Retirement Income
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The Bucket

By Editorial Staff *Wed, Dec 22, 2010*

Late-breaking items from AXA Equitable, Lincoln Financial, MFS, Transamerica, Aon Hewitt, Principal Financial, Ernst & Young and more...

AXA Equitable Study Shows People Will Work Longer

Results from AXA Equitable Life Insurance Company's *Retirement Reality Study* show that today's working world anticipates retiring much later than previous generations. The average age of retirees polled around the world is 57 years old. However, current workers anticipate retiring at 61.

In addition to working longer, people in most countries are expecting a lower standard of living in retirement. Globally, 43% of workers and 30% of retirees believe their retirement income will be insufficient. Working people know they need to prepare for retirement, with 46% saying they have started to prepare and an additional 37% intending to start later.

Americans are among the top nations surveyed to say that they have already started their retirement planning. Among U.S. Workers, 72% said they have started saving for retirement, compared with a global average of 46%. Not only has a large percentage of Americans started preparing for retirement, they are starting younger than people in other countries. U.S. workers are among the youngest to say that they have started to prepare for retirement; the average age in the U.S. is 31, compared with the worldwide age of 34.

Although Americans seem more prepared than their counterparts in other countries, the anticipated retirement age is still among the highest of any country. The average American anticipates retiring at 64, three years older than the survey average of 61, and six years older than their desired retirement age of 58.

Additional survey findings include:

- Americans have the most self-reliant view of retirement savings, with 58% of those polled, a greater percentage than any other nation surveyed, preferring to fund their retirement savings on their own rather than depend on the government.
- U.S. workers prefer meeting face-to-face with someone when purchasing an investment. In addition, 65% of workers and 65% of retirees have used insurance, financial or other professionals as sources of information to find out about financial products vs. 50% among workers and 44% among retirees across all countries.

Research firm GfK NOP managed the survey globally for the AXA Group. Local firms fielded the questions in each country from March 1st to May 25, 2010. This is the fifth global survey released by AXA Equitable and its parent, AXA Group, and is part of the company's continued effort to enhance its understanding of the retirement issues. A total of 31,539 people between 25 and 75 years old were interviewed in 26 countries.

Lincoln Financial promotes Freitag as CFO

Lincoln Financial Group has promoted Randal J. Freitag to executive vice president and Chief Financial Officer, effective January 1, 2011. He will replaces Frederick J. Crawford, who became executive vice president and head of Corporate Development and Investments. Freitag and Crawford will both serve on the company's senior management committee and report to Lincoln president and CEO, Dennis R. Glass.

As CFO, Freitag will lead Lincoln's financial team, which includes corporate finance, risk management, treasury, corporate tax, corporate actuarial, audit and investor relations.

Freitag joined Lincoln Financial in 1995 and served in a variety of management positions before being named Chief Risk Officer in 2007. Prior to joining Lincoln Financial, Freitag held various actuarial roles. He earned a B.A. degree in mathematics from the University of Minnesota and is a fellow of the Society of Actuaries.

MFS Survey: What Does the "Fearful" Investor Look Like?

Based on the responses from its recent investor behavior survey, MFS Investment Management® (MFS®) was able to classify 12% of respondents as "fearful," 18% "hopeful," and 11% "opportunistic." From that, MFS is able to report the following statistical measures of the attitudes and behaviors of those in need of the most help, the self-described "fearful" investors:

"We're closing out a decade book-ended by the dot-com bubble burst and the worst recession since the Great Depression — perhaps reengaging with clients about investing basics would be a good place for advisors and their clients to start, to help to make the novice less nervous."

- 89% were very concerned about another serious drop in the stock market
- 73% have lowered their expectations about what life will be like in retirement
- 71% were pessimistic in their outlook for the U.S. economy over the next five years
- 62% prefer low risk investments today even if means low returns
- 61% identify themselves as a saver more than an investor
- 54% agreed that they will never feel comfortable investing in the stock market again
- 49% are overwhelmed by all the different investment choices they have available to them
- 48% said their need for financial advice has increased since the downturn
- 39% decreased their contributions to 401(k) plans and Individual Retirement Accounts (IRAs)
- 37% of their portfolios are in cash

Education linked to retirement security: Transamerica

A study by the non-profit Transamerica Center for Retirement Studies addresses the differences in American workers' retirement preparedness based on their level of education.

The 11th Annual Transamerica Retirement Survey, conducted among nearly 3,600 American workers, found that the levels of educational attainment among American workers are strongly correlated to their retirement confidence, as well as their ability to save and plan for retirement. The study also makes recommendations for outreach initiatives and public policy, including promoting available tax incentives, improving financial and retirement literacy, and expanding retirement plan coverage, to help improve retirement security among all workers.

Level of educational attainment plays a significant role in Americans' ability to participate in the workforce. However, once employed, workers with lower levels of education are still often at a disadvantage as it relates to their ability to save and plan for retirement.

Just 60% of workers who only have a high school diploma report being offered a 401(k) or similar plan by their employer, compared to 71% of workers with some college education, 78% of workers with a college degree and 83% percent with post graduate education. Of workers who do have access to a plan, those with only a high school education have a lower participation rate (63%) than those with some form of higher education (77% with some college, 84% with a college degree, and 87% with at least some post graduate education). Those with only a high school education also contribute a smaller percentage of their pay (5% median) compared to those with a college degree (8%percent median).

Workers with lower levels of educational attainment are also significantly less confident in their ability to fully retire with a comfortable lifestyle. Just 40% of high school graduates without any college education are confident in their ability to retire, compared to 53% of college graduates and 64% who have pursued a post graduate education. While most workers agree that they could work until age 65 and not save enough to meet their retirement needs, three-quarters of high school graduates with no college education agree with this sentiment compared to just over 60% of college graduates. Additionally, nearly half of high school graduates without any college education (48%) plan to work past age 70 or not retire at all.

Quarter of UK businesses unprepared for auto-enrolment, says Aon Hewitt

Nearly a quarter of UK businesses have not yet considered the implications of auto-enrolment on their schemes, according to new research from Aon Hewitt.

The consultancy's UK Benefits and Trends Report 2010 found that 23% of over 480 employers surveyed had not yet considered changes needed to their pension schemes in order to comply with the government's new pension legislation.

Surprisingly, it also revealed that only 5% intended to level down employer contribution as they shift to auto-enrolment.

Furthermore, the report found that 17% of respondents operate a stakeholder plan as their main pension scheme, with another 14% operating an active stakeholder plan.

Only 5% run a standalone occupational trust-based plan as their main plan, with a further 5% operating a standalone occupational trust-based plan as an additional active plan.

Occupational trust-based schemes are maintained by 4% of companies as part of a defined benefit (DB) plan, while 3% operate an occupational trust-based plan which is part of a DB scheme, with a defined contribution (DC) plan its main pension arrangement.

Just 1% operate a group self-invested personal pension (SIPP) as their main DC plan, with a further 2% offering a group SIPP as an active, but not primary, DC plan

The overwhelming majority of respondents (95%) do not plan to make imminent changes, pending the rollout of auto-enrolment from 2012, while the remaining 5% intend to decrease employer contributions to their DC plan.

Ernst & Young responds to New York AG's Complaint

The accounting and consulting firm issued the following statement this week:

We intend to vigorously defend against the civil claims alleged by the New York Attorney General.

There is no factual or legal basis for a claim to be brought against an auditor in this context where the accounting for the underlying transaction is in accordance with the Generally Accepted Accounting Principles (GAAP). Lehman's audited financial statements clearly portrayed Lehman as a highly leveraged entity operating in a risky and volatile industry.

Lehman's bankruptcy occurred in the midst of a global financial crisis triggered by dramatic increases in mortgage defaults, associated losses in mortgage and real estate portfolios, and a severe tightening of liquidity. Lehman's bankruptcy was preceded and followed by other bankruptcies, distressed mergers, restructurings, and government bailouts of all of the other major investment banks, as well as other major financial institutions. In short, Lehman's bankruptcy was not caused by any accounting issues.

What we have here is a significant expansion of the Martin Act. Although the Martin Act is almost 90 years old, we believe this is the first time that an Attorney General is attempting to use this law to assert claims against an accounting firm, rather than the company that took the alleged actions.

Save your payroll tax cut—Principal Financial

In 2011, most American workers will get a two percent boost to their paychecks thanks to the new tax extension bill. It provides a Social Security "tax holiday" by decreasing the current payroll tax rate to 4.2% from 6.2% for one year.

That extra two percent could potentially make a significant difference in their retirement nest eggs over time, says the Principal Financial Group. For example, a 30-year-old earning $50,000 a year who defers an extra 2 percent into his or her 401(k) account over the next year would boost the weekly 401(k) contribution by a little more than $19. That amount could potentially grow to more than $16,600 by retirement at age 66.

"For Americans who can afford it, why not just put part or all of that two percent tax cut into your 401(k) or 403(b) account? It's money you aren't used to spending anyway," said Greg Burrows, senior vice president, retirement and investor services at The Principal. "It may be just the amount to get closer to saving between 11% and 15% of pay. We believe most retirement plan participants should be saving in that range–including employer match—over the course of a career to have adequate income at retirement."

Workers who are 50 years and older and already maxing out on their retirement plan contributions, could use the 2 percent as part of their catch-up contribution.

"When Americans on average are saving about half of what they need for a secure retirement, any additional amount is a good thing," said Burrows.

Romania approves pension reform with changes to indexation, retirement age

Romania is set to increase its retirement age and reduce the level of pension indexation, after reform laws were approved by its president this week.

Under the new law, the retirement age for men will increase from 64 to 65, while women will be expected to work until 63, rather than 59, by 2030. There will also be a proportional increase in the mandatory contributory period.

Additionally, the indexation of public pensions will be much less generous than it is at present, with the current earnings-linked basis replaced by so-called Swiss indexation, which increases pensions by the price index plus wage growth.

The changes have been welcomed by Romanian Pension Funds' Association (APAPR) as making the system more sustainable.

Mihai Bobocea, secretary general, APAPR, said: "Overall, the new pension law somewhat brings the public system a bit closer to where it should be from a sustainability point of view, and it will also help Romania to continue its agreements with international financial institutions."

Bobocea said: "However, even after this review, the indexation model envisaged for public pensions in the future will definitely prove over-generous, and will have to be toned down. But for now I'm sure all stakeholders should be glad with this reasonable compromise: even though it seems painful from a social perspective, it's sound, and a lot more sustainable from a budgetary and economic point of view."

The changes have been introduced to help secure further IMF funding, but have experienced a stormy passage because of the associated cuts in benefits and legislation has taken over a year to be enacted. Despite this, its original draft is still largely intact.