

A new model for retirement education and counseling

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Abstract

Many research studies have illustrated that Americans are not adequately planning for their retirement futures and not taking advantage of the retirement programs being made available to them at their worksite. This paper combines original research conducted by the International Foundation for Retirement Education (InFRE) as part of the InFRE Retirement Readiness Project with other studies that have been conducted over the past few years to examine the current state of retirement readiness and why workers' perceptions about their retirement futures generally do not match their actions. The conclusions from this research suggest changes to employer-sponsored Section 457, 401(k), and 403(b) plans to enhance education and counseling services to address total retirement well-being. The research also suggests modifications to the retirement plan design to simplify and automate enrollment, investment strategies, and distribution choices that can provide income over the participants retirement lifetime. © 2008 Academy of Financial Services. All rights reserved.

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1. Introduction

The retirement crisis in America is growing. Studies are continuing to show that, on average, we are not adequately planning and preparing for our golden years. Employer funded benefits, such as defined benefit plans and retiree health care, are being reduced, replaced, or even eliminated as more responsibility to be financially prepared for retirement has shifted to employees.

Of immediate concern is the baby boom generation that is just beginning to enter retirement age. Various studies suggest that this population is far from financially prepared for this life phase, particularly considering the new challenges they, as well as future

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generations, may face that make their future even more uncertain. These challenges include the potential risks that make the adequacy of retirement planning efforts even more questionable, such as:

- Increased health care costs
- Solvency of the social security system
- Personal longevity and making money last
- Market volatility and its impact on distributions
- Uncertainties and expectations about working in retirement
- Potential financial and emotional support of aging parents, children, and/or grandchildren

This paper examines recent surveys and reports along with original research conducted by International Foundation for Retirement Education (InFRE) as part of the InFRE Retirement Readiness Project to suggest ways that employer-sponsored retirement savings plans, specifically Section 457, 401(k), and 403(b) plans, can be more effective in helping employees plan and prepare for their future retirements.

2. Background: The retirement crisis

2.1. Problem one: Perception doesn't match reality of actions

There has been considerable research over the past few years that illustrate workers are not adequately planning for their financial futures in retirement. One effort that has been conducted by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates on an annual basis over the past eighteen years is the Retirement Confidence Survey. This survey explores worker perceptions and attitudes about their future years and what they are doing, or not doing, to prepare for retirement. It also compares these attitudes and actions to the reality of retirement as identified by current retirees.

The findings of these surveys have consistently shown that workers are optimistic about being able to finance their retirement even though few have taken adequate steps to plan for these years. Workers also appear to underestimate future need when compared to the responses of retirees as to their financial requirements for a comfortable retirement. An examination of the findings from past Retirement Confidence Surveys illustrates the problem of perceptions not matching the reality of actions.

First, let's explore perceptions. The Retirement Confidence Surveys have consistently shown that more than 60% of workers are very to somewhat confident about their financial futures throughout retirement. In the 2008 report,¹ a slight downward trend was identified in workers being *very confident*, from 27% in 2007 to only 18% in 2008. This likely can be attributed to current economic issues and the escalating cost of health care. The survey has consistently shown, however, that more than four in 10 workers are *somewhat confident* about having enough money for retirement (44% in 2006, 43% in 2007, and 43% in 2008).

In regard to their future financial need, workers' perceptions do not match retirees' experience in regard to how much income will be necessary to support their retirement

Percentage of Pre-retirement Income*		
	Workers Expectations	Retirees Current Income
Lower / don't know %	NA	6%
Less than 50%	14%	17%
50% to 70%	36%	13%
70% to 85%	28%	6%
85% to 95%	7%	1%
95% to 105%	6%	34%
105% or more	6%	21%

* Percentages do not total 100 as this table only illustrates the responses providing a percentage answer and does not include the don't know or refused responses.

Fig. 1. Percentage of preretirement income.

lifestyle. According to the 2006 survey, half of workers (50%) thought they would need 70% or less of their preretirement income to live comfortably in retirement and only about one in 10 (12%) believed they would need 95% or more. When this is compared to the amount of income that retirees stated they currently had in retirement to support a comfortable lifestyle, the discrepancies are evident as only about one-third (36%) said they lived on 70% or less of their preretirement income while more than half (55%) stated they lived on 95% or more of this amount (see Fig. 1)

In 2008, the question of pre and post retirement spending was framed differently but had a similar outcome. Fifty-eight percentage of workers stated they expected their post retirement income to be much or a little lower than preretirement spending whereas only 45% of retirees provided this response. More than half of retirees (52%) stated their spending was the same or higher, which is an expectation of only 41% of workers.

Another retirement perception that appears to be overly optimistic pertains to employer-provided benefits. Even though there are frequent reports about pensions and retiree health care benefits being reduced or eliminated, few workers appear to relate this to their personal situation and how it could impact their retirement futures. In the 2008 survey, 59% of workers stated they expected to receive retirement income from a defined benefit plan or traditional pension, whereas only 53% of current retirees said they received income from this source. In addition, only 41% of workers acknowledged that they (or their spouse) currently have this type of benefit from their employer and 13% believe they will receive this from a future employer.

In regard to employer-provided retiree health insurance, the 2008 survey found that 34% (down from 41% in 2007) expect to receive this when they retire, compared to 41% of retirees who have this coverage. The future of this retiree benefit, however, is less than certain as the cost continues to rise and new financial reporting rules are requiring employers to provide a full accounting of current and future liabilities. As a result, many employers have indicated they intend to eliminate or greatly reduce this benefit for future retirees.

Although the overall worker perceptions may be slightly less rosy this year, the EBRI surveys demonstrate that many continue to be optimistic about having sufficient money for a comfortable retirement in the future. However, do their actions demonstrate that they have accepted the responsibility for this, or are they merely hoping to win the lottery before they

retire? Based on the findings from the Retirement Confidence Surveys (the latest 2008 survey unless otherwise noted), the answer appears to be that many are counting on winning the lottery. For instance:

- Less than half (46%) of all workers participate in an employer-sponsored savings plan (77% of those eligible to participate) and only 40% have an IRA.
- About three quarters of workers expect to fund their retirement, all or part, from income from an employer-sponsored retirement savings plan, such as a 401(k) (74%) and/or personal savings or investments (73%).
- Although almost three-quarters of workers (70% in 2006, 66% in 2007, 72% in 2008) say they have saved something for retirement, over a third of these workers (39% in 2006, 35% in 2007, 36% in 2008) have total savings, retirement plus other, of less than \$10,000. Those identifying total savings of \$250,000 or more represent only about one in 10 workers (12% in 2006, 14% in 2007, 12% in 2008).
- Although an improving trend over the past few years, more than half of workers (58% in 2006, 57% in 2007, 53% in 2008) still have not tried to calculate how much income they will need for a comfortable retirement. In 2008, the largest percentage of those that attempted to determine their need stated they used their own estimate (35%) or asked a financial advisor (33%). Also in 2008, over half (51%) of all workers, whether stating they calculated their retirement financial need or not, noted that they arrived at this number by guessing.

Recognizing that the responsibility for retirement income is shifting from employer benefits to workers, there has been an increased emphasis at the worksite to provide additional services to help workers plan for their financial future in retirement. This includes offering investment advice and on-line planning tools as part of a participant-directed defined contribution plan. The Retirement Confidence Surveys offer insights as to how some of these services are viewed by workers and their potential effectiveness.

- Investment advice: In the 2007 survey, over half (54%) of workers said they would be very to somewhat likely to take advantage of advice offered through the worksite at a modest cost. Of those using this service, 66% indicated they would only act on recommendations they felt were in line with their own ideas, 20% noted they would likely implement all recommendations that they received as long as they trusted the source and 11% said they would likely implement none of the recommendations.
- Retirement calculator: In the 2008 survey, workers appeared to prefer more complex retirement calculators over easier, more generic versions. Fifty-six percent of workers stated they preferred a calculator that asked for seven to 10 pieces of information to provide an answer to fit their personal situation, compared to 31% that prefer a tool that asks for three to four pieces of information to provide an answer that fits a certain category of workers. The survey also showed that 72% prefer a calculator that gives a range of answers based on different scenarios compared to 23% that preferred a tool that offers a single answer based on the most likely scenario.

The common theme that continues to be demonstrated in studies looking at how workers save and invest for retirement, including the Retirement Confidence Surveys, is that workers

are failing to take timely and appropriate actions to plan for their financial future. Considering the increased attention being placed on education and guidance services as part of an employer's benefits package, the next step in examining the retirement crisis is to review the effectiveness of these programs in changing employees' behavior in regard to their retirement planning.

2.2. Problem two: Retirement education message

As retirement plan sponsors, administrators and educators, we must ask ourselves what needs to be done to help workers better prepare for their retirement. Why aren't employees taking actions that will lead to their financial security after work ends? Are they just not interested or is the education they are receiving not effective?

When you look closer at this issue, however, it may be that employees are not interested in taking actions because the education they are receiving isn't focused on the right message or provided effectively and in a medium they are comfortable using.

In regard to the message, most retirement education today is structured to inform workers that it is their responsibility to financially prepare for retirement and provide information on the "how-to's" of establishing an investment plan. However, where education comes up short is helping workers understand what it means to plan and prepare for their retirement lifetime.

Retirement educators often try to motivate workers to save and invest by using a comparison between retirement and vacation planning and the amount of time that is spent on each. However, has anyone actually examined why people generally spend more time planning their one or two weeks of vacation than they do the 20 or 30 years or more that they will likely have in retirement?

The reason may be as simple as people spend time planning vacation because they know exactly what they are planning for and can visualize an immediate, attainable goal. They know where they are going; when they will get there; how long they will be on vacation; what they will be doing; and so on. People recognize that to have fun and do everything that is desired for the one or two weeks of vacation, planning is critical to avoid running out of money.

However, when it comes to retirement, few workers have given much thought to what they really want to do when they reach this life phase. For example, when you ask those nearing the end of their full-time career what plans they have for their retirement lifetime, often the response is "I don't know – I'll figure it out when I get there. I'm just looking forward to not going to work everyday." With this type of response, it's easy to see why worker perspectives of their retirement futures may be unrealistic and why planning is a problem.

Considering the fact that retirement is no longer a single event and is now recognized as a life stage that can last decades, retirement education needs to be refocused to go beyond instructions on "how to" save and invest for the future and include information about the "why, when, where and what" that will make up a retirement lifetime. When workers have a general idea of what they would like to do, where they want to live, how they are going to approach life to stay healthy and so on for their entire retirement life stage, and are also able to identify how much of this can be supported through guaranteed income sources (such as pensions, Social Security, and income annuities), they will be better able to calculate how

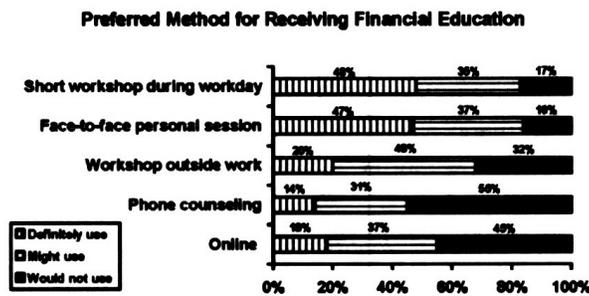


Fig. 2. Preferred method for receiving financial education.

much they need to accumulate on their own in their retirement account. This may encourage them to put as much or more effort into planning for retirement as they do vacations.

2.3. Problem three: Presentation and delivery method

It is more than just changing the educational message that is needed to alter behaviors so employees are better prepared for retirement. How it is presented and tailored to the audience also needs to be examined.

In regard to how it is presented, research shows that worker preferences are varied but personal interaction is most often the medium of choice to receive retirement and financial education. For instance, research discussed in the 2006 report “Trends in Public Sector Retirement Plans” from the Nationwide Retirement Education Institute,² found that workers preferred short workshops during the work day and face-to-face one-on-one counseling for retirement and financial education (see Fig. 2).

How the educational message is tailored to the audience was the topic of another study documented in a 2003 report “*Adult Learning Principles and Pension Participant Behavior*.”³ The report’s authors suggest that to influence behaviors and produce the desired results, the educational message should be established following five principles of adult learning identified as:

- Assess – determine needs and develop a plan of action
- Gain interest – introduce key points of learning and action
- Educate – deepen understanding
- Reinforce – solidify learning and action steps
- Measure – determine results from the affected audience (participant/plan sponsor)

This research examined two case studies that applied these principles and produced positive behavior changes in plan participants to provide them with a better chance at a financially secure retirement. In the first case study, a new approach was established in the call center, referred to as the “Consultive Approach.” Instead of making call volume a priority, call center staff were trained to apply a three-step process to each call to: assess–listen and learn from the caller about their situation; educate–engage in dialogue to inform and instruct; and influence–encourage actions and decisions.

The research demonstrated that the Consultive Approach allowed call center staff to

proactively engage in conversation with participants to educate them about retirement investing instead of merely reacting to requests. This approach resulted in substantial increases to annual deferrals into the plan. The cost associated with this new model was offset by the asset fees received on higher participant account balances. Also, because call center staff were more challenged and satisfied in their job as a result of their increased role in providing consulting services, it led to less employee turnover and a more productive team environment that ultimately reduced staffing costs.

In the second case study, an employer integrated adult learning principles into all of their education and communication programs. These programs were customized for the audience—reflecting their different backgrounds, interests and life stage—and put in place for six to 12 week periods to focus on specific goals, such as enrolling, maximizing savings, diversifying, consolidating assets, and so forth. They were established to be consistent and fully integrated among all communication platforms including print (e.g., e-mails and statements), informational resources (e.g., call center and Web site), and educational activities (e.g., workshops). Activities and events were planned to reinforce the message and illustrate how the information pertained to participants' individual retirement situations.

After each program, an assessment was made regarding its effectiveness in meeting participant needs. This review was then considered before a new program began. This cycle of assessing needs and measuring effectiveness was identified as a critical component of incorporating adult learning principles into the plan's education and communication program. Although the comparison sample from this second case study was small, the initiatives that were developed based on the adult learning principles were shown to be effective in influencing participant behavior, such as through significantly increasing contributions.

2.4. Problem four: Managing income to last throughout retirement

Helping workers accumulate assets through employer sponsored retirement programs is not enough to address the retirement crisis that we are facing today and tomorrow. As more responsibility for retirement income is shifted from guaranteed income sources (i.e., traditional pensions and employer-funded retiree health insurance) to self-managed assets within 457, 403(b), and 401(k) plans, more needs to be done to help workers with the de-accumulation phase of retirement planning.

Two primary risks retirees face when managing retirement income are inflation and longevity risk. In regard to inflation, research shows that few workers and retirees understand how inflation can eat away at their purchasing power during retirement if investment earnings don't keep pace with cost of living increases. As workers near and enter retirement, many move all or most of their assets into safer investments such as bank products, money market accounts, GICs, or stable value funds without recognizing the impact potentially lower earnings can have on retiree income and their ability to handle future expenses. Studies demonstrate that this approach can increase the probability of a retiree running out of money sooner than expected, as inflated prices will increase the rate retirees liquidate their accumulated assets.

Longevity risk is another factor that is often overlooked or misunderstood when establishing a distribution approach. Without an understanding of how many years money needs

to last, there is a risk that either the money will run out too soon, or the retiree underconsumes and foregoes a standard of living they would otherwise be able to enjoy.

Research examining the issue of managing money in retirement was documented in a report released by New York Life Insurance Company entitled “The Retirement Income Challenge.”⁴ This report discussed a survey that was conducted in 2006 with individuals over age 40 to explore how accumulated assets would be used in retirement. When asked how much money could be withdrawn from their retirement account each year to be “safe” that the account would not be depleted during their lifetime, 28% thought they could withdraw 10% of their account balance, 19% identified a withdrawal rate of 5% to 9% and 40% said they didn’t know. Only 10% selected a withdrawal rate of 5% or less, a level most experts have identified to be reasonable for money to last throughout retirement.

Another survey that was conducted by The Spectrum Group and reported in an article entitled “Participants Clueless about Retirement Income Options”⁵ found that few retirement plan participants (less than 20%) were familiar with the type of products that can provide a guaranteed stream of income for their retirement. After defining four distribution alternatives:

- 45% would seriously consider systematic withdrawals
- 30% would consider laddering CDs
- 24% would consider an immediate pay annuity
- 22% would consider using a structured bond portfolio

Next, the respondents were provided a statement of the drawbacks to each of the four distribution options. This resulted in a reduction of one-third or more to the percentage that would consider any of the four options and more than half of the participants not selecting any of these choices as something they would seriously consider. This research, as well as other studies that have recently been conducted, point to a need for employers and plan sponsors to provide employees with enhanced education and products to help them with their retirement income decisions.

3. The InFRE Retirement Readiness Project

3.1. Background and scope

Looking at a new approach to the retirement education message and how it is tailored and delivered to employees is where research that was conducted by the InFRE begins. The InFRE Retirement Readiness Project was contracted by the Federal government, Office of Personnel Management, to establish a comprehensive profile of retirement readiness for their workforce as well as to create a tool to measure employee preparedness. This project scope also included developing an effective education message and delivery approach based on adult learning principles to help employees prepare for their total retirement lifetime.

As more is learned about retirement planning, it is becoming increasingly apparent that the educational message needs to be about more than just money and accumulating assets. The research conducted by InFRE suggests that when employees recognize and take actions to

plan for their retirement lifetime (what they will do, how they will live, etc.), their financial preparations also improve.

Most people would agree that the goal for a successful retirement is to be happy, healthy and financially secure. The problem is that retirement education (as well as most research) has only focused on the financial side, without much discussion or examination of the happiness and health components. Without knowing what it will take to be happy in retirement (desired lifestyle) and the health that may be expected (good or bad), calculating future income need is really nothing more than a guess. As a result, few workers actually attempt a savings needs calculation. Instead, they take an approach to save what they think they can afford, and then hope for the best.

To address this shortcoming, the InFRE project was designed to broaden the topic of retirement planning and help workers, employers and the retirement industry recognize that planning should take into consideration what it really means to be:

- *Happy and engaged*: What are workers' life plans for retirement? What type of activities are they planning for? Will their lifestyle include some form of work or volunteering? Do they have a network of friends outside of work? Will they relocate, or stay where they are? If applicable, does the spouse or partner have the same retirement goals and dreams?
- *Healthy*: Do workers recognize and understand their potential personal longevity and that of their spouse? Are they maintaining good health habits to remain active in retirement? Have they considered their personal health situation in relation to their retirement life span and the number of years their money will likely need to last?
- *Financially secure*: Are workers adequately planning to support the lifestyle they want throughout retirement? Have they established realistic income goals for their future and considered potential risks to their income that can negatively affect their retirement years? Do they understand how much of their income is guaranteed to be there for their lifetime and can they really afford to retire as soon as they want?

As part of this project, the InFRE Retirement Readiness Profile was designed to provide a qualitative measurement that considers the above three dimensions of total retirement well-being to evaluate the actions and attitudes that workers have about their planning efforts and retirement futures. In addition, the Profile is designed to raise awareness of issues that may not otherwise be considered when planning for retirement.

3.2. *Research process*

The profile was created with the help of a group of 30 plus experts in the fields of retirement, financial planning, and adult learning. This team was assembled to identify what it really means to be ready for retirement and assist in the development of the retirement readiness profile.

In recognition that the level and type of planning that should be undertaken is dependent on how many years employees have before their expected retirement date, the panel determined that three separate profiles were needed based on the following:

- Early career: at least 25 years until retirement
- Mid career: 10 to 24 years until retirement
- Late career: less than 10 years before retirement

The panel also identified that, although a certain level of planning for total retirement well-being should occur at each of the three career stages, the focus needs to shift away from financial planning to concentrate more on health and engagement issues as retirement nears. Therefore, the early and mid career profiles are more heavily weighted to reflect a greater importance on the financial aspects of retirement planning, while there is a greater emphasis on health and engagement planning for late career workers.

3.3. Retirement readiness profile questionnaire

The InFRE Retirement Readiness Profile is formulated from responses to a survey consisting of approximately 50 questions that workers complete based on their personal situation and the planning steps they have taken for retirement. The answers to this questionnaire are evaluated and scored based on InFRE's panel of expert's determination of how planning should be proceeding for the individuals' specific career stage (early, mid or late). This data provides a comprehensive profile of the workers' state of retirement readiness, with an assessment of being "on-track" for a successful retirement meaning that the profile results are between 80% and 100% of where experts say the worker should be for his or her career stage.

The InFRE Retirement Readiness Profile and the complimenting education materials are designed to meet the needs of multiple audiences—workers, employers, and plan providers. The goal is to provide a new approach to education and counseling services—including a diagnostic tool to measure success—to motivate employees in all career stages to prepare for their total retirement well-being, leading to improved financial security throughout retirement years.

- From the employees' perspective: the Profile provides a method to identify how well they are currently planning for retirement—as compared to where experts say they should be—and increase their awareness of issues that should be considered to successfully prepare for total retirement well-being.
- From the employers' perspective: the Profile provides an aggregate assessment of their workforce to determine where future education/guidance should be targeted and a method to monitor and evaluate the effectiveness of their efforts.
- From the plan providers' perspective: the Profile offers a tool that identifies employees' retirement planning steps and knowledge gaps to help customer service staff and retirement counselors be more effective and productive in face-to-face or over-the-phone encounters to motivate employees to take appropriate actions.

4. The InFRE general population retirement readiness survey

4.1. Research process and data

As part of the InFRE project, a survey of American workers was conducted to test the InFRE Retirement Readiness Profile and evaluate how well workers are currently planning

for retirement. InFRE contracted with Mathew Greenwald & Associates to conduct this survey, which took place via the Internet from January 3rd to 12th, 2007. A total of 20,154 invitations were sent via e-mail and 1,008 usable responses were received for a response rate of 5%. Only individuals who were at least 25 years old and not yet retired were considered in the survey responses. The full survey report can be found at www.infre.org

The InFRE survey was prepared based on the work of the panel of experts to explore the three dimensions of planning—happiness, health, and wealth—for workers in each of the three career stages—early, mid, and late. This is the first time that qualitative measures have been applied across multiple dimensions that consider both attitudes and actions about retirement planning.

In regard to how well workers were financially preparing for this life phase, the InFRE findings were consistent with other research efforts as it demonstrated that the majority of workers are far from prepared regardless of where they are in their career. However, because it is multidimensional, this effort was also able to evaluate the interactions of the three components of total retirement well-being and found that there is a correlation between planning for happiness and health in retirement and planning for financial security.

The results of the survey illustrate the state of retirement preparedness of the American workforce based on the InFRE Retirement Readiness Profile and support the earlier discussion of why it is important to address total retirement well-being in education and guidance programs.

4.2. Findings: Planning for happiness

Currently, happiness in retirement is rarely planned for and generally left to chance. However, when you consider retirement as a life stage—not an event, and something that will last decades—not just years, the importance of preparing for a lifestyle that will be fulfilling becomes clearer.

To examine how well workers are planning for “happiness” in retirement, the InFRE survey explored the following topics:

- Retirement age (when worker and spouse expect to retire)
- Planning for activities and challenges in retirement
- Finding meaning and fulfillment outside of work
- Forming social networks beyond co-workers
- Discussing retirement plans and finances with spouse or partner
- Retirement location (where retiree intends to live)

The survey results showed that few workers have given much thought to the above issues and how they may affect their retirement lifestyle. In fact, almost nine in 10 (87%) said they have few or no plans as follows: 32% have some plans but are mostly just looking forward to more leisure time; 29% haven’t really thought about it but are looking forward to no longer working; 26% aren’t sure or don’t know what they will be doing. Only one in 10 (13%) have made many plans and, when you look at late career workers, this only increases slightly to three in 20 (16%).

Most people will need something more than leisure activities to be truly happy and fulfilled in retirement. However, few workers are preparing for this as less than two in 10 (19%)—including less than three in 10 (29%) in their late career—have planned a great deal or a lot for what they will do in retirement to remain challenged and engaged.

Workers are thinking slightly more about where they intend to live in retirement than what they will be doing, as about one-quarter (26%) of all workers and four in 10 (41%) of those in their late career have given their retirement location a great deal to a lot of thought. More than four in 10 workers (42%)—two in 10 in their late career (20%)—have given where they would like to live in retirement only a little or no thought.

When it comes to married workers, few are communicating and agreeing on retirement plans with their spouse or partner. About half of workers said they have discussed retirement plans and how to finance them with their spouse a little (25%) or not at all (23%). When late career workers are examined, only three in 10 (32%) noted they discussed retirement plans a great deal or a lot with their spouse, whereas almost four in 10 (37%) said they discussed plans some, and three in 10 discussed this only a little (23%) or not at all (9%).

When retirement lifestyle is being considered, developing or retaining social networks outside of work is also important to retiree happiness. One of the positive findings of the survey is that half (51%) of workers, which is the same for those in their late career (50%), said 75% or more of their close friendships are outside of work. However, three in 10 (30% for all workers, 29% for late career) said 25% or less of their close friendships are outside of work. For these workers, it may be important for them to begin developing new friendships and associations, particularly as they get closer to retirement. However, few workers (18% for both all and late career) noted they are focusing a great deal or a lot of attention on building new friendships outside of work.

The results of the general population survey in regard to planning for happiness and engagement in retirement were compiled based on the InFRE Retirement Readiness Profile and are graphically shown in the table and pie charts Figs. 3 to 6. The profile shows only one-quarter of total workers (26%) as being on-track in preparing to be happy and engaged in retirement. Whereas the profile has been developed to place a greater emphasis on lifestyle issues for those closer to retirement, it is the early career workers who received a greater percentage of the happiness and engagement points than those in the other peer segments. This is particularly concerning for late career workers as less than one in 20 (4%) were identified as on-track.

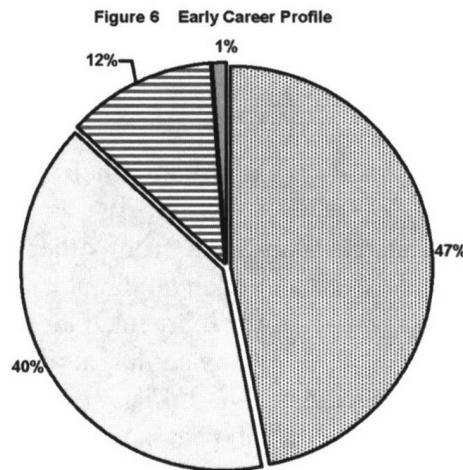
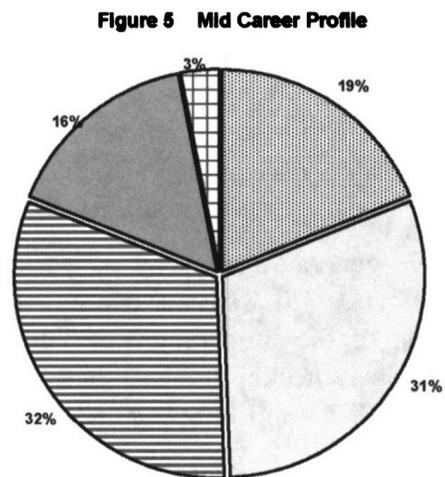
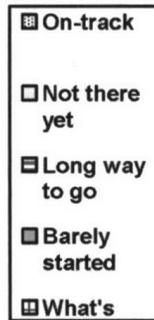
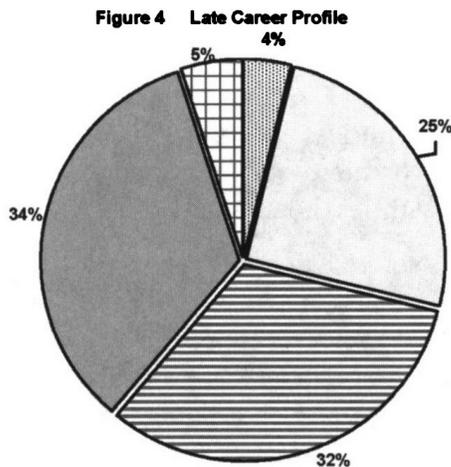
When examining workers in all peer segments who received 80% or more of the total points, their being on-track appears to correlate to their feelings about their likely activities in retirement, as follows:

- 49% have so many plans they can't wait to retire
- 30% have some plans, but mostly are just looking forward to more time for leisure activities
- 20% have not given much thought about what they will do and are just looking forward to not working
- 17% are not sure how they will fill their time

Figure 3

Retirement Readiness Profile – Happiness: Networking and Engagement

	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	26%	47%	19%	4%
Not there yet: 60% to 79%	33%	40%	31%	25%
Long way to go: 40% and 59%	25%	12%	32%	32%
Barely started: 20% and 39%	14%	1%	16%	34%
What's retirement? Less than 20%	2%	0%	3%	5%



Figs. 3. to 6. Retirement readiness profile–planning for happiness.

4.3. Findings: Planning for a healthy retirement

As part of planning for total retirement well-being, it is important that workers understand their health, how it impacts their personal longevity and the steps that can be taken to

improve their chances for remaining healthy and active throughout retirement. To address this, the InFRE general population survey explored the following topics:

- Current health, family history, and expectations for retirement years
- Actions to preserve health, such as exercise, diet, weight, physical check ups, and so on
- Knowledge of certain health factors (blood pressure, cholesterol levels)
- Personal life expectancy estimates and, if applicable, spouse's life expectancy

The survey results showed that about two-thirds (65%) of workers expected to be healthy through all or most of retirement, while one-quarter (25%) believed they will have some health limitations and 4% expected to suffer from poor health. Income and financial assets appear to have some influence on health expectations as:

- 33% of workers with annual household income of \$100,000 or more anticipated being healthy for as long as they live, compared to 19% with less income
- 35% of workers with financial assets of \$150,000 or more also expected to remain healthy throughout retirement, compared to 19% with less total assets

In general, a majority of workers have taken at least some actions to support a healthy lifestyle, with a greater percentage of late career workers than early or mid that said all or most of the time they: eat a healthy diet (60%, 40%, 46%, respectively), have routine physical checkups (77%, 48%, 59%), take medications and treatments as prescribed (86%, 71%, 73%) and know their blood pressure (88%, 63%, 78%) and cholesterol (71%, 38%, 61%) levels. Fewer workers reported exercising regularly all or most of the time (34% all workers, 40% late career workers).

Women and married couples have also done more to remain healthy. Women were more likely than men to have regular physical check-ups and screenings (64% vs. 54%), and take medications or treatments as prescribed (80% vs. 70%). Married workers were more likely than single workers to have regular check-ups (64% vs. 52%), eat a healthy diet (52% vs. 40%), exercise regularly (37% vs. 31%), and know their blood pressure 81% vs. 68%) and cholesterol levels (63% vs. 46%).

An additional finding, consistent with data from other research studies, is that many workers do not appear to have a good understanding of their personal longevity, or the number of years they will likely have in retirement. Generally, when a random group of Americans are examined, there is a 50/50 chance that an individual worker will live shorter or longer than an average life expectancy. The InFRE survey demonstrates that almost seven in 10 workers (67%) identified their life expectancy to be shorter than the average while slightly more than two in 10 (24%) anticipated a life expectancy beyond the average age. In addition, more than four in 10 workers (43%) stated they have no idea as to the age they can expect to live, with the likelihood of providing this response increasing as household income, financial assets, or health status decrease.

The results of the general population survey regarding planning for a healthy retirement were compiled based on the InFRE Retirement Readiness Profile and are graphically shown in the table and pie charts (Figs. 7 to 10). The profile shows that less than one in 10 workers (9%) across all career peer groups are on-track for a healthy retirement. When late career

Figure 7

Retirement Readiness Profile – Health

	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	9%	9%	9%	9%
Not there yet: 60% to 79%	22%	22%	18%	30%
Long way to go: 40% and 59%	33%	30%	33%	38%
Barely started: 20% and 39%	24%	25%	26%	18%
What's retirement? Less than 20%	12%	13%	15%	6%

Figure 8 Late Career Profile

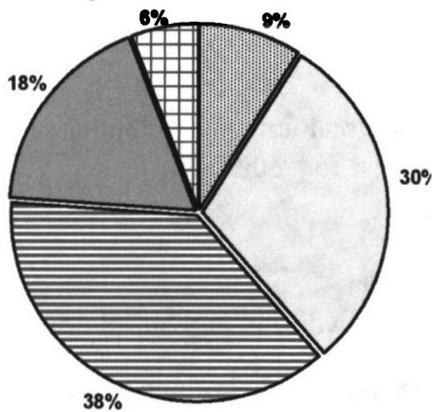
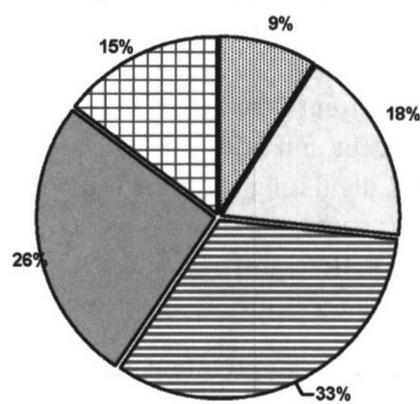
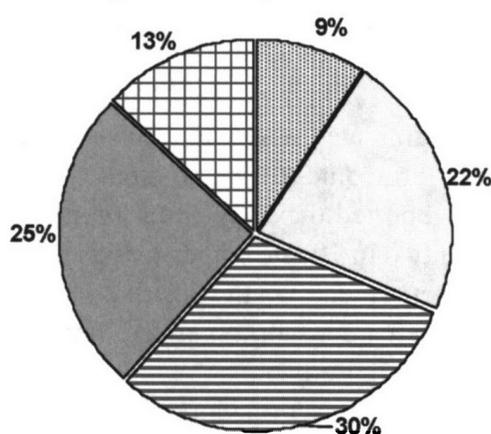


Figure 9 Mid Career Profile



On-track
 Not there yet
 Long way to go
 Barely started
 What's retirement?

Figure 10 Early Career Profile



Figs. 7. to 10. Retirement readiness profile–health.

workers were compared to those in the early or mid career peer segments, those nearing retirement have taken at least some actions to support a healthy lifestyle as evidenced by almost eight in 10 (77%) of these workers earning 40% or more of the total points and only about one in 20 (6%) receiving less than 20%.

When examining the responses to the health readiness profile questions, workers who received a higher percentage of points are generally those individuals who expected to have better health throughout their retirement years.

4.4. Findings: Wealth accumulation and financial planning

The InFRE survey explored both wealth accumulation and financial planning attitudes and actions. As with previous studies, the InFRE survey finds that workers are not adequately preparing to support their retirement income needs as few are taking the necessary steps to be financially prepared.

To examine wealth accumulation and financial planning for retirement, the profile questionnaire examined topics that included:

- Employer provided retirement benefits
- Personal savings and investments
- Current year contributions to retirement savings and total amount accumulated
- Debt and how it is affecting ability to save and invest for retirement
- Calculating retirement income needs
- Investment allocations
- Home equity
- Sources of retirement income, including income from working and an inheritance

Not surprisingly, few workers are adequately preparing for their financial futures in retirement. Although six in 10 (62%) reported they participated in a savings plan at work [such as a 401(k), 403(b), 457 plan], over half of all workers stated they have saved nothing at all for retirement (30%) or less than 5% of their income (25%) over the past year. This changed only slightly for late career workers to 22% who stated they have saved nothing for retirement over the past year and 19% have saved less than 5%.

When asked about total accumulated assets that have been set aside for retirement as a percentage of current household income, over one-quarter (26%) of all workers and two in 10 (19%) late career workers reported they have no retirement savings at all. Another three in 10 (34%) of all workers and two in 10 late career workers (21%) have saved less than 50% of their household income for retirement. On the positive side, two in 10 (19%) of all workers and almost four in 10 (38%) late career workers noted they have at least twice their current income in savings earmarked for retirement.

Consumer debt has a significant impact on workers' ability to save for retirement as more than six in 10 (65%) stated it has a great deal to some affect on their retirement savings. Late career workers reported similar issues as more than half (51%) said consumer debt has a great deal to some impact on their ability to save for retirement. Less than two in 10 (19%) total workers and three in 10 late career workers (28%) stated that it has no impact. The good news is that one in 10 (10%) of all workers reported no debt, increasing to 16% for late career workers, and another three in 10 (32%) workers and four in 10 (42%) late career workers reported that their debt has decreased over the past five years.

When the amount of income that workers will likely need in retirement is estimated, the InFRE survey identified less than realistic expectations as three in 10 workers (29%) and late career workers (31%) said they will need less than 50% of their current annual household income (based on today's dollars) to maintain their desired retirement lifestyle. One-quarter of workers (24%) and three in 10 (31%) late career workers said they will need between 50% and 70% of preretirement income. Only three in 10 workers (29%) and two in 10 late career workers (22%) estimated needing 90% or more of their current household income in retirement.

When financial planning steps were examined, more than six in 10 workers (66%) and more than half late career workers (56%) said they don't know how much money they need to accumulate for retirement. Of the 33% of the workers who knew either the exact (3%) or the approximate amount (30%), more than four in 10 estimated this by guessing (22%) or using an on-line calculator/computer program (23%). Half of workers (51%) who knew the amount needed for retirement stated they made or reviewed this determination within the past 12-months and one-quarter (25%) made this determination more than two years ago.

As to the savings goal needed to secure the necessary retirement income, another unrealistic finding is uncovered. Experts generally estimate that the amount that workers should accumulate to provide sufficient retirement income is approximately 20 to 25 times current income or more to allow for an annual withdrawal rate of between 4% and 5%. Unfortunately, less than four in 10 workers (38%) and one-quarter late career workers (26%) identified savings goals that are intended to produce at least 10 times their current household income, whereas two in 10 workers (21%) and three in 10 late career workers (31%) said their savings goals are less than three times household income.

One important aspect to financial planning for retirement is recognizing and understanding that alternatives need to be considered to address the unexpected, such as the death of a spouse, disability, and any other unforeseen circumstances that may occur. The survey, however, showed that most workers have not considered contingency planning as they prepare for retirement, with more than six in 10 workers having considered alternatives either a little (23%) or not at all (41%). For late career workers, this statistic is not much different, as it showed more than half are planning for contingencies only a little (26%) or none at all (26%).

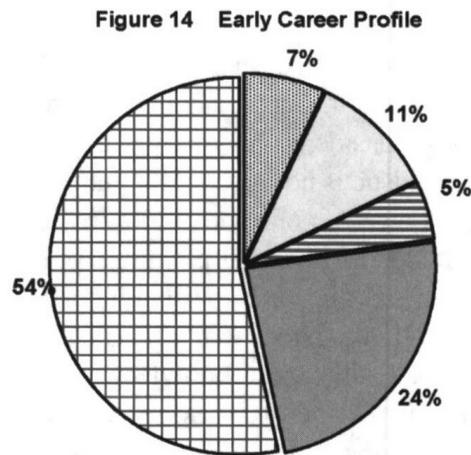
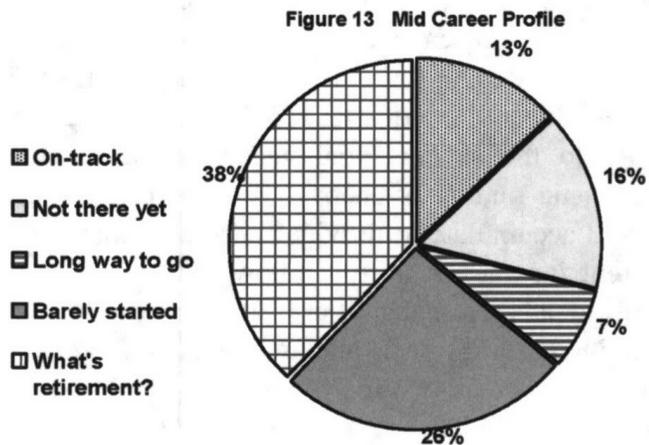
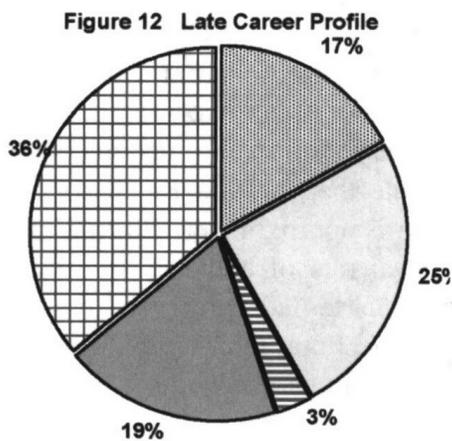
When looking at the investment side of financial planning, only slightly more than one in 10 workers (13%) stated they believe they are extremely or very knowledgeable about investing. This increased to two in 10 late career workers (20%). More than half of workers stated they are not too (28%) or not at all (26%) knowledgeable about investing. It should be no surprise that when asked how frequently they reviewed and adjusted their investment allocations that more than a third (35%) stated they do this every two years or less often. One-quarter (25%) of workers indicated they review and rebalance their investments once a year. Only about one in 10 (11%) stated they use an automated approach (e.g., lifecycle/lifestyle fund or other automated method) or investment advisor to manage their portfolio.

The results of the general population survey regarding wealth accumulation and financial planning were compiled based on the InFRE Retirement Readiness Profile and are graphically shown in the table and pie charts (Figs. 11 to 14). When the three dimensions of

Figure 11

Retirement Readiness Profile – Financial Preparedness

	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	12%	7%	13%	17%
Not there yet: 60% to 79%	16%	11%	16%	25%
Long way to go: 40% and 59%	5%	5%	7%	3%
Barely started: 20% and 39%	24%	24%	26%	19%
What's retirement? Less than 20%	43%	54%	38%	36%



Figs. 11. to 14. Retirement readiness profile–financial preparedness.

retirement readiness (happiness, health, and wealth) were compared, the profile showed that workers have the most trouble financially preparing for this life phase as two-thirds (67%) of the workers received less than 40% of the available score. For late career workers, there

is slight improvement as four in 10 (42%) earned 60% or more of the total points compared to 18% of early and 29% of mid career workers.

When workers stated that they knew how much they need to accumulate for retirement, they were more likely to be financially prepared for this life stage. This is evidenced as more than half of total workers (52%) who said they have identified how much they need to save received 60% or more of the total financial readiness points, compared to only 15% of workers who have not made this determination receiving this same score.

4.5. Findings: InFRE retirement readiness profile for total retirement well-being

The scores for all three segments of the general population survey were compiled to produce the InFRE Retirement Readiness Profile for total retirement well-being. The results are graphically shown in the table and pie charts (Figs. 15 to 18) to illustrate the profile of readiness for early, mid and late career workers.

This profile provides a qualitative measurement of how well workers have prepared for total well-being in retirement. The findings show that they are far from ready regardless of where they are in their working career. Late career workers, who have the fewest remaining years to plan, were slightly better prepared than the mid and early career workers, but significantly lag where the experts say they should be. More than half (52%) of late career workers received less than 40% of the available points for all three retirement planning dimensions, compared to 65% of all workers who scored less than 40%.

When the responses of workers who were identified as “on-track” are examined, these individuals are more likely to score higher overall marks in all three of the planning dimensions. This finding suggests that there is a correlation between happiness and health planning and financial/wealth planning. For instance:

- Workers who reported they knew how much money they needed to save for retirement were more likely than those who do not to indicate they had many (20% vs. 9%) or some (45% vs. 26%) plans for activities in retirement.
- Those who had discussed retirement plans with their spouse a great deal or a lot were more likely to know how much they needed to save for retirement (40% vs. 13% who do not).
- Those who knew how much they needed to save for retirement were more than twice as likely as those who did not to have given considerable thought to where they would like to live in retirement (41% vs. 17%).
- Workers who had planned for retirement challenges either a great deal or a lot were more likely to know how much money they needed for retirement (33% vs. 12% who don't know) and already had accumulated \$50,000 in financial assets (29% vs. 14% who have less), had income of at least \$100,000 (27% vs. 17% with less) and were homeowners (25% vs. 11% of nonowners).
- Workers who expected to be healthy for as long as they lived were more likely to have household income of \$100,000 or more (33% vs. 19% with less) or financial assets of \$150,000 or more (35% vs. 19% with less).

Figure 15

Retirement Readiness Profile – Percentage of Total Points Earned

	Total	Early Career	Mid Career	Late Career
On-track: 80% to 100%	6%	6%	7%	6%
Not there yet: 60% to 79%	19%	13%	20%	28%
Long way to go: 40% and 59%	10%	7%	11%	14%
Barely started: 20% and 39%	40%	43%	36%	43%
What's retirement? less than 20%	25%	32%	26%	9%

Figure 16 Late Career Profile

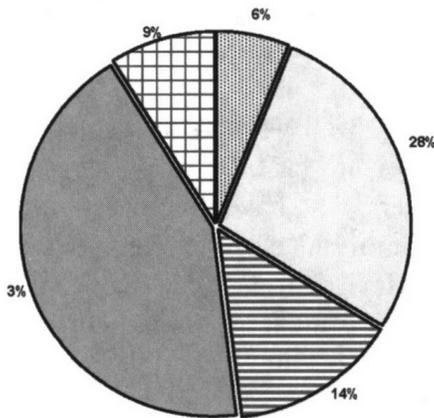


Figure 17 Mid Career Profile

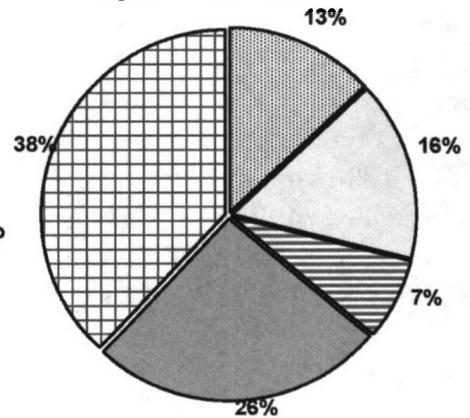
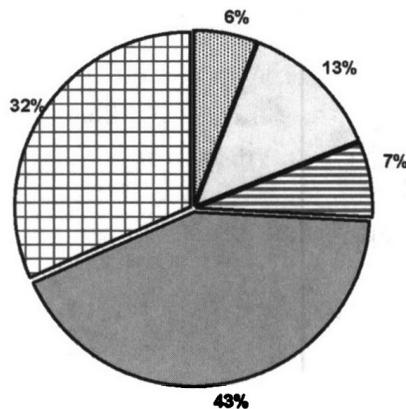


Figure 18 Early Career Profile



Figs. 15. to 18. Retirement readiness profile–total retirement well-being.

5. Recommendations

5.1. A new model for retirement plan design, education, and guidance

The InFRE Retirement Readiness Project and the General Population Retirement Readiness Survey suggest that a new direction is needed for employer-sponsored 457, 401(k), or

403(b) retirement plans to be more effective in helping workers prepare for their future years. In consideration of the project findings, the new model is proposed as follows:

Step 1: Provide a simpler, more automated plan design to address what is known about behaviors regarding money decisions.

Step 2: Expand the education message to address total retirement well-being, how to make informed decisions about when and how to retire, and the risks that retirees face when trying to make their assets last throughout their lifetime.

Step 3: Develop more effective education programs, based on application-oriented adult learning techniques, to increase the relevance and improve delivery of education that will motivate employees to take appropriate actions.

Step 4: Implement a more productive, and cost effective, model for delivering education, guidance and advice that is tailored to meet the needs of the aging workforce.

Step 5: Offer distribution choices that are designed to provide participants with an appropriate income stream for their entire retirement lifetime.

5.2. Step one: Simpler, automated plan designs

One of the problems most often demonstrated in research is that employees are not making timely or appropriate decisions in regard to their retirement plan—they delay or never enroll, and once participating, they fail to increase their contributions or rebalance investments when appropriate.

Employers are beginning to recognize that these issues can be addressed by adopting certain automated procedures in their plan, such as the following:

- *Enrollment*: employees are automatically enrolled at a standard deferral amount and investment choice—for example, 3% of salary deferral into a lifecycle investment option based on employee age.
- *Deferral increases*: deferrals are periodically increased based on a set schedule—for example, 1% a year until the deferral equals 7% of salary, coinciding with employees' payroll increases.
- *Rebalancing*: account balances are automatically readjusted on a periodic basis to match the participants' preselected model investment portfolio.

With an automated plan design, employees always have the discretion to opt out and elect to either not participate or make alternate decisions. However, research studies often show that many will stay in the plan once automatically enrolled and appreciate the simplified approach that deferral increases and rebalancing options provide.

These automated functions have been aided by the 2006 Pension Protection Act that encourages employers to establish automatic enrollment and deferral increases and set a balanced, diversified option as the default investment. The Department of Labor (DOL) has released proposed guidance to help employers make decisions regarding default choices associated with the automated plan designs and provide fiduciary safe harbors for plans subject to ERISA. Although public sector plans are not subject to ERISA and DOL

regulations, often state and local government employers look to these as best practice guidance.

If the employer is not comfortable with the automated approach, another alternative is to simplify the plan design and decision making process. With this approach, enrollment and investment forms offer a simple “check-the-box” option for:

- *Enrollment*: participants can select a standard deferral amount and investment choice as established by the plan (e.g., model portfolio or lifecycle fund based on age), or make their own initial decisions.
- *Deferral increases*: participants can elect to have deferrals increased at a set schedule established by the plan, or create their own advance direction as to when and how much deferrals increase.
- *Rebalancing investments*: participants can select an automatic rebalancing option to periodically readjust their account balance based on an established model portfolio, or chose to make their own future decisions regarding diversification and rebalancing.

Employers should examine their workforce to determine which approach to plan design—automated or simplified—can be the most effective in helping employees achieve financial security for retirement.

5.3. Step two: Expanded education message

Once the plan design is modified to create a more user-friendly approach to enrollment and investment decisions, the next step is to review employee education. Employees are provided considerable worksite education in multiple forums—print, on-line, and workshops. However, many still are not participating in their employer-sponsored retirement plans and even those who do, may find the amount they are saving will not produce sufficient income for all their retirement years.

The InFRE Retirement Readiness Project demonstrates that broadening the educational message beyond saving and investing to address total retirement well-being can be more effective in motivating employees to be financially prepared for their future. The education and tools to help workers plan for the 20, 30, or more years they can expect to live in retirement should be about more than just generating replacement income based on their needs at the time they retire. Employees who understand what their retirement lifestyle will be like and how their health will affect the number of years they need their money to last are more motivated to take necessary actions to be financially secure throughout their retirement life stage.

Today’s education is centered on savings and investing goals. What’s missing is helping employees recognize that they should be setting goals for their lifestyle that includes being happy and healthy throughout their retirement years. Being able to answer questions about “what, when, where and how” they intend to live will help employees establish financial goals that can be met by participating in their retirement plan.

5.4. Step three: Relevant, application oriented and effective education programs

Another important factor regarding the effectiveness of education to help employees plan for retirement is how it is developed and presented. Research, including studies discussed in this report, has shown that education based on adult learning techniques has a positive impact to change employee and participant behaviors.

The first step in developing a more effective educational program is to assess the needs of the workforce and develop a plan of action. Tools—such as the InFRE Retirement Readiness Profile as well as the InFRE RetireAwareness Quiz (RAQ)—that assess personal retirement literacy provide excellent methods for the employer to evaluate employee knowledge and attitudes about retirement planning and generate information that can be used to establish both short- and long-term retirement education goals. These tools can be used to produce a benchmark of the retirement readiness of the employee population before education programs are initiated to create a basis for measuring the results and effectiveness of this effort.

Once the needs of the workforce have been identified, the next step is to develop an action plan to establish key points of learning that are to be accomplished through the educational program and the behavior changes that are being sought.

For example, if the employer has identified that a significant portion of its workforce will be eligible for retirement over the next one to five years, an important goal may be help these employees determine if they are really ready for retirement and, as a result, potentially retain these valued, knowledgeable employees in the workforce beyond their earliest retirement date. In this situation, the key learning points would be to inform employees of the risks they face in making their money last for their entire retirement life stage and how this may be mitigated by working a few more years (thus delaying receipt of pensions and Social Security benefits) and accumulating additional savings and investments.

Once the key points of learning and behavior changes have been identified, the next step is to develop education that strengthens employees understanding of the message and reinforces the actions that they are expected to take. For example, the InFRE Retirement Readiness Profile has been developed to improve the knowledge of employees regarding how to plan for total retirement well-being. After completing the questionnaire, employees receive immediate feedback to tell them if their planning is on-track or not for a successful retirement and suggest actions they can take to improve their planning efforts. This information can also be used by retirement counselors to better understand the needs of the audience and identify potential actions that can produce the highest probability of success for an individual's specific situation.

The final step in establishing an effective education program is to evaluate and measure its success in accomplishing the attitude and behavior changes that were expected. This process is also instrumental in establishing goals for the next educational effort, starting the cycle of creating an adult learning experience all over again.

5.5. Step four: Productive and cost effective delivery of education and guidance

Establishing delivery methods for education and guidance that can meet the varied needs of the workforce is a critical component of an effective retirement program. Although

research demonstrates that many prefer personal interactions when it comes to making decisions, providers are moving more of the education and guidance services to the Internet or automated call centers in an attempt to lower costs.

Personalized services, however, do not need to be expensive and can be established in a cost effective manner. For instance, research that established a *Consultive Approach* to call center management (discussed in Section 2.3) offers personalized services by telephone and was demonstrated to be effective in increasing employee deferrals and as a result, account balances. Any additional costs to implement this approach were offset because of the increased revenues from higher participant account balances (additional asset fees) and lower employee turnover in the call center, which reduced hiring and training costs for this unit.

Another personalized approach that is proving to be effective for retirement counseling is to offer small group sessions to employees at the worksite to complement one-on-one counseling opportunities. Instead of a formal workshop, this session provides an opportunity for smaller groups—such as six to 12 employees—to meet to discuss retirement issues and ask questions about their personal situation. Those participating in this session benefit from all of the questions and answers that are provided in the group setting and often learn more than they would in an individual session.

Employers that adopt this approach are finding that the number of one-on-one counseling appointments (in-person or by phone) as well as the time spent with each participant is often reduced as a result of the group sessions. This group approach increases the opportunity for employees to receive personal interactions and can be more effective in modifying behaviors to increase and improve employee participation in the retirement plan.

5.6. Step five: New products and expanded education programs to secure lifetime income streams

The final step in the new design for retirement savings plans is to provide better and more automated opportunities to help participants establish lifetime income streams from their accumulated assets. Research shows that participants find managing their retirement income as challenging, if not more so, than their investment decisions during the accumulation phase. However, until recently, little attention has been focused on this issue.

To address this, new options for managing retirement income are needed—both within a retirement program as well as on the retail market for IRA distributions—to provide flexibility and guaranteed lifetime income solutions. Investment and insurance companies are beginning to introduce new products to address this need. As a fiduciary, plan sponsors should take a close look at these new options to determine how they may fit into their plan design to help participants manage their accumulated assets and provide a sufficient income stream throughout retirement years.

The plan's educational program also needs to be expanded to ensure participants are able to make informed choices about how to manage and use the assets they have spent years accumulating. Education should be targeted to participants nearing or in retirement and cover topics such as:

- Working longer or during retirement and its affect on benefits and savings
- Creating and managing a retirement budget and determining income need
- Understanding and protecting income from retirement risks, such as longevity and inflation
- Using, or not using, home equity as a retirement income resource

6. Conclusions

The aging workforce and imminent retirement of the baby boomer generation is creating an urgency to find solutions that can help employees recognize what it really means to be ready for retirement and how to prepare for this entire life stage. It is hoped that this paper and the resulting recommendations will be looked at closely by plan sponsors and generate new discussions within the industry that will lead to improvements in retirement plans, education and counseling services that are provided to both public and private sector employees. Diagnostic tools, such as the InFRE Retirement Readiness Profile, are a critical component of an effective retirement education program to raise awareness and measure results of the retirement readiness of the American workforce.

Notes

1. The EBRI Retirement Confidence Surveys can be found on-line at www.EBRI.org. The most recent report, written by Ruth Helman & Jack VanDerhei is *The 2008 Retirement Confidence Survey: Americans Much More Worried About Retirement, Health Costs a Big Concern*-Issue Brief No. 316.
2. This research data was identified in the Nationwide report as from a 2005 Public Employee Plan Participant Satisfaction Survey, Nationwide, 2005. The full report can be found at www.nrsforu.com.
3. The paper: *Adult Learning Principles and Pension Participant Behavior*, by Victor Saliterman and Barry G. Sheckley, PRC WP 2003–17 Pension Research Council Working Paper can be found at <http://rider.wharton.upenn.edu/~prc/PRC/WP/WP2003–17.pdf>.
4. *The Retirement Income Challenge*, prepared by New York Life Insurance Company, can be found at: <http://www.newyorklife.com/cda/0,3254,15344,00.html>.
5. *Participants Clueless about Retirement Income Options* by Rebecca Moore, published 02/28/2008 in PlanAdviser.com at: <http://www.planadviser.com/research/article.php/1877>.

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