At a Glance

Many older workers plan to delay retirement because of the economic crisis, and most indicate they will work considerably longer than previously expected.

Declining 401(k) balances are the most cited reason for postponing retirement.

Employees with access to only a DC plan anticipate working longer than those covered by a DB plan.

Effect of the Economic Crisis on Employee Attitudes Toward Retirement

Part II: Retirement Timing

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 effect of the economic crisis on Americans. This report focuses on employees' retirement timing and is the second installment of a research series on the survey findings. It is based on analysis conducted by Steven A. Nyce, director of Watson Wyatt's Research and Innovation Center.

Executive Summary

The economic crisis has jeopardized Americans' retirement security. Most workers say they will need to save much more as a result of the crisis, and many are planning to work longer to improve their prospects in retirement. Older workers – who had the most to lose and also have the shortest window of opportunity to make up their losses – are most likely to work past their planned retirement age. The majority of those delaying retirement say they will work considerably longer than expected.

The economic crisis will further extend the length of working careers, which have been increasing for the past decade. Half of workers aged 50 and over now plan to work past age 65. Employees with a defined benefit (DB) plan, however, are more likely to retire before age 65 than those with only a defined contribution (DC) plan.

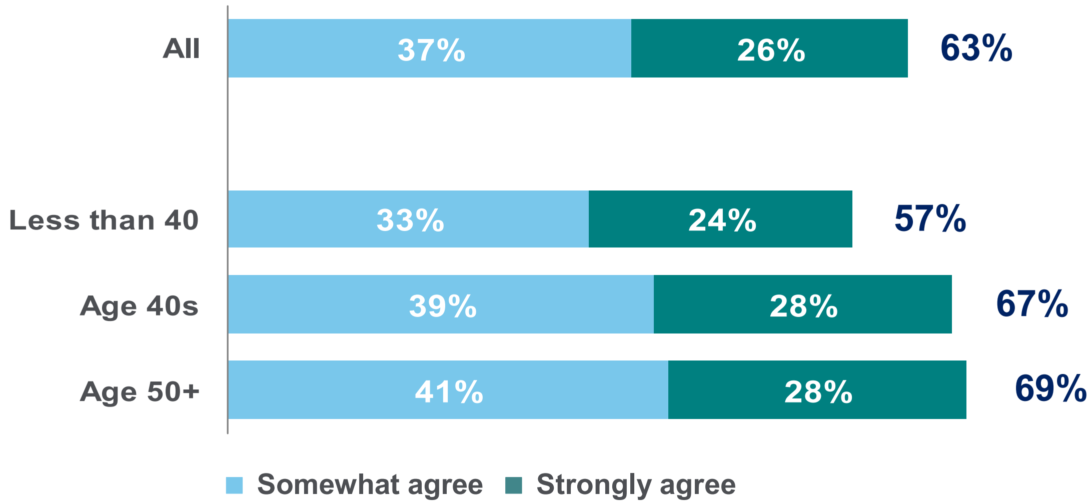
Key Findings

- More than two-thirds of workers aged 50 and over (69 percent) believe they will need to save significantly more for retirement as a result of the economic crisis.
- One-third of workers (34 percent) have increased their planned retirement age in the last 12 months. Older workers are most likely to increase the length of their working career, with 44 percent of workers aged 50 and over planning to work longer compared with 38 percent of those in their 40s and only 25 percent of workers under 40.
- Fifty-four percent of workers aged 50 to 64 who plan to postpone retirement say they will work at least three years longer than expected.
- Three-quarters of workers aged 50 to 64 (76 percent) cite the decline in the value of their 401(k) plans as a key reason they will retire later.
- The average planned retirement age for all employees is 65 years old. Older workers, however, plan to work longer. Half of those aged 50 and over expect to work past age 65.
- Workers who do not have a DB plan also expect to retire later. One-quarter of workers with only a DC plan (26 percent) expect to retire before age 65 compared with 41 percent who have a DB plan.

The majority of workers of all ages recognize they will need to save much more for retirement as a result of the economic crisis.

Figure 1 | Compared to what I thought a year ago, I will need to save much more in the future to achieve a comfortable level of income in retirement.

More than two-thirds of workers aged 50 and over (69 percent) believe they will need to save significantly more for retirement as a result of the economic crisis.



One-third of workers have increased their planned retirement age in the past year.

Figure 2 | Has the age at which you plan to retire from full-time employment changed over the last 12 months?

Older workers are most likely to increase the length of their working career, with 44 percent of workers aged 50 and over planning to work longer compared with 38 percent of those in their 40s and only 25 percent of workers under 40.

	MUCH LATER	LITTLE LATER	NO CHANGE	LITTLE EARLIER	MUCH EARLIER
ALL	14%	20%	63%	2%	1%
AGE					
Less than 40	10%	15%	73%	1%	1%
Age 40s	17%	21%	60%	1%	1%
Age 50+	18%	26%	51%	4%	1%

Of those planning to delay retirement, most indicate they will work considerably longer.

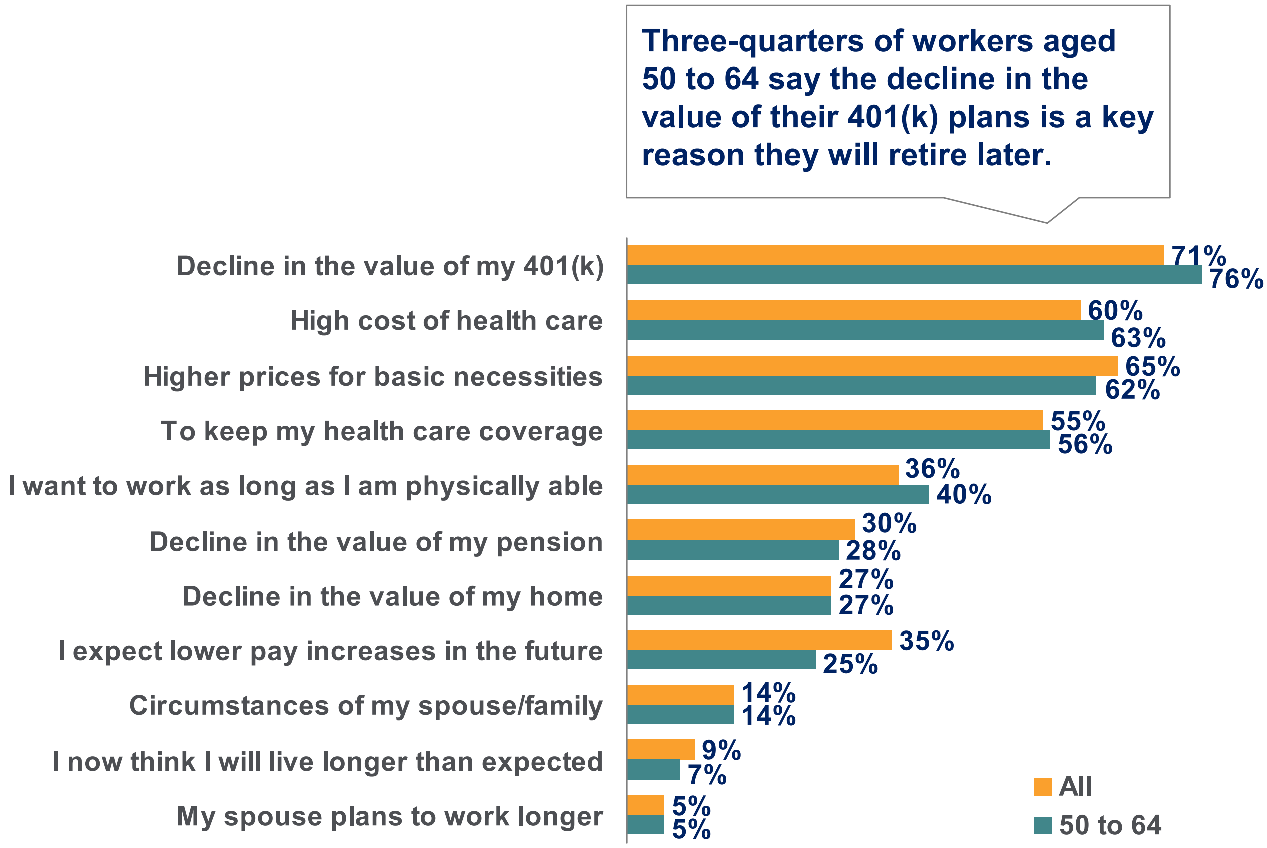
Figure 3 | Approximately, how much later do you expect to work?

The majority of those planning to postpone retirement say they will work at least three years longer than previously expected.

	ALL	AGE 50-64
Less than 1 year	0%	1%
1 year to less than 2 years	8%	13%
2 years to less than 3 years	17%	23%
3 years to less than 5 years	22%	20%
5 years or more	41%	34%
Don't know	11%	8%

Declining 401(k) balances are the most cited reason for postponing retirement, followed by higher prices for basic necessities and the high cost of health care.

Figure 4 | Which of the following are the most important reasons you expect to retire later?



Many older workers now plan to work past age 65.

Figure 5 | At what age do you expect to retire from all full-time employment?

The average planned retirement age for all employees is 65 years old. Older workers, however, plan to work longer. Half of those aged 50 and over expect to work past age 65.

	ALL	<40	AGE 40s	AGE 50+
UNDER AGE 65	**31%**	**32%**	**29%**	**29%**
Younger than 55	4%	6%	3%	0%
55 to 59	9%	11%	10%	7%
60 to 61	7%	7%	6%	7%
62 to 64	11%	8%	10%	15%
AGE 65	**17%**	**20%**	**15%**	**14%**
OVER AGE 65	**41%**	**31%**	**45%**	**50%**
66 to 69	22%	17%	24%	30%
70+	14%	9%	17%	15%
Never retire	5%	5%	4%	5%
DON'T KNOW	**12%**	**17%**	**10%**	**6%**

Workers with a DB plan are more likely to retire before age 65 than those with only a DC plan.

Figure 6 | At what age do you expect to retire from all full-time employment?

A quarter of workers with only a DC plan expect to retire before age 65 compared with 41 percent who have a DB plan.

	DB PLAN	DC ONLY
UNDER AGE 65	**41%**	**26%**
Younger than 55	4%	2%
55 to 59	15%	7%
60 to 61	10%	6%
62 to 64	12%	11%
AGE 65	**16%**	**18%**
OVER AGE 65	**35%**	**45%**
66 to 69	19%	25%
70+	12%	15%
Never retire	4%	5%
DON'T KNOW	**9%**	**11%**

Conclusion

All Americans have been affected by the economic crisis, but sharp declines in stock prices will have a more immediate impact on older workers. With reduced account balances, a shorter window to recover their losses and less confidence in their ability to afford a comfortable retirement, many are likely to work longer than planned. In the short term, this could increase employers' benefit costs and adversely affect productivity at a time when they are trying to reduce costs and do more with less.

Looking ahead to when the economy recovers, we might see a wave of older workers retiring, creating significant workforce transition issues for employers. And as the shift to a DC environment accelerates, we are likely to see a larger population of older employees staying in the workforce. DB plans provide predictable, guaranteed retirement benefits and offer incentives to retire at a certain age. In contrast, the value of assets in DC plans can fluctuate considerably and wreak havoc on planned retirements. When the stock market drops, DC plan participants are likely to stay at work just when companies want to reduce the size of their workforce. To effectively predict and manage workers' exit from the workforce, employers will need to take a comprehensive view of their retirement programs and tailor them to meet both employee and employer needs.

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WT-2009-12911