

News

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The Current State of 401(k)s: Closing the Gap Between Employers' Offerings and Workers' Needs

New study examines employer-sponsored benefits and identifies opportunities

LOS ANGELES – June 15, 2016 – Today, nonprofit [Transamerica Center for Retirement Studies®](#) (“TCRS”) released a new [report](#) which offers an overview of retirement plan sponsorship, comparisons by company size, and worker insights. [Catherine Collinson](#), president of TCRS and Transamerica Institute®, has been invited to share the results of the report and other research before the U.S. Senate Special Committee on Aging’s hearing today, [“Closing the Gap: Innovations to Promote Americans’ Retirement Security.”](#)

The new report, part of [TCRS’ 16th Annual Retirement Survey](#), illustrates the importance of workplace retirement benefits in helping workers prepare for retirement, finding that the vast majority of workers (89 percent) value retirement benefits as an important workplace benefit. Moreover, the survey found that 90 percent of workers who are offered a 401(k) or similar plan are saving for retirement, either through the plan and/or outside of work, compared to just 48 percent of workers are not offered such a plan.

Expanding Retirement Plan Coverage Requires Extending Access to Part-Time Workers

“As policymakers and industry seek to expand retirement plan coverage among American workers, it should be acknowledged that plan sponsorship rates are relatively high with room to grow and that part-time workers should be a special area of focus and attention,” Collinson said.

According to the survey, 74 percent of companies offer a 401(k) or similar employee-funded plan (e.g., SEP, SIMPLE). Large companies (500+ employees) (92 percent) and small non-micro companies (100 to 499 employees) (89 percent) are far more likely to offer such benefits than micro companies (10 to 99 employees) (72 percent).

Despite the high percentages of employers that indicate they are offering plans, the survey findings reveal a pervasive gap in plan coverage: part-time workers. Only 38 percent of employers that offer a plan extend eligibility to their part-time workers. “By addressing the coverage gap among part-time workers, policymakers can also help improve the retirement outlook of women and lower-income workers who are more likely than other demographic segments to work part-time,” Collinson said.

Automatic Features in 401(k)s Can Increase Savings Rates

“Automatic enrollment, which automatically enrolls employees into the plan with the ability for them to opt out, is widely recognized as one of the most effective ways to increase plan participation rates; however, relatively few 401(k) plan sponsors offer it, despite its appeal to workers,” Collinson said.

The survey found that 71 percent of workers find the idea of automatic enrollment to be appealing. However, only 21 percent of plan sponsors offer it. Large companies (41 percent) are more likely than small non-micro (28 percent) and micro (18 percent) companies to do so.

Automatic escalation is a feature that increases a participant's contributions to the plan, typically by one percent, annually or when he or she receives a pay raise. Only 28 percent of plan sponsors offer automatic escalation in stark contrast to the 67 percent of workers who find the idea appealing.

Opportunities Abound for Increasing Retirement Security of American Workers

"Our research has identified opportunities for increasing retirement security through workplace-oriented solutions, focused within the context of the existing retirement system. All are well within reach, yet some may require public policy reforms, assistance from employers, and industry innovations," Collinson said.

Reducing "leakage" from retirement accounts which can severely inhibit long-term savings. Among workers who are currently participating in a plan, 23 percent have taken a loan and/or early withdrawal from their 401(k) or IRA, with top-cited reasons indicating they may lack emergency savings or insurance coverage – or they are paying off consumer debt. While access to funds through loans and hardship withdrawals can encourage plan participation, greater education is needed in simple and clear terms of the risks and negative consequences. Limiting the number of loans allowable by the plan can help, too.

Implementing personalized retirement education, communication and planning tools. With two out of three workers agreeing they do not know as much as they should about retirement investing, the need for more education is clear. When asked what would motivate them to learn more, many said, "make it easier to understand." Personalizing retirement tools, education and resources – including the manner in which they are delivered – can engage more people in preparing for their long-term financial security. Case in point: the survey found that 20-somethings are almost twice as likely as 60-somethings to find mobile apps for managing their retirement accounts to be helpful.

Addressing a hidden threat to retirement security: caregiving responsibilities. Given increases in longevity and the high cost of assisted living and long-term care, many workers will be called upon to be an unpaid family caregiver for an aging parent or loved one at a time in which they are balancing their careers, raising children and saving for their own retirement. The resulting reduction of work hours or time off from the workforce for caregiving can negatively affect caregivers' future retirement security. TCRS' survey findings illustrate a tremendous opportunity for employers to help employees balance work with caregiving responsibilities. Just 58 percent of employers accommodate caregiving employees by offering flexible work schedules. Moreover, employers may not fully understand their legal obligations. Fewer than half (47 percent) say they allow their employees to take unpaid leave covered by the Family and Medical Leave Act (FMLA), thereby suggesting they are unfamiliar with the law.

Facilitating working longer and a phased transition into retirement. Most workers plan to work past age 65 or do not plan to retire, citing reasons related to income and benefits, or enjoying their job. Workers are envisioning a phased transition into retirement that includes both work and leisure. Unfortunately, few employers have business practices in place to support them. For example, only one in four employers offer pre-retirees the ability to shift from full-time to part-time work.

"In today's world, individuals are increasingly expected to self-fund a greater portion of their retirement income, but they need help in order to be successful," Collinson said. "Closing the gaps and improving the retirement outlook of Americans can best be achieved if approached as a shared responsibility among policymakers, employers, industry, and individuals in which each does their part."

Ms. Collinson's [testimony](#) before the U.S. Senate Special Committee on Aging, which contains a full set of recommendations, and related TCRS research reports can be found [here](#). Visit www.transamericacenter.org for more information. Follow TCRS at [@TCRStudies](#).

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About Transamerica Center for Retirement Studies

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About the Survey

The analysis contained in [*The Current State of 401\(k\)s: The Employer's Perspective*](#) was prepared internally by the research team at Transamerica Center for Retirement Studies® (TCRS). The surveys were conducted within the United States by Harris Poll on behalf of TCRS. Potential respondents were targeted based on company size. The 29-minute **employer survey** was conducted by telephone or online between September 15 and December 3, 2015 among a nationally representative sample of 1,022 employers who make decisions about employee benefits at his or her company, with appropriate job titles, and in a for-profit company that employs 10 or more employees across all locations. The 25-minute online **worker survey** was conducted between February 18 and March 17, 2015 among a nationally representative sample of 4,550 full-time and part-time workers. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies of 10 or more employees. For both surveys, results were weighted to ensure that each quota group had a representative sample for their respective population. No estimates of theoretical sampling error can be calculated.

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