

Executive Summary

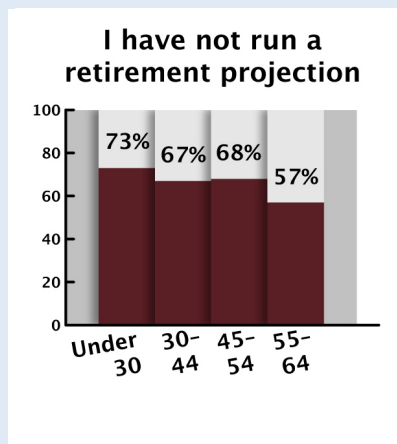
Retirement preparedness is enormously hard to gauge because there are so many unknown variables. We have no way of knowing future market returns, nor can we accurately predict economic cycles that create and destroy wealth. Accordingly, this report focuses on the component of retirement preparedness that is the easiest to pinpoint—what employees are doing to prepare themselves.

Employees ARE increasingly focusing on retirement planning, and taking action to improve their preparedness, now that many have built a more solid financial foundation after the recession by cutting unnecessary expenses, reducing debts, and establishing an emergency savings fund. Over 25% of the questions we've received from employees this year have been focused on retirement planning vs. 24% in 2010 and 15% in 2009. In addition, questions have been more proactive in nature—focused on how much to save to retire comfortably and how to allocate assets vs. how to take loans and hardship withdrawals or how to effectively time the market.

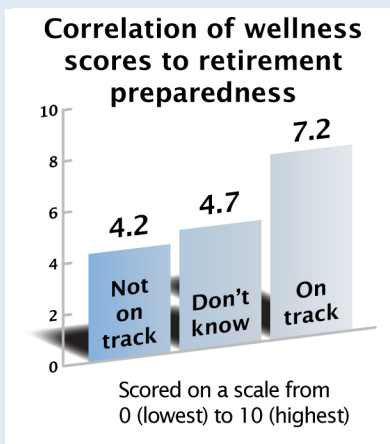
However, only 14% of employees indicate they are on track to replace 80% of their income (or their goal) in retirement and would thus be considered *prepared*. Employees who indicate they are NOT on track, or DON'T KNOW whether or not they are on track because they have not run a retirement projection, are considered *unprepared*. Most employees have never run a retirement projection. Barring an unexpected and sustained bull market that brings outsized returns, these employees will need to significantly increase their savings rates to avoid delaying retirement.

Key Trends

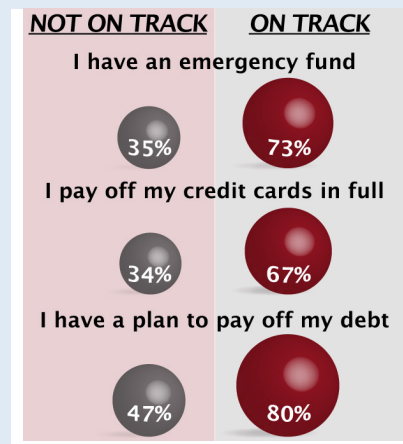
Across all age groups and income levels, most employees have never run a retirement projection.



Ignorance is not bliss. Those that have not run a projection have low overall financial wellness scores.



Basic money management skills are highly correlated with retirement preparedness.



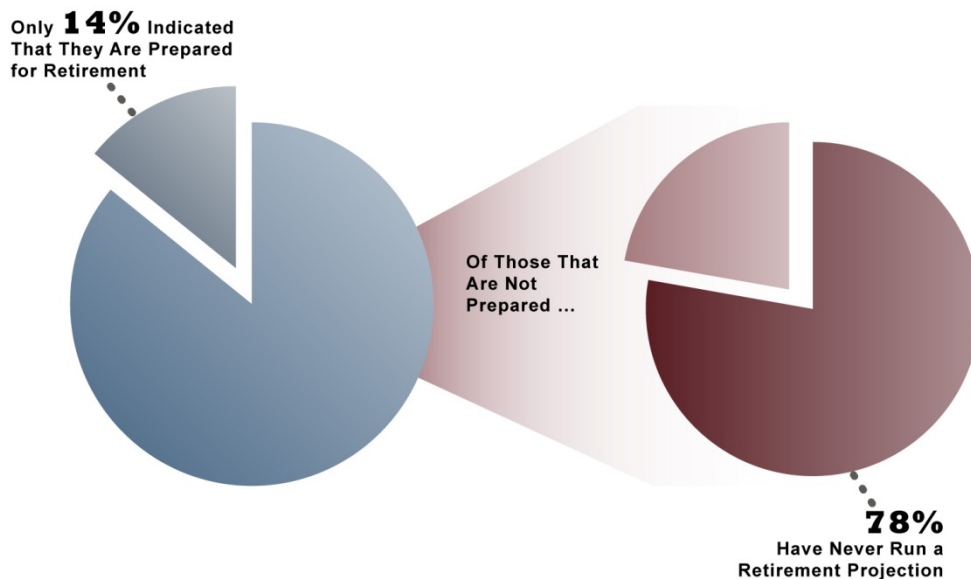
Overall State of Retirement Preparedness among U.S. Employees

U.S. Employees Are Ill Prepared For Retirement

As a whole, U.S. employees are not prepared for retirement given current economic conditions and will need to significantly increase their savings rates to avoid delaying retirement.

Whether you analyze data employees themselves provide or project preparedness based on average balances from 401(k) and other investment accounts and simulating different return scenarios, the conclusion is the same. Most employees are not prepared to maintain their standard of living in retirement, with far too many at risk of not being able to fund basic living and health expenses:

Employee Self Assessment of Retirement Preparedness

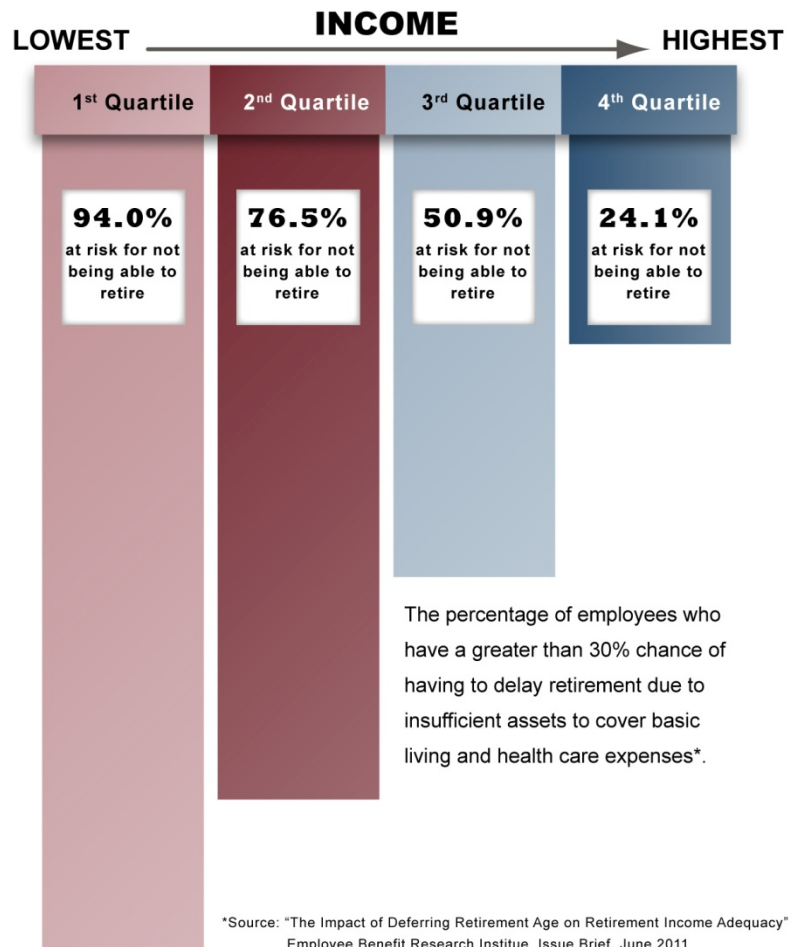


Our data from employees' self-reporting shows that only 14% of employees report they are on track to replace 80% of their income (or their goal) in retirement to achieve a **comfortable** standard of living. This is down from 17% last year, despite the fact that plan participation and average balances have increased and employees are focusing more on retirement planning.

More than three-quarters (78%) of those that are not prepared have not taken the **FIRST** step towards preparing for retirement, which is to run a retirement projection in order to determine how much they should save and how they should invest their savings.

EBRI's most recent analysis reveals that the majority of employees will have to delay retirement beyond age 65 due to insufficient income to cover basic living and health care expenses, with those in the bottom two quartiles of income particularly vulnerable. EBRI's analysis focuses on basic expenses, not a comfortable standard of living that most employees want to achieve in their retirement. This accounts for the wide disparity in income as higher income employees can live off a much lower percentage of their pre-retiree income to cover basic expenses.

EBRI's Statistical Analysis of Retirement Preparedness



Financial Behaviors Highly Correlated With Effectively Saving and Investing for Retirement

To effectively prepare for retirement, employees must save sufficiently and invest their savings wisely to grow their balances over time.

Below is a chart of financial behaviors that are highly correlated with saving and investing appropriately for retirement, ranked in descending order:

	On Track	Not On Track	Difference
1. I feel confident that my investments are allocated appropriately between stocks, bonds, and cash based on my risk tolerance and time horizon.	69%	28%	41%
2. I have an emergency fund to cover unexpected expenses or to pay bills for a few months if I lose my job.	73%	35%	38%
3. I rebalance my investment accounts to keep my asset allocation plans on track.	69%	33%	36%
4. I have a plan to pay off my debt.	80%	47%	33%
5. I regularly pay off my credit card balances in full.	67%	34%	33%
6. I have a handle on my cash flow so I spend less than I make each month.	88%	59%	29%
7. I know how much I need to save for college.	42%	14%	28%
8. I understand the tax implications of each of my investment and retirement accounts.	68%	40%	28%
9. I have taken a risk tolerance assessment.	77%	50%	27%
10. I currently contribute to a 529 College Savings Plan.	39%	15%	24%

Key Findings:

- 1. Employees' confidence in their asset allocation was most highly correlated with being on track to retire.** We believe that investment confidence is a sign of investment knowledge and also a predictor of investment success, with employees who are confident in their allocation significantly less likely to panic and sell when the market drops and significantly more likely to preserve gains and minimize losses by rebalancing their portfolios regularly. Both behaviors are critical to achieving strong returns over time.
- 2. Basic money management skills play a critical role in retirement preparedness.** Employees who are on track to retire have a much stronger financial foundation than those who are not on track, so that they are able to weather emergencies without tapping into their retirement assets, pay off their debt before it begins to impact their ability to save, and manage their expenses to free up cash flow to save for retirement.
- 3. Saving for college, interestingly, is correlated with retirement preparedness, even though dollars saved for college are dollars that employees are not saving for retirement.** We believe that there are two reasons for this correlation: 1. Employees who are prepared for retirement have better savings habits than those who are not, and are able to more effectively save for college educations for their children as a result; 2. Employees who are saving for college do not put themselves in a position where they have to tap into their retirement savings as a last resort to send their children to college. In this respect, saving for college helps parents to protect their retirement savings from being "raided" at the last minute.

Demographic Analysis of Retirement Planning Preparedness

Key Findings:

- 1. Of the demographics we studied, income was most highly correlated with retirement preparedness, followed by gender, then age.**
- 2. Age is not correlated with retirement preparedness for employees under age 55.** We found no evidence that employees become more prepared for retirement from when they start working through age 55. This is not to say that their balances don't grow over time, but that their projected estimates are leaving them equally unprepared as younger workers who have less savings but more time to grow their savings.
- 3. This is concerning, because it means that a large percentage of employees will be forced to make difficult decisions as they near retirement due to a lack of preparation.** Employees 55 and over are significantly more limited than younger employees in terms of how much they can grow their portfolio through additional savings and/or more aggressive investment strategies. At this age, employees who have a significant gap between what they have saved and what they will need to retire will have to begin making decisions about tradeoffs such as working longer or living a more modest lifestyle in retirement.

Age Breakdown

		Under 30	30–44	45–54	55–64
Prepared	On Track	13%	13%	13%	21%
	Don't Know/Haven't Run a Retirement Projection	73%	67%	68%	57%
Unprepared	Not on Track	14%	20%	19%	22%

State of U.S. Employee Retirement Preparedness

Income Breakdown

		\$20,000– \$34,999	\$35,000– \$59,999	\$60,000– \$74,999	\$75,000– \$99,999	\$100,000– \$149,999	\$150,000– \$199,999	Over \$199,999
Prepared	On Track	10%	7%	11%	14%	17%	22%	29%
	Don't Know / Haven't Run a Retirement Projection	64%	67%	68%	71%	64%	66%	61%
Unprepared	Not on Track	26%	25%	21%	15%	19%	13%	10%

Gender Breakdown

		Male	Female
Prepared	On Track	18%	11%
Unprepared	Don't Know/Haven't Run a Retirement Projection	66%	67%
	Not on Track	16%	22%

Outlook for the Future

Our expectation is that employees will need to save significantly more than they have been saving in order to achieve parity with previous generations who were able to rely more heavily on pension income, Social Security income, and home equity, not to mention benefiting from higher interest rates and market returns on the money they did save.

Trends are putting pressure on employees to save more

- 1. Employers are increasingly shifting more of the burden of funding retirement to employees and the government is expected to follow suit with reductions to Social Security.** Less than 17% of employees will receive income from a traditional pension plan, down from 62% in 1983, and all signs show that this number will continue to decline as more employers freeze or terminate their defined benefits plans. Social Security is also expected to replace less retirement income with recent changes to normal retirement age and anticipated changes that will need to be made to shore up the system.
- 2. Home equity, once a major source of retirement income, has significantly declined since the mortgage crisis and is showing no signs of improving.** The ratio of homeowners' equity to value at the end of the March, 2011 was just 38%, the lowest on record. Prior to the onset of the housing bubble, the ratio of equity to value rarely fell below 60% and it had been near 67% until the late 1980s.
- 3. The stock market has performed well below its historical average over the last 11 years.** From 1926 through 2000 the stock market (as represented by the S&P 500) had an annualized return just over 11%. Since then it has had an annualized return below 2%. With interest rates near historical lows, investors must be prepared for a "new normal" when it comes to investing.

Employees are not increasing savings fast enough to compensate for declines in other sources of income

While employees are improving their finances, the national savings rate is increasing, and our data shows employees are focusing more on retirement planning, these changes are just the first step. Employees will need to continue to reduce their expenses, free up more savings for retirement, and review their plans annually to make adjustments as needed to their strategies. EBRI estimates that most employees will need to defer at least an additional 1-3% more of their salary in order to retire on time, (effectively increasing their deferral rates by a factor of 15-44%). Retirement plan providers report marginal increases in deferral rates over the last couple of years, along with marginal increases in retirement plan participation, but these increases are well below the level needed for most employees to avoid delaying retirement, given current economic conditions.

State of U.S. Employee Retirement Preparedness



About this Research

All of Financial Finesse's research is primary—based on tracking employees' most pressing financial concerns through their usage of our financial education services.

Trend analysis research is compiled by tracking calls into Financial Finesse's Financial Helpline service, which is available to over 500,000 employees from more than 400 organizations. Financial Wellness data is compiled by tracking employees' usage of Financial Finesse's Online Financial Learning Center which provides employees with a personalized financial education plan and analysis of their current financial wellness.

Employers and employees are located across the country—in similar proportion to the demographics of the national population.

About the Financial Wellness Scale

The Financial Wellness Scale is a proprietary tool designed and developed by our Think Tank of Certified Financial Planner™ professionals in order to measure employees' financial wellness. To get a realistic assessment of Wellness in each category, planners determined the most important criteria for achieving financial success in that specific category. By asking key questions that determine employees' progress on these different actions, we are able to approximate their financial wellness in this area. Wellness scores are on a scale of 0-10, with 10 representing optimal wellness. A score of 8 or higher means that the employee is likely to achieve their financial goals in that area. A score of 6-7 means employees are at risk of not achieving their goals, while a score of 5 or lower means that employees definitely need to make major changes in order to meet their goals.

About Financial Finesse

Financial Finesse was founded in 1999 with a single mission: To provide people with the information and guidance they need to become financially secure and independent. Today, we are the leading provider of unbiased financial education programs to corporations, municipalities and credit unions. We deliver content on all financial topics, from serious debt issues to advanced estate planning, through a wide variety of formats (in person, online, over the phone, through workshops and webcasts, and through print materials). All education is developed and delivered by on-staff CERTIFIED FINANCIAL PLANNER™ professionals. We accept less than 2% of applicants who apply to be a Resident Financial Planner with Financial Finesse. For more information on the company, please go to www.financialfinesse.com.

Contributors

Liz Davidson, CEO, Financial Finesse, Inc.

Michael Smith, CFP®, Resident Financial Planner

Nancy L. Anderson, CFP®, Think Tank Director

Gregory A. Ward, CFP®, Head Research Analyst