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EXECUTIVE SUMMARY

2010 Health Confidence Survey: Health Reform Does Not Increase Confidence in the Health Care System

THE LATEST HCS: Findings from the 2010 Health Confidence Survey (HCS) demonstrate that, despite the recent passage of health reform, dissatisfaction with the American health care system remains widespread. Furthermore, while confidence regarding various aspects of today's health care system is not high, it has neither fallen nor increased as a result of passage of health reform.

EFFECT OF PPACA YET TO BE FELT: Since health reform was enacted just in March of this year, and implementing regulations have yet to be fully issued, the impact of the law—the Patient Protection and Affordable Care Act of 2010 (PPACA)—has yet to be felt. The survey finds most Americans do not know when the legislation takes full effect.

OWN PLANS ARE RATED HIGHLY: Americans' ratings of their own health plan are generally favorable. Fifty-eight percent of those with health insurance coverage are extremely or very satisfied with their current plan, and 30 percent are somewhat satisfied, the HCS finds.

DOUBTS ABOUT FUTURE OF HEALTH BENEFITS: Confidence in the future availability of employment-based health benefits fell. In 2010, 52 percent of individuals with employment-based coverage reported that they were extremely or very confident that their (or their spouse's) employer or union would continue to offer health insurance, down from 59 percent in 2009. The decline may be due to passage of health reform, the continuing weak economy, or both.

Retirement Income Adequacy for Today's Workers: How Certain, How Much Will It Cost, and How Does Eligibility for Participation in a Defined Contribution Plan Help?

BUILDING ON RSPM: This analysis builds on EBRI's Retirement Security Projection Model® (RSPM) to determine how much households need to save each year until retirement to maintain a probability level they will be able to afford simulated retirement expenses for the remainder of the lifetime of the family unit.

IMPACT OF DEFINED CONTRIBUTION PLANS: The RSPM model shows that eligibility for a defined contribution (primarily 401(k)) retirement plan has a significant positive impact on reducing the additional compensation most families need to achieve the desired level of retirement income adequacy. This finding has major implications for any policies that would decrease the percentage of workers eligible to participate in defined contribution retirement plans.

2010 Health Confidence Survey: Health Reform Does Not Increase Confidence in the Health Care System

By Ruth Helman, Mathew Greenwald & Associates, and Paul Fronstin, Employee Benefit Research Institute

Overview

Findings from the 2010 Health Confidence Survey (HCS) demonstrate that, despite the recent passage of health reform, dissatisfaction with the American health care system remains widespread. Furthermore, while confidence regarding various aspects of today's health care system is not high, it has neither fallen nor increased as a result of passage of health reform.

Since health reform was enacted just in March of this year, and implementing regulations have yet to be fully issued, the impact of the law—the Patient Protection and Affordable Care Act of 2010 (PPACA)—has yet to be felt. However, confidence in the future availability of employment-based health benefits may have been affected by the passage of health reform, with fewer individuals confident that employment-based health coverage will be available to them in the future. The survey finds most Americans do not know when the legislation takes full effect.

The 2010 HCS represents the 13th wave of an annual survey to assess the attitudes of the American public regarding the health care system in the United States. Among its key findings:

- The HCS was conducted two months after the passage of health reform, and finds that dissatisfaction with the American health care system remains widespread. A majority of Americans rate the health care system as poor (27 percent) or fair (31 percent).
- Confidence about various aspects of today's health care system has remained fairly level despite passage of health reform. More than one-half report being extremely or very confident that they are able to get the treatments they need. Confidence in having enough choice about who provides medical care is largely unchanged from 2009 levels. The percentage of individuals who say they are extremely confident that they are able to afford health care without financial hardship increased from 11 percent to 16 percent between 2009 and 2010. The increase came at the expense of decreases in the percentage reporting that they were very or somewhat confident.
- Americans' ratings of their own health plan are generally favorable. Fifty-eight percent of those with health insurance coverage are extremely or very satisfied with their current plan, and 30 percent are somewhat satisfied.
- Satisfaction with health care quality continues to remain fairly high, with 59 percent of Americans saying they are extremely or very satisfied with the quality of the medical care they have received in the past two years. This is the highest level of satisfaction reported since the HCS was started in 1998. In contrast, just 22 percent are extremely or very satisfied with the cost of their health insurance, and only 19 percent are satisfied with the cost of health care services not covered by insurance.
- Confidence in the future availability of employment-based health benefits fell. In 2010, 52 percent of individuals with employment-based coverage reported that they were extremely or very confident that their (or their spouse's) employer or union would continue to offer health insurance, down from 59 percent in 2009. The decline may be due to passage of health reform, the continuing weak economy, or both.
- Many Americans see themselves as good consumers of the health care system. Three-quarters report that they always or often have their doctor or medical professional explain to them why a test was needed, and two-thirds say they ask their doctor about the risks of treatment or side effects of medications. Slightly more than one-half indicate they ask about the success rate of the treatment option. Fewer say they always or often bring a list of medications, bring a list of symptoms, ask about less costly treatment options or medications, or ask for less invasive or easier treatment options.
- Many Americans have tried to find objective information about various aspects of health care. Nearly one-half tried to find information on the advantages and disadvantages of different treatment options, whereas 1 in 3 tried

to find information about a doctor's training and the costs of different treatments. Fewer had sought information on costs of doctors and hospitals, the number and success rate of hospital-based procedures, or disciplinary actions. Among those seeking information, between 17 percent and 35 percent found all of the information they sought, whereas between 54 percent–72 percent found some of the information being sought.

- Many Americans may not be ready to use rating systems to make decisions about providers. Only about 1 in 3 indicates they would be extremely or very comfortable using such a rating system to find a doctor or hospital. Individuals rank the importance of information about the effectiveness of different types of treatments much more highly than a rating system based on cost. One-half think information about the effectiveness of different types of treatments would be extremely important if they were trying to choose a treatment, and 31 percent think it would be very important.

When it comes to the recently passed PPACA, most Americans do not know when the legislation takes full effect. One-quarter think it takes full effect before 2014, and 21 percent think it takes full effect in 2014. Eight percent think it takes full effect during 2015–2017, while only 1 percent reported 2018. Four in 10 Americans voluntarily reported that they did not know when the legislation takes full effect. Among individuals who plan to vote in November, 71 percent report that health reform will affect how they vote while 26 percent report that it will not affect how they vote. (In fact, some aspects of PPACA take effect with health benefit plan years that start after Sept. 23, 2010; the health insurance exchanges and other major insurance-market reforms take effect in 2014; the excise tax on high-cost health plans takes effect in 2018).

The American Health Care System

Health care is not the issue that the majority of Americans consider to be most pressing in America today. They are more likely to identify the economy (31 percent) and unemployment (18 percent), than to name health care (13 percent), and are just as likely to identify the federal budget deficit (13 percent), when asked about the most critical issue facing America today. Nevertheless, even two months after passage of the PPACA and the Health Care and Education Reconciliation Act (HCERA), dissatisfaction with the American health care system remains widespread.

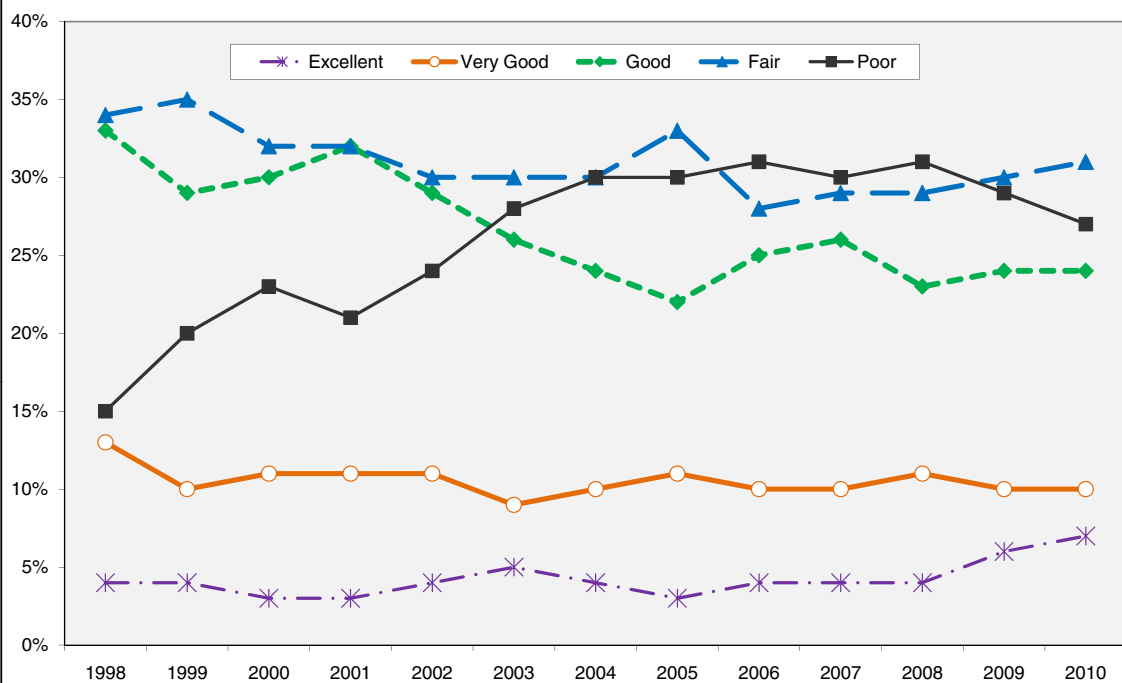
When asked to rate the health care system, a majority describe it as poor (27 percent) or fair (31 percent). Almost one-quarter (24 percent) consider it good, while only a small minority rate it very good (10 percent) or excellent (7 percent). The percentage of Americans rating the health care system as poor doubled between 1998 and 2004 (rising from 15 percent to 30 percent), and while it appears to have dropped slightly, the decline is not statistically significant (Figure 1).

Confidence about various aspects of today's health care system has also remained fairly level so far in the wake of the passage of health reform. More than one-half (55 percent) of respondents report being extremely or very confident that they are able to get the treatments they need (Figure 2). While the percentage who are extremely confident increased slightly—although not a statistically significant amount—from 22 percent in 2009 to 25 percent in 2010, the increase came at the expense of a decrease in the percentage of those who are very confident and somewhat confident. There was no change in the percentage not too confident and only a slight increase in the percentage not at all confident.

Confidence in having enough choice about who provides medical care is largely unchanged from 2009 levels. Nearly one-half (47 percent) were extremely or very confident that they would have enough choice about who provides their medical care. Thirty percent were somewhat confident, and 22 percent were not too or not at all confident.

The percentage of individuals who say they are extremely confident that they are able to afford health care without financial hardship increased from 11 percent to 16 percent between 2009 and 2010. But the increase came at the expense of decreases in the percentage reporting that they were very or somewhat confident. The percentage of individuals who say they are not too or not at all confident they are able to afford health care without financial hardship was unchanged.

Figure 1
Rating of Health Care System in America, 1998–2010



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1998–2010 Health Confidence Surveys.

Figure 2
Confidence in Selected Aspects of Today's Health Care System, 2002–2010

	Ability to Get Needed Treatments									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Extremely Confident	21%	18%	17%	22%	20%	19%	19%	22%	25%	
Very Confident	34	33	33	37	33	34	32	35	30	
Somewhat Confident	32	34	34	29	31	32	32	28	26	
Not Too Confident	6	7	7	5	7	7	7	7	7	
Not At All Confident	6	6	9	6	8	8	9	8	11	
	Enough Choice About Who Provides Medical Care									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Extremely Confident	20%	13%	15%	16%	14%	12%	16%	19%	21%	
Very Confident	25	30	27	33	28	31	26	30	26	
Somewhat Confident	35	36	36	32	38	35	33	29	30	
Not Too Confident	10	11	9	8	7	9	12	11	10	
Not At All Confident	8	9	12	9	11	11	11	10	12	
	Ability to Afford Health Care Without Financial Hardship									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Extremely Confident	14%	13%	11%	12%	11%	12%	12%	11%	16%	
Very Confident	21	19	23	21	18	19	19	20	18	
Somewhat Confident	33	31	31	33	32	31	26	29	25	
Not Too Confident	13	16	11	13	13	15	16	12	12	
Not At All Confident	18	21	23	21	25	21	26	26	28	

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2002–2010 Health Confidence Surveys.

Confidence about the health care systems decreases as Americans look to the future. While 55 percent of Americans indicate they are extremely or very confident about their ability to get the treatments they need today, only 32 percent are confident about their ability to get needed treatments during the next 10 years, and just 19 percent are confident about this once they are eligible for Medicare. Similarly, 47 percent are confident they have enough choice about who provides their medical care today, but only 30 percent are confident about this aspect of the health care system over the next 10 years and just 17 percent are confident that they will have enough choice once they are eligible for Medicare. Finally, 34 percent of Americans say they are confident they are able to afford health care without financial hardship today, but this percentage decreases to 24 percent when they look out over the next 10 years and to 18 percent when they consider the Medicare years (Figure 3).

In contrast to the ratings for the health care system overall, Americans' ratings of their own health plan are generally favorable. Fifty-eight percent of those with health insurance coverage are extremely or very satisfied with their current plan, and 30 percent are somewhat satisfied. Only 10 percent say they are not too or not at all satisfied (Figure 4).

Dissatisfaction with the health care system appears to be focused primarily on cost. Indeed, satisfaction with health care quality continues to remain fairly high, with 59 percent of Americans saying they are extremely or very satisfied with the quality of the medical care they have received in the past two years. This is the highest level of satisfaction reported since the HCS was started in 1998. In contrast, just 22 percent are extremely or very satisfied with the cost of their health insurance, and only 19 percent are satisfied with the costs of health care services not covered by insurance (Figure 5).

Confidence in the future availability of employment-based health benefits has declined. The decline may be due to passage of health reform, the continuing weak economy, or both. In 2010, 52 percent of individuals with employment-based coverage reported that they were extremely or very confident that their (or their spouse's) employer or union would continue to offer health insurance, down from 59 percent in 2009 (Figure 6). Confidence was as high as 68 percent in 2000. The decline in confidence between 2009 and 2010 does not result in an increase in the percentage of individuals reporting that they are not confident their employer would continue offering coverage. Instead, the percentage of individuals reporting that they were somewhat confident increased from 25 percent to 30 percent.

The Cost of Health Care

Roughly half of Americans with health insurance coverage report having experienced an increase in health care costs in the past year (54 percent, no change from 2009 but down from 63 percent in 2007). In response, many of these individuals report they are changing the way they use the health care system. Eighty percent say these increased costs have led them to try to take better care of themselves, and 73 percent indicate they choose generic drugs more often. Substantial majorities also say they talk to the doctor more carefully about treatment options and costs (69 percent) and go to the doctor only for more serious conditions or symptoms (58 percent). The percentage reporting that they talk to the doctor more carefully about treatment options and costs is the highest it has been since the HCS asked this question in 2004. In contrast, the percentage reporting that they go to the doctor only for more serious conditions or symptoms fell from 64 percent in 2009 to 58 percent in 2010. There were also slight but not statistically significant declines in the percentage reporting delaying going to the doctor and the percentage switching to over-the-counter drugs between 2009 and 2010. There were slight but not statistically significant increases in the percentage of individuals reporting that they had looked for cheaper health insurance or looked for less expensive health care providers. These changes may be due to rising health care costs, to the recession, or both.

One-quarter of respondents report they did not fill or skipped doses of their prescribed medications in response to increased costs (unchanged from 2009) (Figure 7).

Insured Americans who experienced an increase in health care costs are more likely than others with health insurance coverage to report changes in behavior. However, the overall effect on the health care system is unclear, since these changes have the potential to delay diagnosis or impede the treatment of more serious conditions. For example, while

Figure 3

Confidence in Selected Aspects of the Health Care System, Today, During the Next 10 Years, and Once Eligible for Medicare

	Ability to Get Needed Treatments		
	Today	During Next 10 Years	Once Eligible for Medicare (among those not currently eligible)
Extremely Confident	25%	13%	8%
Very Confident	30	19	11
Somewhat Confident	26	36	38
Not Too Confident	7	14	19
Not At All Confident	11	15	20
	Enough Choice About Who Provides Medical Care		
	Today	During Next 10 Years	Once Eligible for Medicare (among those not currently eligible)
Extremely Confident	21%	12%	7%
Very Confident	26	18	10
Somewhat Confident	30	33	35
Not Too Confident	10	15	20
Not At All Confident	12	21	24
	Ability to Afford Health Care Without Financial Hardship		
	Today	During Next 10 Years	Once Eligible for Medicare (among those not currently eligible)
Extremely Confident	16%	11%	7%
Very Confident	18	13	11
Somewhat Confident	25	33	34
Not Too Confident	12	17	20
Not At All Confident	28	24	25

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2010 Health Confidence Survey.

Figure 4

Satisfaction With Current Health Plan, 1998–2010

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Extremely Satisfied	16%	15%	14%	12%	13%	14%	16%	17%	18%	17%	17%	21%	25%
Very Satisfied	36	38	36	39	39	36	31	37	36	38	36	37	33
Somewhat Satisfied	35	36	38	35	34	41	36	35	35	33	33	30	30
Not Too Satisfied	8	6	7	7	7	7	9	6	6	5	9	7	6
Not At All Satisfied	3	3	4	3	6	2	6	4	3	7	5	4	4

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1998–2010 Health Confidence Surveys.

Figure 5

Satisfaction With Selected Aspects of Health Care Received in Past Two Years, 1998–2010^a

	Quality of Medical Care Received												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Extremely Satisfied	15%	13%	12%	13%	13%	15%	14%	15%	15%	14%	17%	19%	21%
Very Satisfied	37	35	37	40	39	37	38	42	37	36	32	37	38
Somewhat Satisfied	30	31	35	32	34	31	31	31	30	35	36	31	27
Not Too Satisfied	4	6	5	4	4	5	5	4	4	5	6	5	5
Not At All Satisfied	2	3	4	2	3	3	4	5	3	4	5	4	4
Don't Know/ Refused	1	1	<0.4	<0.5	1	1	1	<0.5	1	1	1	1	1
Not Applicable	11	11	6	9	6	8	8	3	11	4	3	3	5
	Cost of Health Insurance												
Extremely Satisfied	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Very Satisfied	12%	7%	7%	10%	9%	6%	9%	7%	5%	5%	6%	5%	7%
Somewhat Satisfied	17	17	15	19	17	16	16	21	11	11	11	16	15
Not Too Satisfied	29	30	29	28	27	24	26	32	27	28	29	28	26
Not At All Satisfied	16	17	18	15	15	19	11	14	16	18	16	18	17
Don't Know/ Refused	13	13	19	15	21	21	23	19	35	30	31	28	28
Not Applicable	1	2	1	2	2	1	1	2	1	2	2	2	2
	12	15	9	12	8	12	13	6	4	3	5	4	4
	Health Costs Not Covered by Insurance												
Extremely Satisfied	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Very Satisfied	7%	5%	5%	7%	5%	4%	6%	7%	4%	5%	4%	6%	7%
Somewhat Satisfied	13	15	14	17	15	15	13	14	11	11	11	12	12
Not Too Satisfied	27	28	28	25	26	25	26	30	28	29	26	23	21
Not At All Satisfied	18	15	18	15	18	21	15	16	16	18	18	19	14
Don't Know/ Refused	3	2	2	2	4	2	2	3	1	1	4	3	4
Not Applicable	16	17	11	13	8	11	13	10	7	7	9	7	8

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1998–2010 Health Confidence Surveys.
^a Statistics for 1998–2004 were recalculated and may not agree with previously published data. An intervening question screening out respondents who reported these questions were not applicable was omitted from the 2005–2010 HCS. These respondents have been added to the “not applicable” category to achieve rough compatibility with 2005–2010 data.

Figure 6

Confidence That Employer or Union Will Continue to Offer Health Insurance, Selected Years, 2000–2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Extremely Confident	30%	28%	27%	29%	35%	-	-	28%	-	29%	21%
Very Confident	38	36	34	32	27	-	-	30	-	30	31
Somewhat Confident	25	26	27	26	23	-	-	28	-	25	30
Not Too Confident	4	5	7	8	7	-	-	6	-	7	8
Not At All Confident	3	4	4	5	6	-	-	6	-	8	8

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2000–2010 Health Confidence Surveys.

those experiencing health care cost increases are more likely to report choosing generic drugs (73 percent vs. 57 percent), talking to the doctor more carefully about treatment options and costs (69 percent vs. 44 percent), and looking for less expensive health care providers (34 percent vs. 14 percent), they are also more likely to go to the doctor only for more serious conditions and symptoms (58 percent vs. 47 percent) and to delay going to the doctor (44 percent vs. 27 percent).

The rising cost of health care also causes many Americans to encounter financial difficulties. Among those experiencing an increase in cost under their plan in the past year, 31 percent state they have decreased their contributions to a retirement plan, and more than half (55 percent) have decreased their contributions to other savings as a result. Twenty-eight percent also indicate they have had difficulty paying for basic necessities, like food, heat, and housing, while 37 percent say they had difficulty paying other bills. Twenty-nine percent say they have used up all or most of their savings, 24 percent have increased their credit card debt, and 21 percent report borrowing money. These findings are unchanged from the 2009 findings (Figure 8).

Consumer Issues

Respondents to the 2010 HCS were asked several questions about their involvement in decisions about their own health care and the extent to which they might use new tools to make better decisions about their care.

Many Americans see themselves as good consumers of the health care system. Three-quarters (73 percent) report they always or often have their doctor or medical professional explain to them why a test was needed, and two-thirds (64 percent) say they ask their doctor about the risks of treatment or side effects of medications (Figure 9). Slightly more than one-half (55 percent) indicate they ask about the success rate of the treatment option. Fewer say they always or often bring a list of medications (47 percent), bring a list of symptoms (45 percent), ask about less costly treatment options or medications (42 percent), or ask for less invasive or easier treatment options (39 percent). These findings were in large part unchanged from 2009 with two exceptions: There was an 8 percentage point increase in the portion of Americans reporting that they never ask about the success rate of a treatment option, and a 6 percentage point increase in the portion reporting that they never bring a list of medications.

Many Americans have tried to find objective information about various aspects of health care. Nearly one-half tried to find information on the advantages and disadvantages of different treatment options (45 percent), whereas 1 in 3 tried to find information about a doctor's training (32 percent) and the costs of different treatments (28 percent) (Figure 10). Fewer had sought information on costs of doctors and hospitals (24 percent), the number and success rate of hospital-based procedures (22 percent), or disciplinary actions (14 percent). Among those seeking information, between 17 percent and 35 percent (depending on the specific question) found all of the information they sought, whereas between 54 percent–72 percent found some of the information being sought. Between 3 percent and 10 percent of respondents did not find any of the information they sought (data not shown), except among those looking for information on disciplinary actions (23 percent did not find any of this information).

The government, employers, and the health care industry are developing objective rating systems for hospitals and doctors based on how successfully they have treated patients for specific conditions. However, many Americans may not be ready to use these systems to make decisions about providers. Only about 1 in 3 indicate they would be extremely (10 percent) or very (21 percent) comfortable using such a rating system to find a doctor or hospital. At the other extreme, 9 percent report they would be not too comfortable and 18 percent report they would be not at all comfortable using them. The plurality fall in the middle: 40 percent say they would be somewhat comfortable using a rating system like this to find a doctor or hospital.

Individuals rank the importance of information about the effectiveness of different types of treatments much more highly than a rating system based on cost. One-half think information about the effectiveness of different types of treatments would be extremely important if they were trying to choose a treatment (50 percent), and 31 percent think it would be very important. Very few, only 4 percent, think such information would not be important.

Figure 7

**Changes in Health Care Usage Resulting from Cost Increases,
Among Those Experiencing Increase in Costs, 2004–2010**

	2004	2005	2006	2007	2008	2009	2010
Try to take better care of yourself	74%	71%	80%	81%	76%	79%	80%
Choose generic drugs when available	81	79	82	78	74	77	73
Talk to the doctor more carefully about treatment options and costs	58	57	57	66	63	67	69
Go to the doctor only for more serious conditions or symptoms	57	54	56	64	62	64	58
Delay going to the doctor	45	40	44	50	47	46	44
Switch to over-the-counter drugs	40	33	36	42	39	38	36
Look for cheaper health insurance	26	28	26	29	33	29	33
Look for less expensive health care providers	28	27	26	33	33	29	34
Not fill or skip doses of your prescribed medication	NA	21	22	28	20	25	25

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2004–2010 Health Confidence Surveys.

Figure 8

**Shifts in Resources Resulting From Cost Increases,
Among Those Experiencing Increase in Costs, 2004–2010**

	2004	2005	2006	2007	2008	2009	2010
Decrease your contributions to a retirement plan, such as a 401(k), 403(b), or 457 plan, or an IRA	25%	26%	36%	30%	29%	32%	31%
Decrease your contributions to other savings	48	45	53	52	54	53	55
Have difficulty paying for basic necessities, like food, heat, and housing	18	24	28	29	27	29	28
Have difficulty paying for other bills	30	34	37	36	34	37	37
Use up all or most of your savings	26	29	33	28	27	29	29
Increase your credit card debt	NA	NA	22	20	22	25	24
Borrow money	15	18	21	16	15	20	21

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2004–2010 Health Confidence Surveys.

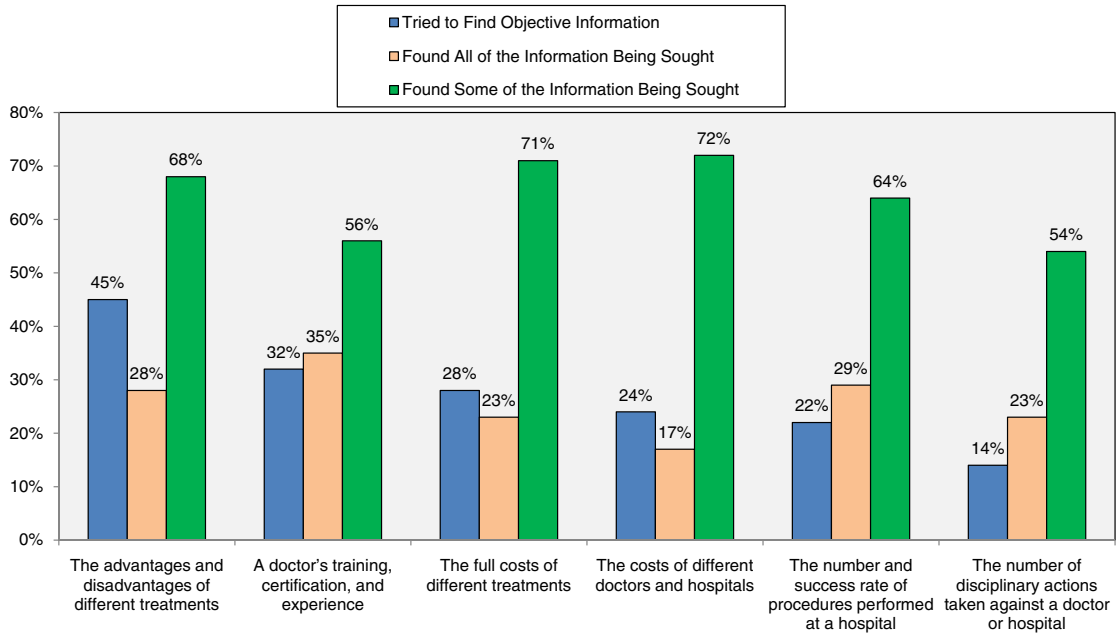
Figure 9

**Reported Consumer Behaviors When Visiting Doctor,
2010, Among Those Visiting a Doctor**

	Always	Often	Sometimes	Rarely	Never
Have your doctor or medical professional explain to you why a test was needed	60%	13%	13%	4%	9%
Ask your doctor about risks of treatment or side effects of medications	51	13	18	7	11
Ask about the success rate of the treatment option	40	15	16	7	22
Bring a list of symptoms	34	11	22	9	23
Bring a list of medications	40	7	10	9	34
Ask about less costly treatment options or medications	29	13	21	9	27
Ask for less invasive or easier treatment options	27	12	25	9	26

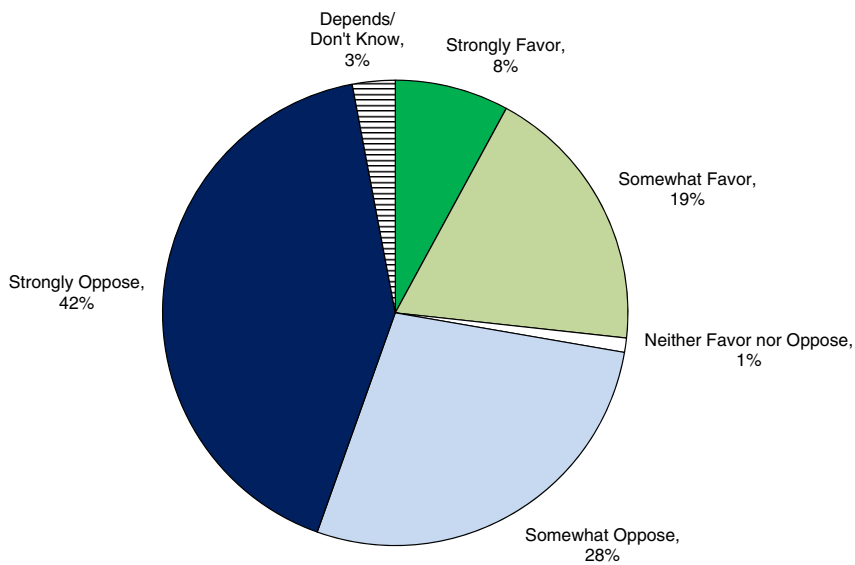
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2010 Health Confidence Survey.

Figure 10
Percentage of Americans Seeking Objective Information and Finding It of Use



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2010 Health Confidence Survey.

Figure 11
Support for Raising the Medicare Eligibility Age to 68 for Full Benefits and Lowering the Eligibility Age for Partial Benefits to 62



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2010 Health Confidence Survey.

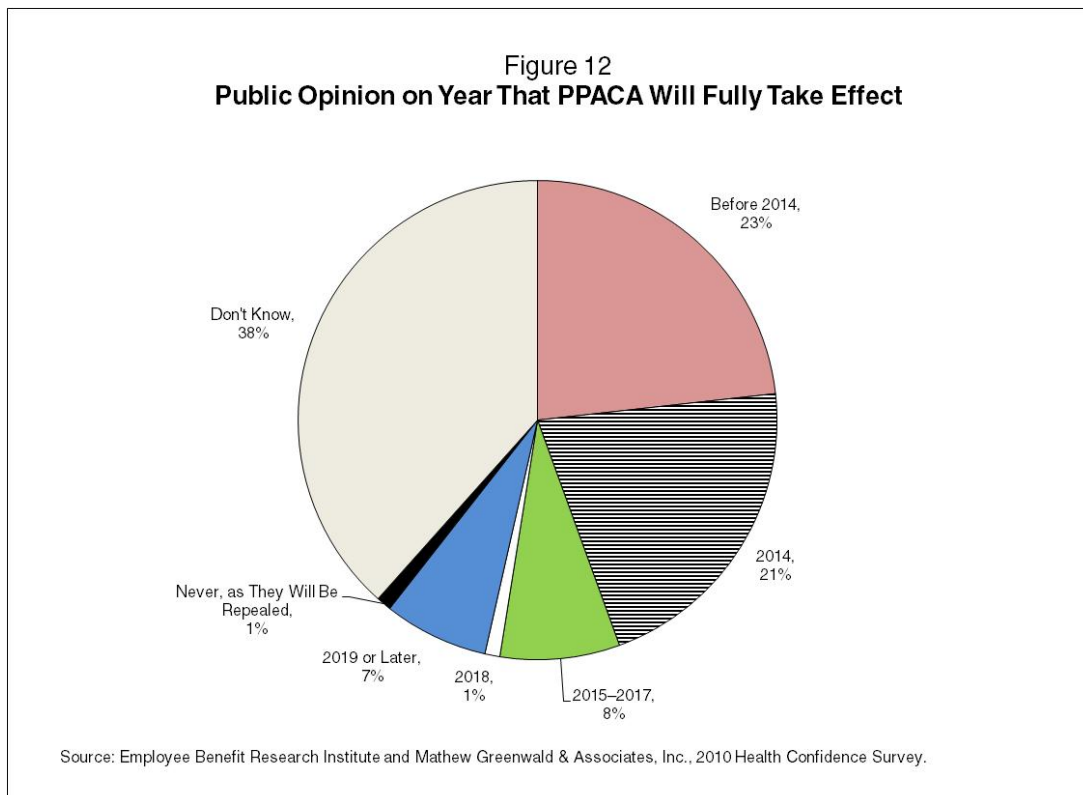
Similarly, the plurality fall in the middle with respect to confidence that an objective rating system for doctors, hospitals, and treatment options would help a person get more effective care. Fifteen percent of respondents are extremely confident that the objective rating system would help them get more effective care. One-quarter are very confident (26 percent), 41 percent are somewhat confident, and 8 percent each are not too and not at all confident.

A majority say that if two doctors' quality ratings were about equal, information about total cost—not just the portion they might pay—would be extremely (29 percent) or very (32 percent) important to them when choosing a doctor. One-quarter indicate total cost would be somewhat important (25 percent), and 12 percent say it would be not too or not at all important.

Health Care Policy

The 2010 HCS asked some basic questions to gauge reactions to questions on Medicare and Social Security, and knowledge of the recently passed PPACA. Slightly more than one-half (55 percent) of Americans think that policymakers should address Social Security reform before addressing Medicare. In contrast, 34 percent think that Medicare should be addressed first. Ten percent did not know which program should be addressed first. When it comes to raising the Medicare eligibility age for full benefits to 68 while at the same time lowering the age for partial benefits to 62, most Americans are against it. Eight percent strongly favor such a proposal and 19 percent somewhat favor it. In contrast, 28 percent somewhat oppose the idea, and 42 percent strongly oppose it (Figure 11).

When it comes to the recently passed PPACA, most Americans do not know when the legislation takes full effect. One-quarter (23 percent) think it takes full effect before 2014, and 21 percent think it takes full effect in 2014 (Figure 12). Eight percent think it takes full effect during 2015–2017, while only 1 percent reported 2018. Four in 10 Americans (38 percent) voluntarily reported that they did not know when the legislation takes full effect. Among individuals who plan to vote in November, 71 percent report that health reform will affect how they vote, while 26 percent report that it will not affect how they vote.



The 2010 HCS

These findings are part of the 13th annual Health Confidence Survey (HCS), which examines a broad spectrum of health care issues, including Americans' satisfaction with health care today, their confidence in the future of the health care system and the Medicare program, and their attitudes toward health care reform. The survey was conducted within the United States between May 12 and June 13, 2010, through 20-minute telephone interviews with 1,000 individuals age 21 and older. Random digit dialing with a cell phone supplement was used to obtain a representative cross section of the U.S. population. Interview quotas were established by sex of respondent and employment status, and the data were weighted by gender, age, and education to reflect the actual proportions in the population.

In theory, the weighted sample of 1,000 yields a statistical precision of plus or minus 3.6 percentage points (with 95 percent confidence) of what the results would be if the entire population age 21 and older were surveyed with complete accuracy. However, there are other possible sources of error in all surveys that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, interviewer bias, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them.

The HCS is co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization, and Mathew Greenwald & Associates, Inc., a Washington, DC-based market research firm. The 2010 HCS data collection was funded by grants from 14 private organizations. Staffing was donated by EBRI and Greenwald & Associates. HCS materials and a list of underwriters may be accessed at the EBRI Web site:

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EBRI and MGA gratefully acknowledge the underwriters of the 2010 Health Confidence Survey:

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Retirement Income Adequacy for Today's Workers: How Certain, How Much Will It Cost, and How Does Eligibility for Participation in a Defined Contribution Plan Help?

By Jack VanDerhei, Employee Benefit Research Institute

Introduction

The concept of retirement income adequacy for today's workers has been gaining increased interest in recent months with the prospects of lower investment yields as well as the limited employment options for Baby Boomers¹ wanting to work past retirement.² Earlier this year, EBRI updated its Retirement Security Projection Model[®] (RSPM) to show how the EBRI Retirement Readiness Ratings[™] (measuring the percentage of households that are likely to have sufficient money in retirement to pay for basic expenses plus uninsured health care costs) have changed in the last seven years.³

The good news is that the portion of Boomers and GenXers "at risk" of having inadequate retirement income has actually decreased during that time, even after factoring in the recent decline in the financial markets and housing values. Early Boomers (those born between 1948 and 1954) had an "at risk" rating of 59 percent in 2003; however, by 2010 that number had dropped to 47 percent. The "at risk" ratings for late boomers (those born between 1955 and 1964) decreased from 55 to 44 percent, while those for Gen Xers (those born between 1965 and 1974) decreased from 57 to 45 percent.⁴ Unfortunately, that still leaves nearly one-half of the households in these age cohorts "at risk" of having inadequate retirement income, and the likelihood that the Early Boomers will run short of money within the first 10 years of retirement is as high as 41 percent for those in the lowest (preretirement) income quartile.

Previously, EBRI research demonstrated the large extent to which "at-risk" percentages are associated with the years of future eligibility in defined contribution retirement plans (including 401(k) plans).⁵ The "at-risk" percentages are categorized for each of the three age cohorts into levels based on years of future years of eligibility (whether or not the employee actually chooses to participate in a voluntary enrollment plan or opted out of an automatic enrollment plan). When the results for Early Boomers are divided by future eligibility in a defined contribution plan, the difference in the "at-risk" percentages is quite large (16 percentage points), even after at most nine years of future eligibility.⁶ Late Boomers and Gen Xers are able to have significantly larger future periods of time eligible to participate in a defined contribution plan and therefore the differences are much larger. Late Boomers with no future eligibility are simulated to have an "at-risk" level 26 percentage points larger than those with 10–19 future years of eligibility. Gen Xers have the largest differential (40 percentage points): Those with no future years of eligibility have an "at-risk" level of 60 percent, compared with only 20 percent for those with 20 or more years of eligibility.

How Much Do "At Risk" Households Need to Save for Adequacy?

Informing policymakers of the percentage of various demographic groups that are likely to be at risk for inadequate retirement income is an extremely valuable exercise; however, when RSPM was constructed in 2003, it was considered to be equally important to structure the simulation model so as to allow assessment of whether those at risk would be able to save additional amounts while they are still working to mitigate these risks—and, if so, how much would be needed. This analysis combines simulated retirement income and wealth with simulated retiree expenditures to determine how much each household would need to save each year until retirement (as percentage of current wages) to maintain a prespecified "comfort level" (i.e., probability level) that they will be able to afford the simulated expenses for the remainder of the family unit's lifetime.

It is important to note that within each of the groups modeled there will undoubtedly be significant percentages in the zero category⁷ as well as those at levels beyond which most individuals could possibly save.

These situations are accounted for in two ways:⁸

- First, medians and 75th percentiles are reported for each of the groups. In other words, the numbers presented in the figures in this article provide a number representing the estimate for the 50th and 75th percentiles when ranked by percentage of compensation.
- Second, the reported values of additional savings are limited to 25 percent of compensation, assuming that few (if any) households would be able to contribute more than this on a continuous basis until retirement age.

Median Percentages

Figures 1 through 3 show the median percentage of additional compensation that must be saved each year until retirement age for a specified probability of adequate retirement income, by age cohort and age-specific salary quartiles. The impact of future eligibility in a defined contribution plan is measured by taking the simulated future years (i.e., years after 2010) that a worker is eligible to participate in a defined contribution plan (whether or not he or she chooses to participate) and expressing that as a percentage of the future years worked until age 65. This percentage is then categorized into one of the following four levels:

- 0 percent.
- 1–33 percent.
- 34–67 percent.
- 68–100 percent.

Figure 1 shows the amounts needed to be saved for a 50 percent probability of retirement income adequacy. As expected, the additional compensation that needs to be saved will be larger for lower-income groups.⁹ Moreover, given that Gen Xers have more time to save the additional amounts until age 65, one would expect, everything else being equal, that their percentages would be lower than the corresponding groups in the older age cohorts. Focusing on the Early Boomers in Figure 1, it is clear that for the median individual in these income groupings, nothing additional would need to be saved for the top two income groups for a 50–50 chance of retirement income adequacy. In contrast, due to the advanced age of the worker, the median individual in the lowest-income quartile would be capped at the 25 percent of additional compensation savings level, regardless of what percentage of future years the worker is eligible to participate in a defined contribution plan.

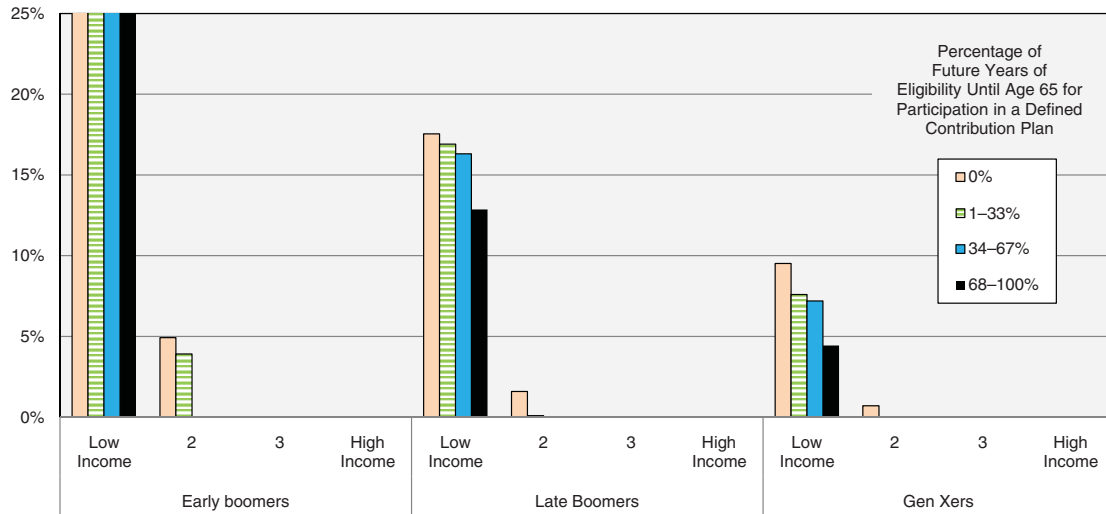
Only in the second-income quartile for this age cohort does the impact of defined contribution plan eligibility become apparent: For those with no future years of eligibility, the median additional percentage of compensation would be 4.9 percent for each year until 65; however, this percentage drops to 3.9 percent for those who will be eligible between 1 and 33 percent of the future years and to zero for those who will be eligible at least 34 percent of the future years. Therefore, the reduction in the additional compensation that would need to be saved each year, moving from zero years of future eligibility to at least 34 percent of the future years, would be 100 percent.

Moving to the Late Boomers in Figure 1, the median lowest-income quartile households with no future eligibility would need additional compensation of 17.5 percent per year, but those who are eligible for at least two-thirds of the future years would need only 12.9 percent per year. In this case, the reduction in the additional compensation that would need to be saved each year, moving from zero years of future eligibility to at least two-thirds of the future years, would be 26.7 percent.

The relative impact on the GenXers is more important given the longer period until they reach age 65. For households in the lowest-income quartile, the median additional percentage of compensation required to be saved varies from 9.5 percent per year for those with no future eligibility to 4.4 percent for those who are eligible for at least two-thirds of the future years. In this case, the reduction in the additional compensation that would need to be saved each year, moving from zero years of future eligibility to at least two-thirds of the future years, would be 53.4 percent.

Figure 1
Amounts Needed to be Saved for a 50% Probability of Retirement
Income Adequacy, as a Function of the Percentage of Future Years of
Eligibility for Participation in a Defined Contribution Plan

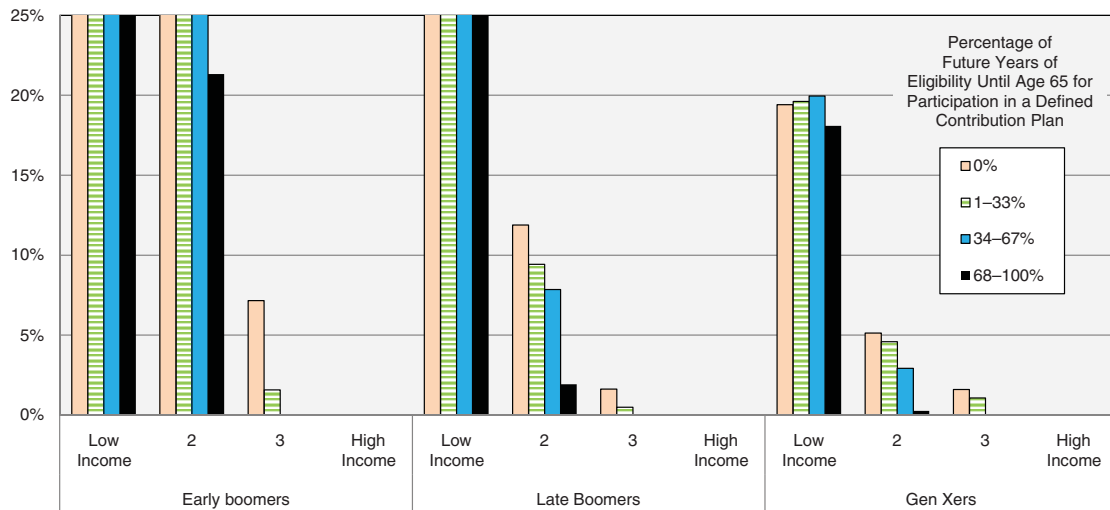
Median percentage of additional compensation that must be saved each year until retirement age for a 50% probability of "adequate" retirement income, by age cohort and age-specific salary quartiles (baseline assumptions)



Source: EBRI/ERF Retirement Security Projection Model™ version 100504e.
 Note: 25% = 25% or more.

Figure 2
Amounts Needed to be Saved for a 70% Probability of Retirement
Income Adequacy, as a Function of the Percentage of Future Years of
Eligibility for Participation in a Defined Contribution Plan

Median percentage of additional compensation that must be saved each year until retirement age for a 70% probability of "adequate" retirement income, by age cohort and age-specific salary quartiles (baseline assumptions)



Source: EBRI/ERF Retirement Security Projection Model™ version 100504e.
 Note: 25% = 25% or more.

Excluding the Early Boomers in the lowest-income quartile (those who were capped at the 25 percent limit), the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups for this figure, would be 34.6 percent.

A retirement target based on averages (such as average life expectancy, average investment experience, and average health care expenditures in retirement) provides, in essence, a retirement planning target that has approximately a 50 percent "failure" rate. Adding the 70 and 90 percent probabilities (Figures 2 and 3) allows more realistic modeling of a worker's risk aversion.

For most groups not already capped at the 25 percent of compensation level, the levels in Figures 2 and 3 would be correspondingly larger than those in Figure 1. Moreover, the increased probability of "success" in retirement has a tendency to shift the income groups most likely to be impacted by defined contribution plan eligibility. For example, the major impact of defined contribution plan eligibility for those interested in a 50–50 chance of adequacy (Figure 1) was concentrated in the lowest-income quartile. In contrast, families saving for a 70 percent chance of success (Figure 2) are most likely to have a significant decrease in their additional required savings if they are in the second-income quartile (especially the Late Boomers and Gen Xers).

Excluding the groups that were capped at the 25 percent limit, the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups for this figure, would be 73.2 percent.

If the desired probability of success is increased to 90 percent (Figure 3), both the second- and third-income quartiles for the Late Boomers and GenXers experience a huge defined contribution plan eligibility impact on their additional required savings; however, with their proximity to retirement age, the impact of defined contribution plan eligibility for the Early Boomers is seen only in the third-income quartile.

Excluding the groups that were capped at the 25 percent limit, the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups for this figure, would be 72.3 percent.

75th Percentiles

Although the median percentages of additional compensation presented in Figures 1 through 3 represent the standard method of characterizing the distribution of percentages for each cohort, public policy is often also concerned with those households that are less fortunate than the average, whether it be for reasons of insufficient preparation for retirement or simply an unfortunate series of events in retirement (e.g., living "too long" or a lengthy duration in a nursing home). Therefore, Figures 4 through 6 replicate the analysis above, but in each case the percentages graphed are those at the 75th percentile instead of the median.¹⁰

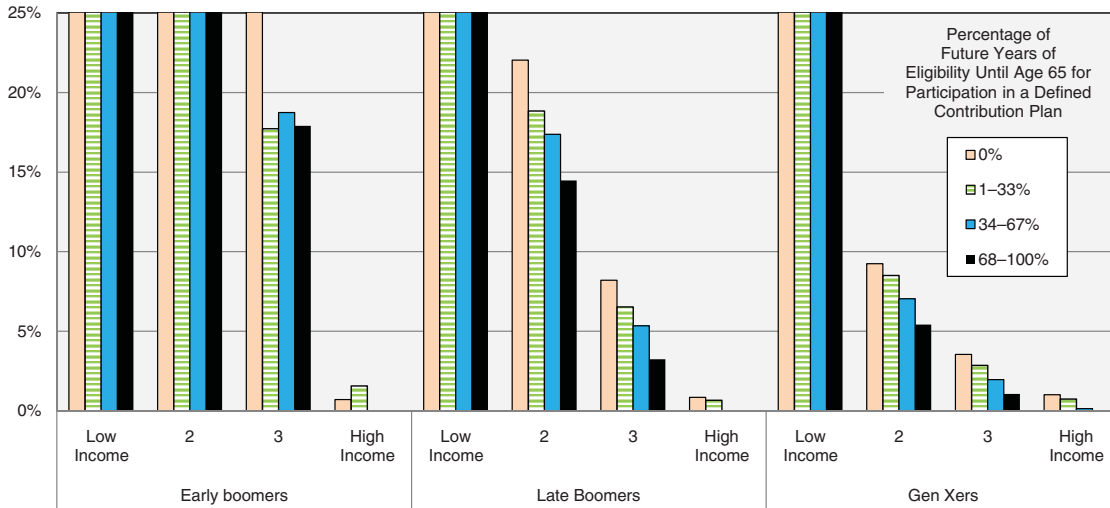
Figure 4 provides the results of the same analysis as Figure 1; however, the percentages calculated are now large enough to provide retirement income adequacy 50 percent of the time for 3 out of every 4 households in a group (instead of just 1 out of every 2 households). Obviously, this will result in an increased percentage for most groups that were not previously capped at the 25 percent level in Figure 1. In contrast to the Figure 1 results, the primary impact of defined contribution plan eligibility takes place in the second- and third-income cohorts in Figure 4.

Excluding the groups that were capped at the 25 percent limit, the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups for this figure, would be 84.0 percent.

Figure 5 shows the 75th percentiles in the case where households are saving enough for a 70 percent chance of retirement income adequacy. In this case, the low-income are all capped at the 25 percent level, thereby obviating the

Figure 3
Amounts Needed to be Saved for a 90% Probability of Retirement
Income Adequacy, as a Function of the Percentage of Future Years of
Eligibility for Participation in a Defined Contribution Plan

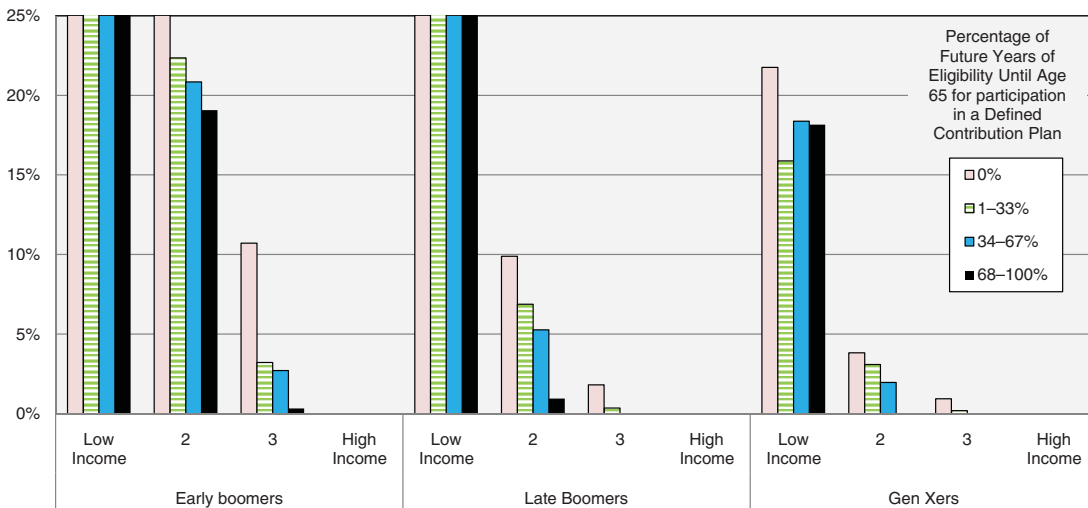
Median percentage of additional compensation that must be saved each year until retirement age for a 90% probability of "adequate" retirement income, by age cohort and age-specific salary quartiles (baseline assumptions)



Source: EBRI/ERF Retirement Security Projection Model™ version 100504e.
 Note: 25% = 25% or more.

Figure 4
Amounts Needed to be Saved for a 50% Probability of Retirement
Income Adequacy, as a Function of the Percentage of Future Years of
Eligibility for Participation in a Defined Contribution Plan

75th percentile percentage of additional compensation that must be saved each year until retirement age for a 50% probability of "adequate" retirement income, by age cohort and age-specific salary quartiles (baseline assumptions)



Source: EBRI/ERF Retirement Security Projection Model™ version 100504e.
 Note: 25% = 25% or more.

impact of defined contribution plan eligibility. The primary impact of the defined contribution plan is seen in the second- and third-income quartiles for the Late Boomers and GenXers and the third-income quartile for the Early Boomers.

Excluding the groups that were capped at the 25 percent limit, the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups for this figure, would be 82.1 percent.

Finally, Figure 6 shows the 75th percentiles in the case where households are saving enough for a 90 percent chance of retirement income adequacy. In this case, the first three income groups for the Early Boomers are all capped at 25 percent, as well as the first two income groups of Late Boomers and the low-income group of the Gen Xers. However, for each of the uncapped income groups there appears to be a substantial impact of defined contribution plan eligibility on the additional percentage of compensation needed to be saved.

Excluding the groups that were capped at the 25 percent limit, the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups for this figure, would be 53.8 percent.

Conclusion

The overall impact of defined contribution plans on retirement income adequacy in the future will depend on a number of key factors, including, among other things: participation rates, employee contribution rates, employer matching formulae, employer nonelective contributions, asset allocation, job turnover, cashout rates, and rates of return. Each of these factors is modeled in the EBRI RSPM, and the impact of many of these will be explored in more detail in forthcoming EBRI publications.

The objective of this article is to focus on the importance of future eligibility for a defined contribution plan, whether or not the employee actually chooses to participate. In essence, this focuses on the public policy implications of having employers sponsor defined contribution plans.

It is clear from the results in Figures 1 through 6 that the relative impact of future eligibility in a defined contribution plan will depend on several factors:¹¹

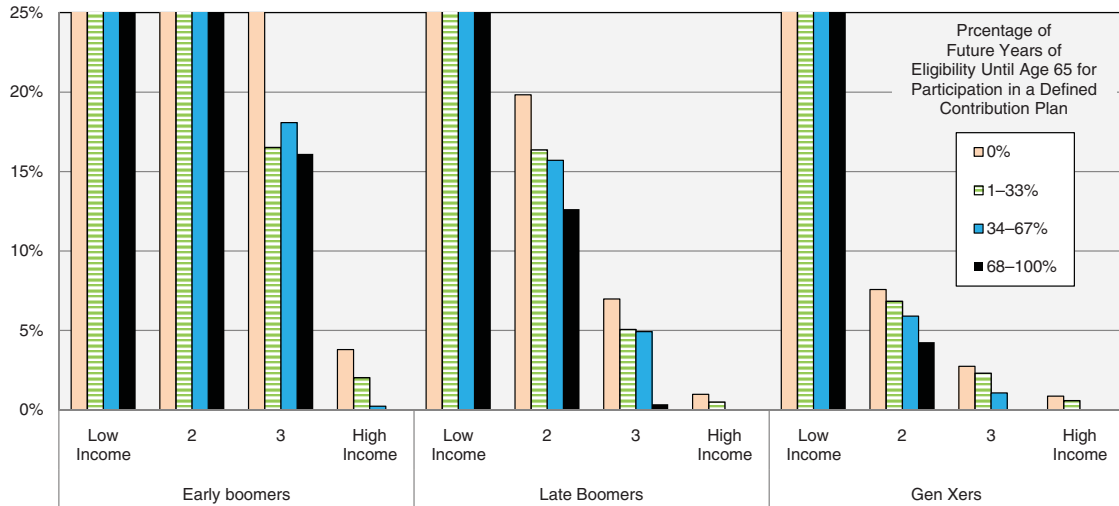
- The workers' ages.
- Their relative income level.
- The probability of retirement income adequacy they desire.
- Whether the appropriate target is the median additional percentage of compensation or one large enough that 3 out of 4 workers would have sufficient retirement income.

With the exception of Figure 1 (which analyzed median percentages for only a 50–50 chance of success), the average reduction in additional compensation required to achieve the desired level of retirement income adequacy, moving from zero years of future eligibility to at least two-thirds of the future years across all groups, was at least 50 percent for all figures after excluding the groups that were capped at the 25 percent limit.

This finding has major implications for any policies that would decrease the percentage of workers eligible to participate in defined contribution retirement plans. Phrased another way, a crucial factor in workers' ability to achieve future retirement income adequacy is their eligibility to participate in a defined contribution (401(k)-type) retirement plan.

Figure 5
Amounts Needed to be Saved for a 70% Probability of Retirement
Income Adequacy, as a Function of the Percentage of Future Years of
Eligibility for Participation in a Defined Contribution Plan

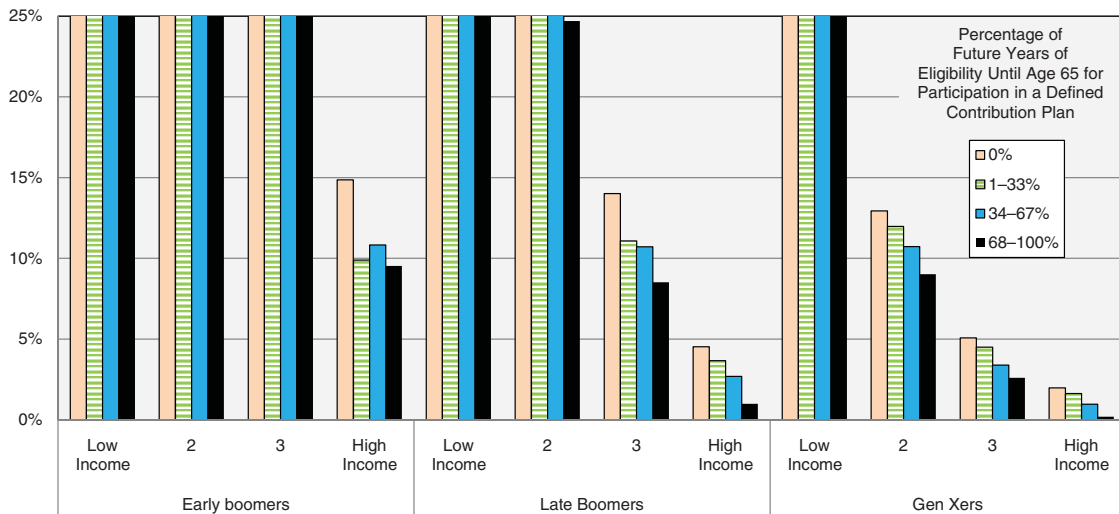
75th percentile percentage of additional compensation that must be saved each year until retirement age for a 70% probability of "adequate" retirement income, by age cohort and age-specific salary quartiles (baseline assumptions)



Source: EBRI/ERF Retirement Security Projection Model™ version 100504e.
 Note: 25% = 25% or more.

Figure 6
Amounts Needed to be Saved for a 90% Probability of Retirement
Income Adequacy, as a Function of the Percentage of Future Years of
Eligibility for Participation in a Defined Contribution Plan

75th percentile percentage of additional compensation that must be saved each year until retirement age for a 90% probability of "adequate" retirement income, by age cohort and age-specific salary quartiles (baseline assumptions)



Source: EBRI/ERF Retirement Security Projection Model™ version 100504e.
 Note: 25% = 25% or more.

Endnotes

¹ The post-World War II generation born between 1948–1964.

² See Mark Whitehouse, “Another Threat to Economy: Boomers Cutting Back,” *Wall Street Journal*, August 16, 2010, and Christine Dugas, “Boomers wanting to work past retirement age find limited options,” *USA Today*, August 11, 2010.

³ See Jack VanDerhei and Craig Copeland, “The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects.” *EBRI Issue Brief*, no. 344 (Employee Benefit Research Institute, July 2010).

⁴ The major reason for the large magnitude of these decreases is attributed to the projection of future defined contribution account balances. The 2010 Retirement Readiness Ratings™ fully reflect the trend to auto-enrollment, auto-escalation of contributions, and qualified default investment alternatives (QDIAs) as a result of the Pension Protection Act of 2006 (PPA) and subsequent regulations. While some plans had already adopted auto-escalation at the time of the 2003 model, the percentage of workers affected was minimal and hence not included in the simulations. For more information on the impact of PPA, see Jack VanDerhei, “The Impact of Automatic Enrollment in 401(k) Plans on Future Retirement Accumulations: A Simulation Study Based on Plan Design Modifications of Large Plan Sponsors,” *EBRI Issue Brief*, no. 341 (Employee Benefit Research Institute, April 2010).

⁵ See Figure 9 of VanDerhei and Copeland, (*op. cit.*, July 2010).

⁶ For purposes of the baseline version of the model, all workers are assumed to retire at age 65. This assumption will be relaxed in a future EBRI Notes article.

⁷ This does not mean they have already saved enough for retirement income adequacy at the specified level. Instead, it means that their current resources PLUS the additional retirement wealth that will be accumulated under the expected benefits from employee savings, employer-provided benefits, Social Security, and (in some cases) net housing equity would be sufficient.

⁸ It is also important to note that these percentages merely represent savings that need to be generated in addition to the retirement income and/or wealth simulated by the model. Therefore, if the household is already generating savings for retirement that is not included in defined benefit or defined contribution plans, individual retirement accounts (IRAs), Social Security and/or net housing equity, that value needs to be deducted from the estimated percentages.

⁹ Even though the lower-income households will likely receive a larger replacement rate from Social Security, many of the retirement expenditures are not proportional to the level of preretirement income.

¹⁰ For example, if there were 100 households in a specific cohort and their additional percentages of compensation required for retirement income adequacy were ranked in ascending order, the 75th percentile would be the percentage associated with the 75th household. In other words, only 25 percent of the households in the cohort would have percentages greater than this amount.

¹¹ Although the absolute level of difference for the high-income quartile in this analysis is minimal in every case except for Early Boomers in Figure 6, one should not conclude that defined contribution plan eligibility for this group is unimportant. The standard of retirement income adequacy used in this analysis was limited to simply basic retirement expenses plus uninsured health care expenses. If the retirement planning target included discretionary expenditures or maintenance of a preretirement standard of living, the results for the highest-income quartile would be much more sensitive to the future years of eligibility in a defined contribution plan.

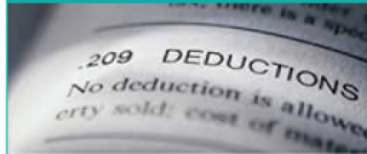
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