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At a Glance

Older workers are feeling much less confident about their retirement security than they were two years ago.

Workers with DB plans are much more confident in their retirement prospects than those who participate only in a DC plan.

Workers cite the decline in their retirement savings and higher stress about their retirement security as the top two ways they have been affected by the economic crisis.

Effect of the Economic Crisis on Employee Attitudes Toward Retirement

Part I: Retirement Security

About the Survey

In February 2009, Watson Wyatt surveyed 2,232 active employees and 904 retirees of nongovernment organizations with 1,000 or more employees to gauge the impact of the economic crisis on Americans. This report focuses on employees' responses and is the first in a series of reports on the survey findings that will be released over the coming weeks.

Executive Summary

The economic crisis has destroyed considerable American wealth, leaving employees – particularly older workers – much less confident in their ability to afford a comfortable retirement than they were two years ago. Those with a defined benefit (DB) pension plan, however, are much more confident in their retirement prospects than those with only a defined contribution (DC) plan. DC plan participants were heavily exposed to equities and experienced significant losses in their retirement accounts. Compounding matters, a number of older workers reduced their equity allocations after the crisis hit, locking in their losses and potentially missing a rebound in stock prices in the near term.

Given all of this, it is not surprising that retirement security is employees' biggest concern. In response to the crisis, most workers are cutting back on daily spending and some are reducing their debt and increasing their savings to offset recent losses.

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Key Findings

- The percentage of workers aged 50-64 who are very confident in having enough resources to live comfortably 15 years into retirement has dropped 16 percentage points, from 34 percent in 2007 to only 18 percent in 2009.
- Two in five employees (42 percent) are very confident about their financial security in the first five years of retirement, but confidence drops to 18 percent for 15 years into retirement and to 8 percent at 25 years into retirement.
- One-quarter of workers (26 percent) with a DB plan are very confident about their financial security 15 years into retirement, nearly double the level of workers with DC-only plans (14 percent).
- More workers said that the financial crisis has resulted in higher stress about retirement security (31 percent) than about job losses (24 percent) and access to affordable health care (15 percent).
- Nineteen percent of workers have increased savings to offset losses due to the financial crisis and another 34 percent are considering doing so; however, others have borrowed or withdrawn money from retirement savings (9 percent) or are considering doing so in the next 12 months (9 percent).

The economic crisis has created a tremendous amount of uncertainty about workers' prospects in retirement. Older workers' confidence about a secure retirement has plummeted in the last two years.

Figure 1 | Older workers' confidence in having enough resources to live comfortably in retirement

The percentage of workers aged 50-64 who are very confident in having enough resources to live comfortably 15 years into retirement has dropped 16 percentage points, from 34 percent in 2007 to only 18 percent in 2009.

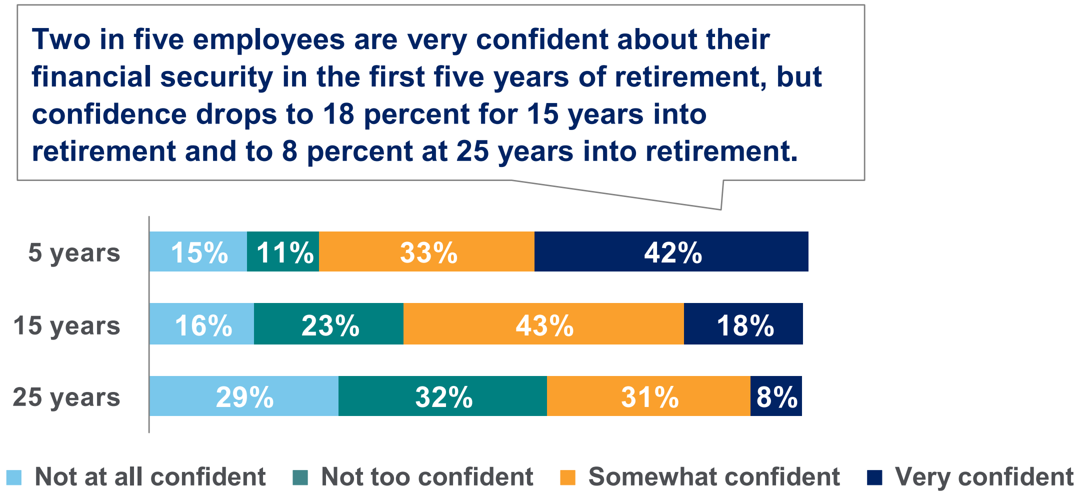
	5 YEARS INTO RETIREMENT			15 YEARS INTO RETIREMENT		
	2007	2009	CHANGE	2007	2009	CHANGE
Not at all confident	6%	10%	▲ 5%	9%	15%	▲ 6%
Not too confident	4%	10%	▲ 6%	15%	21%	▲ 6%
Somewhat confident	27%	35%	▲ 8%	42%	46%	▲ 4%
Very confident	63%	44%	▼ -19%	34%	18%	▼ -16%

Note: Due to rounding, percentages in the change column might not be equal to the difference between percentages in the 2007 and 2009 columns.

Source: 2007 numbers based on T. Hill (2008), Watson Wyatt's 2007 U.S. Surveys of Older Employees' and Retirees' Attitudes Toward Lump Sum and Annuity Distributions From Retirement Plans.

For workers of all ages, confidence in having enough resources to live comfortably in retirement wanes considerably as the retirement period lengthens.

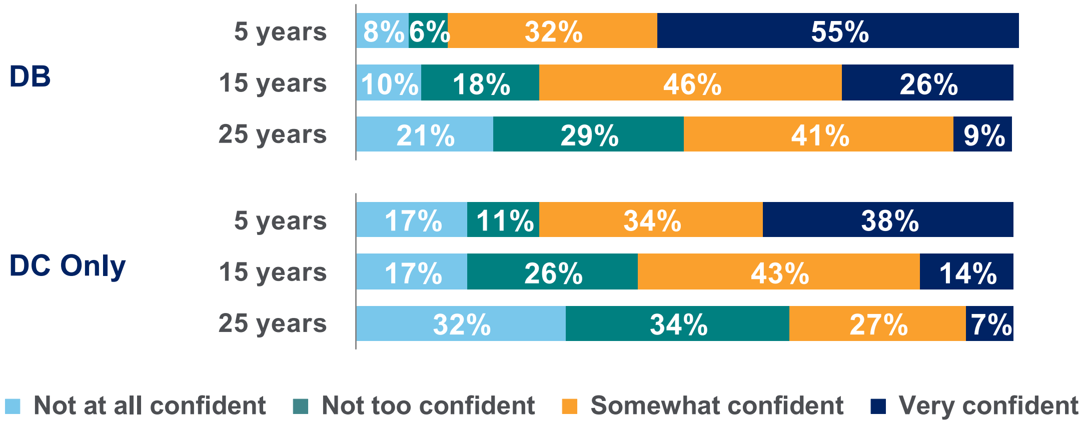
Figure 2 | Employees' confidence in having enough resources to live comfortably in retirement by length of retirement period



An important factor behind workers' confidence in a financially secure retirement is the type of retirement plan offered by their employer. Employees with a DB plan are the most confident about their retirement years.

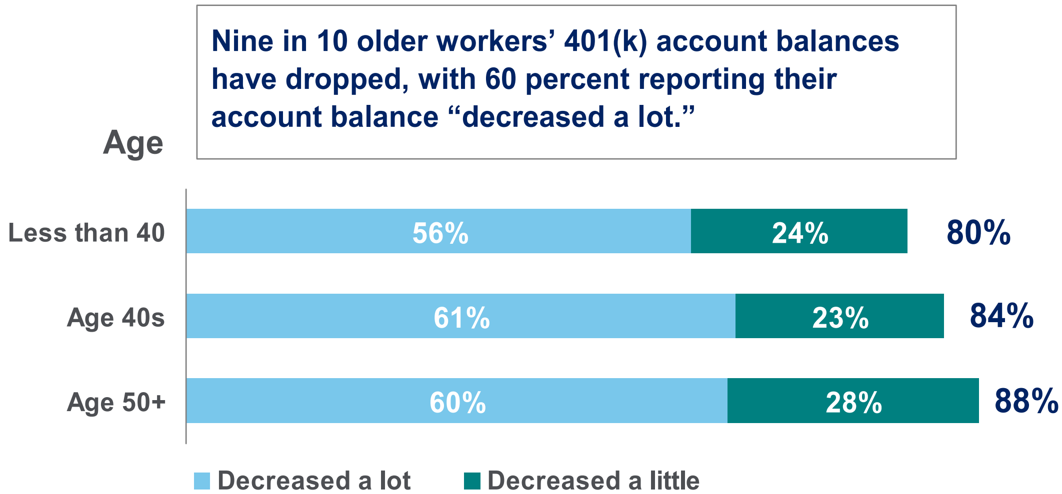
Figure 3 | Employees' confidence in having enough resources to live comfortably in retirement by retirement program

One-quarter of workers (26 percent) with a DB plan are very confident about their financial security 15 years into retirement, nearly double the level of workers with DC-only plans (14 percent).



Many workers experienced large declines in their 401(k) balances in 2008. Of particular concern is the extent that account balances of older workers have declined.

Figure 4 | Thinking of all the monies you set aside in your 401(k) account before January 2008, did the value of your account balance increase or decrease in the last year?



Workers' high equity allocations in their 401(k) accounts contributed to the significant declines in account balances over the last year. Older, middle-aged and younger workers hold similar percentages of their 401(k) accounts in equities.

Figure 5 | To what degree is your 401(k) account balance invested in equities and/or equity products?

Twenty percent of workers age 50 or over hold all of their assets in equities and another 11 percent hold three-quarters or more.

	ALL	LESS THAN 40	AGE 40s	AGE 50+
None	3%	2%	2%	4%
Less than a quarter	8%	8%	8%	7%
Between a quarter and a half	10%	10%	9%	10%
Around a half	13%	9%	14%	18%
Between a half and three-quarters	12%	11%	14%	13%
More than three-quarters	16%	18%	18%	11%
All of it	16%	16%	14%	20%
Don't know	22%	27%	21%	17%

Despite their sharp declines in the past year, most respondents have maintained their allocation to equities. Older workers are leading the way in reducing equity exposure in their 401(k) plans, raising concerns that they sold at the bottom and will miss out on a rebound in stock prices.

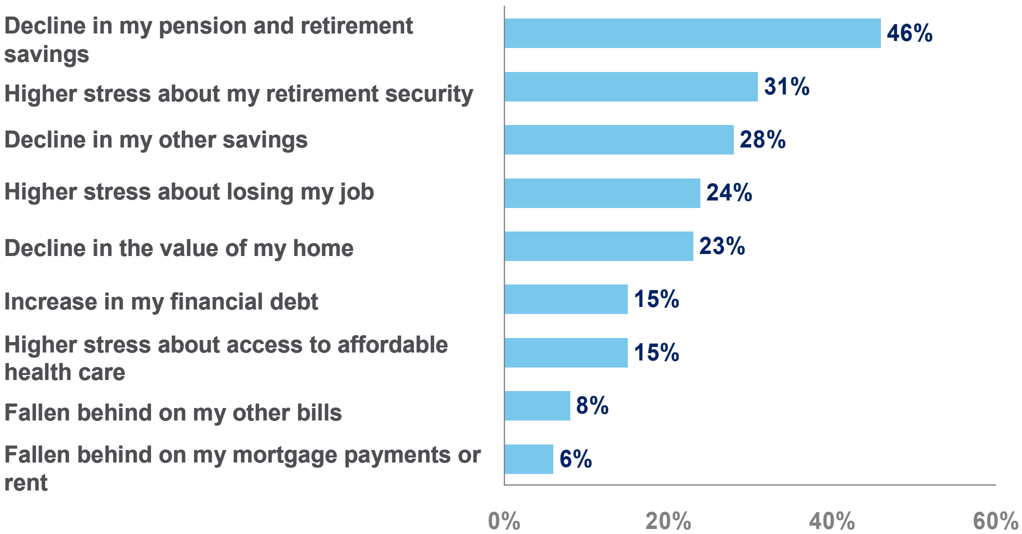
Figure 6 | Investment strategy in last 12 months and in the next 12 months

	LAST 12 MONTHS			NEXT 12 MONTHS		
	LESS THAN 40	AGE 40S	AGE 50+	LESS THAN 40	AGE 40S	AGE 50+
Reduce investment in equities	11%	17%	21%	7%	7%	10%
Increase investment in equities	10%	8%	6%	9%	15%	10%
No change	74%	71%	69%	66%	59%	60%
Don't know	5%	5%	4%	18%	19%	20%

Workers cite the decline in their retirement savings and higher stress about their retirement security as the top two ways they have been affected by the economic crisis.

Figure 7 | Please indicate how the financial crisis has impacted you over the past 12 months in each of the following ways.

More workers said that the financial crisis has resulted in higher stress about retirement security (31 percent) than about job losses (24 percent) and access to affordable health care (15 percent).



Note: Percentages reflect employees who said these events had a "strong" or "very strong" impact on them.

As a result, workers are cutting back on daily spending, taking steps to reduce their debt and delaying the purchase of large items. Some are even skipping recommended doctor's visits and considering taking an additional job.

Figure 8 | Which of the following actions have you taken over the last 12 months, or are you considering taking in the next 12 months, in response to the events in the economy and the financial markets?

	ACTION TAKEN	ACTION CONSIDERING
Cut back on my daily spending	55%	25%
Pay off debt	33%	32%
Delay purchase of large items	33%	30%
Skip recommended doctor's visit	10%	11%
Refinance a mortgage	6%	22%
Take an additional job	5%	29%
Buy a home	4%	15%
Change jobs	3%	22%
Sell a home	1%	8%

Some workers are increasing their savings: 19 percent have increased savings to offset losses due to the financial crisis and another 34 percent are considering doing so; however, others have borrowed or withdrawn money from retirement savings (9 percent) or are considering doing so in the next 12 months (9 percent).

Figure 9 | Thinking about your savings and investments, which of the following actions have you taken over the last 12 months, or are you considering taking in the next 12 months, in response to the events in the economy and the financial markets?

	ACTION TAKEN	ACTION CONSIDERING
Review my financial situation	41%	34%
Review how much I need to save for retirement	20%	36%
Increase my monthly savings	19%	34%
Reduce my monthly savings	13%	13%
Adopt a less risky investment strategy	13%	24%
Borrow/withdraw money from my retirement savings	9%	9%
Sell or cash in other securities	6%	11%
Sell other assets	5%	14%
Adopt a more risky investment strategy	3%	10%

Conclusion

The economic crisis has raised serious concerns about American workers' ability to retire. It has also reinforced the powerful influence that fluctuations in the stock market and employee exposure to investment risks have on individuals' retirement confidence. As a result, it's not surprising that DB plans offer workers more confidence. Although many workers are trying to spend less and save more, only time will tell if these actions will be enough to afford a comfortable retirement. If not, employees are likely to work longer and employers may face issues around workforce transitions and challenges enhancing productivity.

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