

How Well Are People Preparing for Retirement?

John Hancock's latest national survey of defined contribution plan participants tracking their investment knowledge and behavior shows disturbing trends: Basically, while most participants have learned to save, they haven't learned to invest. In part two of a three-part series, Wayne Gates, general director, Market Research and Development discusses how well people are planning for their retirement.

Savers Not Investors

According to the latest survey of defined contribution plan participants, the share of salary that participants contribute remains high, near 9%.

"One of the beauties of the 401(k) – and defined contribution plans in general – is the payroll deduction feature because it makes saving automatic," says Gates.

But he adds, "Unfortunately, there's no feature in these plans today that makes investment automatic, but there's a clear need, because participants are not acting like investors."

As an example, nearly two-thirds of respondents claim to have a specific target for their asset allocation. But from their responses and actions, this does not appear to be hard and fast, if they really have one at all.

"The vast majority, 86%, claims to be at or near their target, and yet more than three-quarters have not re-balanced in the past year," explains Gates. "In addition, more than half say they do not have the appropriate mix of stocks and fixed income investments, which says that they're not at their target.

"And even though more than half say they have done a retirement needs calculation, most are not on course to maintain their existing lifestyle in retirement. So if they've calculated their retirement needs, they have not adjusted their contribution rates or asset mix to achieve those needs."

Replacement Income Lagging

According to analysis by Aon Consulting and Georgia State University, the percentage of pre-retirement income required to maintain one's lifestyle in retirement averages about 75% (rising as high as 87% for those in higher income brackets).

Projections of replacement income using the Financial Engines advice model are not encouraging, says Gates.

"The median survey data for each of the age groups shown without a defined benefit plan - and that is about 60% of all respondents to the survey – ranges from 48% to 59%, and those ratios include projected Social Security benefits."

The implications, says Gates, are relatively simple.

"To reach that target, participants will have to increase their contribution levels and savings. Or retire later or work during retirement to supplement their income. Or the markets will have to return more on average than they have historically. Or a combination of these.

"Otherwise, they'll have to adjust their lifestyle to lower income in retirement."

Next: *Products and services needed to help.*