Unlocking Secrets of Retirement Readiness:

Meet the Everyday People Who Are 'Power Planners'

TRANSAMERICA CENTER FOR RETIREMENT STUDIES®

A white paper prepared by Catherine Collinson

"*Unlocking Secrets of Retirement Readiness: Meet the Everyday People Who Are Power Planners,*" a study based on findings from the 14th Annual Transamerica Retirement Survey, examines the current state of retirement confidence among American workers and identifies those who are more likely to be ready for retirement, in order to illuminate their savings and planning habits and inspire others.

What Does it Mean to Be Retirement Ready?

'Retirement readiness' is widely used in today's vernacular. In recent years, a myriad of definitions for 'retirement readiness' have emerged, most of which refer to it as a gauge to determine whether a worker's nest egg is adequate to retire at age 65 and to generate sufficient income to last throughout his/her retirement years.

In 2012, the Transamerica Center for Retirement Studies® (TCRS) asserted that these definitions of 'retirement readiness' no longer fully reflect today's realities given research findings that most workers plan to work past age 65 and most plan to continue working in retirement. TCRS introduced a new definition of 'retirement readiness':

'Retirement readiness' refers to a state in which an individual is well-prepared for retirement, should it happen as planned or unexpectedly, and can continue generating adequate income to cover living expenses throughout his/her lifetime through retirement savings and investments, employer pension benefits, government benefits, and/or continuing to work in some manner while allowing for leisure time to enjoy life.

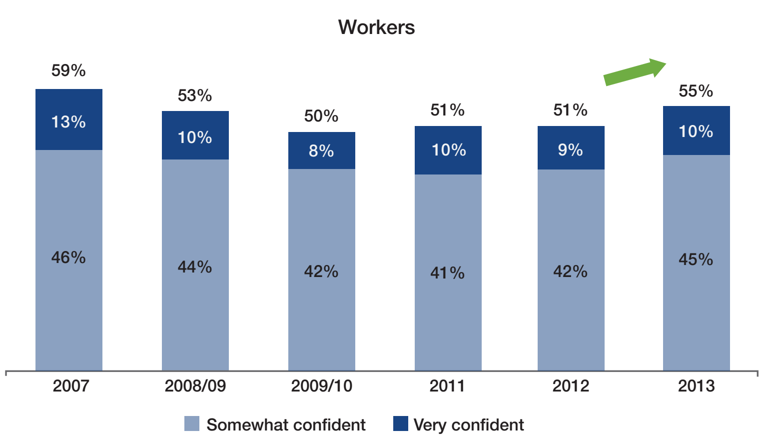
TCRS identified the five key elements of 'retirement readiness':

- A ***clear vision of retirement*** including retirement dreams, expected retirement age, and any plans to continue working in retirement
- A ***retirement strategy*** that incorporates savings needs, potential risks, and a backup plan if forced into retirement sooner than expected
- ***Retirement income*** including savings and investments, pension benefits, and government benefits
- ***Knowledge to make informed decisions*** about retirement investments, government benefits, and healthcare
- A ***family understanding*** including an open dialogue about finances and agreement on any expectations of support

THE CURRENT STATE OF RETIREMENT READINESS

Retirement confidence is on the rise in 2013 amidst signs of economic recovery. Fifty-five percent of workers are "somewhat" or "very confident" about retirement, representing an increase from 51 percent reported in 2012. This is still, however, four points below the 2007 confidence level of 59 percent.

How confident are you that you will be able to fully retire with a lifestyle you consider comfortable?
Top 2 Box Responses: (Very/Somewhat Confident)



Despite this increase in confidence, the recent years of what is often referred to as the Great Recession have impacted Americans' retirement outlook. The majority of American workers (62 percent) said they are less confident about their ability to achieve a financially secure retirement since the recession began in 2008 and many Baby Boomers (43 percent) now expect to work longer and retire later.

American workers' views of retirement have changed dramatically from the long-held notions of fully retiring at age 65 with many years of leisure to follow. Retirement dreams of traveling, spending time with family and friends, and pursuing hobbies are still alive; however, most workers (57 percent) now plan on working past age 65 and most also plan to continue working (54 percent) at least part-time in retirement. Most plan to continue working for financial reasons or healthcare benefits (66 percent) yet three in 10 plan to do so for enjoyment.

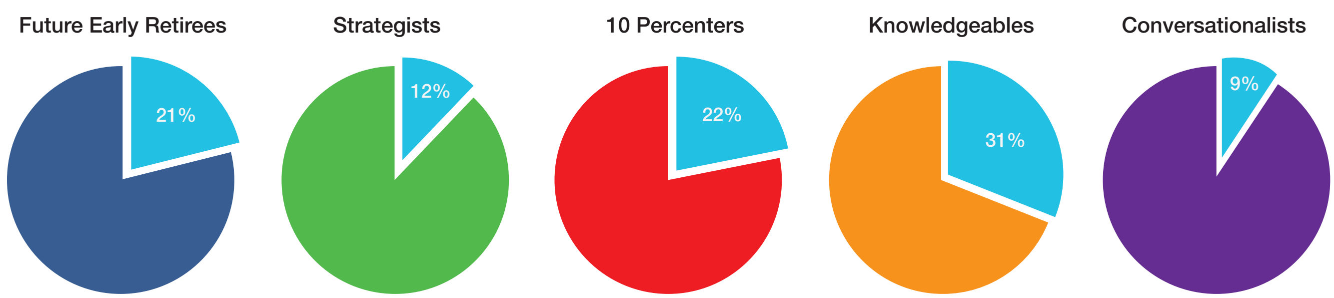
Working longer and delaying full retirement is an important means for generating income and bridging a retirement savings shortfall, as well as an opportunity to stay active and involved. However, the survey found that only 22 percent of Baby Boomers have a backup plan if retirement happens unexpectedly.

Q. Who Is More Ready for Retirement?

A. Power Planners

TCRS research found that retirement un-readiness is pervasive across demographic segments of the workforce including household income, age range and gender. However, TCRS also discovered a group of American workers who are on the road to retirement readiness, and are a beacon of inspiration for others to follow. TCRS calls these people 'Power Planners.'

Drawing on TCRS' five key elements of retirement readiness, the survey data were segmented to analyze and create categories of those who proactively engage in certain aspects of retirement planning. Monikers were assigned to each category of these Power Planners, and percentages were calculated to determine prevalence in the workforce.



POWER PLANNERS BELONG TO ONE OR MORE OF THE FOLLOWING CATEGORIES:

- 21 percent of workers are **Future Early Retirees**—workers who plan to retire sooner than age 65.
- **Strategists** make up 12 percent of workers. Members of this group have a written retirement plan.
- **10 Percenters** are the 22 percent of workers who save 10 percent or more of their annual salary through company-sponsored plans, such as a 401(k) plan.
- Those who are identified as the **Knowledgeables**, 31 percent of workers, believe they know what they should about retirement investing.
- 9 percent of workers fall into the category of **Conversationalists**. These workers frequently discuss saving, investing and planning for retirement with family and friends.

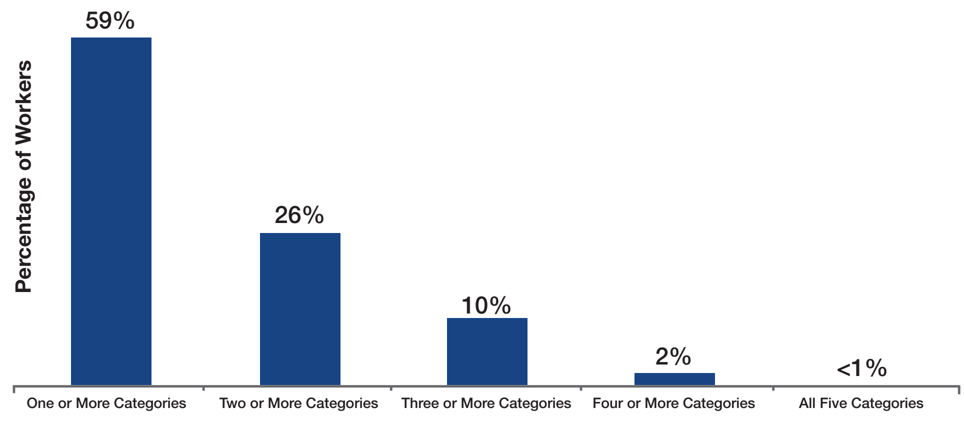
POWER PLANNERS ARE SURPRISINGLY PREVALENT

The survey analyzed the prevalence of workers who fall into one or more Power Planner categories, noting that some overlapping exists (e.g., 40 percent of Conversationalists are also Strategists).

Fifty-nine percent, a surprisingly high percentage, of all workers fall into one or more of the Power Planner categories. However, far fewer fall into two or more (26 percent) Power Planner categories. Even more surprising: less than one percent fall into all five Power Planner categories.

These percentages illustrate that most workers are on the road to retirement readiness yet they can do much more to improve their long-term planning and preparations.

Prevalence of Power Planners By Number of Power Planning Categories

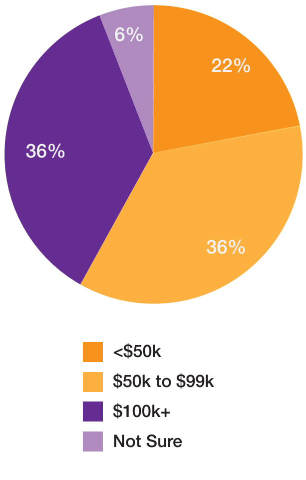


POWER PLANNERS ARE EVERYDAY PEOPLE

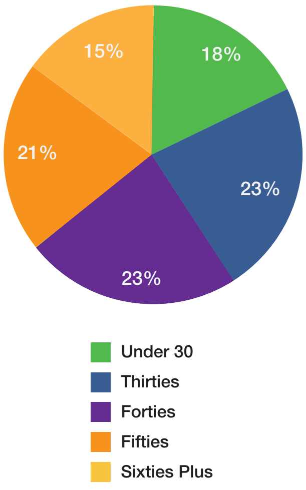
Power Planners are not confined to the privileged or affluent – they are everyday people. They are neighbors, friends, colleagues, and people next to us in line at the supermarket. What makes them exceptional is the time they take out of their daily activities to save and plan for retirement.

The survey found that the majority of Power Planners report an annual household income of less than $100,000 and they span across age ranges. However, it should be noted that they are somewhat more likely to be men than women (for more information on women's unique challenges, please see TCRS' most recent research on the topic).

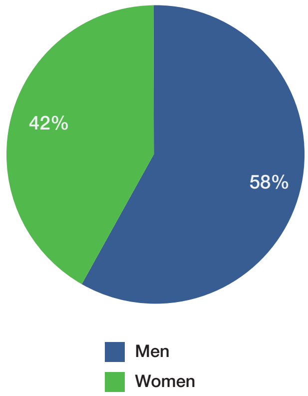
Household Income



Age Range



Gender



RETIREMENT OUTLOOK OF POWER PLANNERS

Retirement confidence among the categories of Power Planners is higher than for all workers* and most of the Power Planners expect to retire at age 65 or sooner. Yet even Power Planners plan to work after they retire, sharing similar expectations of all workers (54 percent). However, more of the Power Planners plan to do so for enjoyment rather than necessity.

Retirement Outlook	Workers	Future Early Retirees	Strategists	10 Percenters	Knowledge-ables	Conversation-alists
Retirement Confidence (NET "Somewhat" and "Very" Confident)	55%	73%	81%	72%	73%	74%
Expect to Retire at Age 65 or Sooner	43%	100%	54%	54%	50%	53%
Plan to Continue Working in Retirement	54%	42%	56%	47%	52%	59%
Of Those Who Plan to Work in Retirement—Those Who Plan to Do So for Enjoyment	30%	44%	43%	41%	42%	34%

*"All workers" refers to all survey respondents including Power Planners.

SAVINGS HABITS OF POWER PLANNERS

The majority of all workers (57 percent) expects to self-fund their future retirement income through 401(k)s, 403(b)s, IRAs or other savings and investments. Of the Power Planners, the 10 Percenters (70 percent) are most likely to self-fund their retirement.

Sixty-eight percent of all workers are offered a 401(k) or similar plan by their employer. Among them, the plan participation rate is 78 percent with an annual deferral rate as a percentage of salary of 7 percent (median). All categories of Power Planners report higher participation rates and deferral rates. The Power Planners are also more likely to be saving for retirement outside of work. One of the ultimate measures of how the Power Planners compare to all workers is level of household savings in all retirement accounts. Household retirement savings is highest among 10 Percenters ($161,000) which is more than triple that of all workers ($53,000). Notably, the percentage of Strategists (38 percent) who have more than $250,000 in total household retirement accounts is more than double of all workers (18 percent).

Retirement Outlook	Workers	Future Early Retirees	Strategists	10 Percenters	Knowledge-ables	Conversation-alists
Participate in Employer's 401(k) or Similar Plan (Base: Those offered a plan)	78%	79%	92%	100%	83%	92%
Deferral Percentage of Salary in 401(k) or Similar Plan (Median)	7%	10%	10%	12%	9%	10%
Savings for Retirement Outside of Work	61%	70%	86%	79%	69%	76%
Total Household Retirement Savings (Median)	$53,000	$92,000	$147,000	$161,000	$111,000	$102,000
Percentage with More than $250,000 in Total Household Retirement Savings	18%	26%	38%	37%	31%	35%

Many Power Planners are quite possibly on track to have saved enough to retire at 65. However, achieving retirement readiness is more than just saving enough. It involves careful planning for both the expected and, more importantly, unexpected life events.

UNLOCKING SECRETS OF RETIREMENT READINESS

Many of the secrets for retirement readiness may seem like common sense. Yet the survey findings illustrate that Power Planners' taking time to engage in these savings and planning activities can make a meaningful, positive impact on their retirement readiness, especially when comparing their survey responses to those of all workers. It should also be noted that when analyzing such comparisons, the survey found opportunities for improvement among all workers including the Power Planners.

One of the most important secrets to attaining retirement readiness is having a well-defined written strategy about retirement income needs, costs and expenses, and risk factors. Only 12 percent of all workers have a written strategy. Significantly more Power Planners including 100 of Strategists (by definition) followed by Conversationalists at 40 percent have a written strategy.

Of workers having any sort of retirement strategy (written or unwritten), the survey found that many are overlooking key factors that could impact their income and expenses such as investment returns, healthcare costs, inflation, taxes, long-term care, and a backup plan if retirement comes sooner than expected. This is an opportunity for improvement for all workers including the Power Planners.

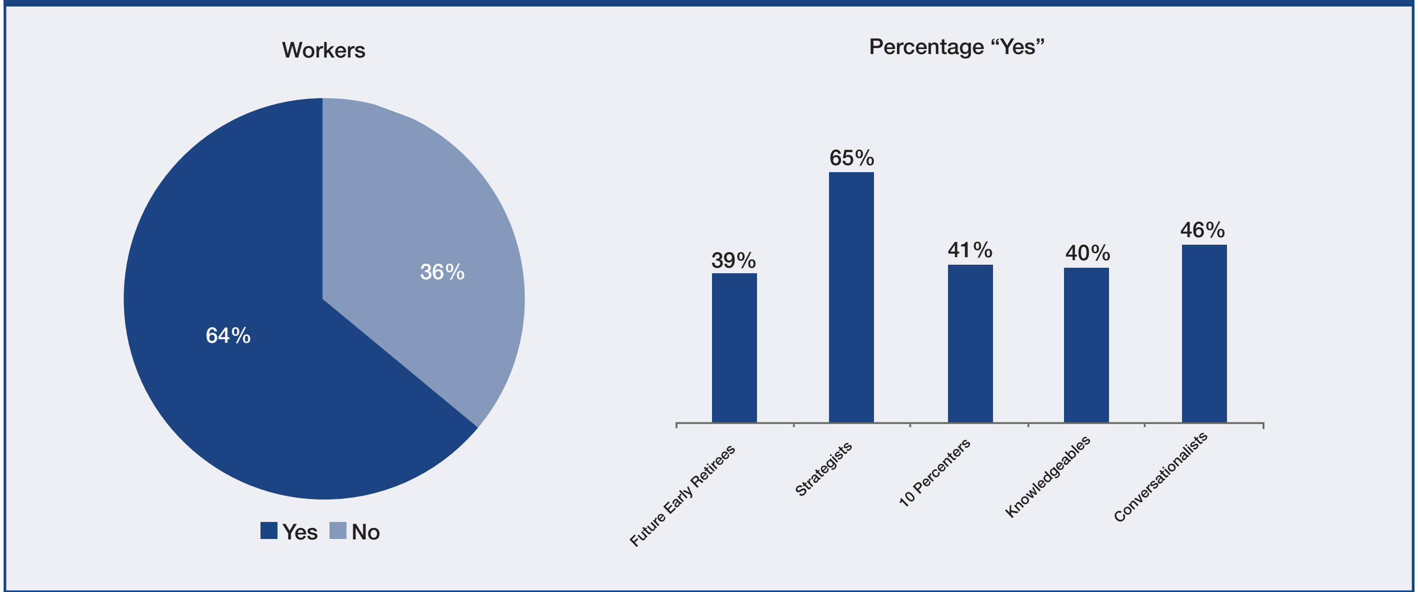
Knowledge to make informed decisions largely impacts retirement readiness. Although the Power Planners scored higher on key measures regarding retirement and investing knowledge than all workers, increasing knowledge is an opportunity for improvement for all.

A secret to retirement investing is often asset allocation. Only 6 percent of all workers say they know "a great deal" regarding asset allocation principles. The Power Planners are more likely to know a great deal; however, even among them, the Conversationalists had the most at only 23 percent.

Another secret is knowledge about Social Security benefits. Only 15 percent of all workers have "a great deal" of knowledge about their future Social Security benefits. Conversationalists (38 percent) are most likely to know a great deal and Future Early Retirees (13 percent) are least likely.

Professional advisors can play an important role in achieving retirement readiness. Strategists (65 percent) are most likely to use the services of a professional financial advisor compared to just 36 percent of all workers. The Strategists' usage of an advisor may be their secret to having a written strategy and a more deliberate approach to saving, investing, and planning.

Do you use a professional financial advisor to help manage your retirement savings or investments?



Conversation can be a catalyst for retirement readiness. However, only 9 percent of all workers frequently discuss saving, investing, and planning for retirement with their family and friends. The Conversationalists highlighted in this report showed higher levels of engagement, knowledge, awareness, and preparedness. Moreover, family discussions are essential for setting any expectations about retirement as well as the need to provide or receive financial support.

SEVEN TIPS TOWARD BECOMING A POWER PLANNER AND RETIREMENT READY

How a person ultimately plans on spending his or her retirement is unique, but the proactive tactics to help prepare for retirement are common to all.

Seven tips to get started include:

1. **Calculate retirement savings needs.** Factor in living expenses, healthcare needs, government benefits and long-term care.
2. **Develop a retirement strategy and write it down.** Envision future retirement, formulate a goal, and have a backup plan in case retirement comes early due to an unforeseen circumstance.
3. **Get educated about retirement investing.** Learn about Social Security and government benefits.
4. **Participate in employer-sponsored retirement plans, if available.** Take full advantage of matching employer contributions, and defer as much as possible.
5. **Consider retirement benefits as part of a total compensation.** Ask an employer for a plan if they don't offer one.
6. **Take advantage of the Saver's Credit.** Make catch-up contributions if available.
7. **Talk about retirement with family and close friends**, and seek the services of a professional if needed.

RECOMMENDATIONS FOR EMPLOYERS WITH THEIR RETIREMENT PLAN ADVISORS AND PROVIDERS

Seven opportunities in which employers, working with their retirement plan advisors and providers, can help workers to improve their retirement readiness include:

1. Offering a retirement plan along with other health & welfare benefits if not already in place.
2. Proactively encouraging participation in existing retirement plans. Consider adding automatic enrollment and automatic escalation features to increase participation rates and salary deferral rates.
3. Adding, increasing and/or reinstating matching contributions to 401(k) plans. Consider structuring match to promote higher salary deferrals (for example, instead of matching 100% of the first 3% of deferrals change the match to 50% of the first 6% of deferrals).
4. Assessing educational offerings to determine whether they are meeting the needs of all employees, especially those employees who may find materials and concepts difficult to understand and make any necessary changes accordingly.
5. Promoting the educational resources offered by the company's retirement plan provider and encouraging employees to take advantage of them.
6. Offering pre-retirees greater levels of assistance in planning their transition into retirement—including the need for a backup plan if they find themselves retiring sooner than expected due to unforeseen circumstances.
7. Promoting awareness of the Saver's Credit and Catch-Up Contributions.

RECOMMENDATIONS FOR POLICYMAKERS

Policymakers should consider the following to help employers and their employees to increase retirement readiness:

1. Pursuing legislative and regulatory initiatives to expand retirement plan coverage for all workers including part-time workers:
   a. Additional safe harbors for 401(k) and similar plans for purposes of non-discrimination testing.
   b. Expanding the tax credit for employers to start a plan and facilitating the opportunity of employers to participate in existing plans by implementing reforms to multiple employer plans.
2. Expanding the Saver's Credit by raising the income eligibility requirements so that more tax filers are eligible.
3. Expanding Catch-Up Contributions by raising limits and lowering the eligible age.
4. Extending the 401(k) loan repayment period for terminated plan participants and eliminating the six-month suspension period following hardship withdrawals.
5. Requiring retirement plan statements to state participant account balances in terms of lifetime income as well as a lump sum.

ABOUT THE AUTHOR

Catherine Collinson serves as President of the Transamerica Center for Retirement Studies®, and is a retirement and market trends expert and champion for Americans who are at risk for not achieving a financially secure retirement. Catherine oversees all research and outreach initiatives, including the Annual Transamerica Retirement Survey.

With over 15 years of retirement services experience, Catherine has become a nationally recognized voice on retirement trends for the industry. She has testified before Congress on matters related to employer-sponsored retirement plans among small businesses, highlighting the need to raise awareness of the Saver's Credit among those who would benefit most from the important tax credit. Catherine is regularly cited by top media outlets on retirement-related topics. Her expert commentary has appeared in major publications, including: The Wall Street Journal, U.S. News & World Report, USA Today, Money, The New York Times, and The Huffington Post. Catherine speaks at major industry conferences each year, having appeared at events hosted by organizations including PSCA, LIMRA, SVIA and PLANSPONSOR. She also authors articles published in leading industry journals, such as ASPPA, SPARK and PSCA.

Catherine also serves as President of the Transamerica Institute™. She is currently employed by Transamerica Retirement Solutions and serves as Senior Vice President of Strategic Planning. Since joining the organization in 1995, she has been instrumental in identifying and evaluating short- and long-term strategic growth initiatives, developing business plans and building infrastructure to support the company's high-growth strategy.

ABOUT TRANSAMERICA CENTER FOR RETIREMENT STUDIES®

The Transamerica Center for Retirement Studies (TCRS) is a division of the Transamerica Institute™, a nonprofit, private foundation. TCRS is dedicated to conducting research and educating the American public on trends, issues, and opportunities related to saving, planning for, and achieving financial security in retirement.

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ABOUT THE 14TH ANNUAL RETIREMENT SURVEY

This survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies between January 21 – February 21, 2013, among a nationally representative sample of 3,651 full-time and part-time workers. Potential respondents were targeted based on employment status and company size. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted to account for differences between the population available via the Internet versus by telephone, and to ensure that each quota group had a representative sample based on the number of employees at companies in each employee size range.

ABOUT THIS WHITE PAPER

This research brief was derived from a comprehensive report entitled, *Unlocking Secrets of Retirement Readiness: Meet the Everyday People Who Are 'Power Planners'* which can be found at **www.transamericacenter.org**.

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