

# RETIREMENT Plan Trends



A benefits update

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## Retirement Plans Play A Critical Role In Retaining Small Business Employees

Most employees of small businesses prefer to work for companies that provide retirement benefits, but many smaller employers fail to offer a retirement plan because they believe doing so would be too costly, according to a study by Fidelity Investments.

Researchers surveyed nearly 992 employers with between 5 and 100 workers, as well as 338 small business employees. Results showed that more than two-thirds (68%) of workers believe offering a retirement plan is critical or very important for employers hoping to attract and retain workers. In addition, 49% of the workers surveyed who currently have retirement benefits claim they would not take a job with an employer that does not have a retirement plan.

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By contrast, just over one-third (36%) of employers believe retirement benefits play a critical or very important role in employee recruitment and retention. When businesses that do not sponsor a retirement plan were asked why they do not offer one, 23% said having a plan is too expensive, while 23% said the company is not yet profitable enough to offer one.

As part of the study, researchers measured 12 categories of business expenses in the areas of operations, benefits, insurance, banking and investments, sales and marketing, and retirement plans. Of small business monthly operating expenses, payroll was found to be the largest (34%), followed by day-to-day facility expenses (13%). When asked to identify the expenses



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*Some 80% of respondents said they believe there should be more tax incentives for employees to save money to fund their health care needs in retirement.*

that are rising most rapidly, employers cited health insurance, payroll costs, and business insurance. However, those employers that sponsor retirement plans ranked the cost of administering the plans as a relatively minor expense, accounting for an average of just over 1% of overall expenses.

Commenting on the survey's findings, Edmund F. Murphy III, executive vice president, Fidelity Employer Services Company, said, "Given the highly competitive job market today and the fact that many small business workers told us they are planning to look for a new job in the coming year, small business owners simply can't afford not to offer a retirement plan."

Murphy added, "Unfortunately, many owners without a retirement plan have a misperception that offering one is too expensive, yet we know it's generally one of the lowest operating costs and offers some of the biggest benefits."

Many small business owners are likely unaware that they may qualify for a tax credit for some of the costs associated with setting up a retirement plan, or that employer contributions are usually tax deductible up to certain limits, researchers said.

"There are plenty of affordable plan options and even tax benefits available to small business owners today, but too few employers appear to be taking full advantage of them," Murphy said.

## Employers Increasingly Reluctant To Fund Retiree Health Benefits

While most large employers intend to continue to allow retired workers access to the company's health plan, employers are becoming increasingly reluctant to fund the actual coverage, a survey by PricewaterhouseCoopers concluded.

Of the more than 100 large employers taking part in an annual survey on management issues, 73% indicated that

providing retiree health benefits is placing financial pressure on their organizations, while 74% agreed that employers should offer retirees access to affordable health insurance, but not necessarily fund it. Some 80% of respondents said they believe there should be more tax incentives for employees to save money to fund their health care needs in retirement.

At the same time, however, most of the large employers surveyed remain committed to providing health care benefits to workers currently employed by their organizations. When asked if they believe companies should move away from offering health care coverage to current employees, 87% of respondents disagreed.

The survey also revealed that many employers support offering incentives or applying penalties to employees based on their health-related behaviors. Results of the most recent survey showed that nearly two-thirds of employers agree that workers who have unhealthy habits—such as smoking, a poor diet, or inadequate exercise—should pay more for health insurance, up from less than half of respondents in the previous year's survey. In addition, 80% of respondents support providing financial incentives for employees participating in wellness programs that could serve to lower their organization's health care costs.

"We are seeing a constant movement of employers getting out of the retiree medical space," said Barry Barnett, principal in PricewaterhouseCoopers' global human resource solutions group. "Yet they feel an obligation to their employees even in retirement and are seeking ways to provide them with access to affordable coverage."

Barnett added that companies are encouraging current employees to invest in the future by adopting healthy lifestyles and making financial preparations for their health care needs in retirement. Observing that the health savings account (HSA) is the only tax-advantaged savings vehicle that allows workers to pre-fund retiree health care, Barnett recommended that employers design plans that provide incentives for employees to develop healthy habits and save for their future health care needs.

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## Early Retirement Out Of Reach For Many Workers

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Six out of ten Americans claim they seldom worry about outliving their retirement savings, but a significant percentage of midlife and older workers have ruled out early retirement, according to a survey on attitudes about retirement sponsored by personal finance website Bankrate.com.

Almost 20% of the 687 non-retired adults surveyed told researchers they expect to work until they die. Nearly four out of ten respondents age 65 or older predicted they will never stop working, as did 21% of respondents between the ages of 35 and 64, 9% of workers between the ages of 25 and 35, and 19% of respondents between the ages of 18 and 24.

When asked about their savings habits, 36% of all respondents said they are contributing at least 11% or more of their gross pay to retirement accounts. However, 28% of the workers surveyed indicated they are saving less than 5% of their gross income per year, and 16% admitted they are setting aside no money for retirement.

Of the age groups surveyed, workers between the ages of 35 and 49 reported the lowest saving rates: 14% of midlife respondents said they are saving less than 5% of their gross pay, and 18% of this group said they are not saving at all.

"This is highly consistent with a large body of research that points to some very large problems for this age group," said Merle Baker, principal of financial research firm Brightwork Partners. Baker observed that workers between the ages of 35 and 49 are often juggling the financial demands of raising children, paying off a mortgage, and saving for college. In some cases, he added, people in this age group are also providing support to elderly parents.

The survey's findings suggested, however, that workers approaching retirement

save at much higher rates than younger adults. Among respondents age 65 and older, 29% reported contributing more than 15% of their annual income to retirement accounts, while an additional 15% indicated they are saving between 11% and 15% of their earnings.

"If you're age 65, one of the key things that keeps you coming to work is the desire to avoid touching your IRA and nest egg for as long as you can," said Tim Driver, founder of the website, Retirementjobs.com. "Many of these people have lived through the Depression. They grew up in an environment where watching pennies was the norm. Many of them are working for health care, too. It's by far and away the largest concern for that group."

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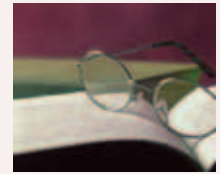
## Many Workers Still Expect A Pension In Retirement

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Even as the number of employers sponsoring defined benefit retirement plans continues to decline, nearly half (48%) of non-retired U.S. employees believe they will retire with a pension, according to a study published by the American Institute of Certified Public Accountants (AICPA).

"Despite all evidence to the contrary, pensions are still regarded as a safety net for retirement," said Carl George, CPA, chair of the National CPA Financial Literacy Commission. "Americans have to understand that many of the entitlements of their predecessors are not guaranteed. It is up to them as individuals to prepare for retirement. Otherwise, they may find themselves working far longer than they had intended."

In a survey of 1,000 workers, just 14% of respondents cited their employer's 401(k) plan when asked about the ways they save for retirement. In addition, just 11% of employees under age 35 reported participating in their company's 401(k) plan.



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“It’s surprising that more people don’t think of their 401(k) as a keyway to save,” George said. “They may not realize their 401(k) is where they can truly maximize those savings. It is automatically deducted from their paycheck, the dollars are pre-tax, and their employer’s contribution is essentially tax-free money.”

The study recommended that workers take steps to educate themselves about personal finance matters, especially retirement planning. These steps include estimating their retirement income needs, familiarizing themselves with their employer’s retirement plan, contributing to an IRA, learning the importance of rolling over retirement savings when changing jobs, and calculating their future Social Security benefits.

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## Employers Lag In Creating Opportunities For Older Workers

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Despite predictions that companies will have difficulties in the coming decades recruiting workers with the skills and experience they require, many employers are still reluctant to adopt policies that would encourage older employees to stay on past retirement age, according to a study published by the Center for Retirement Research at Boston College.

Written by research associates Andrew Eschtruth, Steven Sass, and Jean-Pierre Aubry, the study was based on an analysis of data from two surveys of 400 nationally representative employers asking them for their views on employing older workers. The first survey showed that employers generally

consider older workers to be at least as attractive as young workers. The second survey found that employers expect that half of their employees over the age of 50 will lack the necessary resources to retire at the typical retirement age, and that half of those workers who lack sufficient savings will want to work at least two years longer than was typical in the past.

But when employers were asked whether they anticipated creating opportunities for at least half of those workers who want to stay two to four years longer than the norm, the median response was six on a scale of one (“highly unlikely”) to ten (“highly likely”). While respondents tended to agree that older workers are more productive than their younger counterparts, many employers also indicated they see older workers as more costly to retain.

Analysis of the survey results also found that the companies most likely to report plans to retain older workers generally value the institutional knowledge of older employees, expect employment growth, and already employ an older workforce. By contrast, the analysis showed, the employers least likely to create opportunities for older workers are those that view older employees as costly or operate in an environment in which the pace of technical change is slow.

Factors that were demonstrated to have little effect on a company’s potential willingness to employ older workers included industry, company size, the type of employee, and whether or not the company has an early traditional retirement age.

“This is not good news,” the authors said of their finding that employers tend to be “lukewarm” about the prospect of retaining older employees. “It suggests the possibility of a messy and uncomfortable mismatch with large numbers of older workers wanting to stay on while employers prefer that they do not.”




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