

The 2006 Merrill Lynch New Retirement Study:

A Perspective From Individuals and Employers



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Introduction

The 2006 Merrill Lynch New Retirement Study: A Perspective From Individuals and Employers was developed with the help of Harris Interactive® in an effort to better understand the retirement expectations and preparedness of both individuals and employers. The study builds on the findings of the *2005 Merrill Lynch New Retirement Survey*, which discovered that three-quarters of baby boomers had no intention of seeking a “traditional” retirement. Instead, boomers intend to create a whole new life stage that includes a balance of work and active living. The scope of the 2006 study was expanded considerably to probe the attitudes and perspectives of the broader adult population age 25-70, their employers and current retirees.

This new study confirms that retirement is being totally redefined, not just by baby boomers looking ahead to retirement, but by all adults (between 25 and 70). In fact, the “New Retirement” realities and expectations identified last year are already well entrenched among 60- to 70-year-olds and older boomers who are already living the “New Retirement.” Further, the study reveals a significant disconnect between employees’ goals and expectations and employers’ assumptions and actions – offering many comprehensive insights into the future of the retirement landscape from both perspectives.

By commissioning this year’s study, Merrill Lynch is able to gauge and compare the retirement aspirations, plans and concerns of different generations, as well as assess awareness of demographic trends and individuals’ preference for a new type of retirement, their level of concern about the baby boomers’ impending retirement and what actions they are taking.

The results of this major retirement research effort are an important step in Merrill Lynch’s ongoing, long-term commitment to its individual and retirement plan sponsor clients.

For more information, please visit www.totalmerrill.com/retirement.

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Study Methodology

To better understand the retirement expectations and preparedness of both individuals and employers, Merrill Lynch commissioned Harris Interactive to conduct two surveys of these groups for *The 2006 Merrill Lynch New Retirement Study*.

For the individual survey, online interviews were conducted between December 1-19, 2005. A nationwide cross section of 5,111 adults were surveyed, of whom 523 were in the age range between 25-40; 2,753 were in the age range between 41-59 and 1,835 were between 60-70 years old. Additional sample groups surveyed online included (1) 1,338 affluent adults between 25-70 (with \$250,000 plus in assets), (2) 1,772 adults age 41-70 in six metropolitan markets (Boston, Chicago, Dallas, New York, San Francisco and South Florida), and (3) 613 sets of spouses age 25-70 years old.

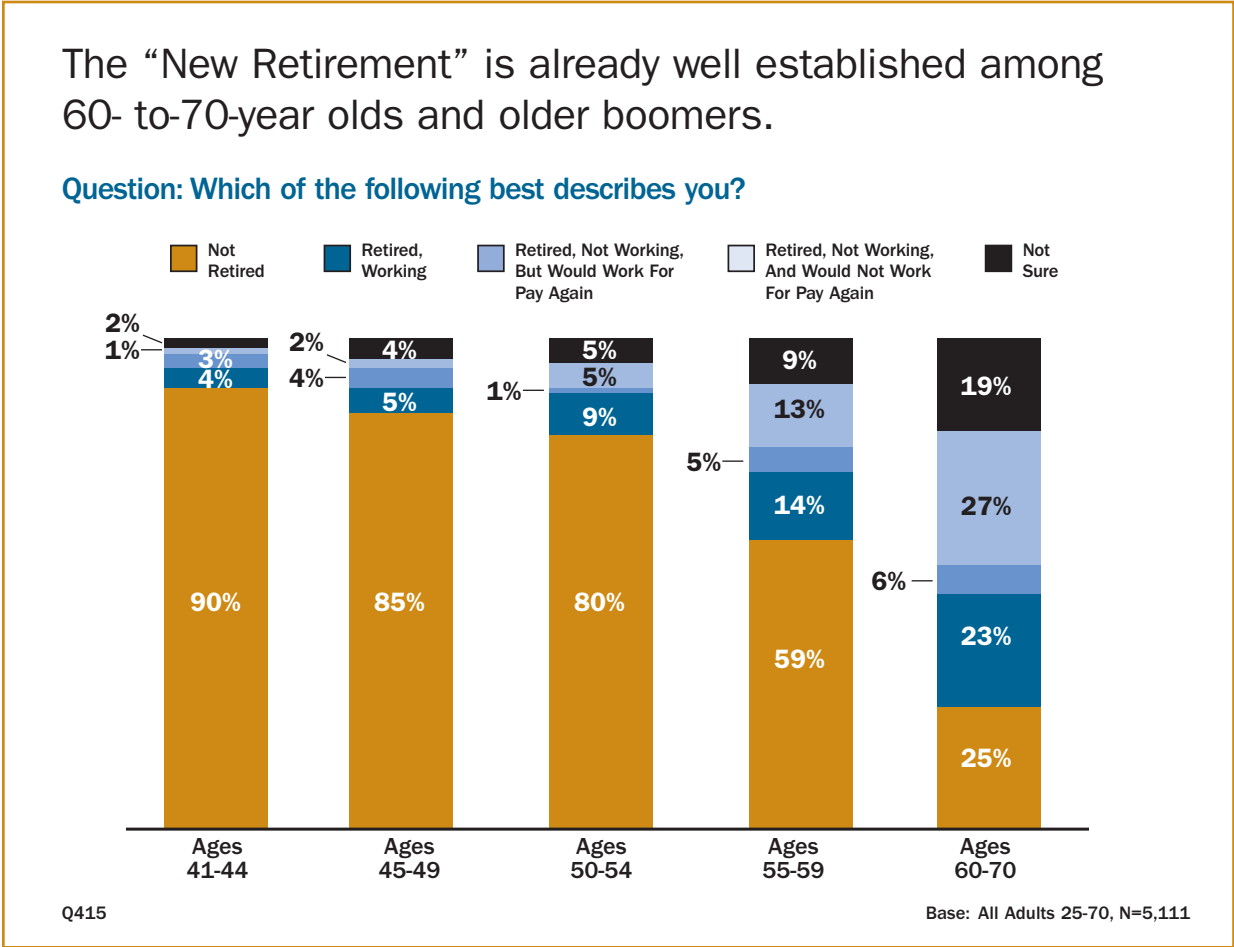
For the employer survey, more than 1,000 U. S. companies with 100 employees or more participated in telephone interviews conducted by Harris Interactive between January 4-February 3, 2006. Of the companies surveyed, 250 were Merrill Lynch clients and 751 were national companies selected at random. Data were weighted to ensure that each quota group had a representative sample based on the number of employees working in each size range and industry.

The results of the study show percentages that may not add up to 100%. This may be the result of rounding numbers to the nearest whole percentage or because respondents were permitted in some cases to give more than one response per question.

The New Retirement is Here

The findings from *The 2006 Merrill Lynch New Retirement Study* demonstrate that the traditional retirement paradigm has already shifted, and individuals are not just thinking about or planning for the New Retirement. They are living it today by continuing to work and preparing for new careers.

Working during phases in retirement is now a reality for many Americans. The survey found one-third of boomers age 51-59 and three-quarters of adults age 60-70 consider themselves retired, while more than one-third of current retirees age 51-70 are working for pay.



Question: How many hours per week do you work, on average?

Retirees Age 41-44	23.4 hours per week
Retirees Age 45-49	20.5 hours per week
Retirees Age 50-54	20.8 hours per week
Retirees Age 55-59	20.2 hours per week
Retirees Age 60-70	17.4 hours per week

Q410 Base: Retired and working

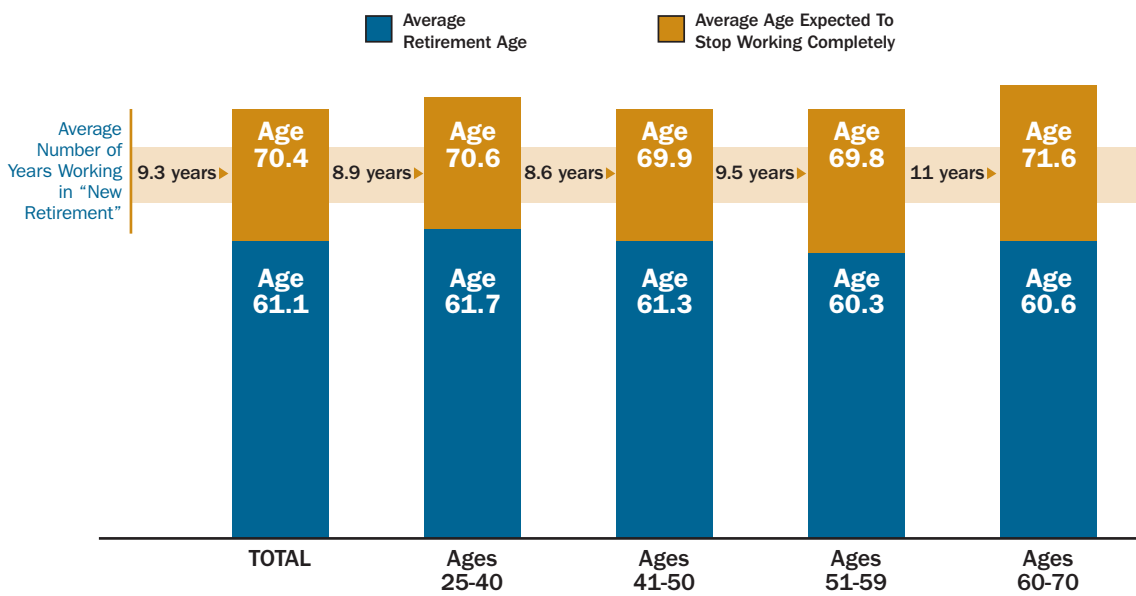
The New Model of Retirement Transcends Age

The ideal retirement for 71% of adults surveyed is to work in some capacity, and almost half of those U.S. adults who plan to work in retirement (45%) say they don't plan to stop working – ever. On average, people expect to retire at age 61, but they see themselves working an average of nine years in retirement. The average age at which they will stop working completely is over 70.

Baby boomers expect to spend a significant portion of their retirement working.

Question: At what age did you or do you expect you will retire or move into this turning point, which has historically been a time for the beginning of retirement?

Question: At what age, if any, do you expect to stop working completely?



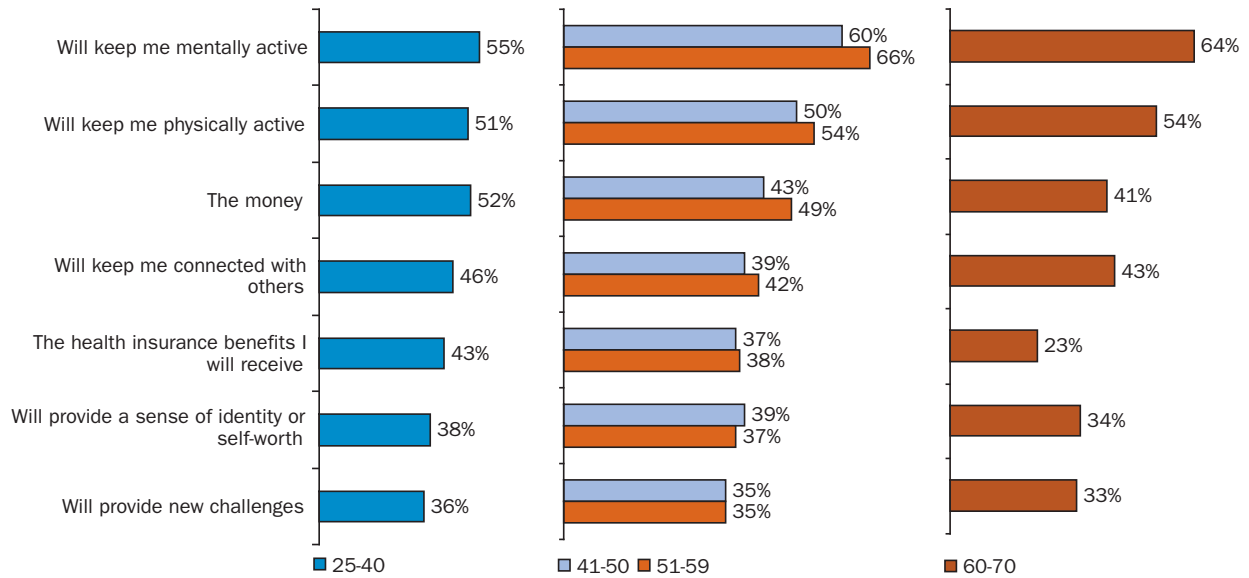
Q435/Q480

Base: All Adults 25-70, N=5,111

Why continue to work? Most say it's to stay mentally and physically active, while others mention remaining connected to others and maintaining health insurance benefits or making money.

Very important reason to work in retirement

Base: Want to work in retirement

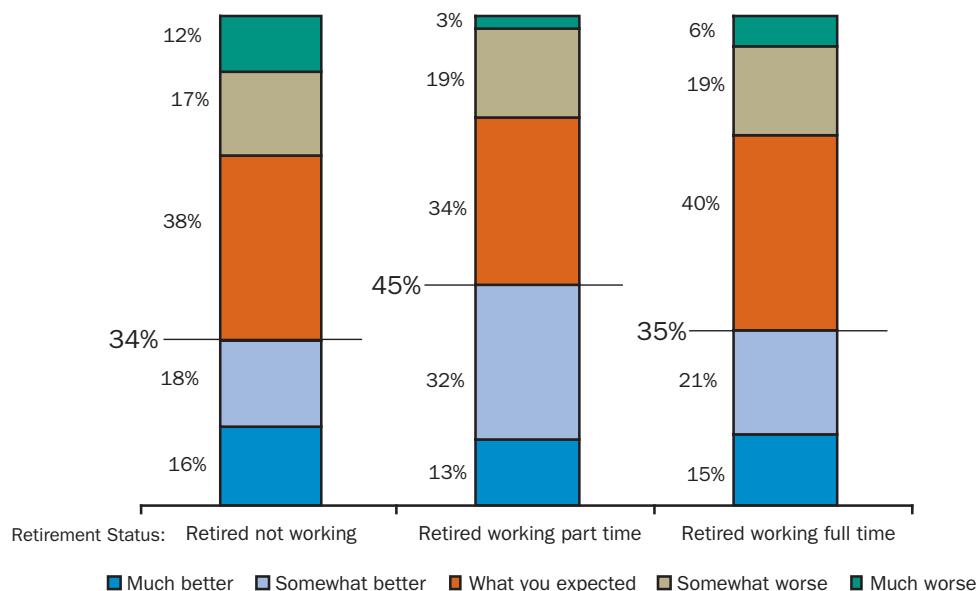


Q485 Please tell us whether you think each of the following is a very important reason you are/will be working, a somewhat important reason, not very important, or not at all important.
 Base: Adults 25-70 who want to work (n=3789)

If fact, working in some capacity in retirement is also the key to a positive retirement experience. Those who are retired and working, particularly those working part time (working in some capacity on one's own terms) are finding their retirement experience to be better than expected (45% versus 34% who are retired and not working).

Retirement is more likely to be better than expected for people working part time in retirement

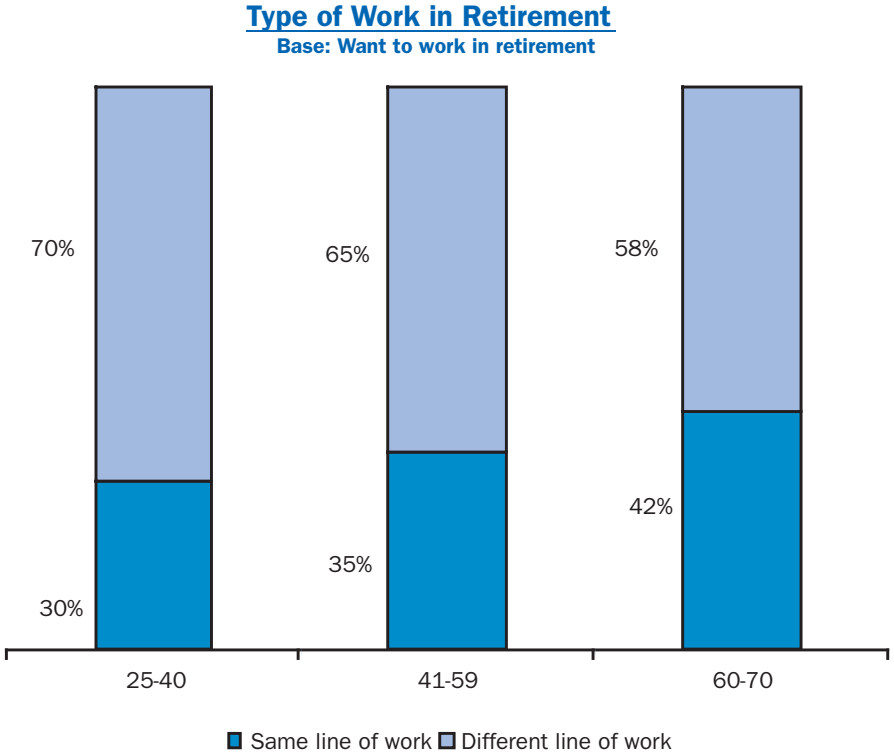
Compared to your expectations before you retired, has your retirement been...?



New “Retirement” Career Opportunities

Two-thirds of all adults who expect to work in some capacity in retirement would prefer to change their line of work. Sixty-five percent of boomers and nearly as many 60-70 years olds (58%) and even a greater percentage of younger workers (70%) are looking forward to new work experiences.

Most people who are planning on working in retirement would prefer to go into a different line of work in retirement—especially the younger segment

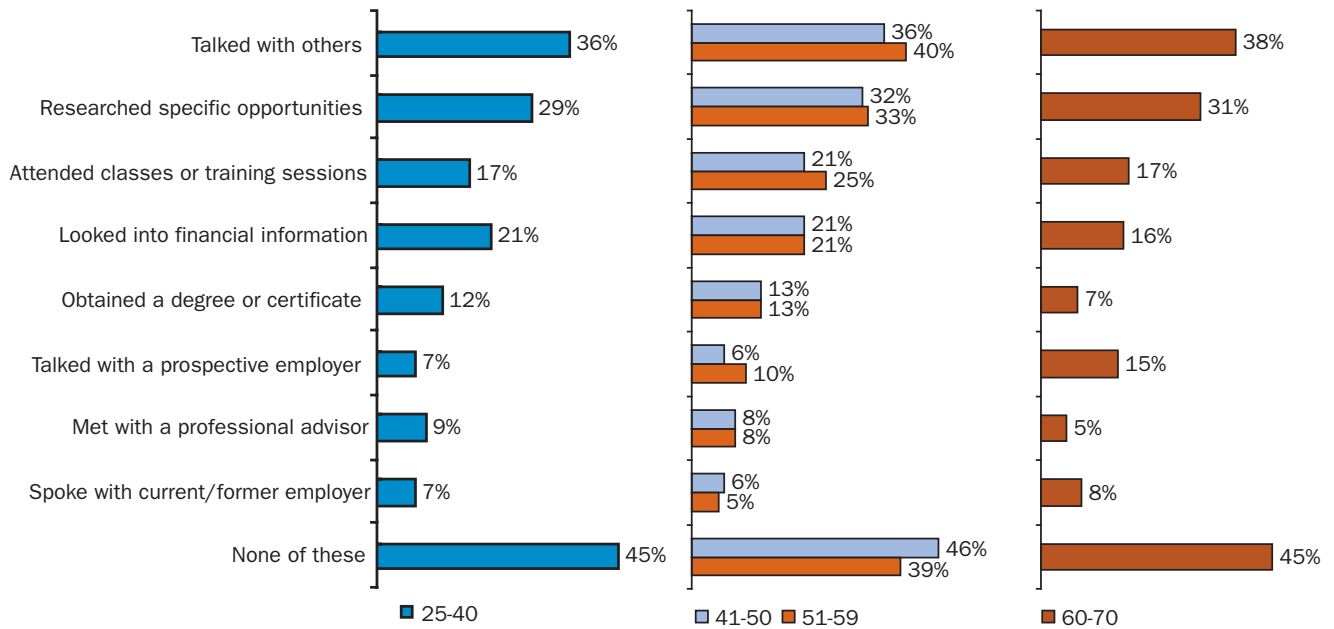


Q465 Do you prefer to work in the same line of work as your previous job/Do you plan to work in the same line of work you do now, or a different line of work?
Base: Adults 25-70 who want to work (n=3789)

Beyond thinking about a second career in retirement, individuals are actively taking steps to achieve this new career. 60% of those ages 51-70 have taken steps to prepare for a new line of work in retirement by talking to others, attending classes or researching opportunities.

Things people have done preparing for new career in retirement

Base: Want different work in retirement

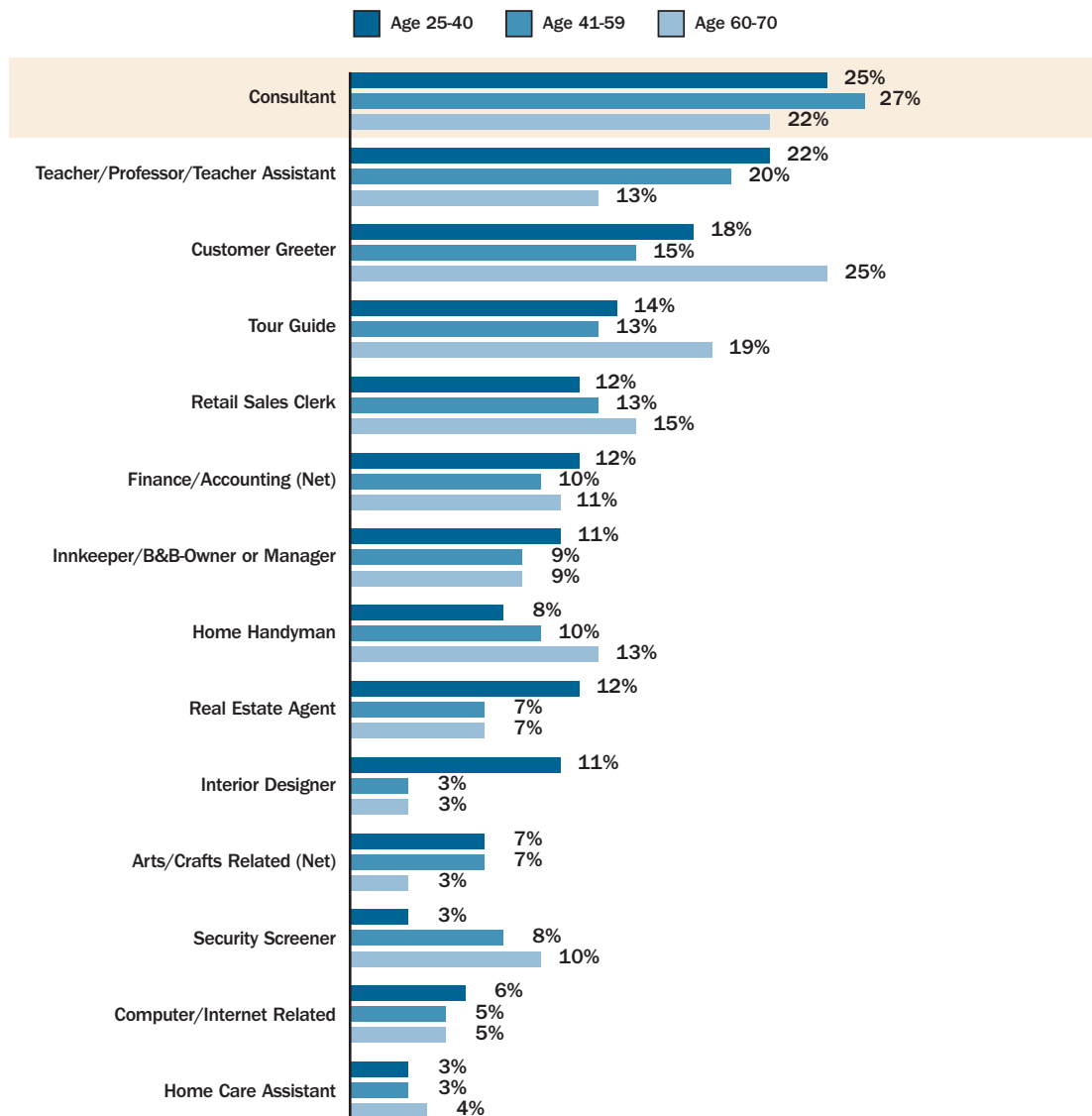


Q475 Have you done any of the following in planning for this new career?
 Base: Adults who want different work (n=2273)

Almost half (42%) of individuals want second careers where they can share or pass on their knowledge to others. One-quarter of adults in all age groups mention “consultant” as their preferred type of retirement work, followed by “teacher.”

One in four employees envisions himself or herself in a consulting role. These are the types of skilled professionals who companies need to try to attract and retain.

Question: Which of the following types of work would you like to do in retirement?



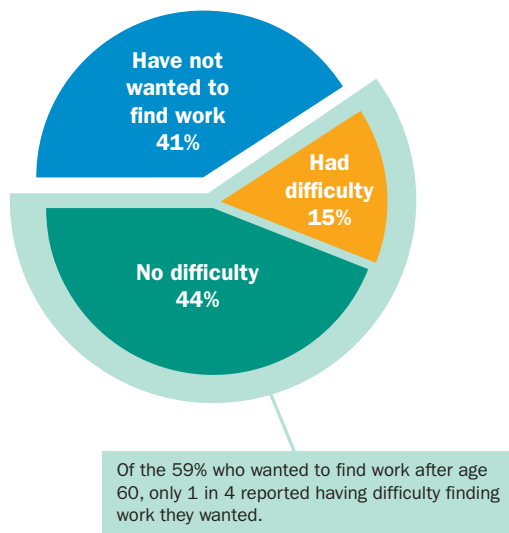
Q470

Base: Adults 25-70 who want different work, N=2,273

Despite concerns over ageism in the workplace, only 25% of individuals over age 60 (who said they wanted to work) said they had difficulty finding work that they wanted. Among those who reported having difficulty, 80% indicated that they felt others thought they were too old. As more of the 75 plus million baby boomers move into their 60s, this is likely to become even less of an issue. However, many are paving the way now for those coming after.

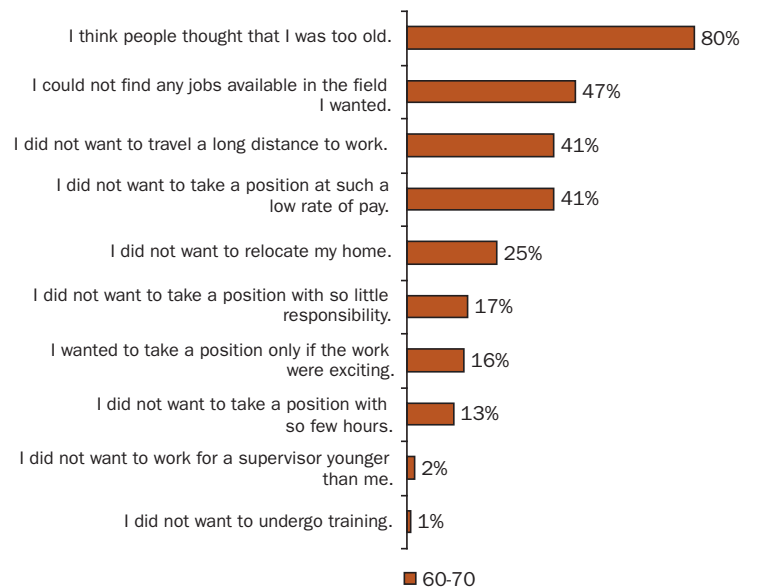
Only a small minority report having difficulty finding work since they turned 60. Difficulty finding work is tied to the belief that others thought they were “too old.”

Difficulty Finding Work After 60



Q505 Have you ever had difficulty finding work that you wanted since you turned 60?
Base: Those 60 + (n=1835)

Reasons Why Difficulty Finding Work After 60



Q510 Why did you have difficulty finding work that you wanted since you turned 60?
Base: Difficulty finding work (n=257)

Employees and Employers Don't See Eye to Eye

New work realities for employers and employees are emerging as a result of the changing model of retirement.

Individuals are largely in agreement about what work will look like in the New Retirement. It's a picture of vital people exploring new professions wrapped in the ultimate flex-time schedules. However, are employers prepared for this groundswell of individuals leaving the workforce and then wanting to re-enter the game on much different terms? Some are. But nearly a third of employers haven't even thought about it. So individuals may become the catalyst for changes in benefit and personnel policies by "selling" their retirement career ideas to their current and prospective employers. This means preparing for a new career much earlier. It's a wake-up call for individuals and employers.

Different Expectations About Employee Lifestyles During Retirement

Similar to the results of the individual study, almost three-quarters (75%) of U.S. adults (age 25-59) expect to work in retirement, ideally with the flexibility of working only as much as they want to, rather than at a steady job with regular hours.

What is perhaps the most noteworthy disconnect is that while employers widely recognize individuals' desire to work in retirement, they are more likely to assume that a substantial number of employees would prefer a regular part-time schedule than cycling between work and leisure. This might seem like a subtle distinction when you combine it with the fact that two-thirds (66%) of those who want to work in retirement want to do it in a completely different line of work. Employers may be surprised to find that older employees who they assume might be enticed to stay on a few more years at reduced hours may leave altogether and perhaps even sooner than expected, given individuals cite age 61 as the average age they expect to retire. Employers may not have as long to prepare for the coming demographic shifts as they are assuming.

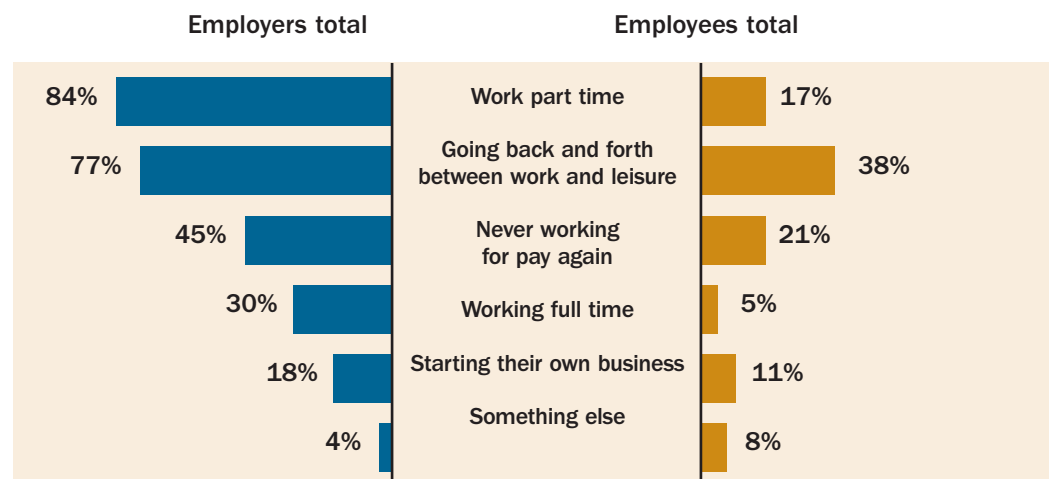
Employers who are counting on keeping their older workers may lose them to competitors. Two-thirds of those who want to work in retirement would like to do so on their own schedule, in a *different* line of work. Many are considering a totally new career.

Question: People have different ideas about how they will live in retirement. Which of the following do you think a substantial proportion of your employees will be interested in?

(Select all that apply.)

Question: People have different ideas about how they will live in this phase of life that has traditionally been called retirement. Please tell us which one of the following best represents your ideal plan for how you would like to live in this stage.

(Select one.)



Base: employers. Total, N=1,001

Base: employees. All Adults 25-70, N=5,111

This issue is further complicated by the anticipated “brain drain” that is predicted to occur as the oldest boomers start turning 65 in 2011, just five years from now. Between 2004 and 2014, the number of civilian jobs in our country is expected to outstrip the number of civilian workers.¹ Estimates of the size of the workforce shortage vary widely, depending on the assumptions used. But significant growth in one segment of the workforce, especially if encouraged by significant changes in the workplace, could help solve the problem.

The number of civilian workers age 55 and older is expected to increase by over 49% between 2004 and 2014.² However, that still would imply a labor shortage of about 2.4 million people in 2014.

¹ Bureau of Labor Statistics, employment and workforce projections

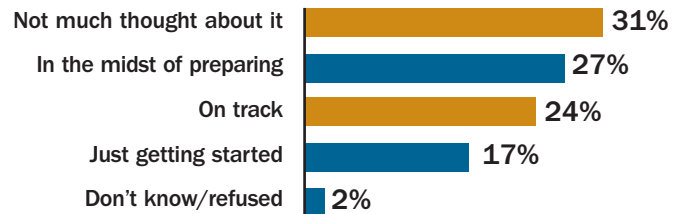
² Bureau of Labor Statistics, news release, Dec. 7, 2005

Attracting and keeping more workers past their normal retirement age could be a boon to employers competing for limited resources. The key will be offering them the incentives to do so.

When asked which categories of employees companies are most concerned about retaining, highly skilled professionals top the list. While employers are concerned about skills and experience, they don't seem to have directly connected these concerns to the boomer outflow. Many companies are not responding to this threat. Only one in four (24%) employers said they are on track with preparing for the boomer outflow from the workforce, and almost one-third (31%) say there hasn't been much thought about it.

24% of respondents say their company is "on track" when it comes to preparing for boomer retirements, but a third say they haven't even thought about it.

Question: How prepared do you think your company is for the large number of baby boomers reaching retirement age in the coming years?

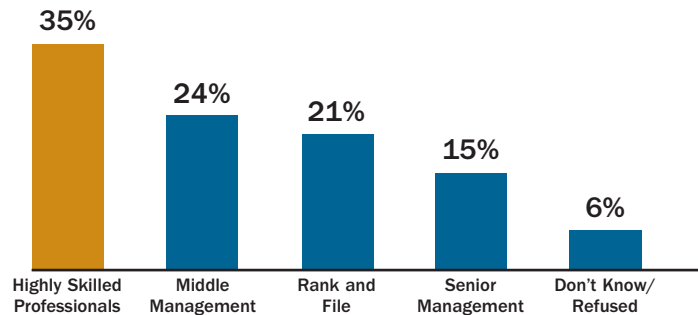


Q510

Base: Total, N=1,001

Overall, concern over losing “highly skilled professionals” is more pronounced than for any other group of employees.

Question: Among which class of employees do you think you will feel the impact of labor shortages and brain drain the most as a result of employees retiring?

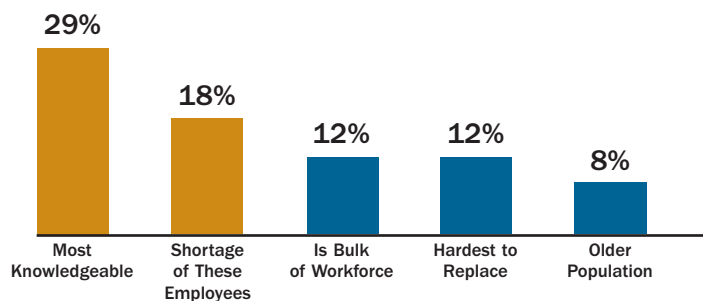


Q540

Base: Total, N=1,001

Losing skilled professionals causes the most concern because these employees are the most knowledgeable and least available.

Question: Why do you say that you will feel the labor impact mostly from the loss of highly skilled professionals? (reflects top five responses; 21% were in various other categories)



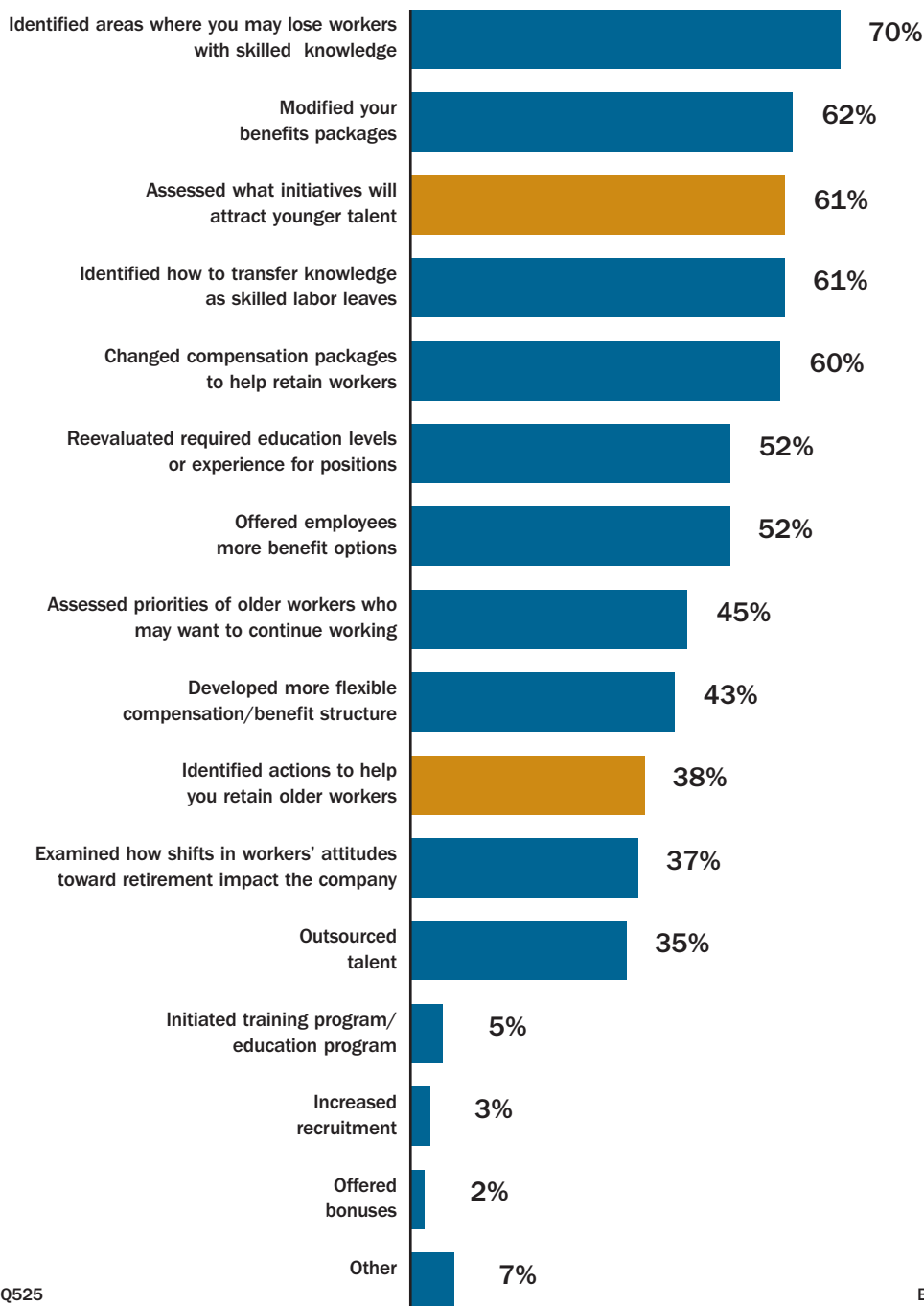
Q545-Coded Open End Responses

Reduced Base: Those who mentioned “highly skilled professionals,” N=315

Employers are focused on younger workers. Employers who have taken steps to prepare for future labor shortages focus on recruitment but tend to focus on recruiting younger workers (61%). Only 38% of companies have identified specific actions to retain older, skilled workers. Less than half of companies (44%) offer any type of flex-time or part-time work opportunities that would make it easier for pre-retirees to transition into other careers. Only 24% provide coaching or mentoring services to help retain older employees.

Though older workers may include the “skilled professionals” employers say they are most concerned about, companies are more focused on other employee groups and strategies.

Question: Has your company done any of the following to help attract and retain skilled labor?



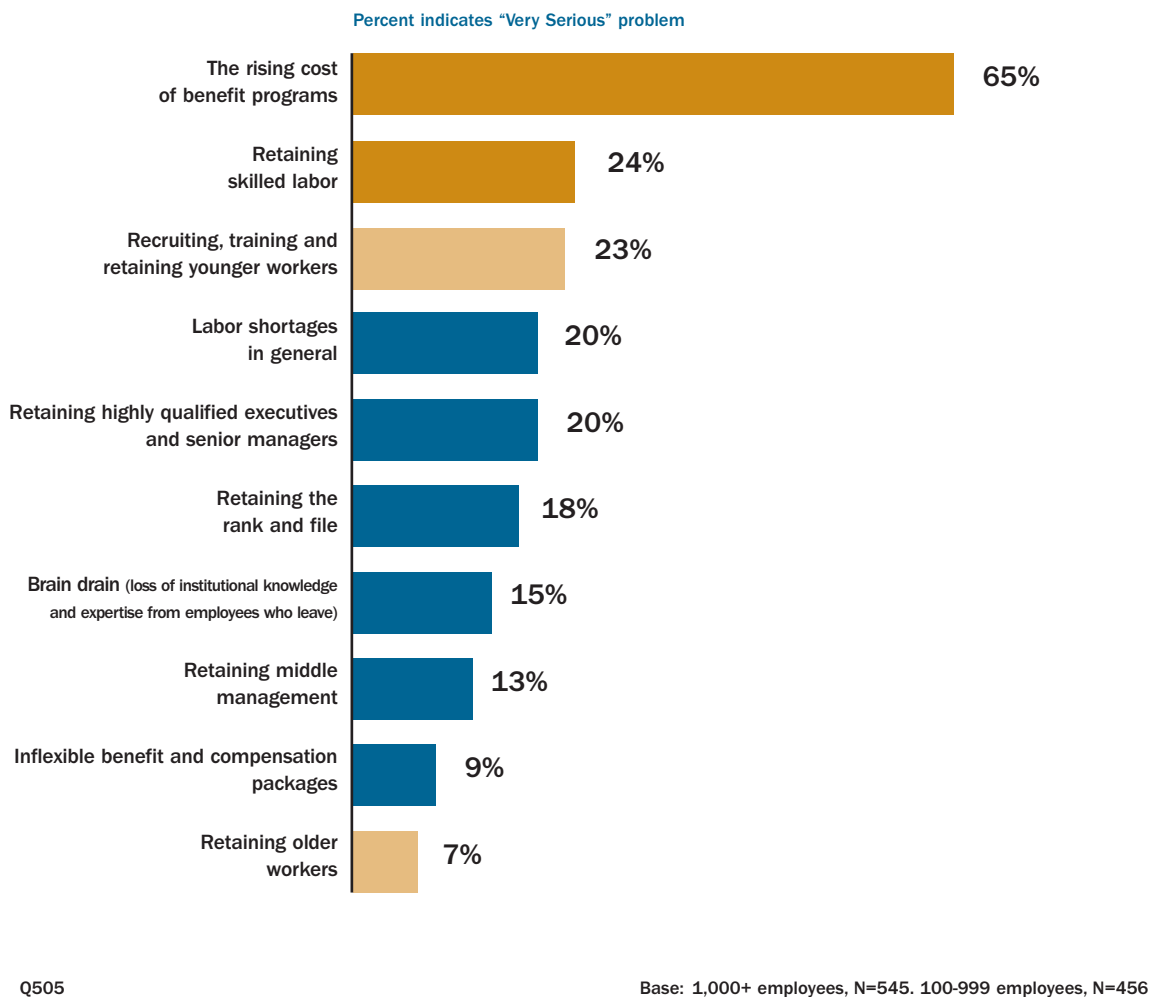
Q525

Base: Total, N=1,001

Concerns over the increasing cost of benefit programs rank as the most pressing human resource and benefits issue that employers are facing. Well over half (65%) of the companies surveyed considered this a very serious issue – almost 10 times more than companies who considered retaining older workers as a serious problem (7%).

Employers are three times as likely to see recruiting, training and retaining *younger* workers as a very serious problem, compared to retaining *older* workers.

Question: How serious a problem do you perceive each of the following issues to be for your company?



The bottom line – competitive and economic pressures continue to be the primary driving factors behind corporate benefit decisions and greatly outweigh concerns about workforce shortages. Until personnel shortages hit the bottom line, there is little impetus for action. Forty percent of the companies surveyed reported that the wave of retiring boomers is not an important priority at the HR level or at the senior management level.

Some companies have already begun to embrace and prepare for the workforce changes ahead. Those leading the pack realize first and foremost the importance of attracting and retaining older and talented workers.

One of the most notable findings of *The 2006 Merrill Lynch New Retirement Study* is that awareness, recognition, understanding and a willingness to address the issues head on are necessary for companies to manage boomer outflow and to be prepared for the future generations of “career retirees.”

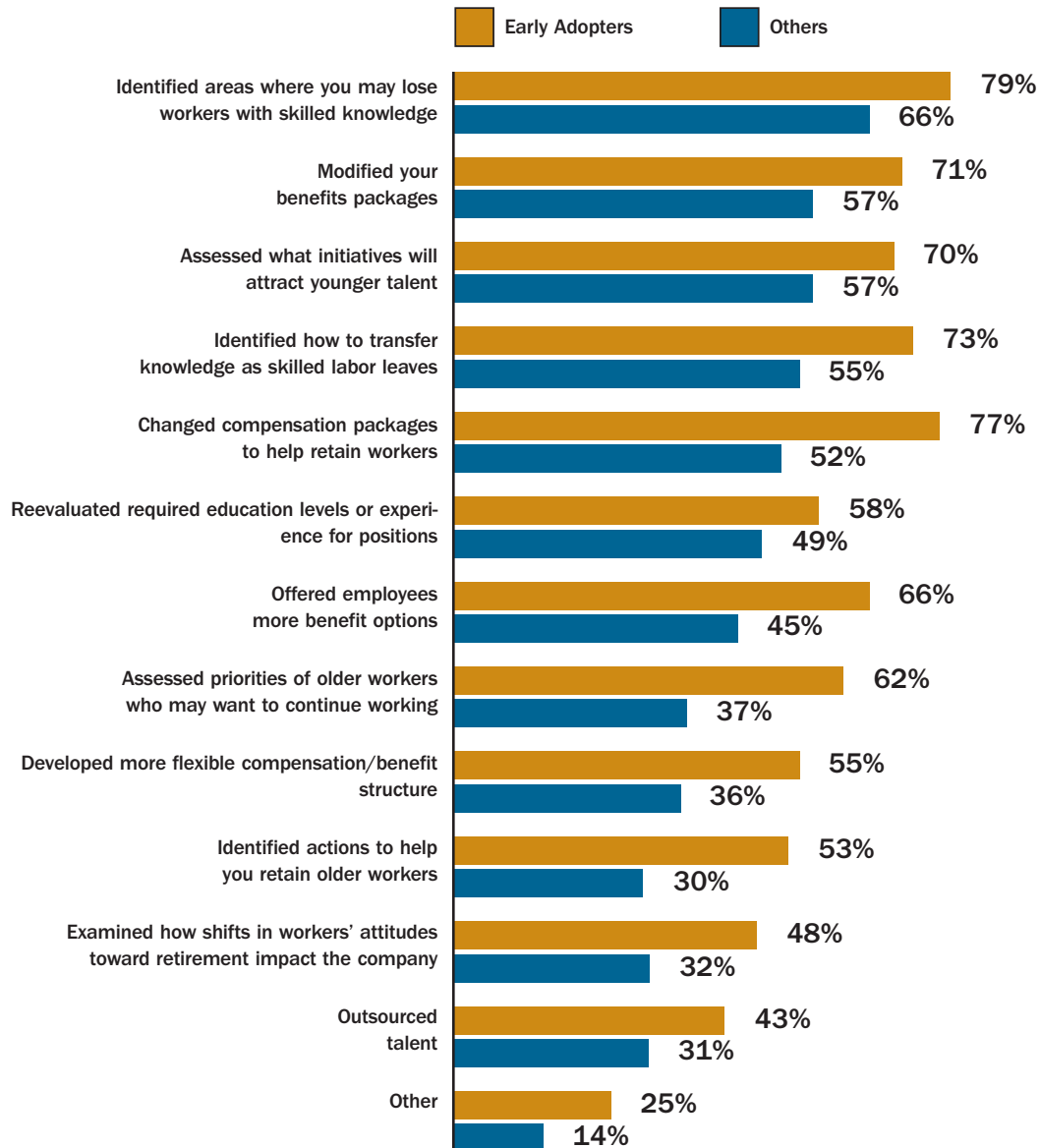
These pioneers on the employment front have already realized that the “New Retirement” is here. By permitting telecommuting and more flexible schedules, providing coaching and mentoring services, as well as offering increased access to health insurance, these companies have demonstrated that they are already thinking about the new approaches they can take to leverage a very valuable workforce segment that still has the desire to work.

Companies that are trying to attract and retain older workers have adopted at least two of the following best practices:

- Introduce new technology to accommodate employees working remotely
- Allow older workers coaching and mentoring opportunities
- Offer more health care coverage for part-time or seasonal workers
- Provide different assignments
- Opportunities to transfer jobs with reduced pay/hours
- Offer phased-in retirement programs
- Provide different balances between compensation versus other benefits
- Allow employees more flexible work schedules

Early adopters are leading the pack when it comes to taking steps to attract and retain skilled labor.

Question: Has your company done any of the following to help attract and retain skilled labor?

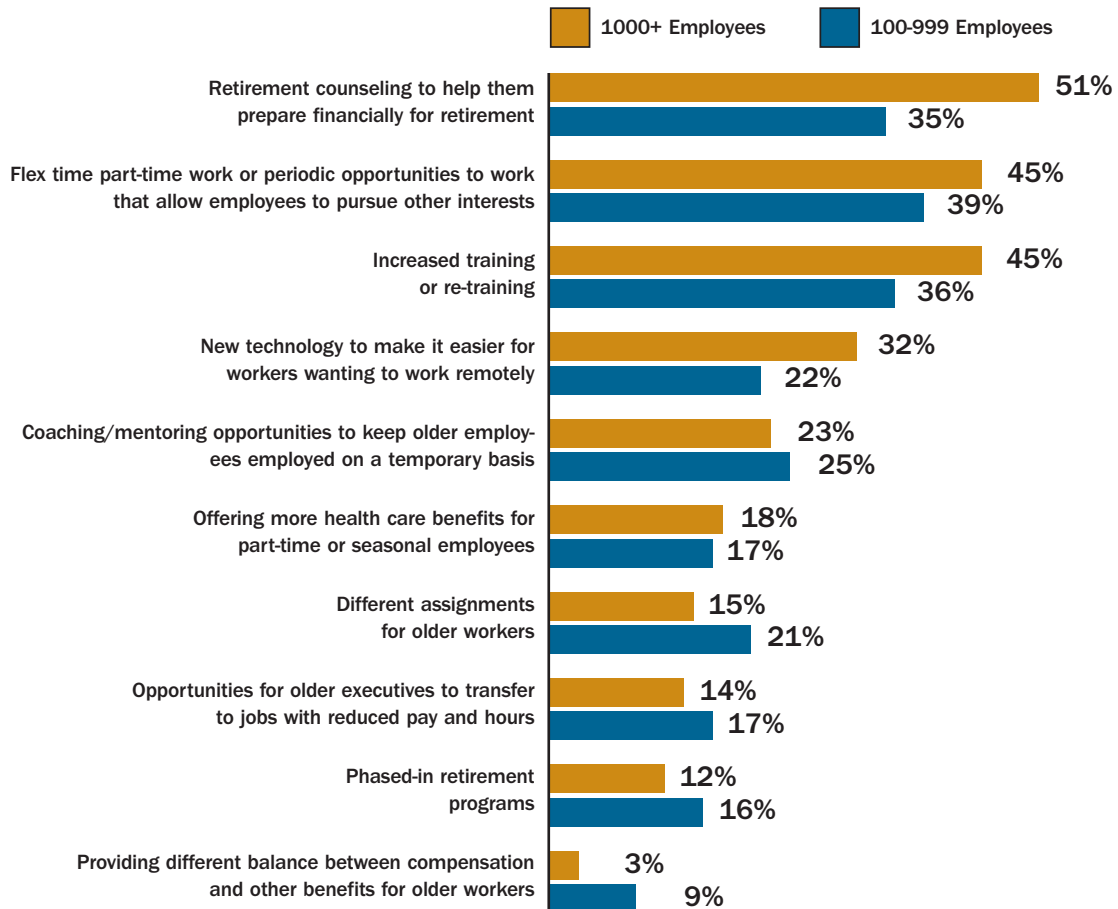


Q525

Base: Early Adopters, N=314. Others, N=687

While larger firms tend to do more to try to attract and retain older employees, smaller companies tend to be more innovative in their approach.

Question: Which of the following benefits are you currently offering or considering offering to attract and retain older talent?



Q610

Base: 1000+ Employees, N=545. 100-999 Employees, N=456

Life Planning and Financial Preparation Make the Difference

For those already retired, being prepared—having comprehensive life and financial strategies—makes for a more satisfying and secure retirement. In a change from the prior survey, only one-quarter of boomers today say they feel very or fairly prepared versus one-third in our first survey. Concerns about pension cutbacks, media attention given to the uncertain future of Social Security and the rising cost of real estate may help explain this change and why almost 60% of all adults are not really looking forward to retirement.

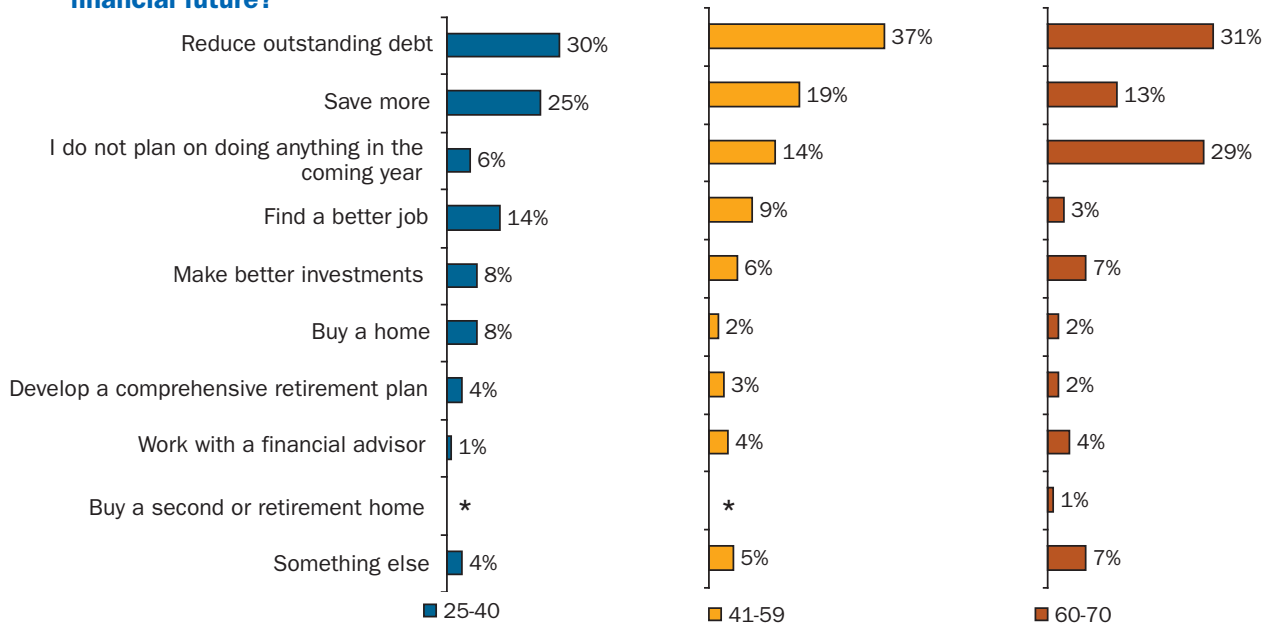
Other Preparations That Can Make a Difference

Managing Debt

More than half of non-retirees are concerned about debt levels, but they're optimistic about the future. Sixty-four percent of them expect their debt to decrease by the time they retire, and three-quarters expect to eventually be debt free. Managing debt effectively is a smart financial move at any stage so it makes sense to start reducing it today.

“Reducing debt” and “saving more” are seen as key tactics planned for securing the financial future

In the coming year, what is the single most important thing you will do toward securing your financial future?



Nearly two in ten (18%) older baby boomers are not planning on doing anything this coming year to secure their financial future, compared to one in ten younger baby boomers (11%).

* Less than 1%

Downsizing

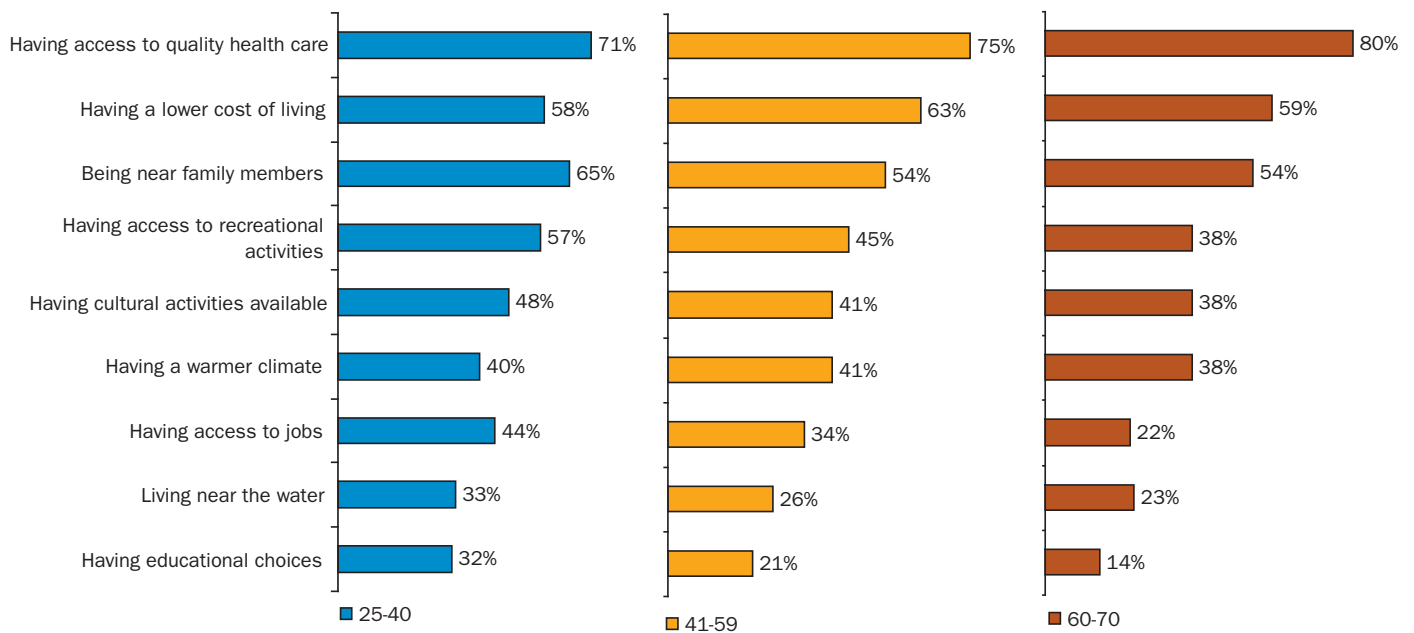
Shedding material possessions has been a traditional aspect of retirement for generations because it can cut expenses, raise funds and generally simplify life. Almost a third of adults not yet retired expect to downsize their homes. And two-thirds say reducing expenses is an important reason to downsize, but even more say simplicity and ease of maintenance are important considerations. Not surprisingly, very few have started that process.

Health Care

Health care is the financial wild card because there is no way to be sure of your health or health care costs throughout retirement. Aside from the expense, access to quality care may affect decisions about where to live. About three-quarters of adults age 25-70, retired or not, think that having access to quality health care is extremely or very important in deciding where to live in retirement. A lower cost of living and being near family members come in a close second and third, respectively.

Having “access to quality health care,” “lower cost of living” and “being near family members” are key considerations in looking where to live in retirement

Extremely/Very Important Factors To Consider In Ideal Place To Live In Retirement



Q650 In thinking about places to live in retirement, please indicate how important each of the following is in deciding the ideal place for you to live.

Base: All Adults 25-70 (n=5,111)

Long-Term Care

Only about 13% of adults age 25-70 have long-term-care insurance, and just another 23% plan to buy it. Almost a quarter feel that they won't need it because they think they will be taken care of by other means, such as the government or their children, or that they will have enough money to cover any long-term-care expenses. But the rising cost of long-term-care and expected ongoing reductions in Medicaid resources suggest that without proper planning, these assumptions could create major financial problems. The time to think about long-term-care insurance is before you retire and before you encounter any serious health problems which may make you ineligible for insurance coverage.

Conclusion

As a group, neither individuals nor employers are well-prepared for the impending sea change taking place in the “New Retirement.” However, the understanding of the retirement expectations and preparedness of both individuals and employers presented in this study can help bridge the gap between these two groups and help them prepare for the future. For individuals, the key is to envision what you want to do and how you want to live in this next phase of your life and start planning how you will achieve that dream. For employers, it is having an awareness and recognition of changing workforce demographics and an understanding and willingness to address the issues head on. By possessing this insight and knowledge, we can better prepare for this next generation of retirement.

Note to media: The preceding highlights represent a summary of the key pieces of information and insights contained in The 2006 Merrill Lynch New Retirement Study. We have substantial data on a wide range of questions that probe in more detail individuals’ retirement goals, concerns, household finances, retirement and estate planning, and level of preparedness for the new retirement, as well as demographic data. In addition, our 5,000-plus sample size allows us to draw statistically significant conclusions from various age, demographic, geographic and particular segments of our overall population. Please contact Jennifer Grigas, jennifer_grigas@ml.com, for the full topline study report.

In addition to the individual survey data, the full topline survey report regarding employers in our survey is available also.



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