RETIREMENT
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Lower-Income Americans Struggle To Save For Retirement

Most Americans with lower incomes are concerned about their financial security in retirement, but usually lack the resources to plan or save actively, according to a study published by the Michigan Retirement Research Center of the University of Michigan.

In "How Do Lower-Income Families Think about Retirement?" University of Michigan researchers Helen Levy and Kristin Seefeldt investigated if and when lower-income Americans expect to retire, as well as what financial preparations for retirement, if any, they have made. The authors used data from the Detroit Area Study on Financial Services (DAS-FS), including a survey of 1,003 households in relatively poor areas of metro Detroit. Levy and Seefeldt also conducted in-depth interviews with members of 52 non-elderly households who responded to the original survey.

When asked whether they think about retirement, 81% of the respondents said yes, while just 19% said no. Of those who said they do not think about retirement, several indicated they do not consider their current jobs to be professional careers from which one would "retire," while others said they cannot retire because they are unemployed.

Around one-third of respondents told researchers they do not have in mind a certain retirement age or an event that might trigger retirement. Of this group, half said this is because they do not think about retirement. The remaining respondents attributed their failure to set a retirement date to a variety of factors, including uncertainty about their financial situation, concerns that they will be unemployed, or a reluctance to imagine what the future may hold. Some respondents said they worry retirement would be depressing or boring, and they

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Rather than thinking about retirement, most lower-income people are concerned about finding stable jobs that allow them to work as many hours as they need to support their families.

expressed a desire to remain employed or to one day start their own business.

Among the respondents who named a preferred retirement age, the most common responses were age 65, followed by age 62. A number of respondents linked their choice of retirement age to the age at which they expect to be able to start collecting Social Security benefits. The authors noted, however, that many of these respondents were unsure of the amount of benefits they are entitled to receive or when they can start collecting Social Security. Meanwhile, other respondents linked the age chosen to the age when they can start collecting a private pension, while a smaller number said other events could trigger retirement, such as the departure of adult children from the household or the onset of disability or poor health.

However, Levy and Seefeldt observed, their findings do not appear to be in agreement with the findings of similar studies, which have found that the key factors affecting retirement decisions, besides purely financial reasons, are health and disability, institutional rigidities, and family decision-making. In contrast to previous studies, the authors said, their research indicated that lower-income people are relatively unconcerned about their health or family status when making retirement decisions. They appear to be almost entirely unaffected by institutional rigidities, such as mandatory retirement. Rather than thinking about retirement, most lower-income people are concerned about finding stable jobs that allow them to work as many hours as they need to support their families.

When asked about 401(k) plans, most respondents said they know what they are, and half reported having 401(k) accounts. "However, given the instability of many respondents' work histories, actual planning for retirement may not happen, and many respondents may continue only to think about the prospect," Levy and Seefeldt concluded.

Congress Urged To Act Quickly To Protect Retirement Security

Given the volatility of the financial markets, Congress should consider amending current law to better protect the financial security of retirement sponsors and the employees who participate in those plans, the American Benefits Council has proposed in a ten-point plan for strengthening the U.S. retirement system.

The American Benefits Council is a public policy organization that represents Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. At an October 29 hearing on "Economic Recovery, Job Creation, and Investment in America" held by the House Committee on Ways and Means, American Benefits Council president James A. Klein said, "The current economic turmoil is wreaking havoc on a number of fronts: the jobs market, the housing market, the financial market. If swift action is not taken, the employer-sponsored retirement system will be the next front in this economic storm."

The defined benefit system, in particular, Klein added, "is under tremendous strain." He noted that market volatility and accelerated funding requirements threaten to create enormous pension obligations when that money could otherwise be spent on infrastructure and job creation.

The Council's proposal, according to Klein, has three principal aims: to help individuals achieve financial security, to prevent pension funding obligations from triggering a massive freeze of new benefits and job losses, and to lessen the impact of a financial downturn, while preparing retirement plan sponsors to cope with future economic insecurities.

To help individuals save more effectively for retirement, the Council's first

point recommended expanding the group of middle-income employees who are eligible for the Saver's Credit, thus enabling them to replenish their depleted savings and rewarding their savings with a tax credit that can be used to meet daily expenses. Second, the Council called for participants in tax-advantaged retirement plans, such as 401(k)s or IRAs, to be given the right to be exempted from the age 70½ minimum age distribution rules in 2008 and 2009, allowing them to choose whether or not they take distributions in those years. Third, the Council suggested that the 10% penalty tax on hardship distributions be suspended for withdrawals made in 2009.

Citing actuarial reports warning that the funding obligations of defined benefit retirement plans could trigger benefit freezes on an unprecedented scale, the Council recommended that—without undoing the funding reforms contained in the Pension Protection Act of 2006 (PPA)—some temporary adjustments be made to these funding requirements. In its fourth point, the Council called upon the U.S. Treasury Department to forgo its current mark-to-market rule on pension plans that requires sponsors to take into account all 2008 losses. Instead, the proposal would allow plans to balance out unexpected asset losses by using smoothing over periods of 24 months to 36 months for 2009 and subsequent years. In its fifth point, the Council recommended that asset smoothing, which is currently limited to within 10% of the fair market value of the assets, be applied without percentage limitations in 2009 and 2010.

Instead of following the phase-in schedule established by PPA for achieving pension plan funding of 100%, the Council's sixth point suggested that the 92% phase-in level for 2008 remain in place for 2009, instead of rising to 94% as currently mandated. In its seventh point, the Council recommended that retirement plan sponsors be granted the flexibility to change their funding methods, such as the yield curve used, without seeking approval from the Internal Revenue Service (IRS). In its eighth point, the Council suggested an extension of the amortization period for losses that arise in 2008 and 2009 from the current seven years to ten years.

To help Americans plan more effectively for the future, the Council's ninth point recommended that the U.S. Department of Labor publish a model financial education notice that employers can distribute to employees and retirees. The notice would include general information about issues such as diversification, retirement income needs, and the importance of continuing to save for retirement. In addition, the Council suggested that the U.S. Department of Education develop a five-year plan to enhance financial literacy in the schools.

In its tenth and final point, the Council advised lawmakers to consider increasing the start-up credit for small business retirement plans from the current level of 50% of the cost, up to a maximum of $500 per year for three years, to at least 75% of the cost, up to a maximum of $2,000 per year.

"We urge the adoption of these measures immediately and strongly recommend that they be included in any economic recovery legislation that may be considered during a lame duck session of the current Congress." At the hearing, Klein concluded, "While somewhat technical in nature, the proposals we have outlined above are critical in order to avoid further economic harm to working Americans and the employers upon which they rely."

Many Older Americans Expect To Work Past Retirement Age

Citing financial concerns and a desire to remain active in their golden years, growing numbers of middle-aged and

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older Americans report plans to continue working past normal retirement age, according to a study released by AARP.

The findings of the "Work and Career Study" are based on a survey of 1,500 Americans between the ages of 45 and 74 who are either employed or currently looking for work. Results showed that 51% of the adults surveyed expect to work part-time in retirement, 11% plan to start their own businesses, and 6% anticipate working full-time. By contrast, just 29% of respondents said they do not expect to work at all past normal retirement age.

When those who intend to continue working past retirement age were asked to identify the reasons why, 27% cited the need for money, while 21% told researchers they enjoy working. When asked why they are currently working, 64% of respondents said they need the money to support themselves or family members, and 11% said they are trying to build up financial reserves for the future.

According to federal government projections, the age 55-plus workforce will grow five times faster than the overall labor force for the 10-year period ending in 2016. An aging workforce, the study said, means American businesses are "running out of time to prevent labor shortages, talent wars, and knowledge loss."

The report also outlined strategies for employers to attract and retain workers age 50 plus. These include offering flexible schedules and work arrangements, providing competitive health and other benefits to part-time workers, restructuring the job or the workplace to accommodate employees' physical limitations later in life, updating the training of older workers, and implementing knowledge retention strategies.

Retirement Plan Participation Rose Significantly In 2007

For the first time in nearly a decade, the percentage of workers participating in employment-based retirement plans increased substantially in 2007, according to a report published by the Employee Benefit Research Institute (EBRI).

The study, based on the U.S. Census Bureau's March 2008 Current Population Survey (CPS), found that the percentage of all workers participating in employer-sponsored retirement plans rose from 39.7% in 2006 to 41.5% in 2007. Meanwhile, over the same period, the percentage of full-time, full-year wage and salary workers ages 21–64 who participate in retirement plans increased from 52.7% to 55.3%.

The analysis showed that, among all workers, women were less likely than men to participate in employment-based retirement plans in 2007. The findings also revealed, however, that among full-time, full-year workers, a higher percentage of women (57%) participated than men (54%). When assessed by ethnicity, Hispanic workers were found to be significantly less likely than both white and black workers to participate in a retirement plan.

Commenting on the factors that might affect retirement plan participation trends going forward, Craig Copeland, EBRI senior research associate and author of the report, noted that the provisions of the Pension Protection Act of 2006 (PPA) supporting automatic enrollment in defined contribution plans, which went into effect in 2008, could prolong the upward trend in participation rates seen in 2007.

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