Survey (CPS), asked a series of questions of persons ages 40 and older about receipt of pension annuity and lump-sum benefits based on former employment and about continuation of employment-based health coverage during retirement. The survey combined questions asked in two earlier separate CPS supplements on pension benefit amounts (conducted in December 1989) and retiree health coverage (conducted in August 1988). This report presents findings on the pension benefits and health coverage data collected in September 1994. The analysis focuses on benefits received based on private-sector employment.

U.S. General Accounting Office. *Private Pensions: Most Employers That Offer Pensions Use Defined Contribution Plans*. Washington, DC: U.S. General Accounting Office, 1996. http://frwebgate.access.gpo.gov

This report describes the numbers and types of pension plans sponsored nationwide by private employers during 1984–1993. What are the proportions of total contributions made to these plans by employers and employees? What is the average administrative expense for the plan? The report includes explanations of why employers might decide to sponsor a particular type of pension plan.

Yakoboski, Paul, et al. "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey." *EBRI Issue Brief/Special Report* no. 153/SR-25 (Employee Benefit Research Institute, September 1994). http://www.ebri.org/store/ebriib.htm

This report presents data on the availability of employment-based retirement income plans and whether workers are participating in these plans. It discusses participation in individual retirement accounts, who receives lump-sum distributions, and what these individuals do with the funds distributed.

Personal Savings - Measures

Auerbach, Alan J., Jagadeesh Gokhale, and Laurence J. Kotlikoff. "Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy." *Journal of Economic Perspectives* (Winter 1994): 73–94.

Board of Governors. Federal Reserve System. "Flow of Funds Accounts of the United States Flows and Outstandings Fourth Quarter 1997." Federal Reserve Statistical Release Z.1 (March 13, 1998).

Board of Governors. Federal Reserve System. "Flow of Funds Accounts of the United States Flows and Outstandings Annuals." Federal Reserve Statistical Release Z.1 (March 13, 1998). http://www.bog.frb.fed.us/releases/z1

The flow of funds system of national accounts is designed to bring the many financial activities of the U.S. economy into explicit statistical relationship with one another and into direct relation to data on the nonfinancial activities that generate income and production. The purpose of the accounts is to provide, systematically, the aggregate measures of transactions needed to identify both the influences of the nonfinancial economy on financial markets and the reciprocal influences of developments in financial markets on demand for goods and services, sources and amounts of saving and investment, and the structure of income. Table F.9, "Derivation of Measures of Personal Savings," contains the data on the flow of funds' definition of what constitutes personal savings.

Buiter, Willem H. "Generational Accounts, Aggregate Saving and Intergenerational Distribution." NBER Working Paper No. 5087. Cambridge, MA: National Bureau of Economic Research, 1995.

Congressional Budget Office. *Assessing the Decline in the National Saving Rate*. Washington, DC: U.S. Government Printing Office, April 1993.

Gustman, Alan, et al. "Pension and Social Security Wealth in the Health and Retirement Study." NBER Working Paper No. 5912. Cambridge, MA: National Bureau of Economic Research, 1997.

U.S. Department of Commerce. Bureau of Economic Analysis. *The National Income and Product Accounts of the United States: Statistical Supplement, 1929-1988*. Vols. 1 and 2. Washington, DC: U.S. Government Printing Office, 1992. Updated in the *Survey of Current Business*, monthly publication of the Bureau of Economic Analysis.

National Income and Product Accounts (NIPA) methodology is frequently cited by the media. Under this methodology, the number for personal savings is residual. It is derived by subtracting the following items from personal income: payment for income taxes and non-tax payments (called "disposable personal income"); personal consumption expenditures (what individuals spend on food, clothing, etc.); consumer interest payments; and personal transfer payments to foreigners.

Key to understanding this methodology are the items the NIPA includes in personal income. These include: wage and salary disbursements; public and private employer contributions to pension and profit-sharing plans; individual contributions to pension and profit-sharing plans and individual retirement accounts; benefit payments from employment-based pension and profit-sharing plans; life insurance savings attributable to premiums paid; and transfer payments from the government (i.e., Social Security benefit payments, Supplemental Security Income benefit payments, etc.).

NIPA does not include employee and employer contributions to Social Security in personal income. The employee share of the contribution to Social Security is deducted from wages and salaries. The employer share of the contribution is not regarded as received by the employee.

Personal Savings - Total Net Worth

Attanasio, Orazio P. "A Cohort Analysis of Saving Behavior by U.S. Households." NBER Working Paper No. 4454. Cambridge, MA: National Bureau of Economic Research, 1993.

Auerbach, Alan J. and Laurence Kotlikoff. "Demographics, Fiscal Policy, and US Saving in the 1980s and Beyond." In Laurence H. Summers, ed., *Tax Policy and the Economy*. Cambridge, MA: MIT Press, National Bureau of Economic Research, 1990, pp. 73–101.

Avery, Robert B., Gregory E. Elliehausen, and Thomas A. Gistafson. "Pensions and Social Security in Household Portfolios: Evidence from the 1983 Survey of Consumer Finances." In F. Gerard Adams and Susan M. Wachter, eds. *Savings and Capital Formation: The Policy Options*. Lexington, MA: D.C. Heath and Company, 1986.

Bosworth, Barry, Gary Burtless, and John Sabelhaus. "The Decline in Saving: Some Microeconomic Evidence." Brookings Papers on Economic Activity. Vol. 1. Washington, DC: The Brookings Institution, 1991, pp 183-256.

Boskin, Michael J. "Taxation, Saving, and the Rate of Interest." *Journal of Political Economy*. Vol. 86, part 2 (April 1978): S3–S27.m.

Browne, Lynn Elaine, and Joshua Gleason. "The Saving Mystery, or Where Did the Money Go?" *New England Economic Review* (September/October 1996).

Engen, Eric M., William G. Gale, and John Karl Scholz. "The Effects of Tax-Based Saving Incentives on Saving and Wealth." NBER Working Paper No. 5759. Cambridge, MA: National Bureau of Economic Research, 1996.

Engen, Eric M., William G. Gale, and John Karl Scholz. "Do Saving Incentives Work?" Brookings Papers on Economic Activity. Vol. 1. Washington, DC: The Brookings Institution, 1994: pp. 85–180.

Feldstein, Martin. “Social Security Induced Retirement and Aggregate Capital Accumulation.” *Journal of Political Economy*. Vol. 90, no. 3 (September/October 1974): 905–926.

Feldstein, Martin S., and Anthony J. Pellechio. “Social Security and Household Wealth Accumulation: New Microeconomic Evidence.” *The Review of Economics and Statistics*. Vol. 61 (August 1979): 361–68.

Hubbard, R. Glenn, and Jonathan S. Skinner. “Assessing the Effectiveness of Saving Incentives.” *Journal of Economic Perspectives*. Vol. 10, no. 4 (Fall 1996): 73-90.

Kennickell, Arthur B., Martha Starr-McCluer, and Annika E. Sunden. “Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances.” *Federal Reserve Bulletin* Vol. 83 (January 1997): 1-24.
http://www.bog.frb.fed.us/pubs/OSS/oss2/95/bull0197.pdf

Using data from the 1995 Survey of Consumer Finance, along with data from the 1989 and 1992 versions of the survey, this article details recent changes in the income, net worth, assets, and liabilities of U.S. families. It also presents information on family saving, unrealized capital gains, debit payments, and institutional providers of credit.

Kotlikoff, Laurence J. “Intergenerational Transfers and Savings.” *Journal of Economic Perspectives.* Vol. 2, no. 2 (Spring 1988): 15-40.

Leimer, Dean R., and Selig D. Lesnoy. “Social Security and Private Saving: New Time Series Evidence.” *Journal of Political Economy*. Vol. 90, no. 3 (June 1982): 606-629.

Munnell, Alicia H., and Frederick O. Yohn. “What Is the Impact of Pensions on Savings?” Working Papers. Federal Reserve Bank of Boston, 1991.

Munnell, Alicia H., and Leah M. Cook. “Explaining the Postwar Pattern of Personal Savings.” *New England Economic Review*. Boston, MA: Federal Reserve Bank of Boston (November/December 1991).

This article presents an empirical analysis of the extent to which the housing boom and pension funding provisions determined the pattern of saving in the postwar period.

Sabelhaus, John. “How Does Pension Coverage Affect Household Saving?” In *Pensions, Savings, and Capital Markets*. Washington, DC: U.S. Department of Labor, Pension and Welfare Benefits Administration, 1996.

This report compares baby boomers’ financial situation today with that of their parents as young adults. It sizes up the financial situation of those close to or just past retirement today, and concludes with a look ahead to the financial circumstances of baby boomers in retirement.

Sabelhaus, John, and Joyce Manchester. *Baby Boomers and Their Parents: How Does Their Well-being Compare in Middle Age?* Washington, DC: Urban Institute, 1993.

Salisbury, Dallas L., ed. *Retirement in the 21st Century Ready or Not*. Washington, DC: Employee Benefit Research Institute, 1994.
http://www.ebri.org/store/books.htm

As the baby boom generation begins to approach retirement age, concern over whether or not current workers are financially prepared for retirement has heightened. Several studies have recently been released that try to assess the prospects for baby boomers in retirement—many of which come to sharply different conclusion. The papers presented in this publication focus on the following question: When all factors are considered, such as the evolution of Social Security and the pension system, in conjunction with the participation and savings decisions of today’s workers, what retirement picture are today’s workers really facing?

Retirement Saving - Participant Behavior

Auerbach, Alan J., et al. *The Annuitization of Americans’ Resources: A Cohort Analysis*. NBER Working Paper No. 5089. Cambridge, MA: National Bureau of Economic Research, 1995.

Employee Benefit Research Institute/The Gallup Organization, Inc. “Public Attitudes on Investment Preferences, 1994.” *EBRI/Gallup Survey* no. G-61 (Washington, DC: Employee Benefit Research Institute, 1994).
http://www.ebri.org/gallup.htm

Individuals were asked about their preference for who should be the investment decision-maker, themselves or their employer. They were also asked a question to determine their understanding of risk and return. Individuals say they would change investments in response to information. When given investment performance information for long-term holding periods, they are willing to shift 13 percent of their investments from a low-risk/low-return asset to a high-risk/high-return asset. Given the choice between a risk-free asset with a known 3 percent return rate or a riskier asset with a return rate of 10 percent, but carrying with it the potential to decrease up to 25 percent in any given year, individuals said they would invest 32 percent in the riskier asset. In comparison, when Americans were given the same choice but informed that the riskier asset had never experienced a decline if held for five years, they were willing to invest 45 percent in the riskier asset.

Farkus, Steve, and Jean Johnson. *Miles to Go: A Status Report on Americans' Plans for Retirement*. New York, NY: Public Agenda Foundation, 1997.

In 1994, Public Agenda conducted a national opinion study on how Americans approach retirement and saving. That study, *Promises to Keep*, revealed that while many Americans worried about their retirement, most had done little to prepare for it.

A number of changes have occurred since 1994, and Fidelity Investments, which provided underwriting for the first study, asked Public Agenda to revisit the issue—to explore how typical Americans think about retirement, how they see their own responsibilities, and what policies and programs might encourage them to make wiser financial plans for their later years.

Salisbury, Dallas L., ed. *When Workers Call the Shots: Can They Achieve Retirement Security?* Washington, DC: Employee Benefit Research Institute, 1995.
http://www.ebri.org/store/books.htm

The distinction between employment-based pensions and individual saving for retirement has become blurred by the growth of salary reduction plans as both primary and supplemental vehicles. Such plans—401(k), 403 (b), 457, and individual retirement accounts (IRAs)—involve explicit worker decision-making in areas such as participation, contribution levels, and asset allocation. These decisions will directly impact retirement income security for future generations of retirees.

In order to explore the issues surrounding the process of worker decision-making in salary reduction plans, efforts to educate workers for this task, and the policy implications for savings and retirement income security, the Employee Benefit Research Institute's Education and Research Fund (EBRI-ERF) sponsored a policy forum in Washington, DC, on May 11, 1995, on the topic: "When Workers Call the Shots: Can They Achieve Retirement Security?" The policy forum brought together government officials, corporate executives, financial managers, employee benefit professionals, and representatives from academia, research organizations, and media to discuss these issues.

Yakoboski, Paul, and Jennifer Dickemper. "Increased Saving but Little Planning: Results of the 1997 Retirement Confidence Survey." *EBRI Issue Brief* no. 191 (Employee Benefit Research Institute, November 1997).
http://www.ebri.org/rcs/index.htm

The 1997 Retirement Confidence Survey (RCS) focuses on American workers' retirement planning and saving behavior. It also examines their confidence regarding various aspects of retirement, as well as their views on key policy issues. It explores current retirees' attitudes and experiences, providing context for today's workers' actions and attitudes.

Yakoboski, Paul, and Jack VanDerhei. "Contribution Rates and Plan Features: An Analysis of Large 401(k) Plan Data." *EBRI Issue Brief* no. 174 (Employee Benefit Research Institute, June 1996).
http://www.ebri.org/store/ebriib.htm

This report analyzes contribution decisions among plan participants in three large 401(k) retirement savings plans. Specifically, it analyzes how plan features such as matching provisions and maximum allowable contributions, along with legal limits, interact with worker demographics in affecting contribution rates.

Yakoboski, Paul, and Jack VanDerhei. "Worker Investment Decisions: An Analysis of Large 401(k) Plan Data." *EBRI Issue Brief* no. 176 (Employee Benefit Research Institute, August 1996).
http://www.ebri.org/store/ebriib.htm

This report examines the asset allocation decisions of 401(k) plan participants working for three large employers (AT&T, IBM Corporation, and New York Life Insurance Company) with a total of 180,000 employees.