US retirement confidence at 23-year low

Kate Randall
20 March 2013

The percentage of Americans who are confident that they will have enough money for a comfortable retirement is the lowest in 23 years. According to the latest Retirement Confidence Survey by the Employee Benefit Research Institute (EBRI), 49 percent of workers are either not too confident (21 percent) or not confident at all (28 percent) that they will be financially comfortable when they retire.

The survey of 1,003 workers and 251 retirees was conducted by EBRI in January, when the stock market was heading for record highs. Despite official claims of an economic recovery, however, the EBRI survey points to an impending catastrophe for millions of Americans as they approach retirement.

While workers are bombarded on a daily basis by economic “experts” on the morning talk shows and cable news with tips about planning “responsibly” for retirement, for many people the economic reality is increasingly bleak. Many households are struggling to pay for basic necessities and are unable to put aside adequate savings—or anything at all—to ensure a secure retirement.

A sizeable percentage of workers have virtually nothing put aside in savings accounts, 401(k)-type plans, or investments. Of workers surveyed, 57 percent report that the total value put aside for retirement is less than $25,000 (excluding home values and defined benefit pension plans). This includes 28 percent who report having less than $1,000 in savings.

The percentage of workers who report having saved for retirement now stands at 68 percent, down from 75 percent in 2011. This decline is found almost exclusively among those workers with household incomes under $35,000. Among this low-income group, the percentage of workers saving for retirement has fallen dramatically—from 49 percent in 2009 to 24 percent in 2013.

Only 50 percent of workers say they could definitely come up with $2,000 if they were faced with an emergency. Close to a third of workers surveyed—28 percent—believe they probably or definitely could not come up with this sum.

Workers saddled with credit card and other debt find it next to impossible to put any savings aside, with 55 percent of workers and 39 percent of retirees reporting difficulty with their level of debt. Among those workers who considered they had a major debt problem, 54 percent were not at all confident in their financial retirement prospects.

When asked to name the most pressing financial issue facing most Americans today, 30 percent of workers and 27 percent of retirees cited job uncertainty. Other pressing concerns included making ends meet, paying for health insurance or medical expenses, the overall economy, taxes, and making mortgage payments.

After stabilizing over the past two years, the percentages of workers who are not at all confident about various aspects of retirement are now increasing. The percentage of workers who are not at all confident that they will have enough money to pay for basic necessities in retirement now stands at 16 percent, up from 7 percent in 2007; another 13 percent are not too confident.

Confidence in the ability to pay for health expenses in retirement has fallen off markedly, with 29 percent of workers not at all confident that they will be able to pay for post-retirement medical expenses (up from 14 percent in 2007) and 39 percent not at all confident that they will be able to pay for long-term care expenses (up from 21 percent in 2007).

According to US Department of Labor data analyzed by EBRI, only 3 percent of private-sector workers in the US were covered by defined benefit pension plans from their employers as of 2011, down from 28 percent in 1979. Most workers must now rely on 401(k) plans, which they must contribute to out of their paychecks.

Employers sometimes provide matching funds for employee contributions to 401(k)s, although this is increasingly less common.

The EBRI survey found that the cost of living and day-to-day expenses are the main reasons why workers do not contribute to 401(k)s or do not increase their contributions. Many workers who have managed to put something aside in these plans have been forced to raid these funds and other savings to pay pressing bills. Thirty-one percent of workers surveyed in 2013 reported dipping into savings to pay for basic expenses. Among those already retired, the percent taking money from their retirement savings to pay for basic expenses rose from 22 percent in 2012 to 25 percent in 2013.

Workers have increasingly grim expectations of life in retirement—as well as the ability to retire at an age when they will be able to enjoy it. Twenty-five percent of workers surveyed by EBRI say the age at which they expect to retire has changed in the past year, with 88 percent reporting that this age has increased.

Reasons cited by workers for delaying retirement included: the poor economy (25 percent), lack of faith in Social Security or government (21 percent), inadequate finances to retire (21 percent), the cost of living in retirement will be higher than expected (8 percent), a change in the Social Security minimum retirement age (7 percent), health care costs (7 percent), needing to make up for losses in the stock market (5 percent).

Only 5 percent of workers are very confident that Social Security will continue to provide benefits of at least equal value to benefits received by retirees today, while only 6 percent are very confident that Medicare will continue to provide benefits at least equal to those of retirees today.

Of those workers who retire earlier than expected, many cite negative reasons for doing so. These include health problems or disabilities (55 percent), downsizing of closure at their place of employment (20 percent), having to care for spouses of other family members (23 percent), and changes in the skills required for their jobs (9 percent).