



Roadblocks to Retirement

A Report on What Happens When
Living Life Today Gets in the Way of
Financial Security Tomorrow



Prudential

Growing and Protecting Your Wealth®



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Introduction

It's widely acknowledged that a financially secure retirement is the leading goal for most Americans. Yet, in reality, saving for retirement is not the primary financial focus of most people throughout their working lives. Day-to-day needs often overshadow their best intentions. Americans are not paying nearly enough attention to their long-term needs, especially the need to save and plan for retirement.

Some Americans plan to simply work longer to better position themselves for the transition into retirement, but are not considering the increasing likelihood that they may not have the luxury to retire at the time of their choosing. Involuntary retirement has caught many by surprise and caused significant hardship. There are lessons to be learned from this emerging issue. Still others have not fully recognized the impact of changes over the last few years on retirement prospects—the stock market can go down, and stay down for a long stretch; financial well-being is not only affected by domestic economic policies, but also by events in foreign lands and the security of our homeland; while income may have grown, health care costs have been growing at an even faster rate. Securing a comfortable retirement is a greater challenge today than ever before.

“In the working years, saving to achieve future retirement goals often is seriously challenged by the need to meet day-to-day financial demands. This challenge, combined with the increasing trend toward individuals assuming more responsibility for their retirement security, may well represent the one-two punch that puts many out of the secure retirement race. We at Prudential are determined to raise awareness of these issues and ensure that Americans have access to the right products and resources to secure a retirement that fits their goals in life.”

—John Strangfeld
Chief Executive Officer and President
Prudential Financial

Please take the time to learn from this study and, more importantly, take action. For more information about retirement, please visit www.prudential.com.

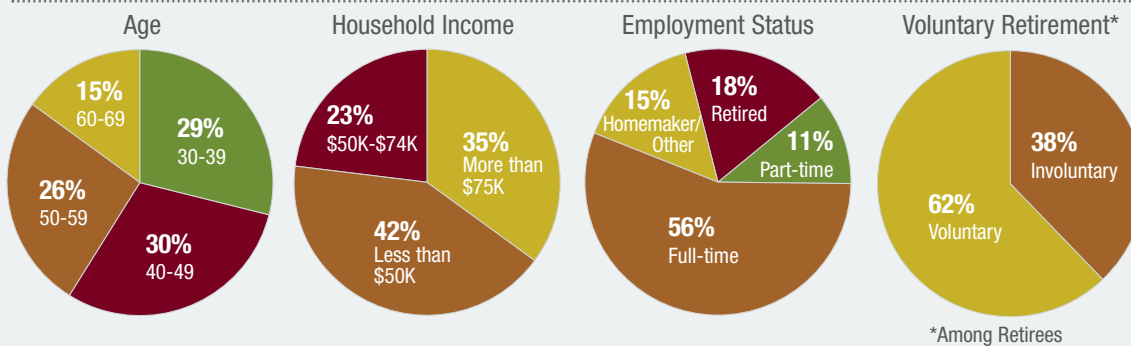


Today's Retirement Roadblocks

Americans today face a new set of challenges in reaching their long-term retirement goals. As a nation of consumers and borrowers, they are haunted by a persistent focus on short-term spending and gratification. In these uncertain times:

1. How do Americans think about the challenges of financing a comfortable retirement?
2. How are they preparing for the challenges?
3. Has their preparedness for retirement changed over the last five years?
4. How can the financial services industry help Americans address the challenges they face?
5. What can Americans learn from today's retirees, especially those who retired involuntarily?

Profile of study participants (Random Sample)



About the Study

With these questions in mind, Prudential Financial conducted a survey among a broad cross-section of Americans in December 2004. Prudential surveyed a national random sample of 621 Americans between the ages of 30 and 69 about their financial priorities, retirement preparation, and their retirement concerns and challenges. Survey participants, of whom 55% are men and 45% women, were selected from the TNS Online Access Panel, and their demographic characteristics mirror the population in this age range as a whole.

To obtain a robust sample of diverse populations including retirees and minorities, an additional 800 individuals were interviewed. The sample sizes for these population segments are as follows:

African American: 174 Asian/Pacific Islander: 207 Hispanic/Latino: 160 Retiree: 259

The survey was administered online by TNS Global, a leading public opinion and market research organization.



Saving for Retirement Takes a Back Seat, as Americans Spend Like There's No Tomorrow

TOP CONCERN

A financially secure retirement is said to be a leading financial goal for Americans. Yet, saving for retirement is not the primary focus of most people. Americans' best retirement savings intentions are overshadowed by day-to-day spending needs and consumption desires.

WHO'S MAKING THE COMMITMENT?

Americans' tendency to borrow and consume "today" is a national trend that affects everyone. Seven in 10 respondents are concerned with short- and medium-term financial spending, placing retirement savings a distant third priority.

Saving for retirement is not the primary objective of participants in any income level; Americans making

more than \$75K annually are not any more focused on retirement savings than are households with income below \$75K. Less than one-third of either group list their primary financial focus as putting aside savings or preserving assets to generate retirement income.

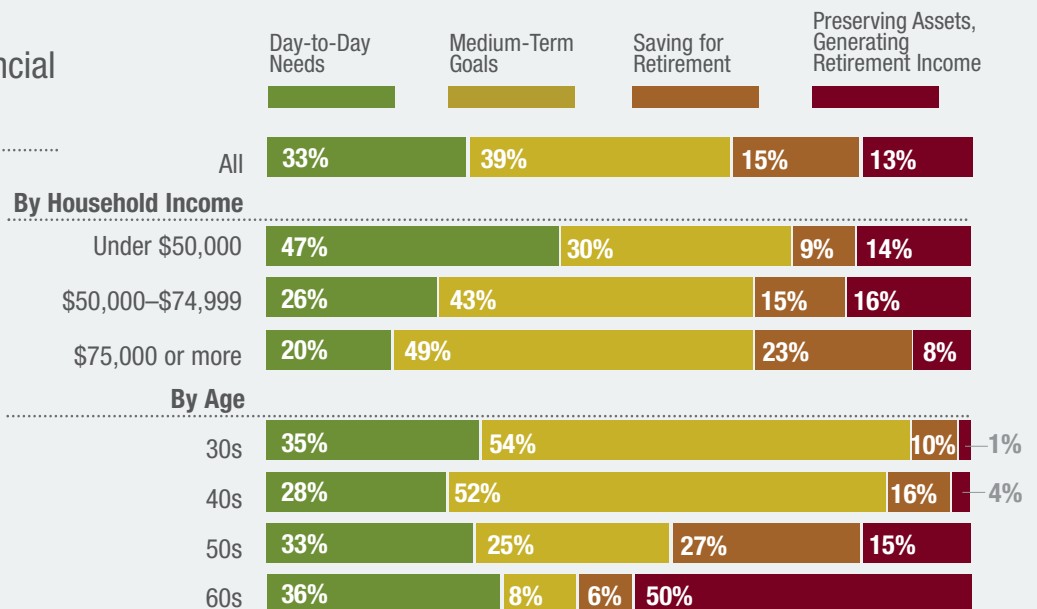
RETIREMENT FOCUS STARTS IN THE 50s, FOR MANY

Americans typically don't make retirement preparation a priority until they are in their 50s. Even then, 58% put other short-term goals in front of retirement.

ABRUPT SHIFT IN THE 60s

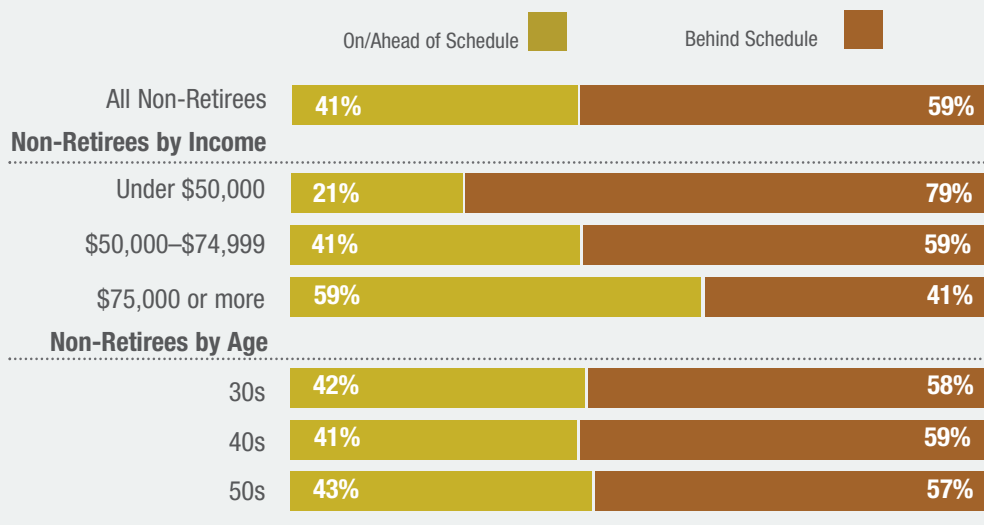
Many Americans retire in their 60s. During this transition, a sharp change takes place when paychecks stop coming in and the need to preserve retirement assets and create income takes center stage.

Americans' Primary Financial Focus at Present Time



Playing Catch-Up Is a Tough Proposition

Progress Toward Retirement Savings Goals



AMERICANS ARE BEHIND SCHEDULE

Given Americans' preoccupation with day-to-day needs and medium-term goals, six in 10 Americans find themselves behind schedule in terms of saving for their retirement.

ALL INCOME LEVELS NEED TO MAKE PROGRESS

Eight in 10 households earning less than \$50K are not making necessary progress toward their savings goals. Four in 10 higher-income households, those earning \$75K or more, aren't as prepared as they had hoped, either.

THE CLOCK IS TICKING

Younger Americans in their 30s and 40s have the luxury of time to catch up with retirement savings, that is, if they reset their priorities.

For those closer to retirement, time is quickly running out. Yet, near-retirees in their 50s feel no better prepared than younger Americans, and the majority are still behind schedule.





Many Retirees Expect to “Work It Out”

WORK AS LONG AS I CAN

Today, not having enough money is still the leading cause for postponing retirement.

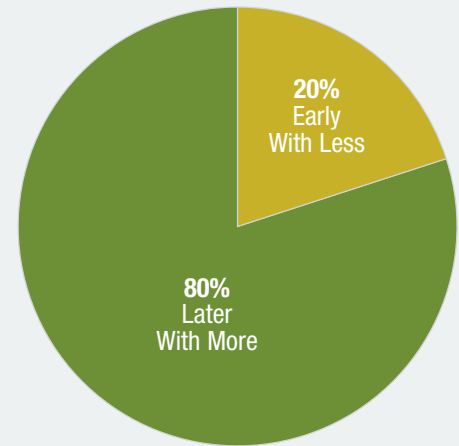
In fact, most Americans are hoping to work longer to get themselves into better financial shape for retirement. If given a choice of retiring earlier with less or later with more, Americans overwhelmingly prefer the latter.

BUILDING FINANCIAL STRENGTH

Postponing retirement is felt to be an important component of increasing retirement savings for both men and women.

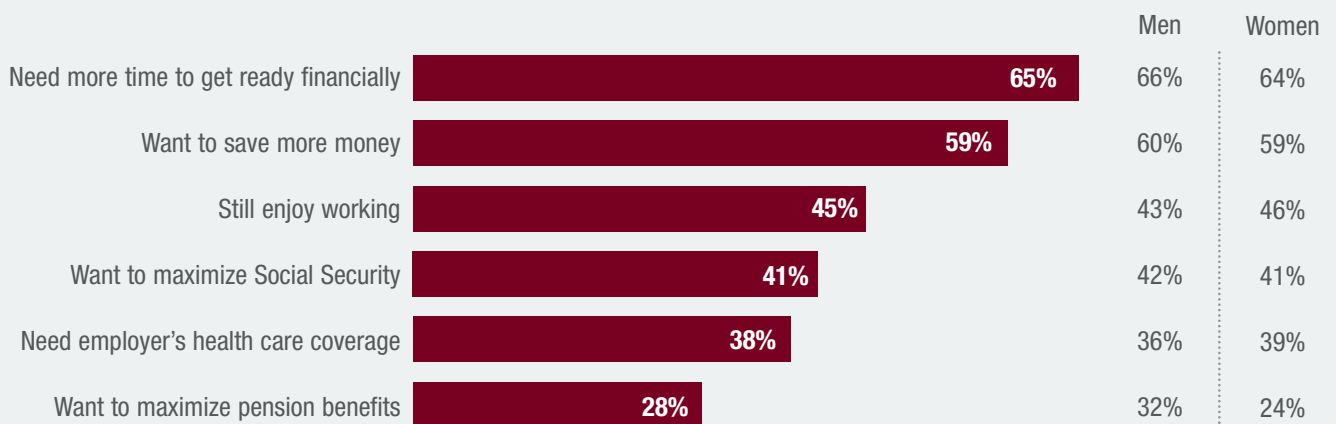
Given a Choice, Would You Prefer to Retire Early With Less or Later With More?

Non-Retirees



Reasons for Postponing Retirement

Among those who postponed retirement in the last three years



Retirement May Arrive Ahead of Schedule

INVOLUNTARY RETIREMENT HAPPENS—A LOT

Downsizing, injury, health limitations, and family emergencies can all contribute to sudden and unexpected early retirement. In fact, almost 40% of those surveyed were forced to retire.

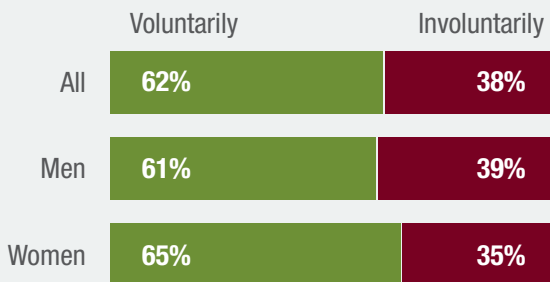
DOUBLE WHAMMY

Early, forced retirement hurts financially on two fronts: The time people thought they had to catch up on retirement savings is abruptly cut short, and involuntary retirees often face higher costs for unexpected expenses such as medical bills.

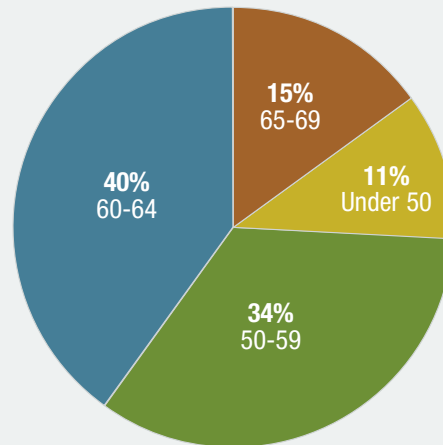
AGE DOESN'T MATTER

Nearly half of involuntary retirees have not yet reached the age of 60. The financial impact of involuntary retirement can be particularly devastating to workers in their 50s or early 60s, as they were planning and hoping for additional time in the workforce to save toward retirement.

Retired Voluntarily or Involuntarily Among current retirees



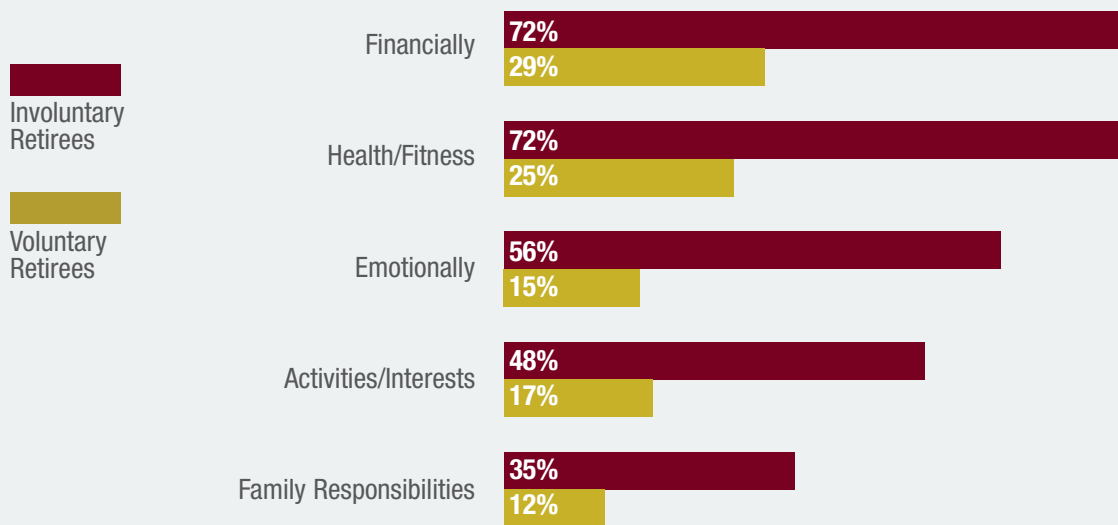
Current Age of Involuntary Retirees





Involuntary Retirement Likely to Diminish Overall Quality of Life

Not Well-Prepared in the Following Areas at the Time of Retirement



THE HARSH LESSONS OF INVOLUNTARY RETIREMENT

Through usually no fault of their own, involuntary retirees bear a heavy burden. Typically, retirement comes before they saved enough and is usually accompanied with the burden of extra costs for health care. Almost two-thirds feel they are not financially prepared for retirement. And, it appears that a sense of financial unpreparedness cascades to many other aspects of their lives as well.

SEVEN IN 10 VOLUNTARY RETIREES ARE IN GOOD FINANCIAL SHAPE

Most of those who retired on their own timetable worked long enough to save and prepare. If they also manage to cut expenses and stay healthy, most voluntary retirees can expect a reasonably successful retirement.

Though not “forced” to retire, 29% are still financially challenged.



Americans' Progress Toward Retirement Goals Took a Five-Year "Hiatus" from 2000 to 2004

TOUGH TIMES

Over the last five years, 59% of Americans feel their retirement prospects have been harmed by both the general economic environment and their personal situations. This setback is felt by all segments of the population, regardless of age, income level, or ethnicity. Even so, the lack of progress poses special challenges for older Americans nearing retirement, who have less time left to save, as well as those with lower household income.

Recent involuntary retirees may be the hardest hit, because the prior years may not have been productive for increasing retirement savings.

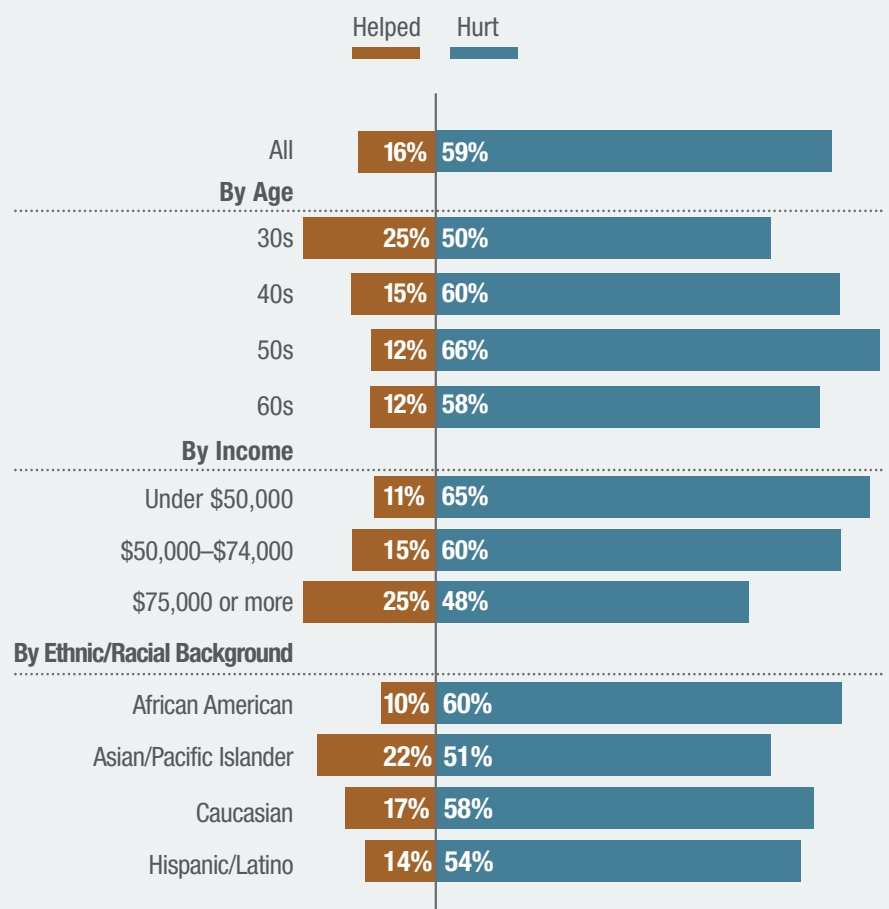
MAKING UP FOR LOST TIME

The setback also raises the question of how to make up for the lost time. As this research indicates, Americans are behind schedule on their savings goals as it is. To overcome the lack of progress in the last five years, they need to increase the intensity of their efforts to make more-informed decisions in the coming years.

CAUTION:

Increasing intensity does not mean taking uncomfortable investment risks that may later compound the problem.

How the Last Five Years Have Impacted Retirement Prospects Overall





Retirees Today Face More Financial Demands Than Ever

THE BIG THREE

Real estate, employment-based retirement plans, and income growth have been positive for many. These are powerful economic components that can help folks build savings and assets for the retirement years.

However, uncertainty about economic policy, federal deficits, and national security has tangible adverse influences, according to respondents in our study.

Health care costs and the general cost of living are the two most negative forces, according to seven in 10 study participants.

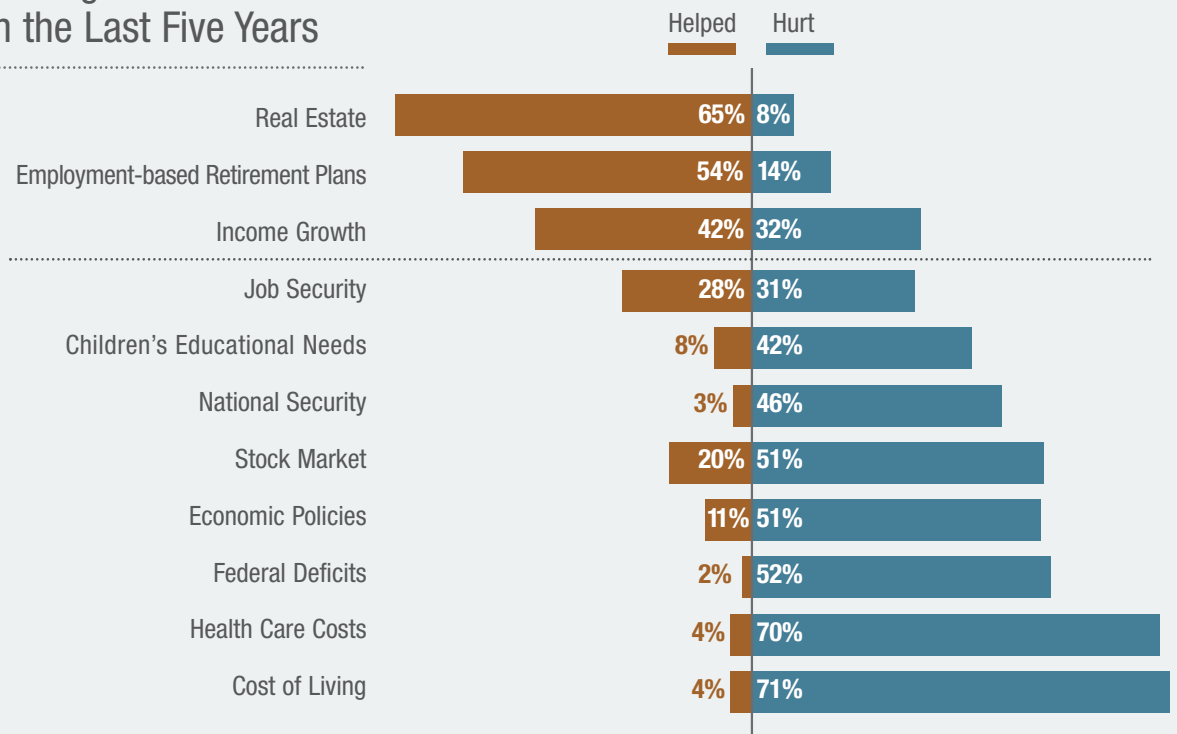
BETTING THE HOUSE

Americans love their homes—often their largest asset, although one that carries a strong emotional attachment. Yet, over half (54%) of respondents expect to unlock the value of their home by moving to areas with a lower cost of living and/or a smaller home within 10 years of retirement.

EMPLOYMENT-BASED RETIREMENT PLANS—A MISSED OPPORTUNITY

More than 30% of those recently retired were not enrolled in employment-based retirement plans while employed. When looking at involuntary retirees, that number swells to over 50%.

Factors Impacting Retirement Prospects in the Last Five Years



Family Demands Continue to Cost in Retirement

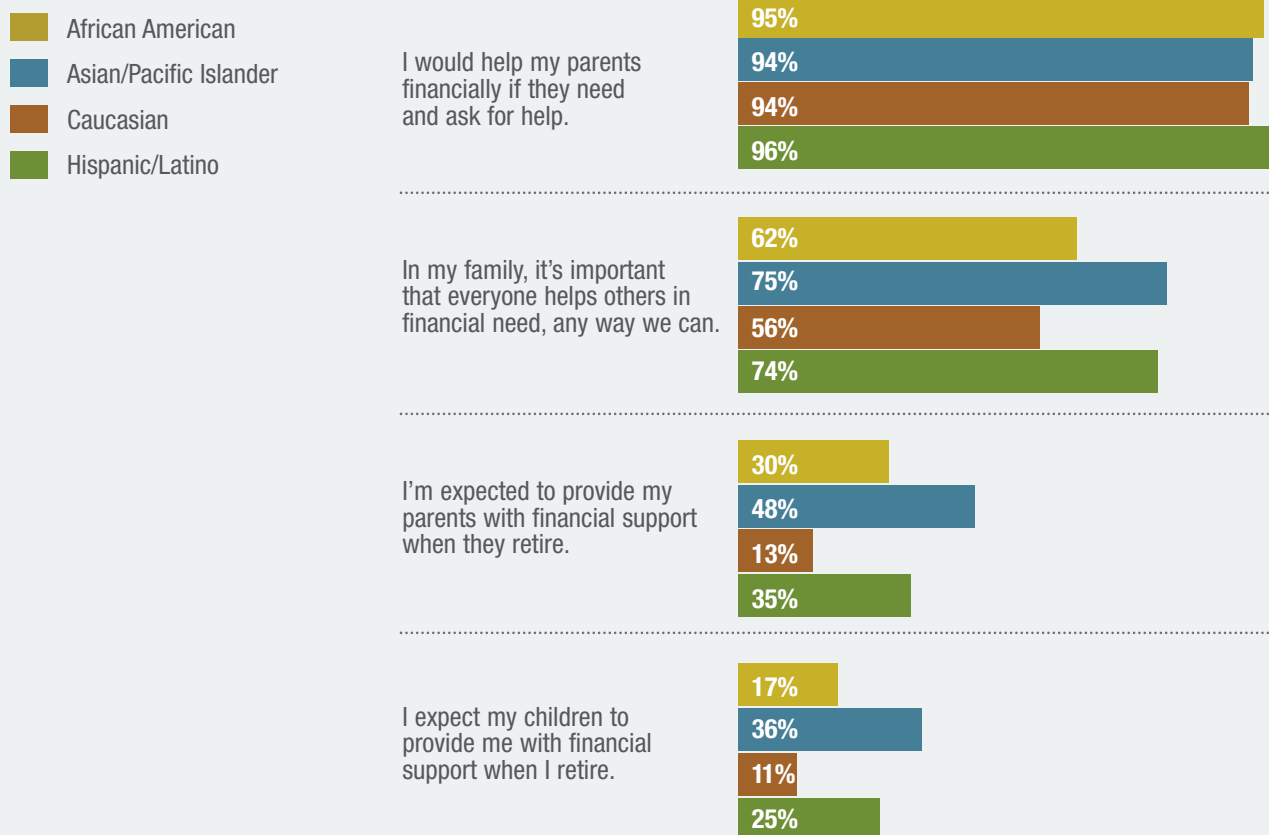
A FAMILY AFFAIR

Americans of all backgrounds share in their willingness to support their parents if necessary. And overall, they expect little in return from their children.

SPECIAL COMMITMENTS

Many Americans, especially Asians/Pacific Islanders (48%) and Hispanics/Latinos (35%), feel an added responsibility of providing financial support to retired parents.

Americans Who Agree With the Following Statements





The Cost of Living Longer

THE PHASES OF RETIREMENT

With retirement lasting 20 years or more for many Americans, their needs will change dramatically over this time. Retirement finances will need to hold up to the shifting demands.

PHASE 1: BIG EXPECTATIONS

Over 70% expect to work in the first 10 years of retirement. Many need this extra income for living needs and to build their “nest egg.” However, can so many realistically hope to get employment at adequate levels of compensation?

PHASE 2: HEALTH CONCERNS

For many, the second phase of retirement could be very different. In the second 10 years, eight in 10 expect deteriorating health to drive up medical care or prescription drug expenses. More than four in 10 think they may require nursing home care and outlive their nest egg.

PHASE 3: THE SPECIAL CHALLENGES OF OLD AGE

Living in “old age” can extend for many years, often significantly beyond 20 years after retirement. The financial challenges of this phase are especially relevant to women, who tend to outlive men by substantial margins.

Challenges Likely to Be Faced in Retirement

	Phase 1 1 st 10 years	Phase 2 2 nd 10 years
Work to supplement income	72%	39%
Work for personal fulfillment	71%	44%
Cope with deteriorating health	64%	79%
Move to a smaller house	46%	48%
Move to an area with lower cost of living	42%	39%
Run out of retirement savings	37%	44%
Require nursing home care	20%	42%



For Many, the Dream Retirement Could Be Just That

RETIREMENT REALITY CHECK

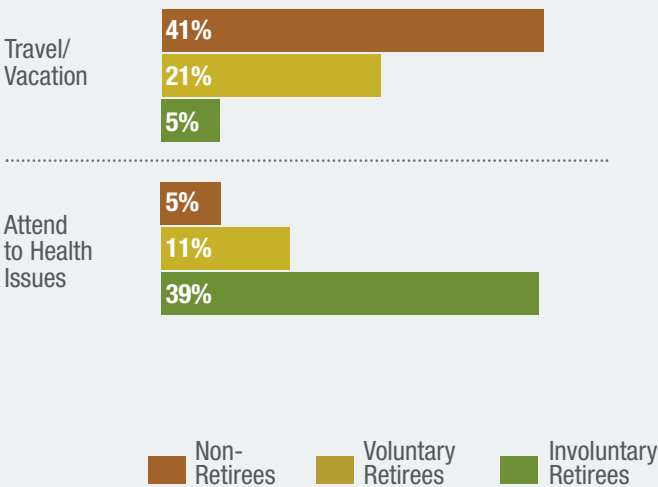
Among those who are not yet retired, many have an idealized vision of retirement as a time of freedom and fun. In truth, retirement life may not be all that glamorous. Less than half of retirees were able to travel or vacation as they may have hoped. Financial and health concerns are much more likely to limit the choices of retirees than they might have expected.

LIFESTYLE CHOICES

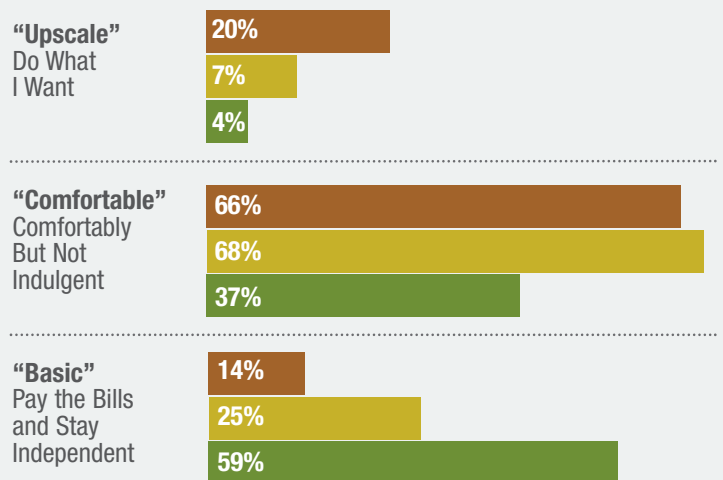
Only about 5% of retirees today live an “upscale” lifestyle of freedom and flexibility. Even among those who retired on their own terms, two-thirds are just living “comfortably.” Among those who were forced into retirement, six in 10 are simply trying to make ends meet.

In fact, more than one-third of involuntary retirees expect their retirement to be worse or much worse than their parents’.

Immediately After Retirement: Activities Non-Retirees Want to Do vs. Things Retirees Actually Did



Retirement Lifestyle: How Non-Retirees Aspire to Live vs. How Retirees Actually Live

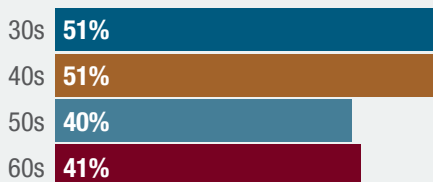




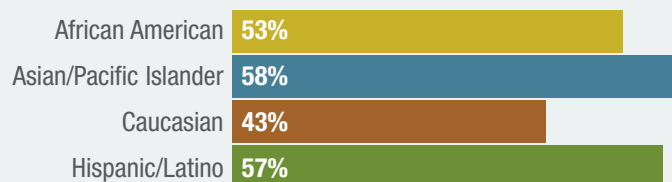
It's Not Easy to Plan: Retirement Products Remain a Mystery to Many

Percentage Who Agree: "I'm sure there are financial products that can meet my needs, but I don't know how to choose"

By Age

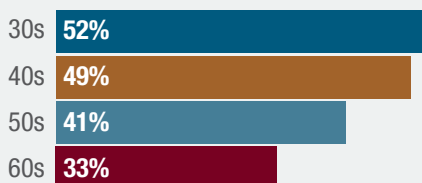


By Background

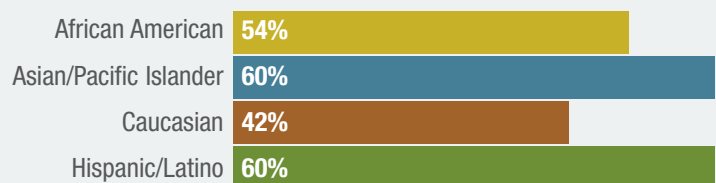


Percentage Who Agree: "I wish a retirement expert could just tell me what to do about saving and planning for retirement"

By Age



By Background



MATCHING PRODUCTS TO NEEDS

Americans intuitively know there are a variety of financial products to meet their needs, but half of those in their 30s and 40s are confused about what choices to make. This problem is also a significant challenge to those closer to, or already in, retirement.

FINDING THE ANSWERS

More than half (52%) of the younger generation are looking for more straightforward advice from an expert about saving and planning for retirement.

A significant percentage of each ethnic segment surveyed also would value more expert retirement advice. Yet in 2004, fewer than 20% of Americans overall met with a financial professional for retirement advice.

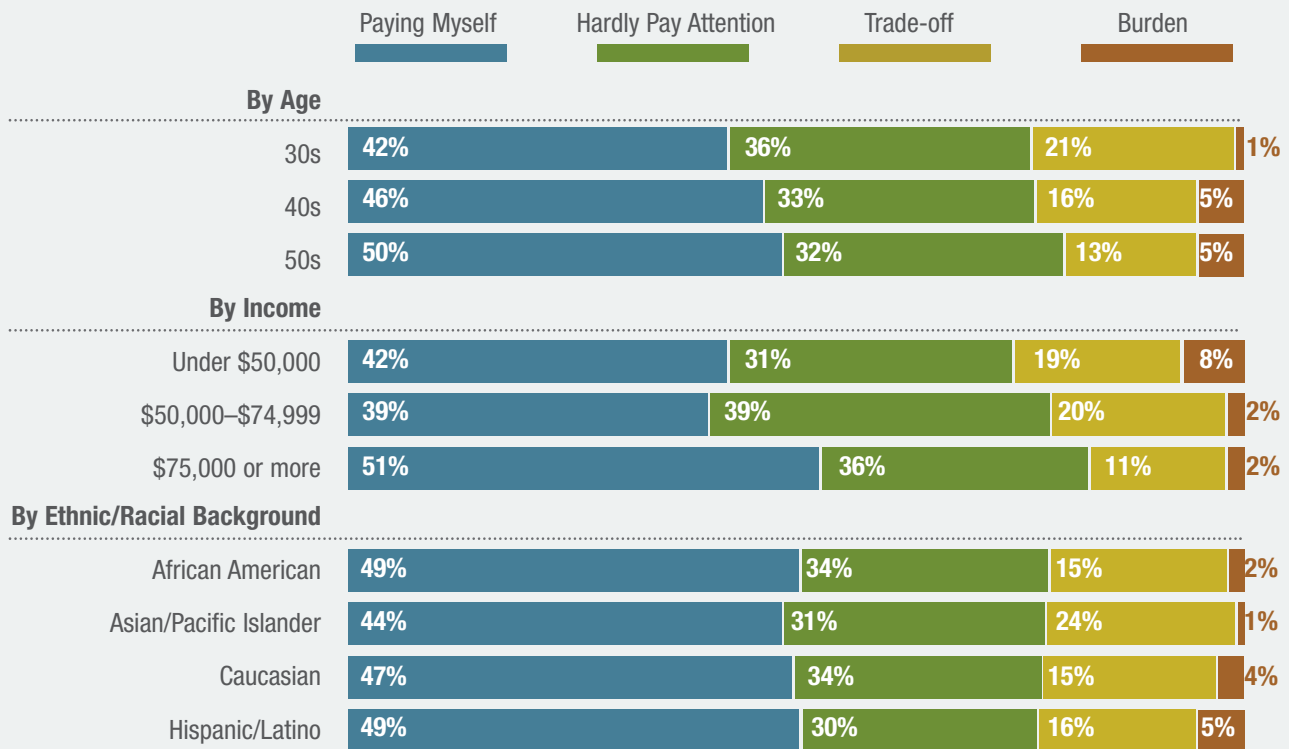


Disciplined Saving Usually Proves Painless

RETIREMENT SAVING IS A WORTHY CAUSE FOR MOST

When Americans do save for retirement, most don't consider it a burden at all. In fact, about 80%, across age, income, and each of the ethnic/racial backgrounds, hardly notice the "lost" spending opportunity and ultimately feel happy about their savings toward tomorrow's security.

Attitude Toward Regular Retirement Saving in an IRA or Employment-Based Plan Among Those Who Save for Retirement





Half of Americans Desire Education on How to Transition to a Comfortable and Secure Retirement

Retirement Training Program Percentage Considered “Helpful”



By Income



By Ethnic/Racial Background



YEARNING FOR LEARNING

A holistic training program aimed at helping Americans transition into retirement is a popular idea. In fact, more than half of those surveyed expressed interest in a retirement program similar to what the military offers to help members adjust to civilian life.

When considered by ethnic background, almost seven in 10 African Americans and Hispanics/Latinos showed particular interest in a training program, compared to five in 10 Asians/Pacific Islanders and Caucasians.

RETIREEES AND NON-RETIREEES EQUALLY INTERESTED

Even higher-income households feel more assistance would be helpful.



Keep It Simple: Spend Less, Save More and Stick With It

IF I KNEW THEN WHAT I KNOW NOW

By the time most involuntary retirees realized how unprepared they were for retirement, they had little time and few opportunities to catch up. There are options to ease their concerns, but they could involve painful decisions regarding lifestyle or desired standard of living.

Even among those who made the choice to retire voluntarily, many still wish they had done things differently.

RETURN TO THE BASICS

The best advice for Americans who want to be in control of their own retirement destiny is also a remarkably simple one—start planning earlier, have a disciplined approach, and spend less.

Actions Retirees Wish They Had Done Differently





Summation

ROAD TO RETIREMENT

1. SAVING FOR RETIREMENT TAKES A BACK SEAT, AS AMERICANS SPEND LIKE THERE IS NO TOMORROW.

- Seven in 10 are focused on day-to-day and medium-term financial goals, often at the expense of retirement savings.
- Even in their 50s, presumably the primary decade of retirement asset accumulation, only 27% have placed a principal financial focus on saving for retirement over other financial savings goals and needs.
- As a result, 59% of Americans feel “behind schedule” on retirement savings. What is most worrisome, 57% of Americans in their 50s, as they near retirement, also feel behind schedule.
- To close the retirement savings gap, 80% prefer to work longer and retire later.

2. RETIREMENT MAY COME AHEAD OF SCHEDULE!

- Four in 10 can expect retirement to happen, ready or not. Health concerns, downsizings, and family emergencies can affect any family, and possibly force a wage earner to retire earlier than desired.
- Early forced retirement takes away those extra hoped-for savings years, especially for the 45% of involuntary retirees who are forced to retire before age 60.

3. RETIREMENT SAVINGS PROGRESS HAS BEEN ON “HIATUS” FOR FIVE YEARS

- In this survey, 59% of Americans say the last five years have “hurt” their retirement savings prospects overall. Only 16% feel they have made progress!
- In every segment, by age, gender, income, and ethnic/cultural background, the majority say the last five years have diminished their retirement preparedness. Each population segment is struggling to overcome these retirement savings challenges.



- Despite rising real estate values and the availability of employment-based retirement savings programs, other factors such as the rising costs of living (including health care and prescription drugs), federal deficits, lack of job security, and stock market volatility have all combined to tip the balance to a more uncertain retirement future.
- The financial responsibilities Americans face will continue as many expect to provide financial support for their parents and few expect the same support from their own children.

4. THE OUTLOOK FOR THE “NEW” RETIREMENT MAY BE UNREALISTIC AND MAY NOT INCLUDE THE REAL COSTS OF A LONG RETIREMENT THAT SPANS TWO PHASES, EACH WITH ITS OWN CHALLENGES.

- In phase 1, the first 10 years of retirement, seven in 10 expect to continue working to supplement income and build their nest egg. At the same time, 64% recognize they also may be coping with deteriorating health.
- In phase 2, the second 10 years of retirement, 79% are concerned about their health prospects, 42% expect to require nursing home care, and 44% expect to run out of money.

5. PLANNING FOR A SUCCESSFUL RETIREMENT REMAINS A MYSTERY FOR MOST.

- Forty percent to 50% of Americans do not know how to choose retirement financial products.
- Many survey respondents desire a new approach that makes retirement more simple and accessible. They want more education and training and more objective recommendations about how to save and plan.
- A substantial percentage of each age cohort and ethnic/cultural segment would value more expert and understandable retirement advice.
- “Involuntary” retirees offer the best advice: Start saving early, be disciplined, spend less, and make better-informed decisions.

Prudential's Four Pillars of Retirement

The Four Pillars of Retirement represent the foundation of retirement security today, from Social Security to the choices made in retirement. Prudential uses these pillars as a framework for research reports, press releases and other information about the retirement issues and challenges facing Americans today.



SOCIAL
SECURITY



EMPLOYMENT-
BASED PLANS



PERSONAL
SAVINGS



RETIREMENT
CHOICES



Prudential

Growing and Protecting Your Wealth®