TIAA-CREF institute

TRENDS AND ISSUES

SEPTEMBER 2009

RETIREMENT SAVERS RESPOND TO THE MARKET MELTDOWN: AVOIDING THE "HAIL MARY" PASS IN HIGHER EDUCATION

Paul J. Yakoboski
Principal Research Fellow
TIAA-CREF Institute

EXECUTIVE SUMMARY

The Dow Jones Industrial Average (DJIA) closed at 13058.20 on May 2, 2008; less than one year later the DJIA closed at 6547.05 on March 9, 2009, a drop of 50%. No one saving for retirement with any degree of market exposure would be unaffected by developments of such magnitude. Workers nearing retirement age are potentially the most likely to have been impacted depending on their investment allocations and the time proximity to their planned retirement date.

In the wake of the financial markets meltdown, a deeper understanding of how workers now view their retirement income security and changes they have made in their savings and planning is needed as employers, including colleges and universities, consider potential changes in retirement benefits and retirement policies, and as public policy makers begin considering potential changes to the retirement income system in the United States.

Data from a recent survey of 1,002 near-retirees (age 50 to 70) in the higher education sector who are saving for retirement indicates realism among this group as they adjust their savings in response to the financial market meltdown. The survey measured the self-reported attitudes and actions of respondents and did not examine actual investment outcomes or objective measures of retirement preparedness.

One-half of these near-retirees have changed their retirement savings rate and/or the investment allocation of their retirement savings during the past year in response to the economy and financial markets—11% changed the amount being saved, 28% changed their asset allocation and 13% have changed both the amount they are saving and the investment allocation of their savings.

Among these near-retirement savers, there is a focus on managing investment risk—52% view protecting existing retirement savings from large drops in value as their most important investment objective, while 40% consider growing retirement savings for a comfortable retirement to be their primary objective. So it is not surprising that 83% of those making an investment change decreased their equity exposure.

TIAA CREF
FINANCIAL SERVICES FOR THE GREATER GOOD®

Among those changing their savings level, 61% increased it. Coupled with previous TIAA-CREF Institute research that demonstrated the importance of contribution levels over other factors, such as asset allocation, for ensuring an adequate level of retirement income, this indicates many intend to make up lost ground in a prudent manner with a long-term perspective as opposed to looking for a quick fix through market timing which would amount to attempting the retirement savings equivalent of a "Hail Mary" pass. Further working in retirees favor is that only 4% of individuals reported that their institution altered its contribution rate to their retirement account in the past year.

Inevitably, most individuals will be reevaluating their situation, savings rates and investments as markets recover. Effective management of retirement patterns on campus will necessitate colleges and universities recognize the impact of recent events on their employees, both on their account statements and in their minds. And workers in all sectors of the economy will require assistance with objectively evaluating the adequacy of their resources and adapting their retirement planning and saving accordingly.

INTRODUCTION

The status of current workers' retirement savings and, ultimately, their retirement income security has been the subject of ongoing discussion and speculation given the meltdown in financial markets and the ongoing recession. This is true for the U.S. labor market at large, as well as the higher education sector in particular. In the wake of the market meltdowns, a deeper understanding of the reactions of current workers and how they view their retirement security is needed as employers, including colleges and universities, consider potential changes in retirement benefits and retirement policies, and as public policy makers begin considering potential changes to the retirement income system in the United States. This report presents such information for higher education.

The data is based on a survey of college and university employees aged 50 to 70 who are saving for retirement, thus individuals likely to be more impacted from a retirement perspective by market developments since they are nearing what are viewed as typical retirement ages.[1] This report examines their views regarding the impact and their responses in terms of adjusted savings levels, investment allocations and plans for retirement. This survey complements other TIAA-CREF Institute research[2] by examining different classes of employees in higher education (faculty, staff and administration) and by examining those who are relatively young (age 50 to 64) versus those who are relatively old (age 65 to 70) among "near-retirees."[3]

ADJUSTMENTS IN SAVINGS AND INVESTING

One-half (52%) of higher education near-retirees have made adjustments in their retirement savings during the past year in response to developments in the economy and financial markets (table 1). Specifically, 11% changed the amount being saved, 28% changed their investments and 13% have changed both the amount they are saving for retirement and the investment allocation of their retirement savings.

1 1,002 individuals were surveyed by telephone during April and May, 2009 regarding their financial preparations for retirement and their views regarding those preparations. PublicMind of Fairleigh Dickinson University fielded the survey and collaborated with the TIAA-CREF Institute and TIAA-CREF on development of the questionnaire. The survey was restricted to individuals whose primary retirement plan is a defined contribution plan. Survey results were weighted to be representative of the population of interest. Individuals who did not envision themselves as ever retiring or leaving the workforce for any reason were excluded from the survey.

2 See Yakoboski, Paul J. "Managing Risks in a Market Meltdown." TIAA-CREF Institute *Trends and Issues* (June 2009).

3 The survey sample included 500 individuals age 50 to 64, 502 individuals age 65 to 70, 584 individuals employed as faculty, 230 employed as staff, and 188 in administration positions.

TABLE 1
IMPACT OF FINANCIAL MARKET AND ECONOMIC DEVELOPMENTS ON RETIREMENT SAVINGS, 2008-2009, AMONG HIGHER EDUCATION EMPLOYEES (AGE 50-70)

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMINISTRATION
Changed both savings amount and asset allocation	13%	13%	13%	8%	18%	16%
Changed only savings amount	11	11	10	11	9	13
Changed only asset allocation	28	28	26	29	28	25
Made no changes	48	48	51	52	45	46
Direction of savings change:						
Increased	61%	60%	66%[a]	64%	48%	79%[b]
Decreased	39	40	34[a]	36	52	21[b]
Direction of investment change:						
Increased equity exposure	17%	16%	21%	18%	15%	16%
Decreased equity exposure	83	84	79	82	85	84
Individuals whose employer changed its contribution rate	4%	4%	5%	4%	1%	11%

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
[a]Based on conditional sample size of 35; result should be viewed qualitative in nature.
[b]Based on conditional sample size of 59; result should be viewed qualitative in nature.
Source: TIAA-CREF Institute (2009)

Adjustments are to be expected given the magnitude of the drops in financial markets. Whether the adjustments made were good in terms of moving someone back on track to a financially secure retirement depends on the underlying motivation.

Among the 24% changing the amount they are saving for retirement, 61% increased their savings and 39% decreased it. So among those adjusting savings rates, most appear to be compensating for investment losses as opposed to trying to avoid further losses. There is also the benefit of "dollar-cost averaging" into a down market with those contributions. Previous TIAA-CREF Institute research has clearly demonstrated the overriding importance of contribution levels over other factors, such as asset allocation, for ensuring an adequate level of retirement income.[4]

The overwhelming majority of those making an asset allocation change in response to developments in the economy and financial markets decreased their equity exposure; 83% versus 17% who increased their equity exposure. This is not surprising given that 52% of college and university near-retirement savers view protecting existing retirement savings from large drops in value as their most important investment objective (table 2). Alternatively, 40% consider growing retirement savings for a comfortable retirement to be their primary objective. If market developments led an individual to an overdue evaluation of his or her asset allocation strategy which resulted in adjustments, then such changes should be viewed as positive. If changes were merely a reaction to a dropping market, then the individual must subsequently decide when to undo those changes; such attempts at market timing can result in significant losses in the long-term.

4 Hammond, Brett P., and David P. Richardson. "A New Look at Retirement Savings and Adequacy: Individual Investment Risk Management and the Asset Salary Ratio." Prepared for the Pension Research Council Annual Meeting, April 30, 2009.

TABLE 2
MOST IMPORTANT OBJECTIVE IN MAKING RETIREMENT SAVINGS INVESTMENT DECISIONS AMONG HIGHER EDUCATION EMPLOYEES (AGE 50-70)

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMINISTRATION
Growing retirement savings for a comfortable retirement	40%	42%	27%	46%	31%	41%
Protecting existing retirement savings from large drops in value	52	49	66	43	65	48
Don't know/Not sure	9	9	6	11	4	11

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2009)

Those closest to retirement age are most likely to view asset protection as their primary objective (66% of those ages 65 to 70); this is not surprising since they have less time to make-up investment losses. Among near-retirees in the age 50 to 64 cohort, growing savings is relatively more common as the primary objective (42% compared with 27% for those age 65 to 70), but more (49%) still indicate protecting assets as most important. Staff are notably more focused on protecting their retirement savings with their investment decisions, and faculty are the only near-retiree group where more value growing savings (46%) over protecting savings (43%).

Only 4% reported that their employer had changed the amount it contributes to the individual's retirement account in the past year (table 1). While colleges and universities continue to cut budgets and evaluate spending across their campuses, including compensation and benefits, relatively few employees appear to have been impacted to date in terms of the generosity of their primary retirement plan. Administration was more likely than faculty and staff to be impacted in this regard. Only 42 survey respondents were impacted by such a change; among these individuals, three-quarters reported a decrease in their employer's contribution rate.[5]

ADJUSTING EXPECTATIONS

The recession and downturn in financial markets have impacted the retirement plans of a sizeable minority of higher education near-retirees—27% expect to retire at an older age compared to their expectations one year ago (table 3). The typical (median) increase in expected retirement age among these individuals is three years. Employees in administration are the most likely to have pushed back their expected date of retirement (42% compared with 22% of staff and 23% of faculty). Given the nature of their positions, factors other than personal finances may also enter the decision-making process of individuals in administration, e.g., given the unprecedented nature of the situation facing colleges and universities, they may feel a duty to delay a planned retirement until they help guide their institution through the current financial challenges.

5 Result should be viewed as qualitative in nature given the small conditional sample size.

TABLE 3
IMPACT OF FINANCIAL MARKET AND ECONOMIC DEVELOPMENTS ON RETIREMENT PLANNING, 2008-2009, AMONG HIGHER EDUCATION EMPLOYEES (AGE 50-70)

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMINISTRATION
Expected retirement age increased	27%	27%	25%	23%	22%	42%
Average years increased	3.4	3.6	2.6	3.0	3.6	3.7
Median years decreased	3	3	2	3	3	3

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.
Source: TIAA-CREF Institute (2009)

STICKING WITH THE GAME PLAN VS. THROWING THE "HAIL MARY"

The magnitudes of the recession and drops in financial markets over the past year-plus have been an unprecedented experience for current workers. It is natural and advisable for retirement savers, especially those nearing retirement age, to review the adequacy of their savings and consider adjustments in their financial preparations. Account balances have been impacted to a degree dependent on the investment allocation of an individual's savings, and individuals at this career stage may view themselves as having less time to "make up" investment losses.

In such an environment, savers must be realistic with their expectations and prudent with their behavior. For example, increasing savings rates and adhering to a consistent, long-run investment plan is a better strategy for "catching-up" than trying to complete a "Hail Mary" touchdown pass with investment choices and timing rebounds in the financial markets. In addition, when contemplating retirement, individuals should consider non-financial resources as well as financial resources available to help them meet their needs. Explicit consideration of a broader range of resources presents a truer picture of one's readiness for retirement; such evaluations are often best done with the assistance of a professional planner.[6] If offered by their employer, individuals will also want to consider how a phased retirement program matches with their retirement aspirations and readiness.[7]

6 See Yakoboski, Paul J. "Managing Risks in a Market Meltdown." TIAA-CREF Institute *Trends and Issues* (June 2009).
7 See Yakoboski, Paul J. "Managing Retirement in Higher Education." TIAA-CREF Institute *Advancing Higher Education* (April 2009).

ABOUT THE AUTHOR

Paul Yakoboski is a Principal Research Fellow with the TIAA-CREF Institute. He conducts, manages and communicates research on issues such as income and asset management in retirement, defined contribution plan design, the preparation of higher education faculty for retirement, managing faculty retirement patterns, options for funding retiree health care, and research on issues related to strategic management in higher education. He is also responsible for the development and execution of Institute symposiums on such issues. In addition, Yakoboski serves as director of the Institute's Fellows Program and editor of the Institute's *Trends and Issues* and *Advancing Higher Education* publication series.

Prior to joining the Institute, he held positions as Director of Research for the American Council of Life Insurers (2000 to 2004), Senior Research Associate with the Employee Benefit Research Institute (1991 to 2000) and Senior Economist with the U.S. Government Accountability Office (1989 to 1991). He is a member of the American Economic Association and serves on the editorial advisory board of *Benefits Quarterly*. He previously served as Director of Research for the American Savings Education Council (1995 to 2000). Between 1986 and 1988 he served as an adjunct faculty member at Nazareth College. Yakoboski earned his Ph.D. (1990) and M.A. (1987) in economics from the University of Rochester and his B.S. (1984) in economics from Virginia Tech.

The author thanks Sayantani Biswas for her research assistance in producing this report.