

Preparation for Retirement: The Haves and Have-Nots

A comparison of working households that participate in 401(k)-type retirement savings plans with those that lack access to employer-based retirement savings plans

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Executive Summary and Implications

Background

Individuals have become increasingly responsible for ensuring their financial security in retirement. This growing trend may be attributed to changes in employer-sponsored retirement plans from the “traditional pension” (defined benefit) plan to the increasingly popular defined contribution plan (e.g., 401k, 403b, etc.). According to researchers at Boston College’s Center for Retirement Research, in 1981 nearly 60% of workers with pension coverage had only a defined benefit plan compared with 10% in 2003. During that same time period, the percentage of workers with pension coverage who had only a defined contribution plan rose from just under 20% in 1981 to just over 60% in 2003.¹ While the defined contribution plan system provides workers with portability and great control, the onus is on the individual to ensure long-term financial security in retirement.

Furthermore, while some workers have the opportunity to save through employer-sponsored retirement plans, others do not. According to the U.S. Bureau of Labor Statistics, 40% of all private sector paid workers lack access to a defined benefit and/or defined contribution retirement savings plan – approximately 46 million people.² Those with access to a retirement savings plan at work are able to benefit from a) facilitated savings (payroll deductions); b) tax advantages (pre-tax contributions) and c) employer matching contributions that may be available.

Though the notion of increased individual responsibility for long-term financial security is true for most Americans, it is slightly different for individuals with access to an employer-sponsored defined contribution plan versus those who do not have access to a retirement savings plan at work. AARP supports automatic 401(k) plan features for workers with access to 401(k)s to increase the number of eligible workers that participate in the plan as well as to increase the amount workers save. However, a large portion of the workforce in the United States does not have access to a retirement savings plan at work. Therefore, AARP also supports solutions that will increase access to retirement savings plans at work.

The purpose of this survey is to gauge the level of retirement preparedness of those households that participate in an employer-sponsored defined contribution plan (i.e., a 401(k) or 403(b) plan) as compared to those who do not have access to a retirement savings plan at work. Since defined benefit plans are unlikely to be a core source of income in retirement in the future, AARP surveyed working households (in which one or both spouses work) that do not have a defined benefit plan (through either spouse) to measure how well prepared the “Haves” (those who participate in a 401(k) or 403(b) plan) are for retirement compared with the “Have-Nots” (those who lack access to a retirement savings plan at work).

¹ Buessing, M. and Soto, M. (2006). “The State of Private Pensions: Current 550 Data.” Center for Retirement Research at Boston College. http://www.bc.edu/centers/crr/issues/ib_42.pdf

² U.S. Bureau of Labor Statistics, U.S. Department of Labor. “National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2006.” In 2006, there were about 115.4 million paid workers (includes both full-time and part-time).

Key Findings

This survey which compares the 401(k) and 403(b) Haves (working households that participate in a 401(k) or 403(b) plan) with the Have-Nots (working households that lack access to a retirement savings plan at work) finds that:

- **Working households, regardless of access to a 401(k) or 403(b) plan, are not well prepared for retirement.** This is evidenced by the fact that:
 - Working households have not saved much money for retirement. Three in ten (30%) have not saved anything while just over two in ten (22%) have saved up to \$25,000. This means that roughly half (52%) of working households have saved less than \$25,000 for retirement.
 - Working households do not have much money in savings and investments in general. Over four in ten (42%) working households that participate in a 401(k) or 403(b) and over half (57%) of working households that lack access to one have under \$50,000 in savings and investments while almost one in five working households (18%) that participate and almost four in ten (39%) working households that lack access have less than \$10,000.
 - Many financial decision-makers in working households either do not know or underestimate the percent of their pre-retirement income they will need to maintain their standard of living in retirement. Approximately six in ten (61%) of them either do not know the percentage they will need or estimate it being less than 70% (60% of financial decision-makers in working households that lack access to a retirement savings plan at work and 61% of financial decision-makers in working households that participate in one).
 - Over seven in ten financial decision-makers in working households (72%) who have not retired think they and/or their spouse will work for pay after they retire.
- **Despite being ill-prepared for retirement, many financial decision-makers in working households have a false sense of security about their financial future.**
 - At least half of financial decision-makers in working households are confident (very or somewhat) that they will be able to cover their basic expenses in retirement (87% of Haves and 79% of Have-Nots), have enough money to live comfortably throughout retirement (75% of Haves and 64% of Have-Nots), have enough money to cover medical expenses (67% of Haves and 54% of Have-Nots), and afford to retire when desired (68% of Haves and 53% of Have-Nots).
- **Forty-three percent of working households have tried to figure out how much money they will need to have saved by the time they retire so they can maintain their standard of living in retirement. Over four in ten (44%) of the working households who attempted the calculation subsequently made**

changes in their retirement planning as a result of doing so. While the small sample size of working households that attempted a calculation precludes comparisons between the Haves and the Have-Nots, it is still encouraging to see that many changed their behaviors.

- Collectively, of working households that attempted the calculation, over eight in ten (81%) started saving more, over seven in ten (77%) paid off at least some of their debt, and over half spent less (58%), invested more aggressively (57%), and enrolled in a retirement savings plan at work (53%).
 - Among the Haves that attempted the calculation and made changes because of it, over half subsequently started saving more, paid off some or all of their debt, enrolled in a retirement savings plan at work, invested more aggressively, and/or spent less.
 - Among the Have-Nots that attempted the calculation and made changes because of it, over half started saving more, paid off some or all of their debt, spent less, invested in real estate, and/or invested more aggressively.
- **Working households that lack access to a retirement savings plan at work are less prepared for retirement than working households that participate in a 401(k) or 403(b) plan.** Working households that lack access to an employer-based retirement savings plan are less likely to have:
 - Given their retirement at least some thought (72% vs. 82%),
 - Saved for retirement (51% vs. 86%),
 - Tried to calculate the amount of money they will need in retirement, (38% vs. 49%),
 - Gotten help from a financial advisor or used a worksheet or online tool to determine how much money they will need in retirement (13% vs. 33% and 7% vs. 18% respectively), and
 - Made changes in retirement planning as a result of calculating the amount of money they will need (32% vs. 53%).

Financial decision-makers in working households that lack access to a retirement savings plan at work are also less likely than those who participate in a 401(k) or 403(b) plan to be confident (very or somewhat) that they will:

- Know how to determine the amount of money they need to live comfortably throughout retirement (64% vs. 75%),
- Be able to afford to retire when desired (53% vs. 68%),
- Have enough money to take care of basic living expenses during retirement (79% vs. 87%),
- Have enough money to live comfortably throughout retirement (64% vs. 75%),
- Have enough money to take care of their medical expenses during retirement (54% vs. 67%), and
- Have enough money to pay for long-term care, should they need it in retirement (38% vs. 50%).

- **There are some significant differences between the characteristics of the 401(k) and 403(b) Haves and Have-Nots.** Financial decision-makers in working households that lack access to an employer-based retirement plan are more likely than those who participate in one to:
 - Be employed part-time (24% vs. 8%),
 - Be self-employed or have a spouse who is self-employed (49% vs. 16%),
 - Have less than a college education (36% vs. 24%),
 - Have total household income of under \$50,000 (55% vs. 36%),
 - Be at least 50 years old (47% vs. 37%), and
 - Rent their residence (27% vs. 19%).

- **The majority of financial decision-makers in working households that lack access to a 401(k) or 403(b) plan would participate in one if it were available.** Over six in ten financial decision-makers in working households (66%) who lack access to a retirement savings plan at work would be likely (very or somewhat) to participate in a retirement savings plan like a 401(k) if their employer or their spouse’s employer were to offer one. In fact, over four in ten (43%) of these financial decision-makers in working households would be “very likely” to do so.

Implications

The findings suggest efforts should be made to increase workers’ access to retirement savings plans in the workplace as well as to increase the participation and contribution rates for workers who already have access. Workers who do not have access to an employer sponsored plan should be encouraged to save for retirement as well. Clearly, there is a role for employers, legislators, and consumers to play.

Employers that offer a 401(k) plan might consider adding automatic features to it. By enacting the Pension Protection Act of 2006, Congress removed significant administrative and fiduciary concerns about automatic plan features and provided incentives for establishing automatic procedures, specifically a safe harbor from nondiscrimination testing. Among the features worthy of consideration are automatic enrollment, automatic contribution escalation, and automatic investment (including automatic rebalancing in lifecycle type funds). These features can help to increase the participation rate among eligible employees, to ensure contribution amounts increase to levels that will produce more adequate retirement savings, and to maintain a well-balanced portfolio. Automatic 401(k)s, in essence, mirror the positive features found in traditional defined benefit plans. In addition to enhancements made to the 401 (k) plans that currently exists, AARP also supports solutions that increase the coverage of savings plans at work.

Regardless of whether a retirement savings plan is offered, employers can also help their workers prepare for retirement by providing financial education opportunities. Consumers must do their part as well by calculating how much money they will need to have saved by the time they retire, making necessary changes to achieve their saving

needs, and seeking opportunities to save for retirement. The next step is to ensure people manage their retirement savings wisely so they are financially secure and do not outlive their assets. To this end, additional research that explores the degree to which workers who lack a defined benefit plan have thought about how to guarantee a stream of income throughout their retirement would be useful.

Methodology

Harris Interactive interviewed a random sample of 1001 respondents who are United States residents ages 21-70, employed and/or have a spouse who is employed in the private sector, never participated in a defined benefit retirement plan (nor did their spouse), and is the primary or shared-decision maker regarding financial decisions in the household. Interviews were completed with 506 respondents who participate in a 401(k) or 403(b) plan (and/or have a spouse that participates in one) and 495 respondents who lack access to a retirement savings plan through their employer (or their spouse's employer). Appendix A contains a detailed explanation of the methodology.

I. Working households are not well prepared for retirement, regardless of their access to a defined contribution plan

Working households have not saved much money for retirement.

As shown in Figure 1, overall, three in ten (30%) working households have not saved for retirement and just over two in ten (22%) have saved up to \$25,000. This means that roughly half (52%) of working households have saved less than \$25,000 for retirement. Fourteen percent of working households either do not know how much money they have saved for retirement or refused to answer the question.

Among respondents who are at least 50 years old (n=421), nearly a quarter (24%) of their households have not saved any money for retirement while a quarter (25%) have saved up to \$50,000. This means that roughly half of the households with respondents age 50 or older have saved less than \$50,000 for retirement. A third (33%) of them have saved at least \$50,000 for retirement, while fewer than three in ten (22%) have saved at least \$100,000. Nineteen percent of respondents age 50 or older either don't know how much their household has saved for retirement or refused to answer the question.

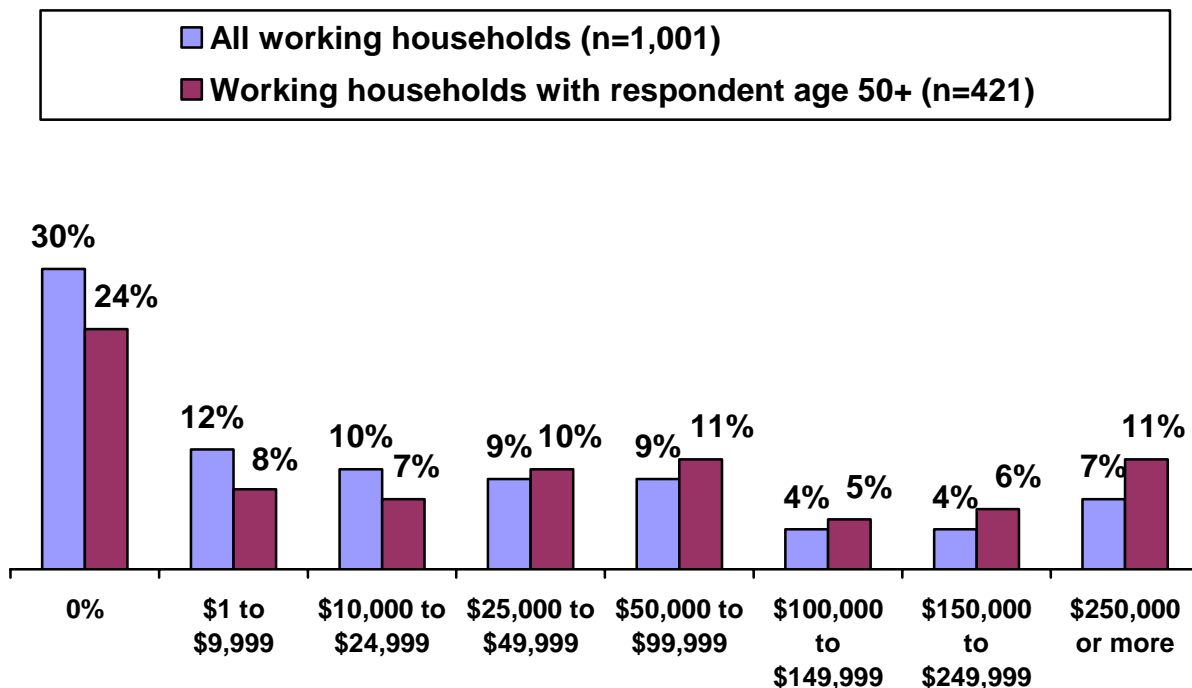
Among working households that have saved for retirement, over three in ten have saved less than \$25,000 (34% of working households that lack access to a retirement savings plan at work and 31% of working households that participate in one). Over two in ten have saved from \$25,000 up to \$100,000 for retirement – 24% of working households that lack access and 28% of working households that participate in a 401(k) or 403(b) plan. And a fifth to a quarter of working households have saved at least \$100,000 for retirement – 19% of working households that lack access and 24% of working households that participate in a 401(k) or 403(b) plan.

To illustrate what a savings lump sum is worth, the annual payout of a \$100,000 annuity has been estimated. The annual payout would be approximately \$7,100, assuming a price-indexed, two-thirds joint and survivor annuity for a couple that annuitizes the full \$100,000 at age 65.³

³ Use of the Social Security Administration's annuity factors to calculate the annual payout assumes: (1) Annual increase in monthly payment is assumed to follow the OASDI COLA 2.8% average; (2) Annuity pricing assumes that the annuities provide an expected net annual yield of 3% real; (3) Probabilities of mortality are the unisex probabilities; (4) Husband and wife are assumed to be the same age.

Figure 1: Amount Saved For Retirement

"About how much money have you [and your spouse] saved for retirement? Please tell me to stop when/if I get too high."



Base: All respondents (n=1,001); Respondents age 50+ (n=421)

Working households do not have much money in savings and investments.

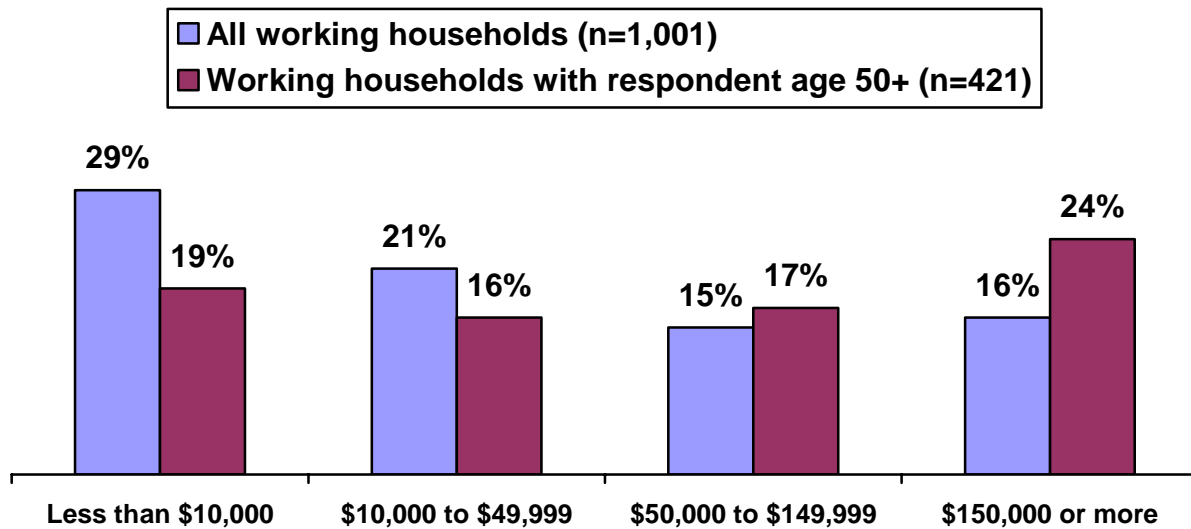
Overall, almost half of all working households (49%) have less than \$50,000 in savings and investments, excluding the value of their home. In fact, as shown in Figure 2, nearly three in ten working households (29%) have less than \$10,000 and just over one in five (21%) has \$10,000 to \$49,999. Nevertheless, just over one in three working households (32%) have at least \$50,000, with over one in ten (16%) having at least \$150,000. Additionally, nearly one in five working households (19%) did not disclose the amount of money they have in savings and investments because either the financial decision-maker did not know the amount or declined to share it.

The situation for working households who are closer to retirement, i.e. respondents age 50 and older, is not much better. Nearly one in five (19%) respondents who is at least 50 years has less than \$10,000 in household savings and investments and less than a fifth (16%) has \$10,000 to \$49,999. Over four in ten (42%) has at least \$50,000 in savings in investments, with almost one quarter (24%) having at least \$150,000 in

savings and investments. (Nearly a quarter, 23%, of those respondents ages 50 and older declined to answer this question or did not know how much money they have save in savings and investments.)

Figure 2: Amount of Savings and Investments

"As of today, approximately how much money do you [& your spouse] have in savings & investments, not including the value of your home? Include savings, CDs, stocks, bonds, mutual funds, workplace retirement savings plans, & other investments. "



Base: All respondents (n=1,001); Respondents age 50+ (n=421)

Note: 19% of all working households and 23% of working households with respondents age 50+ either don't know or refused to answer the question.

Financial decision-makers in working households either do not know or underestimate the income replacement rate they will need to maintain their standard of living in retirement.

Both 401(k) Haves and Have-Nots underestimate the percent of pre-retirement household income they will need to maintain their current standard of living in retirement. Altogether, on average⁴ financial decision-makers in working households estimate they will need 65% of their pre-retirement household income to maintain their current standard of living in retirement. In households that lack access on average, financial decision-makers estimate they will need 70%, while households that participate in a 401(k) or 403(b) plan estimate 65%. Respondents who are age 50 and above

⁴ Average is the median.

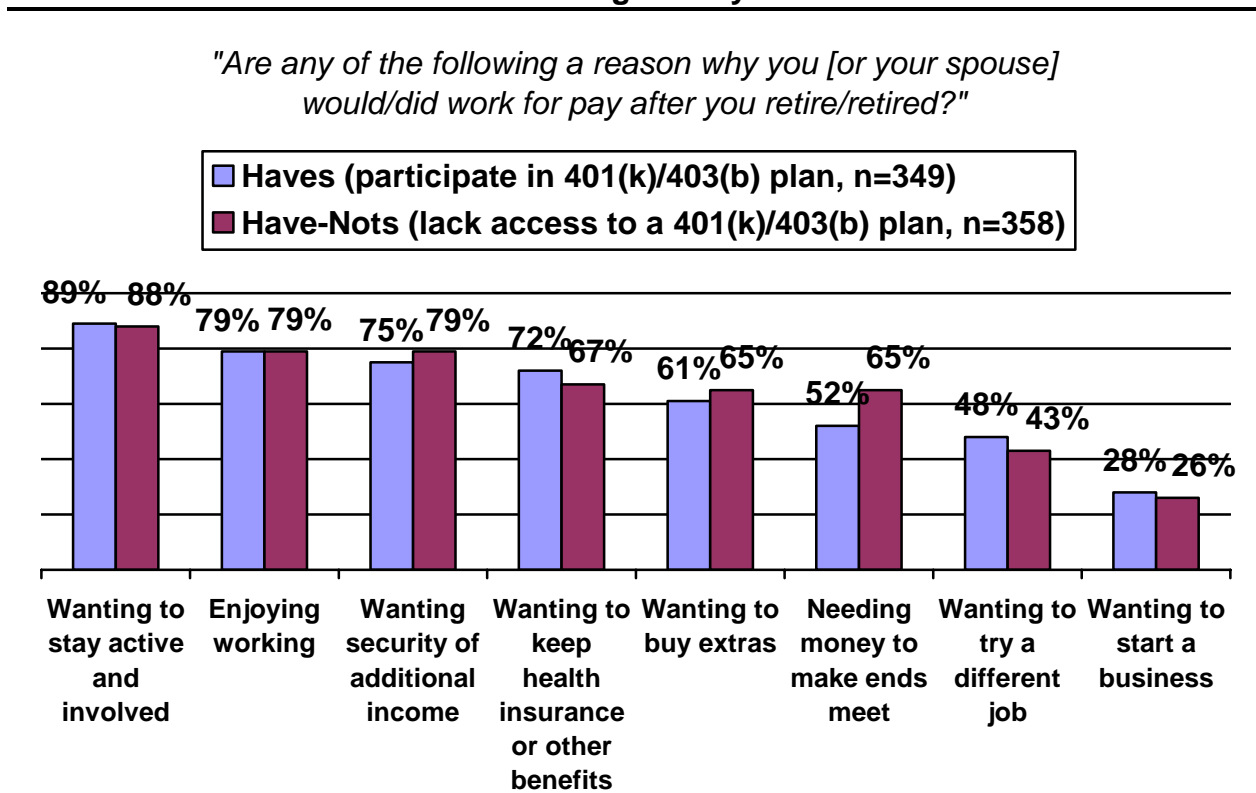
estimate their household needing 70% of their pre-retirement income to maintain their current standard of living in retirement.

Interestingly, one in five financial decision-makers in working households (20%) did not know or declined to answer the percentage of pre-retirement household income they would need. This figure represents nearly a quarter of working households that lack access (23%) and over one in ten (16%) working households that participate in a 401(k) or 403(b) plan.

Most working households plan to work for pay after they retire.

Nearly three quarters of financial decision-makers in working households who have not retired (72%) think they and/or their spouse will work for pay after they retire. There is no statistically significant difference between working households that lack access (73% of 442) and working households that participate (70% of 474) who believe this. While a greater proportion of financial decision-makers in working households that lack access to a 401(k) or 403(b) cite “needing money to make ends meet” as a reason for working in retirement, over half of workers in both groups identify this as a reason for doing so. Figure 3 shows the percent of each group citing various reasons for planning to work or having worked in retirement.

**Figure 3: Comparison of Haves’ and Have-Nots’
Reasons for Working for Pay in Retirement**



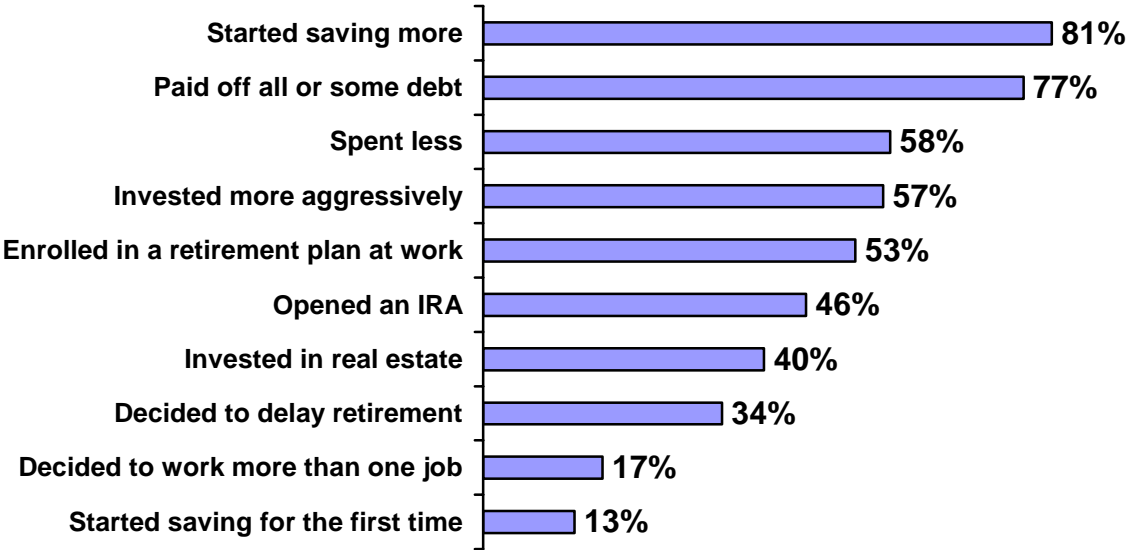
Base: Respondents who have worked for pay after retirement or expect to work for pay after retirement.

Some working households tried to figure out how much money they will need when they retire and changed their retirement planning as a result of attempting the calculation.

Over four in ten (43%) working households tried to figure out how much money they will need to have saved by the time they retire to maintain their standard of living in retirement. Of these working households, over four in ten (44%) made changes in their retirement planning as a result of attempting the calculation. As shown in Figure 4, among working households that attempted the calculation and changed behavior because of it, over eight in ten (81%) started saving more, over seven in ten (77%) paid off at least some of their debt, and over half spent less (58%), invested more aggressively (57%), and/or enrolled in a retirement savings plan at work (53%).

Figure 4: Behavior Changes Due to Calculation of Amount Needed for Retirement

"I would like to read a few changes that some people have made as a result of calculating the amount of money needed for retirement. After I read each one, please let me know if you [& your spouse] made this change as a result of calculating the amount."



Base: Respondents who have tried to figure out the amount of money they will need to have saved by the time they retire and have made changes in their retirement planning as a result of doing so (n=191)

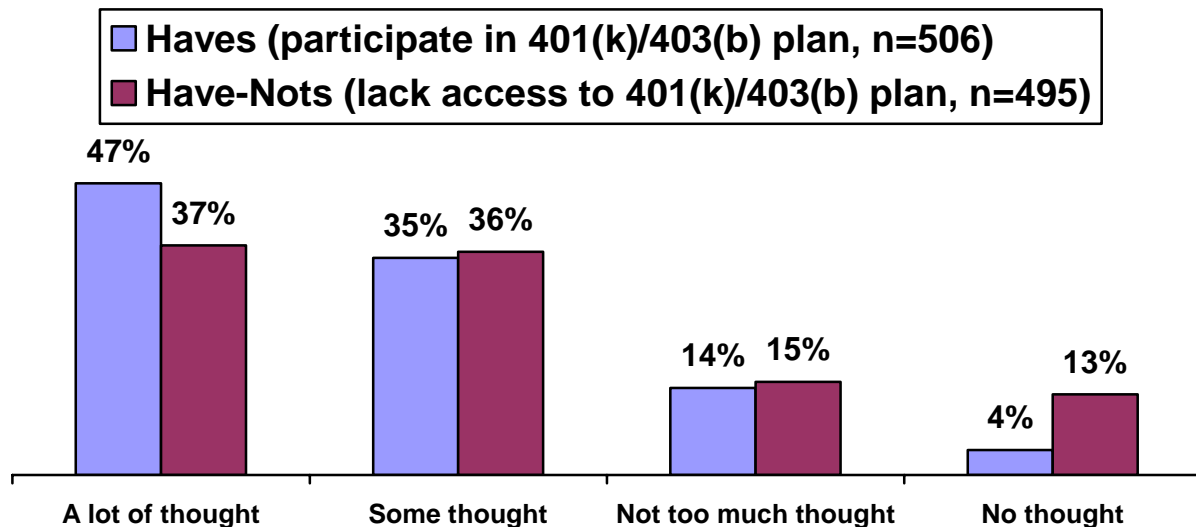
II. Working households that do not have access to a retirement savings plan at work are less prepared for retirement than working households that participate in a 401(k) or 403(b) plan.

Financial decision-makers in working households that lack access to a retirement savings plan at work are less likely than those in working households that participate in a 401(k) or 403(b) plan to have given their retirement at least some thought.

While over three quarters of financial decision-makers in working households (77%) have given their retirement at least some thought, financial decision-makers in working households that lack access to a 401(k) or 403(b) plan are less likely to have given their retirement at least some thought (i.e., some or a lot of thought) than those who participate in a 401(k) or 403(b) plan (72% vs. 82%). As shown in Figure 5, financial decision-makers in working households that lack access are less likely to have given their retirement “a lot of thought” than those who participate in one (37% vs. 47%). They are also more likely to have given their retirement “no thought” at all (13% vs. 4%).

Figure 5: Comparison of Haves’ and Have-Nots’ Thought Given to Retirement

"In thinking about your retirement, would you say you have given your retirement a lot, some, not too much, or no thought at all?"

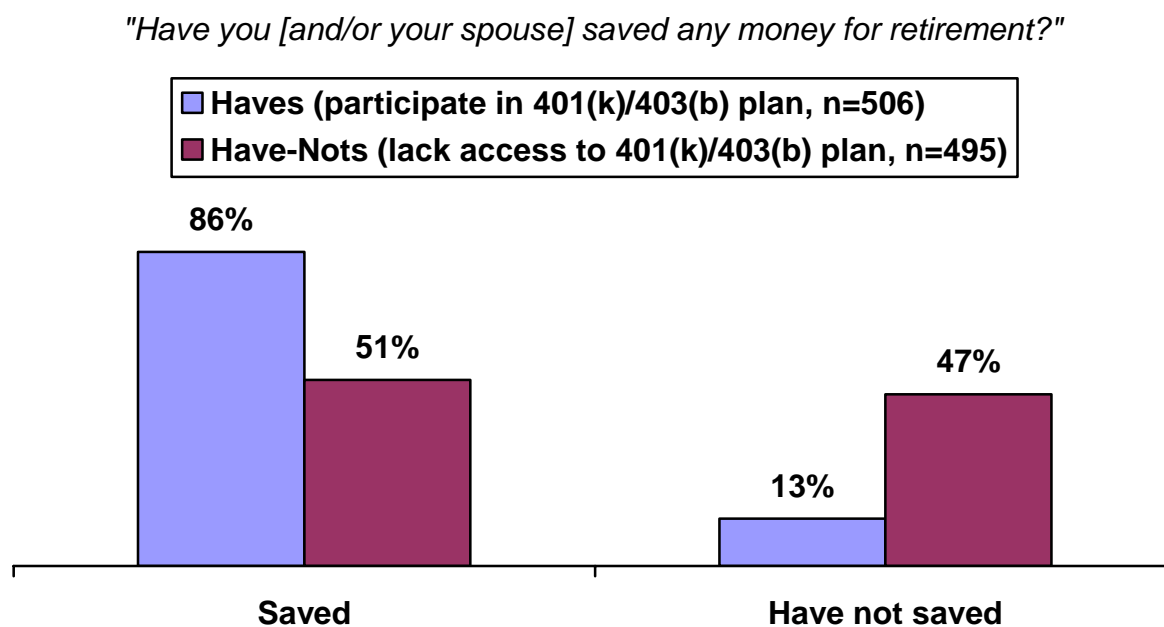


Base: All respondents

Working households that lack access are less likely to have saved for retirement.

Over eight in ten working households (86%) that participate in a 401(k) or 403(b) plan have saved money for retirement, compared with just over five in ten working households (51%) that lack access to a retirement savings plan at work. These statistics are shown in Figure 6.

Figure 6: Comparison of Haves and Have-Nots Saving for Retirement



Base: All respondents

Financial decision-makers in working households that lack access to a retirement savings plan at work and have not saved anything for retirement (n=234) cite the following reasons most often for being unable to save money for retirement:

- Not enough income to allow you to save (84%),
- High everyday expenses (80%),
- Expenses of raising and supporting children, including paying for their education (58%), and
- Health or medical expenses (52%).

Other reasons cited by this group include periods of unemployment (40%), saving for retirement is not a priority (34%), process of saving for retirement is too complicated (21%), expenses of supporting and/or caring for older relatives (17%), and a bad experience with investing or loss of money investing (14%).

Among working households that participate in a 401(k) or 403(b) plan, some are leaving dollars from their employer on the table by not contributing enough to get the full company match. Three quarters of working households (75%) that participate in a 401(k) plan work for an employer that offers a matching contribution. Among these (n=377), more than one in ten working households (13%) do not contribute enough to get the full match.

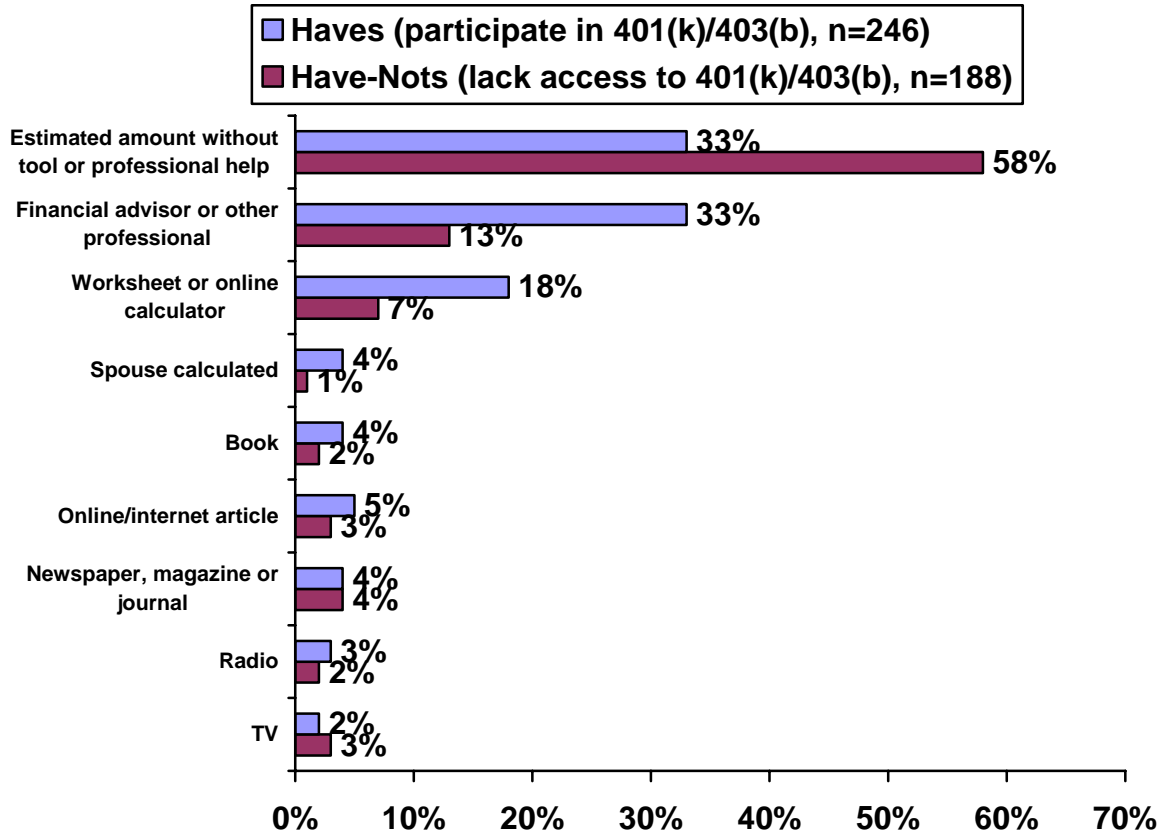
Working households that lack access are less likely to have tried to calculate the amount of money they will need in retirement.

Almost half of working households (49%) that participate in a 401(k) or 403(b) have tried to figure out how much money they will need to have saved by the time they retire so that they can maintain their standard of living in retirement. Fewer than four in ten (38%) working households that lack access to a 401(k) have done so.

Among those who have tried to figure out the amount they will need in retirement, there are some significant differences in how the Haves and Have-Nots tried to determine the amount. As shown in Figure 7, working households that participate in a 401(k) or 403(b) are more likely than those who lack access to “get help from a financial advisor or other professional” (33% versus 13%) and to “use a worksheet or online calculator” (18% versus 7%). Working households that lack access to a retirement savings plan at work are more likely than those who participate in a 401(k) or 403(b) to “estimate the amount on their own, not using a tool or other professional help” (58% versus 33%).

Figure 7: Comparison of Haves' and Have-Nots' Methods Used to Determine Amount Needed for Retirement

"How did you [and your spouse] determine this amount?"



Base: Respondents who tried to figure out how much money they will need to have saved by the time they retire so that they can maintain their standard of living in retirement.

Working households that lack access are less likely to have made changes in their retirement planning as a result of calculating the amount of money they will need.

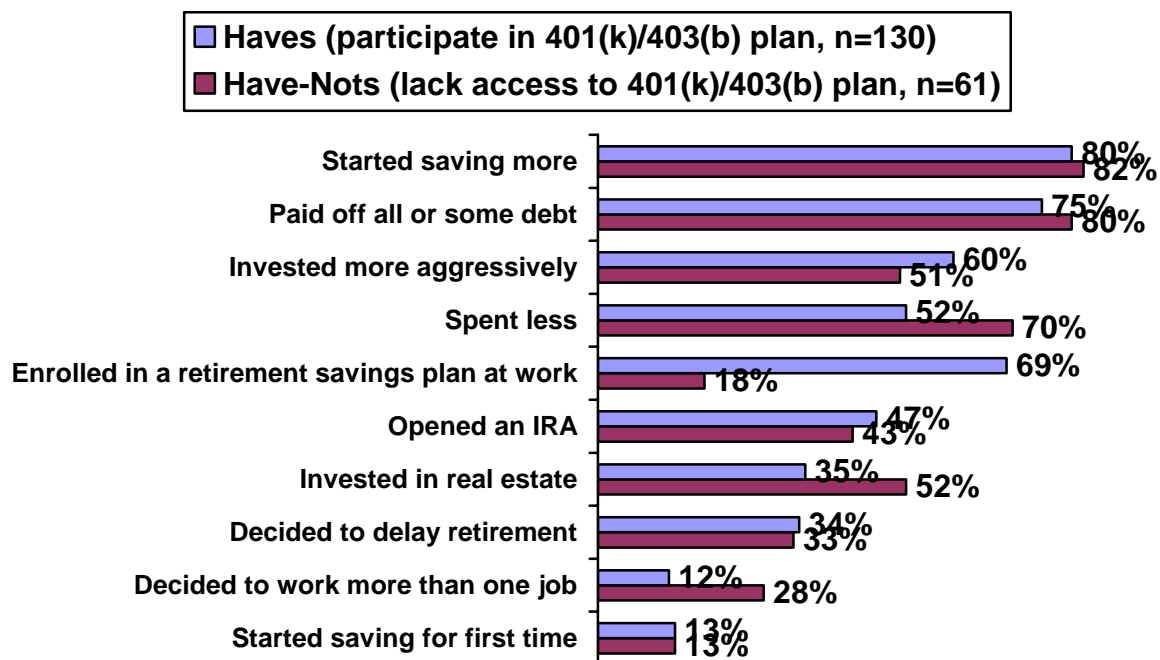
Among working households that tried to figure out how much money they would need to have saved by the time they retire, over half (53%) of working households that participate in a 401(k) or 403(b) plan made changes in their retirement planning as a result of their calculation compared with less than a third (32%) of working households that lack access.

Figure 8 shows changes working households made as a result of calculating the amount of money they will need in retirement among those who made changes.

However, the sample size is too small to make comparisons between changes made by working households with and without access.

Figure 8: Comparison of Haves' and Have-Nots' Behavior Changes Due to Calculation of Amount Needed for Retirement

"I would like to read a few changes that some people have made as a result of calculating the amount of money needed for retirement. After I read each one, please let me know if you [& your spouse] made this change as a result of calculating the amount."



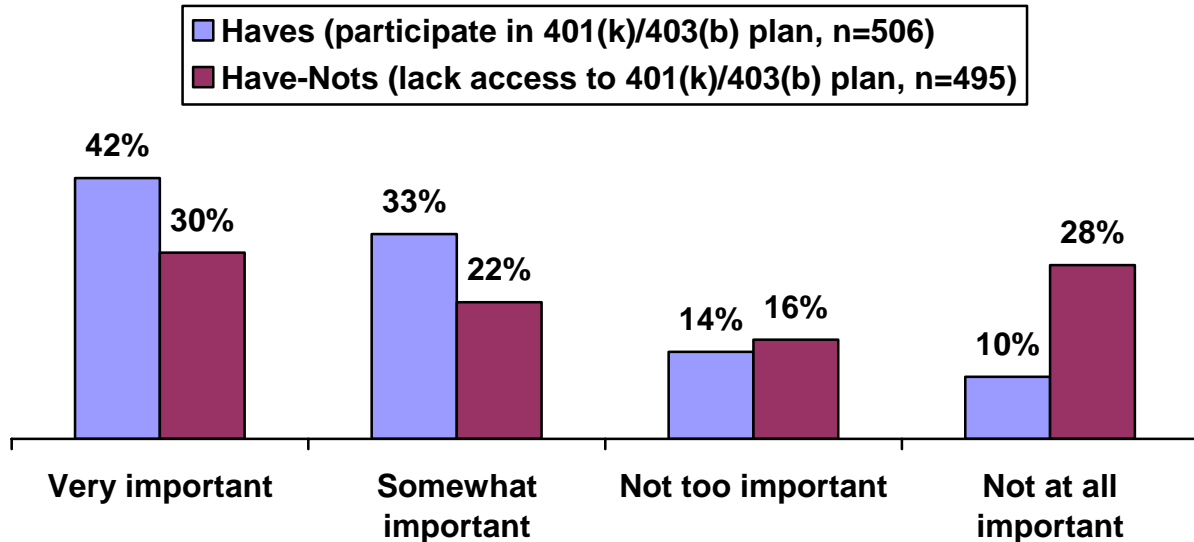
Base: Respondents who tried to figure out how much money they will need to have saved by the time they retire and who have made changes in their retirement planning as a result of doing so.

Financial decision-makers in working households that lack access are less likely to have said retirement benefits are important in their decision about where to work.

As Figure 9 shows, just over half (53%) of financial decision-makers in working households that lack access to a retirement savings plan at work say that retirement benefits are important (somewhat or very) in their decision about where to work, compared with three quarters of those (75%) who participate in one. Not surprisingly, financial decision-makers in working households that lack access were less likely than those in working households that participate to say retirement benefits are “very important” in their decision (30% versus 42%).

Figure 9: Comparison of Haves' and Have-Nots' Importance of Retirement Benefits in Decision About Where to Work

"Would you say that retirement benefits are very, somewhat, not too, or not at all important in your decision about where to work?"



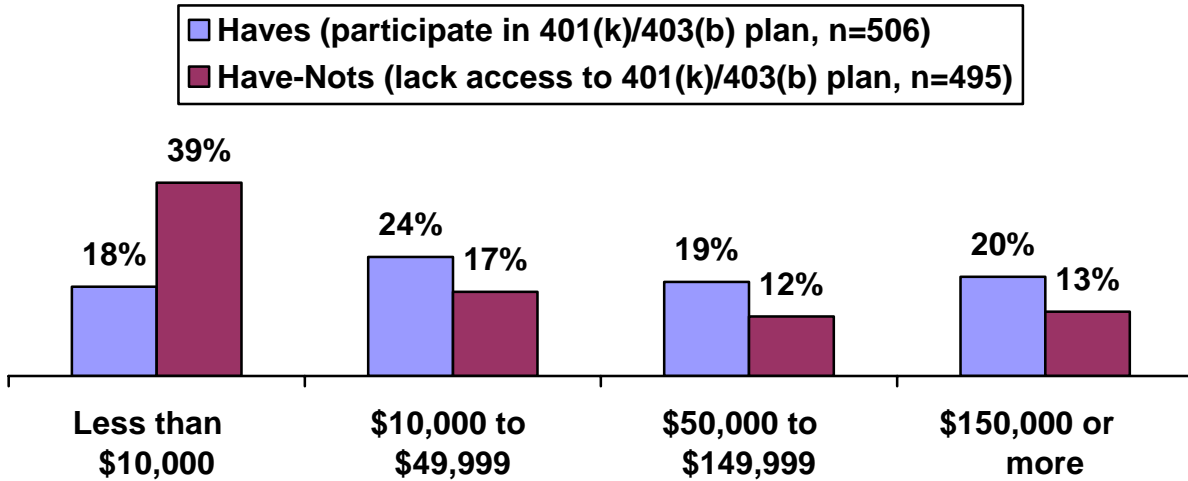
Base: All respondents

Working households that lack access are more likely to have accumulated less than \$10,000 in savings and investments.

Nearly four in ten (39%) working households that lack access to a 401(k) have less than \$10,000 in savings and investments, excluding the value of their home, compared with fewer than two in ten (18%) working households that participate in a 401(k) or 403(b) plan. In fact, almost half (49%) of working households that lack access have less than \$25,000 while less than a third (30%) of working households that participate have this amount. While almost a quarter (24%) of working households without access have at least \$50,000, nearly four in ten working households (39%) that participate in a 401(k) or 403(b) plan have at least that amount. Figure 10 shows the proportion of each group that has various amounts in savings and investments.

Figure 10: Comparison of Haves' and Have-Nots' Amount of Savings and Investments

"As of today, approximately how much money do you [& your spouse] have in savings and investments, not including the value of your home? Include savings, CDs, stocks, bonds, mutual funds, workplace retirement savings plans, & other investments"



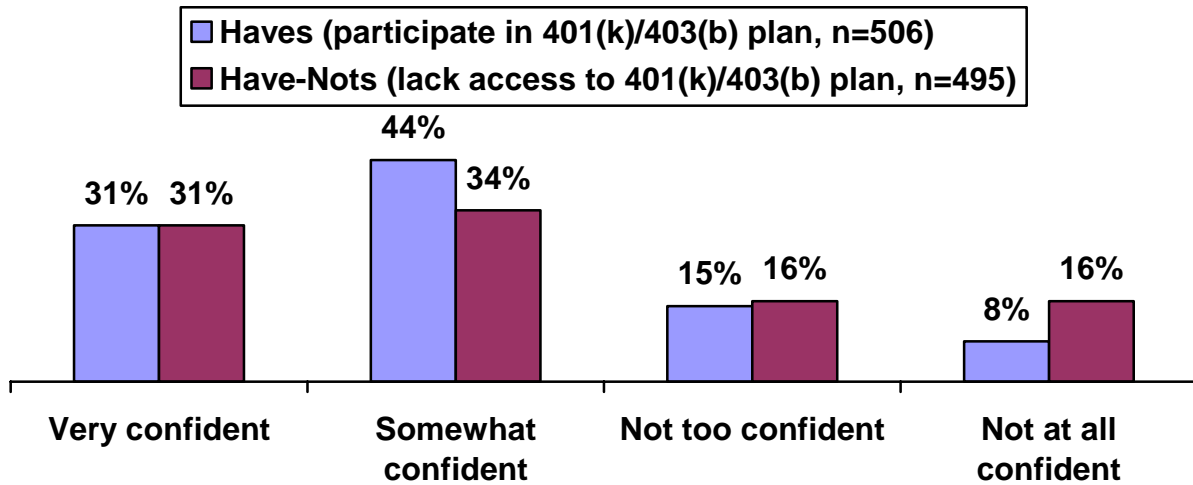
Base: All respondents

Financial decision-makers in working households that lack access are less likely than those in working households that participate to be confident that they know how to determine how much money they need to live comfortably throughout their retirement years.

Three quarters of financial decision-makers in working households that participate (75%) are confident (very or somewhat) that they know how to determine how much money they need to live comfortably throughout their retirement years, compared with over six in ten (64%) financial decision-makers in working households that lack access. Again, financial decision-makers in working households without access are more likely than those who participate to be "not at all confident" (16% versus 8%). Figure 11 shows the distribution of confidence levels for each group.

Figure 11: Comparison of Haves' and Have-Nots' Confidence About Knowing How to Determine Amount of Money Needed in Retirement

"Tell me if you are very, somewhat, not too, or not at all confident that: [My spouse and] I know how to determine how much money [I/we] need to live comfortably throughout [my/our] retirement years."



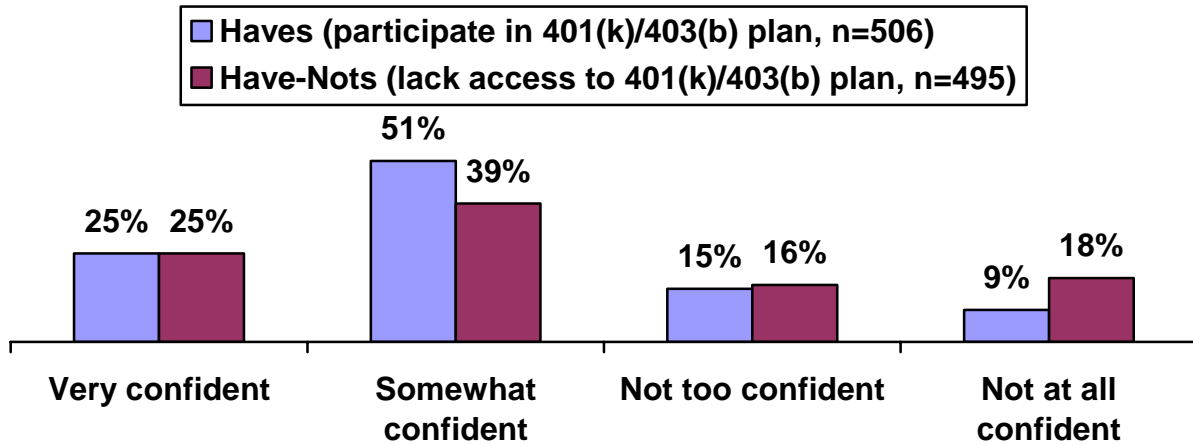
Base: All respondents

Financial decision-makers in working households that lack access are less likely than those in working households that participate to be confident that they will have enough money to live comfortably throughout their retirement years.

While just over six in ten (64%) financial decision-makers in working households that lack access are confident (very or somewhat) they will have enough money to live comfortably throughout their retirement years, this is significantly less than the three quarters of financial decision-makers in working households that participate (75%) that are confident. In addition, those without access are more likely than those who participate to be “not at all confident” (18% versus 9%). Figure 12 shows the distribution of confidence levels for each group.

Figure 12: Comparison of Haves' and Have-Nots' Confidence About Having Enough Money to Live Comfortably in Retirement

"Tell me if you're very, somewhat, not too, or not at all confident that: [My spouse and] I will have enough money to live comfortably throughout [my/our] retirement."



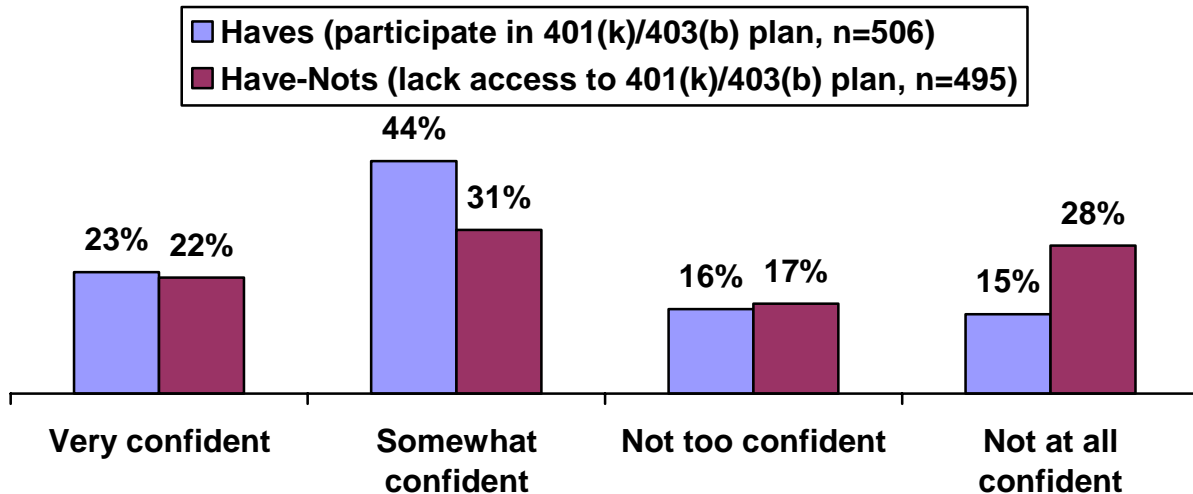
Base: All respondents

Financial decision-makers in working households that lack access are less likely than those in working households that participate to be confident that they will be able to afford to retire when desired.

Nearly seven in ten (68%) financial decision-makers in working households that participate are confident (very or somewhat) that they will be able to afford to retire when they want to, compared with just over half (53%) of financial decision-makers in working households that lack access. In addition, those who lack access are more likely than those who participate to be “not at all confident” that they will be able to afford to retire when they want to (28% versus 15%). Figure 13 shows the distribution of confidence levels for each group.

Figure 13: Comparison of Haves' and Have-Nots' Confidence About Ability to Retire When Desired

"Would you say that you are very, somewhat, not too, or not at all confident that you will be able to retire when you want to?"



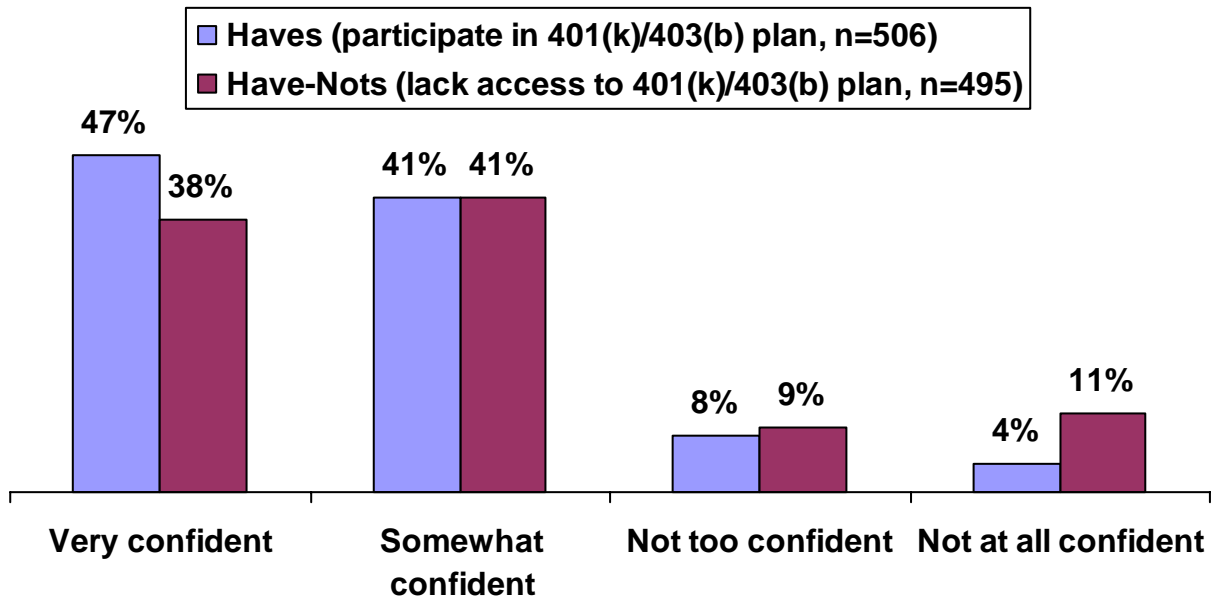
Base: All respondents

Financial decision-makers in working households that lack access are less likely than those in working households that participate to be confident that they will have enough money to take care of their basic expenses during retirement.

Nearly nine in ten (87%) financial decision-makers in working households that participate in a 401(k) or 403(b) plan are confident (very or somewhat) that they will have enough money to take care of their basic expenses during retirement compared with fewer than eight in ten (79%) who lack access to a 401(k) or 403(b) plan. In fact, financial decision-makers in working households that lack access are more likely than those who participate to be “not at all” confident” (4% vs. 11%). Figure 14 shows the distribution of confidence levels for each group.

Figure 14: Comparison of Haves' and Have-Nots' Confidence About Having Enough Money For Basic Living Expenses During Retirement

"Tell me if you're very, somewhat, not too, or not at all confident that: [My spouse and] I will have enough money to take care of [my/our] basic living expenses during [my/our] retirement."



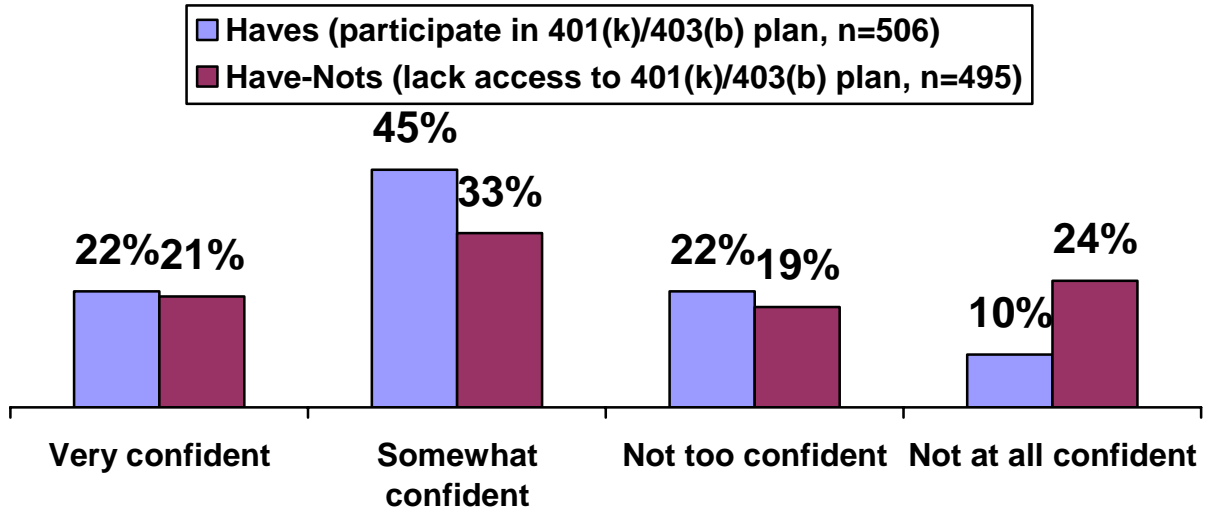
Base: All respondents

Financial decision-makers in working households that lack access are less likely to be confident than those in working households that participate that they will have enough money to take care of their medical expenses during their retirement, such as paying for doctor visits, prescription drugs, or hospital stays.

Just over half (54%) of financial decision-makers in working households that lack access are confident (very or somewhat) that they will have enough money to take care of their medical expenses during their retirement, compared with over six in ten (67%) with access. Those who lack access are more likely than those who participate to be “not at all confident” (24% versus 10%). Figure 15 shows the distribution of confidence levels for each group.

Figure 15: Comparison of Haves' and Have-Nots' Confidence About Having Enough Money to Take Care of Medical Expenses in Retirement

"Tell me if you're very, somewhat, not too, or not at all confident that: [My spouse &] I will have enough money to take care of [my/our] medical expenses during [my/our] retirement, such as paying for doctor visits, prescription drugs, or hospital stays"



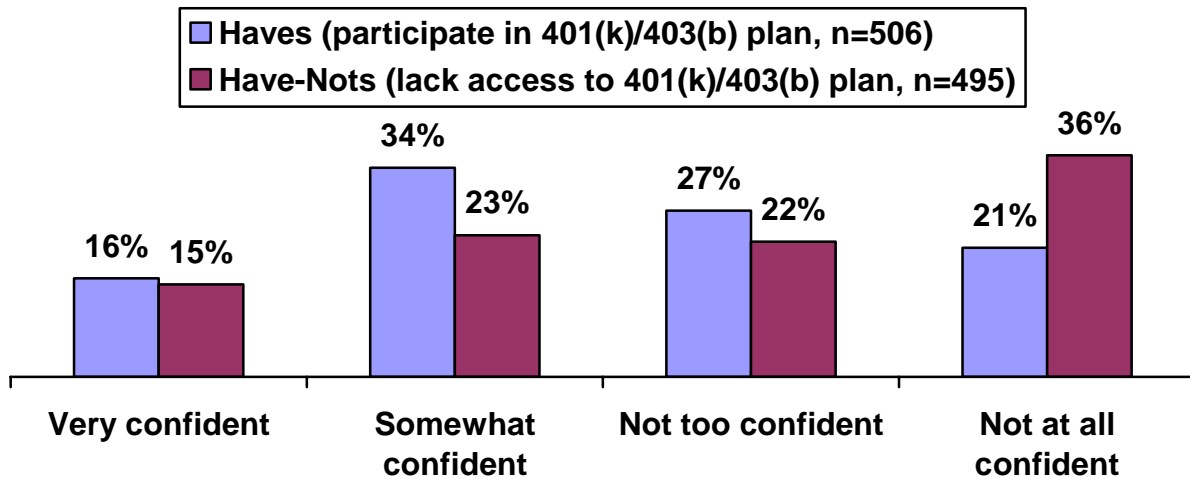
Base: All respondents

Financial decision-makers in working households that lack access are less likely to be confident than those in working households that participate that they will have enough money to pay for long-term care, such as nursing home or home health care, should they need it during their retirement.

Just over a third (38%) of financial decision-makers in working households that lack access are confident (very or somewhat) that they will have enough money to pay for long-term care, compared with half of financial decision-makers in working households that participate (50%). Those who lack access are more likely than those who participate to be “not at all confident” that they will have enough (36% versus 21%). Figure 16 shows the distribution of confidence levels for each group.

Figure 16: Comparison of Haves' and Have-Nots' Confidence About Having Enough Money to Pay for Long-Term Care in Retirement

"Tell me if you're very, somewhat, not too, or not at all confident that: [My spouse and] I will have enough money to pay for long-term care, such as a nursing home or home health care, should [I/we] need it during [my/our] retirement."



Base: All respondents

There are some significant differences between the characteristics of the 401(k)/403(b) Haves and Have-Nots.

Financial decision-makers in working households that lack access to a 401(k) or 403(b) plan are more likely than those who participate in one to:

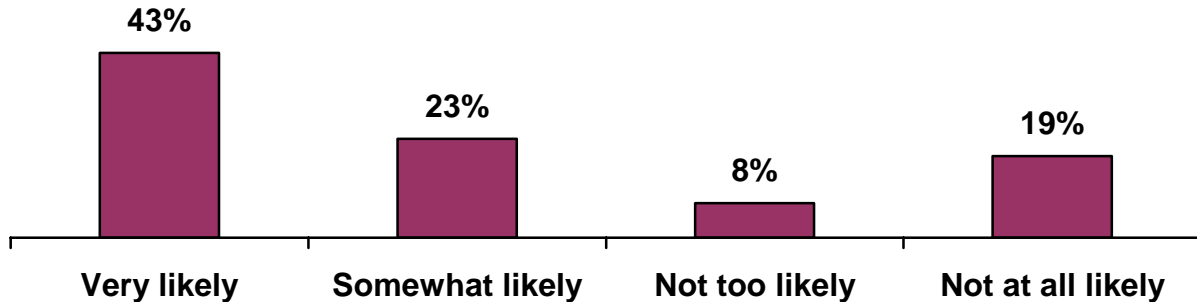
- Be employed part-time (24% vs. 8%)
- Be self-employed or have a spouse who is self-employed (49% vs. 16%)
- Have less than a college education (36% vs. 24%)
- Have total household income of under \$50,000 (55% vs. 36%)
- Be at least 50 years old (47% vs. 37%)
- Rent their residence (27% vs. 19%)

The majority of working households that lack access to a 401(k) plan would participate in one if it were available.

Many working households that lack access to a 401(k) plan recognize the benefits of participating in one. As shown in Figure 17, over six in ten working households (66%) who lack access to a 401(k) plan would be likely (very or somewhat) to participate in a retirement savings plan like a 401(k) if offered by either spouse's employer. In fact, over four in ten working households (43%) would be "very likely" to do so.

**Figure 17: Likelihood of Participation
Among Working Households that Lack Access**

"If you [or your spouse's] employer were to offer a retirement savings plan like a 401(k), would you be very, somewhat, not too, or not at all likely to participate in the plan if the employer did not provide a match?"



Base: Working households that lack access to a 401(k)/403(b) plans (n=495)

III. Additional Research Needs

This study addresses the degree to which working households that lack access to a 401(k) or 403(b) plan and working households that participate in a 401(k) or 403(b) plan are prepared for retirement. Additional research that explores the preparation of workers who have access to a defined contribution plan but choose not to participate would help complete the landscape of retirement preparation in the absence of defined benefit plans. Since this group stands to gain the most from automatic 401(k) features, it is especially important to understand their behavior and attitudes. It would also be useful to understand the degree to which workers who lack a defined benefit plan have thought about how to guarantee a stream of income throughout their retirement.

IV. Appendix: Methodology

Harris Interactive Inc. conducted the telephone survey on behalf of AARP. A random sample of the U.S. population was selected through the Random Digit Dialing (RDD) process. Qualified respondents were:

- Employed and/or have a spouse who is employed in the private sector,
- U.S. resident and 21-70 years old,
- Never participated in a defined benefit retirement plan, nor did their spouse, and
- Primary or shared-decision maker regarding financial decision in the household.

Sample quotas were set at 550 for respondents who lack access to a 401(k) plan through their employer or their spouse's employer ("No Access" group) and 550 for respondents who participate in a 401(k) plan through their employer or their spouse's employer ("Access and Participate" group). However, there were programming errors in the initial data collection phase which caused the interviewers to skip the screening question that established if the respondent (or their spouse) ever had a defined benefit plan. This error affected most, but not all respondents. Because of the programming errors, two additional data collection phases were needed: one to "re-contact" previous respondents (to identify if they or their spouse ever had access to a defined benefit or pension plan) and another to complete new interviews. The following chart shows the number of completed interviews in each data collection phase.

Qualified Completes

	Initial Data Collection Phase 11/06-1/07	Re-contact Data Collection Phase 2/07	New Data Collection Phase 3/07	Total
Total	177	344	480	1001
No Access	0	186	309	495
Access and Participates	150	144	212	506

Incidence rate is the percentage of the general population that fits the criteria for the population of interest. The incidence was 6% for the "no access" group and 10% for the "access and participates" group.

Interviews averaged 15 minutes in length. The margin of sampling error for the entire sample of 1001 respondents is +/- 3.1%. The margin of sampling error for the "no access" sample of 495 respondents is +/- 4.4% and it is also +/- 4.4% for the "access and participates" sample of 506 respondents.

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