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Let Plan Design Show Us the Way

EBRI's annual Retirement Confidence Survey shows need for action now

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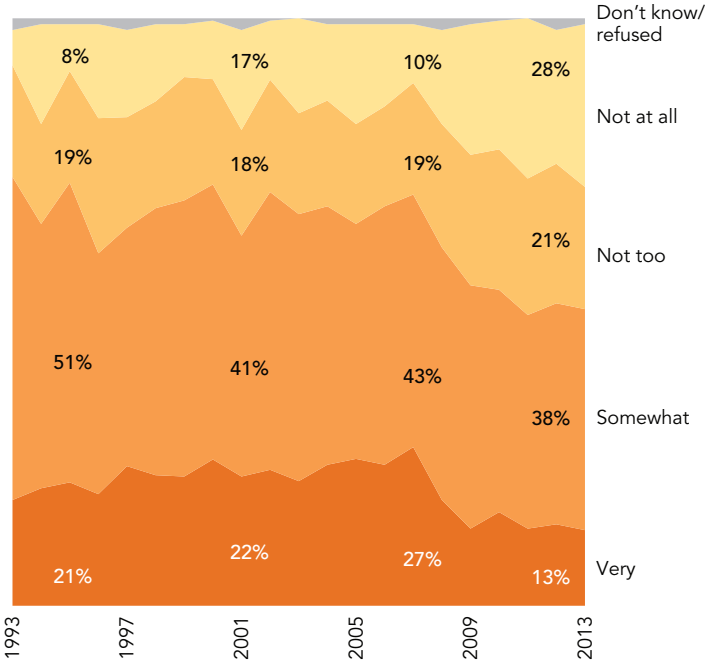
Dimensional Fund Advisors is a proud sponsor of the Employee Benefit Research Institute's 23rd annual Retirement Confidence Survey (RSC). EBRI's survey is considered the gold standard in measuring the views and attitudes of working-age and retired Americans. As an underwriter, Dimensional had a unique look into the design, topic set, and thematic conclusions that will help inform policymakers and sponsors of DC plans. This year, three remarkable findings covering retirement confidence, how workers actually save for retirement, and automaticity yield actionable steps that we can all take to improve our participants' retirement experience.

Retirement Confidence

This survey highlights that workers' confidence regarding their ability to "live a comfortable lifestyle" in retirement has dropped to its lowest point in 23 years, with 28% of respondents identifying themselves as "not at all confident" (see Figure 1). Several subsequent readiness questions echoed the theme of slowly declining retirement confidence levels among workers. In an effort to determine the proximate cause of these low confidence levels, we looked further at survey data and found that those with debt problems (either major or minor) are the most likely to characterize themselves as not at all confident in their ability to save for retirement. Data from respondents also indicated that half of workers surveyed (and 52% of retirees) could not come up with $2,000 in the next month to cover an "unexpected need." Clearly, low savings levels and high consumer debt are problems for workers, demonstrating an urgent need for action. We surmise that the second cause of these low retirement confidence levels is continued fallout from the

Figure 1: Confidence about Having Enough Money for Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993-2013 Retirement Confidence Surveys.

"The power of 'opting out'—as opposed to volunteering to save for retirement—is one of the keys to plan design success."

Great Recession. Figure 2 indicates that job uncertainty is the top concern among workers (and retirees), with 30% of workers indicating that job uncertainty is the top issue facing most Americans. In an almost self-fulfilling prophecy, "saving or planning for retirement" was the lowest-rated issue facing most Americans, with only 2% of workers selecting this category as a top issue.

How Workers Save For Retirement

The total number of workers actively saving for retirement continues to decline, from a high in 2009 of 65% to just 57% today. Almost all of this decline can be attributed to households earning less than $35,000. The number of workers saving for retirement in households with combined incomes of $35,000 to $74,999 actually increased by 2% over 2012, and those with household incomes over $75,000 have continued to increase their participation in saving for retirement by 1% per annum since 2009.

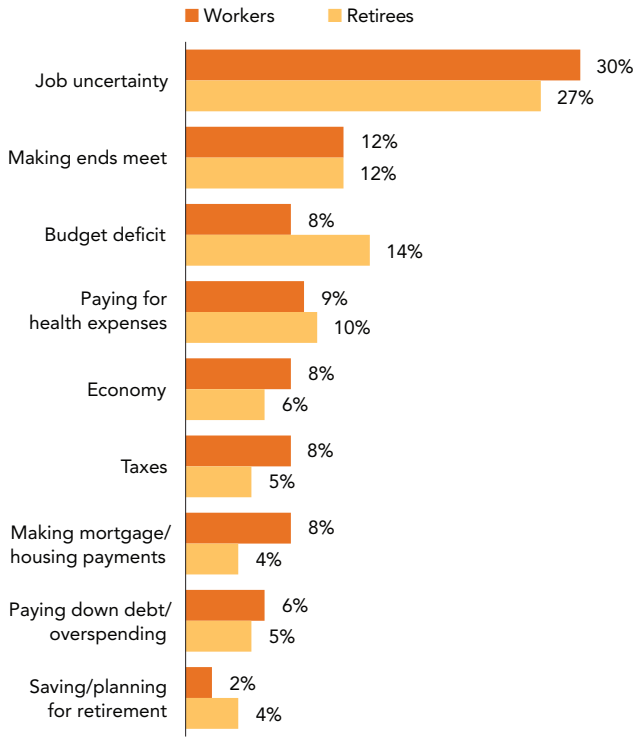
With these indicators in mind, we would like to highlight recent research on retirement replacement rates by Dimensional Vice President Marlena Lee, PhD. In our Summer 2012 issue of *DC Dimensions*, Dr. Lee found these replacement rates vary substantially across households—and that those in the lowest income quartiles can require a replacement rate as high as 83%. Given our recent survey and the significant drop in savings by households earning less than $35,000, significant action is needed.

Automaticity and Plan Design Can Help

Better plan design would have an (almost) immediate impact in helping participants save for retirement. The 2006 Pension Protection Act green-lighted automatic enrollment, so we asked workers how they would feel about automatic enrollment at both a 3% and 6% deferral rate. Among workers automatically enrolled into a retirement plan, the survey found only 2 in 10 would opt out, with 77% continuing in the plan at a 3% rate, at a lower rate, or even at a higher rate.

We subsequently asked workers to think about a 6% savings rate, and only 3 in 10 said they would opt out. Two-thirds of workers would continue to contribute at a 6% rate—and some at a decreased rate or at a rate exceeding 6%.

Figure 2: Most Pressing Issue Facing Most Americans



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2013 Retirement Confidence Survey.

The power of "opting out"—as opposed to volunteering to save for retirement—is one of the keys to plan design success. Combining both automatic enrollment and automatic escalation beyond the industry norm of 3% can and will impact the savings rates for workers. We know of no better immediate change in plan design that can effectively capitalize on inertia and start workers on the path to saving for a better retirement.

About the Survey

The EBRI Retirement Confidence Survey, the longest-running annual retirement survey of its kind in the nation, was conducted in January 2013 and consisted of 1,254 phone interviews with workers and retirees. Subsequent data was weighted by age, gender, and education, with a margin of error of +/- 4% for workers and +/- 7% for retirees. Data may not add to 100% due to rounding.

To download the complete survey, please visit our website at: dfaus.com/ebri. ■

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