News
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The Retirement Readiness Challenge: Five Ways Employers Can Improve Their 401(k)s

New Research from Transamerica Center for Retirement Studies® Highlights Opportunities

LOS ANGELES – October 20, 2014 – Today, nonprofit Transamerica Center for Retirement Studies® ("TCRS") released a new study and infographic identifying five ways employers can improve their 401(k)s. As part of TCRS' 15th Annual Transamerica Retirement Survey, this study explores employers' views on the economy, their companies, and retirement benefits. It compares and contrasts employers' views with workers' perspectives.

"As the economy continues its prolonged recovery from the recession, our survey found upbeat news that many employers are hiring additional employees. Moreover, they recognize the value of offering retirement benefits," said Catherine Collinson, president of TCRS.

Seventy-two percent of employers have hired additional employees in the last 12 months (compared to only 16 percent that say they have implemented layoffs or downsizing). Among employers that offer a 401(k) or similar plan (e.g., SEP, SIMPLE), the vast majority (89 percent) believe their plans are important for their ability to attract and retain talent.

Retirement Benefits and Savings Are Increasing (Yet More Can Be Done)

Employers are increasingly offering 401(k) or similar plans to their employees. Between 2007 and 2014, the survey found that the percentage of employers offering a 401(k) or similar plan increased from 72 percent to 79 percent. The offering of a plan is highest among large companies of 500 or more employees (98 percent) and small non-micro companies of 100 to 499 employees (95 percent) and lowest among micro companies of 10 to 99 employees (73 percent).

During the recession and its aftereffects, many 401(k) plan sponsors suspended or eliminated their matching contributions. Plan sponsors that offer matching contributions dropped from 80 percent in 2007 to approximately 70 percent from 2009 to 2012. In 2014, the survey found that 77 percent of plan sponsors now offer a match, nearly rebounding to the 2007 level.

"Despite the tumultuous economy in recent years, 401(k) plan participants stayed on course with their savings," said Collinson. According to the worker survey, participation rates among workers who are offered a plan have increased from 77 percent in 2007 to 80 percent in 2014. Among plan participants, annual salary contribution rates have increased from seven percent (median) in 2007 to eight percent (median) in 2014, with a slight dip to six percent during the economic downturn.

Workers' total household retirement savings increased between 2007 and 2014. The 2014 estimated median household retirement savings is $63,000, a significant increase from 2007, when the estimated median was just $47,000. Notably, Baby Boomers have saved $127,000 (estimated median) in household retirement accounts compared to $75,000 in 2007. "For some workers, current levels of retirement savings may be adequate; for many others, they are not enough," said Collinson.

Five Ways Employers Can Improve Their 401(k)s

"401(k)s play a vital role in helping workers save and invest for retirement," said Collinson. "Until every American worker is on track to achieve a financially secure retirement, there will be opportunities for further innovation and refinements to our retirement system."

The survey identified five ways in which employers, with assistance from their retirement plan advisors and providers, can improve their 401(k)s. Plan sponsors are encouraged to consider these enhancements to their plans:

1. Adopt automatic plan features to increase savings rates

"Automatic enrollment is a feature that eliminates the decision-making and action steps normally required of employees to enroll and start contributing to a 401(k) or similar plan," said Collinson. "It simply automatically enrolls employees. They need only take action if they choose to opt out and not contribute to the plan."

The percentage of plan sponsors offering automatic enrollment increased from 23 percent in 2007 to 29 percent in 2014. Plan sponsors' adoption of automatic enrollment is most prevalent at large companies. Fifty-five percent of large companies offer automatic enrollment, compared to just 27 percent of small non-micro companies and 21 percent of micro companies.

Plan sponsors automatically enroll participants at a default contribution rate of just three percent (median) of an employee's annual pay. "Defaulting plan participants into a 401(k) plan at three percent of annual pay can be very misleading because it implies that it is adequate to fund an individual's or family's retirement when in most cases, it is not," said Collinson. "Plan sponsors should consider defaulting participants at a rate of six percent or more of an employee's annual pay."

"Automatic increases can help drive up savings rates: Seventy percent of workers who are offered a plan say they would be likely to take advantage of a feature that automatically increases their contributions by one percent of their salary either annually or when they receive a raise, until such a time when they choose to discontinue the increases," said Collinson.

2. Incorporate professionally managed services and asset allocation suites

Professionally managed services such as managed accounts, and asset allocation suites, including target date and target risk funds, have become staple investment options offered by plan sponsors to their employees. These options enable plan participants to invest in professionally managed services or funds that are essentially tailored to his/her goals, years to retirement, and/or risk tolerance profile.

Eighty-four percent of plan sponsors now offer some form of managed account service and/or asset allocation suite, including:

- 56 percent offer target date funds that are designed to change allocation percentages for participants as they approach their target retirement year;
- 54 percent offer target risk funds that are designed to address participants' specific risk tolerance profiles; and,
- 64 percent offer an account (or service) that is managed by a professional investment advisor who makes investment or allocation decisions on participants' behalf.

"For plan participants lacking the expertise to set their own 401(k) asset allocation among various funds, professionally managed accounts and asset allocation suites can be a convenient and effective solution. However, it is important to emphasize that plan sponsors' inclusion of these options, like other 401(k) investments, requires careful due diligence as well as disclosing methodologies, benchmarks, and fees to their plan participants," said Collinson.

3. Add the Roth 401(k) option to facilitate after-tax contributions

"Roth 401(k) can help plan participants diversify their risk involving the tax treatment of their accounts when they reach retirement age," said Collinson. The Roth option enables participants to contribute to their 401(k) or similar plan on an after-tax basis with tax-free withdrawals at retirement age. It complements the long-standing ability for participants to contribute to the plan on a tax-deferred basis. Plan sponsors' offering of the Roth 401(k) feature has increased from 19 percent in 2007 to 52 percent in 2014.

4. Extend eligibility to part-time workers to help expand retirement plan coverage

“Expanding coverage so that all workers have the opportunity to save for retirement in the workplace continues to be a topic of public policy dialogue. A tremendous opportunity for increasing coverage is part-time workers,” said Collinson. Only 49 percent of 401(k) or similar plan sponsors say they extend eligibility to part-time workers to save in their plans.

“Employers should consider consulting with their retirement plan advisors and providers to discuss the feasibility of offering their part-time workers the opportunity to save for retirement,” said Collinson.

5. Address any disconnects between employers and workers regarding benefits and preparations

The survey findings revealed some major disconnects between employers and workers regarding retirement benefits and preparations. For example: Ninety-five percent of employers that offer a 401(k) or similar plan agree that their employees are satisfied with the retirement plan that their company offers; yet, in stark contrast, only 80 percent of workers who are offered such a plan agree that they are satisfied with their employers’ plans.

“Starting a dialogue between employers and their employees could help employers maximize the value of their benefits offering while also helping their employees achieve retirement readiness,” said Collinson. Just 23 percent of employers have surveyed their employees on retirement benefits and even fewer workers (11 percent) have spoken with their supervisor or HR department on the topic in the past year.

To help close the communication gap, TCRS has created a survey tool for plan sponsor use.

Please visit TCRS www.transamericacenter.org to view the full survey report, infographic, survey tool, and additional materials. Follow TCRS on Twitter @TCRStudies.

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About Transamerica Center for Retirement Studies®

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About the 15th Annual Transamerica Retirement Survey

Employers. This telephone survey was conducted within the United Stated by Harris Poll on behalf of TCRS between July 31 and September 17, 2014 among a nationally representative sample of 751 employers including large (500+ employees) and small (10-499 employees) companies. Respondents met the following criteria: Business executives who employ 10+ employees across all locations and who make decisions about employee benefits at his/her company. Results were weighted as needed on employee size using weighting targets from Dun & Bradstreet database to ensure each quota group had a representative sample based on the number of companies in each employee size range.

Workers. This online survey was conducted within the United States by Harris Poll on behalf of TCRS between February 21 and March 17, 2014 among 4,143 full-time and part-time workers. Potential respondents were targeted based on employment status and company size. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted to account for differences between the population available via the Internet versus by telephone, and to ensure that each quota group had a representative sample based on the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated.

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