NAVIGATING THE "NEW NORMAL"

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A Conversation with Chip Castille and Dallas Salisbury

The 2011 Retirement Confidence Survey conducted by Employee Benefit Research Institute (EBRI) found that worker confidence in their ability to afford retirement has reached a new low. But rather than making changes in their approach to retirement savings, most workers are simply adjusting their expectations downward. This sense of diminished expectation and pessimism has been dubbed the "New Normal."

EBRI President and CEO Dallas L. Salisbury and Chip Castille, head of BlackRock's US & Canada Defined Contribution group, explore the New Normal and argue that a jolt of pessimism may be a good thing—if it finally gets participants to take action.

What is the "New Normal"?

Dallas Salisbury: Essentially, it is ten years of mixed economic growth and mixed markets, combined with the recognition by individuals that they are increasingly responsible for making sure that they have prepared for retirement. It's also a new appreciation as to how daunting that task is. The proportion of workers that are "not at all confident" or "not too confident" that they will be able to live comfortably through their retirement years is larger than at any time in the 21 years of the survey.

Has confidence declined steadily, or has it fluctuated with the market?

Dallas Salisbury: It has fluctuated, but it doesn't appear to have fluctuated with the market. It was significantly lower in January 2011 and January 2010 than it had been in any prior year. And as we know, the markets actually had a fairly significant recovery compared to the bottom in 2008. It's only been as we moved into the new decade that we saw a dramatic decline.

Are you surprised by the emergence of the New Normal?

Chip Castille: The idea that you can spend a decent part of your life not working is a relatively modern concept. So it's not surprising that retirement has been redefined and that it will continue to be redefined over the next 20 to 30 years. It's not just from an economic standpoint. I don't think participants previously understood that they are likely to live longer, they are likely to live healthier and there are going to be a lot more of them than was commonly understood twenty years ago. That recognition is changing expectations.

Dallas Salisbury: Another factor is job security. It's always been the case that large proportions of those leaving the labor force did so for medical and disability reasons. But the number leaving in recent years because their jobs have just flat out disappeared has been increasing. We are also seeing state and local governments actually reducing pensions. Many people that were deemed to be in safe jobs or safe sectors with retirement security have had a very rude awakening over the last two to three years.

Chip Castille
Managing Director, BlackRock US & Canada Defined Contribution Group

Dallas L. Salisbury
President & CEO, Employee Benefit Research Institute

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Is this rude awakening something that's going to help get people moving in the right direction?

Dallas Salisbury: I've actually found the recent changes in confidence to be somewhat heartening. In past surveys, we talked about false confidence. The numbers that people thought they needed to accumulate to retire and what they'd actually accumulated were very low. Hopefully in the absence of false confidence they will begin to add to their accounts in real ways.

I should quickly note that people are very focused on paying down debt. They're very focused on creating some level of emergency savings. That's not surprisingly, because debt is immediate and emergencies can be immediate, while with retirement you have some level of control over the timing, assuming you remain healthy and assuming your job doesn't go away.

Have the findings of the BlackRock participant surveys been consistent with the EBRI research?

Chip Castille: I think so. I think generally people are over confident. That doesn't only apply to retirement planning. In almost every field of activity that humans take on they tend to be over confident. What we're starting to see in our surveys is that people understand that DC is a good system from the accumulation side, but they're not sure how they're going to fare in retirement and they're wondering if they can get additional help.

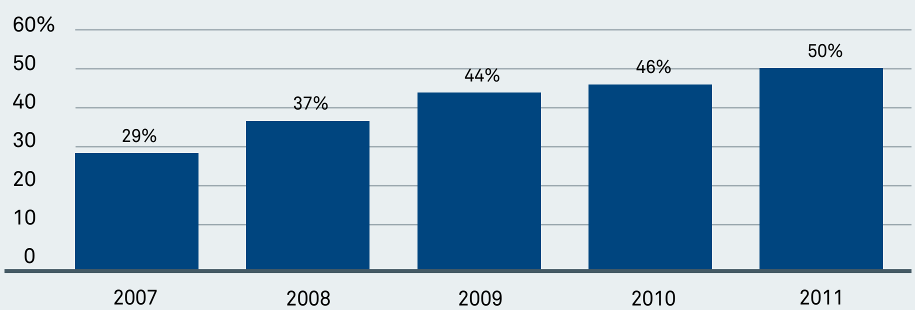
That tells you they are starting to catch on—you don't ask for help when you know you've got a problem licked. Now their expectations are still very unrealistic. There was a report a couple months ago where people were asked about how they expected to live in retirement. The report determined that they would need to make 125% of their final salary to meet their expectations. Clearly that's not realistic. Let's forget about 125%. If we can get participants to 75%, that would be awesome.

Dallas Salisbury: Another thing we're seeing is continued growth in the percentage of those who expect to delay their retirement. And we are seeing a slow upward movement in the proportion of those over 65 or 70 staying in the workforce. Well over 80% in the survey say that even when they "retire" they expect that they will need to do some ongoing work for income.

The realization is sinking in. We're all seeing people living longer. We are all seeing members of our family who are continuing to work. And all of us, when we go into many, many different retail outlets, are seeing individuals that we might've thought look old enough to have long since retired greeting us at the door or showing us where to find the screwdriver.

RISING PESSIMISM: THE NEW NORMAL?

"Not at All Confident" or "Not Too Confident" in Having Enough Money for Retirement



Source: EBRI, 2007-2011 Retirement Confidence Surveys.

What's the message that we need to get out to perspective retirees and current workers?

Chip Castille: In volatile economic times you often hear people talking about "staying the course". I think people should just first determine that they're on the right course before deciding to stay on it. Check your bearings first. Set realistic expectations and then develop a plan. The confidence comes from having realistic expectations and a plan to get there. I think it actually feels good to understand what your options are.

Dallas Salisbury: Confidence will come as they achieve the objectives of the plan. The confidence is not likely to come until they have actually seen progress. But at least now they are filled with realization of what they need to be doing.

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Is it incumbent upon plan sponsors and providers to really drive home to people that they need to do better planning?

Dallas Salisbury: My hesitation with suggesting that is incumbent upon plan sponsors is that we know that many plan sponsors have programs in place to give individual participants assistance at planning. But if you look at the latest survey data from the Profit Sharing and 401(k) Advocate, only 21% of the participants across 800 companies took advantage of the advice or counseling offered. So you can lead a horse to water but you can't make him drink.

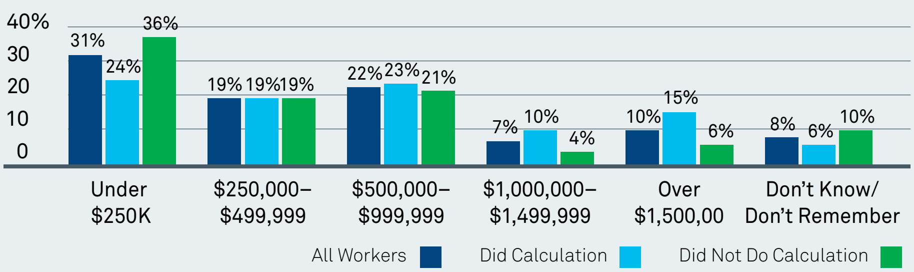
Not to be negative, but I think that it's part of the reason that I hope people's confidence doesn't return before it should. I hope that the ongoing discussions about the challenges of Social Security, Medicare and increased longevity, combined with continued economic challenges, will awaken the working population. That would create an environment in which employer education has a potentially greater probability of hitting home and moving people to action.

But "incumbent" implies that it's almost a fiduciary obligation to get people to do things that people just flat out don't want to do. To me that is not the employer's fiduciary obligation. Having said that, I encourage every employer to do as much as they can to get those offered assistance to take it, and get far more participants to at least figure out what their path needs to be.

Chip Castille: I agree with that. I think the interesting part of it is that plan sponsors clearly want to do more. I think they would like to apply some of the thinking they currently use in managing defined benefit plans to their DC plans, and they would like to make decisions about deccumulation solutions. But that's difficult given the environment we're in right now. They're doing everything that they can, but I think they need more support and protection to go ahead and take those last couple steps.

KNOWLEDGE + UNDERSTANDING = CONFIDENCE

Confidence increases among workers who have calculated their retirement needs

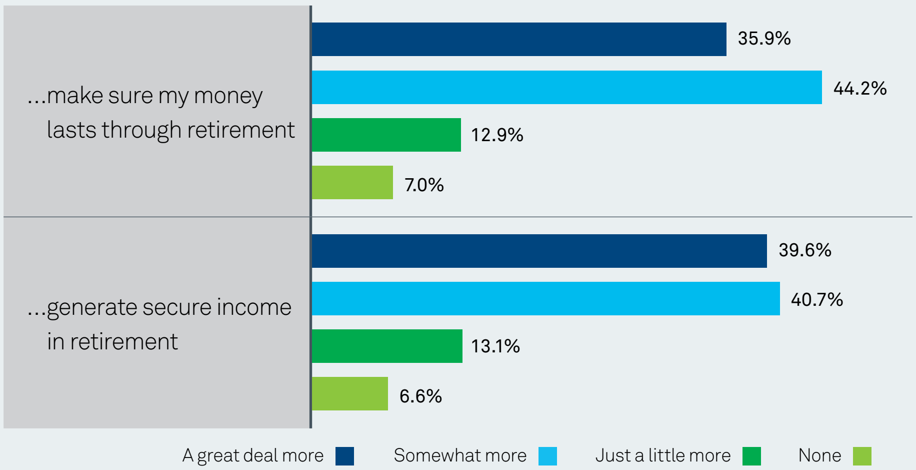


Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.,2011 Retirement Confidence Survey.

The New Normal Driving New Interest in Retirement Solutions

Consistent with research from the Employee Benefit Research Institute, the 2011 BlackRock DC Survey has found increased concern with retirement readiness among plan participants. As a result, more participants are asking for help, particularly when it comes to information about making sure their money lasts in retirement.

PARTICIPANTS WANT MORE INFORMATION ON HOW TO...



Source: 2011 BlackRock DC Survey, March 2011.

About BlackRock Defined Contribution

BlackRock is dedicated to bringing institutional-quality investment solutions to help participants achieve their retirement goals and assist plan sponsors in meeting their fiduciary responsibilities. At the forefront of investment innovation for over 30 years, BlackRock also invented the modern target-date funds by launching the LifePath® Portfolios in 1993. As one of the largest managers of DC assets, and solutions that cover all asset classes and styles, BlackRock has the expertise, insight and experience to help you build a better retirement future for participants.

To learn more about BlackRock Defined Contribution, visit www.blackrock.com/dc.

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