

Emerging from the Economic Storm:

Retirement Plans in the United States, 2007-2012



TRANSAMERICA CENTER
FOR RETIREMENT STUDIES®

A white paper prepared by Catherine Collinson

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Economists will be researching the economic events of 2007 to 2012 for many decades to better understand the factors leading up to what is commonly referred to as the Great Recession, how long it lasted, and its long-term implications for our society.

The past five years have brought a multitude of challenges to American workers, including high rates of unemployment and underemployment, dramatic declines in home values, volatility in the financial markets, and the double-edged sword of a low interest rate environment which provides for favorable lending rates, but nominal investment returns on savings accounts and other conservative investments.

Long before the recent economic turmoil, retirement experts voiced concerns that American workers were not adequately saving for retirement. Now, as our nation is facing the fallout of the Great Recession and a time in which the demographic tidal wave of Baby Boomers is nearing retirement, such concerns about retirement security are greater than ever. Experts, policymakers, media—and even everyday people—have recognized the crisis and are questioning the current retirement system, asking how to improve workplace retirement plans, and pursuing new ways to help ensure Americans are adequately prepared for retirement.

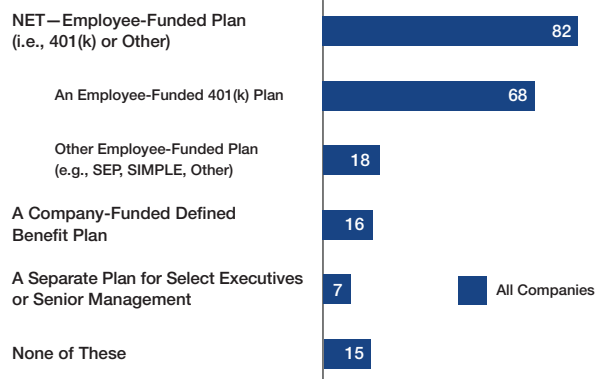
The Transamerica Center for Retirement Studies® (TCRS) has researched these topics, analyzed trends, and prepared this white paper to evaluate how employer-sponsored retirement plans and American workers have fared through difficult times, as well as offer opportunities to help improve retirement readiness. This white paper draws from the Annual Transamerica Retirement Survey, a national survey of workers and employers of for-profit companies of 10 or more employees, from 2007 to 2012.

RETIREMENT BENEFITS: EMPLOYER SPONSORSHIP RATES REMAINED STABLE

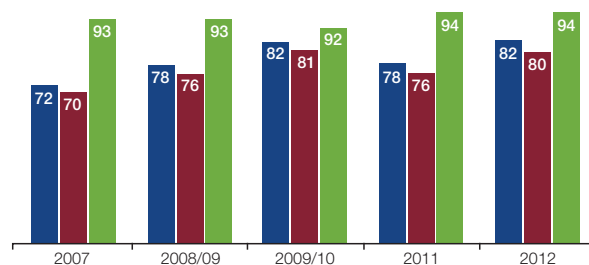
Employers faced many difficult business decisions throughout the Great Recession. Unlike more extreme cost-cutting measures by employers, such as downsizing or layoffs, retirement benefits have remained mostly intact because the vast majority of employers (82 percent in 2012) consider a retirement plan an important tool for attracting and retaining employees.

The percentage of employers who sponsor a 401(k) or similar plan increased from 72% in 2007 to 82% in 2012, which was mostly attributable to small companies with 10 to 499 employees. However, unfortunately, the percentage increase is more likely due to the closings of smaller, unstable businesses that did not offer a plan, versus healthy businesses adopting new plans.

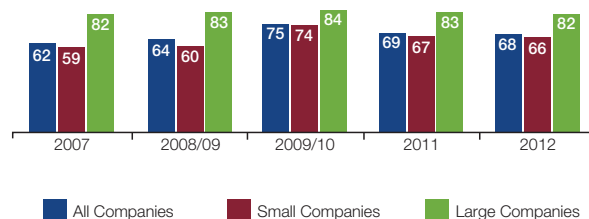
EMPLOYERS IN 2012 RETIREMENT BENEFITS OFFERED TO EMPLOYEES (%)



NET—EMPLOYEE-FUNDED PLAN (%)

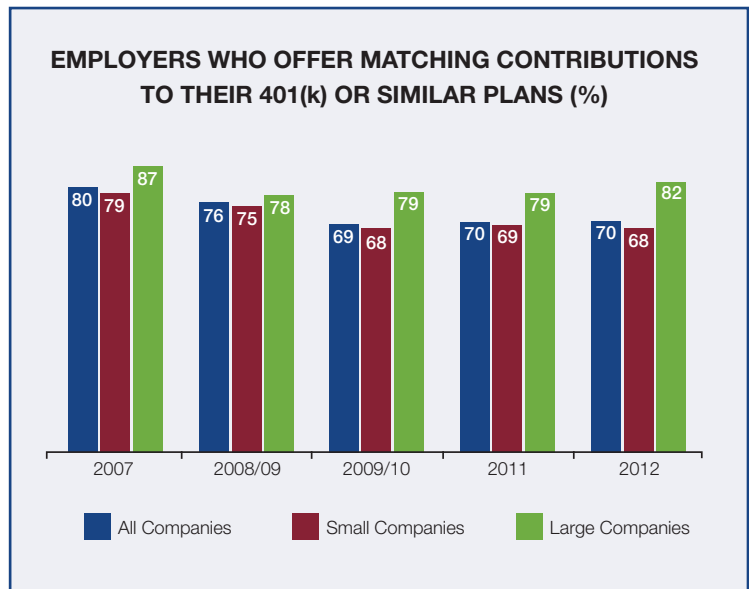


AN EMPLOYEE-FUNDED 401(k) PLAN (%)



MATCHING CONTRIBUTIONS MOSTLY UNAFFECTED

Amid widespread media coverage of plan sponsors slashing their matching contributions, the research quantified the trend and found it to be less extreme than some had reported. Among 401(k) plan sponsors, the survey found that the percentage offering matching contributions declined from 80% in 2007 to 70% in 2012. However, matching programs are regaining lost ground: of the 17% of employers who said they decreased or suspended their match since 2008, half had already reinstated it. Although any reductions in benefits are disappointing, it is noteworthy that during tough economic times, employers were more likely to suspend their matching contributions than drop their plans altogether, which would have had far worse implications.



AUTOMATIC ENROLLMENT

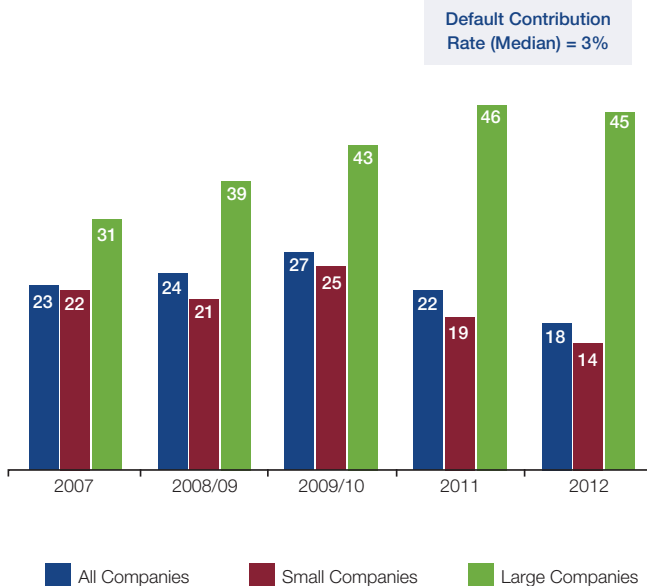
Many 401(k) plan sponsors have made more features available to employees in the last five years. The proportion of large companies offering automatic enrollment increased from 31% (2007) to 45% (2012); of those employers, 34% also have automatic escalation and 84% have adopted a Qualified Default Investment Alternative.

ROTH 401(k)

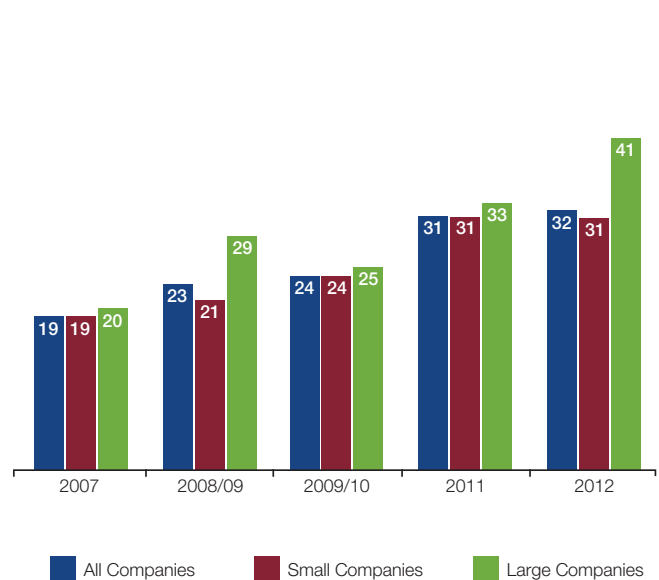
The percentage of plan sponsors adopting the Roth feature, which enables plan participants to make after-tax contributions to their 401(k) plans, has increased from 19% (2007) to 32% (2012). Employers may be underestimating the appeal of the Roth 401(k) feature—and missing an opportunity to enhance their retirement plan. Among plan participants who are not currently offered the Roth 401(k) option, nearly half (49 percent) would like to have it in their plan.

EMPLOYERS WHO AUTOMATICALLY ENROLL EMPLOYEES INTO 401(k) WITH ABILITY TO OPT OUT (%)

Default Contribution Rate (Median) = 3%

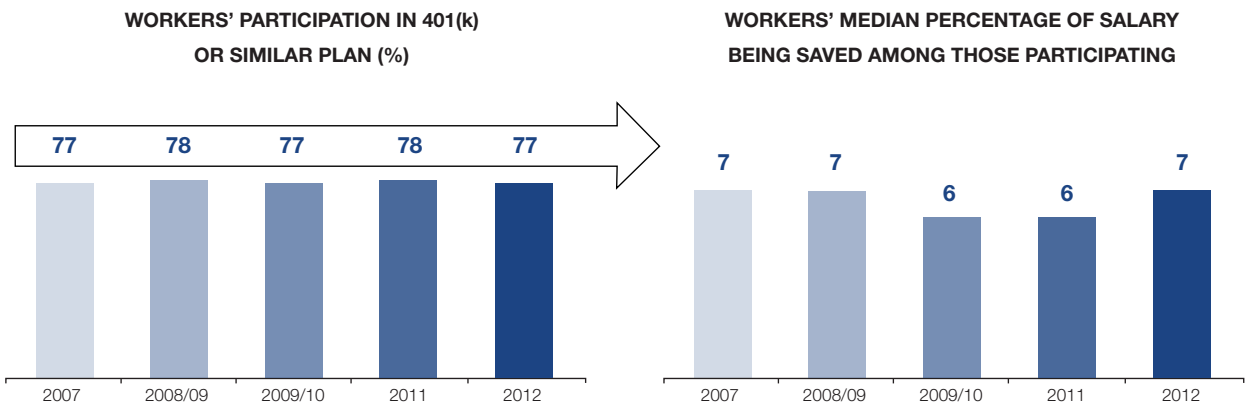


EMPLOYERS WHO OFFER ROTH OPTION TO 401(k) PLAN (%)



WORKERS REMAINED COMMITTED TO SAVING FOR RETIREMENT, BUT LESS CONFIDENT

Throughout the Great Recession, American workers have continued saving for retirement. Among workers who are offered a 401(k) or similar plan, participation rates have remained strong and steady at 77 percent; and, in 2012, annual salary deferral rates returned to their 2007 level of 7 percent (median) after having dipped to 6 percent (median) in 2009/10 and 2011. The research also found that some workers have taken loans or hardship withdrawals from their accounts. Unfortunately, many workers who became unemployed or underemployed took early distributions from their accounts.



WORKERS' TOTAL HOUSEHOLD SAVINGS IN RETIREMENT ACCOUNTS INCREASED FROM 2007 TO 2012 BUT THEY NEED TO SAVE MORE

Workers reported significant increases in total household retirement savings (estimated median) between 2007 and 2012. A comparison of account balances by workers' generation found the following:

TOTAL SAVINGS IN HOUSEHOLD RETIREMENT ACCOUNTS (ESTIMATED MEDIAN)	2007	2012
Echo Boomers referred to as "Millennials" or "Gen Y" (born 1979-1988)	\$8,615	\$15,213
Gen X (born 1965-1978)	\$32,106	\$41,821
Baby Boomers (born 1946-1964)	\$74,781	\$99,320

Comparing each generation, the increase in total household retirement savings (estimated median) between 2007 and 2012 was highest for Echo Boomers at 77 percent. Gen X reported an increase of 30 percent and Baby Boomers an increase of 33 percent. Absent other facts, this type of growth seems impressive. If this growth is as good as it appears, it should serve to illustrate the strength and success of the current retirement system especially given the extremely difficult challenges in the economy.

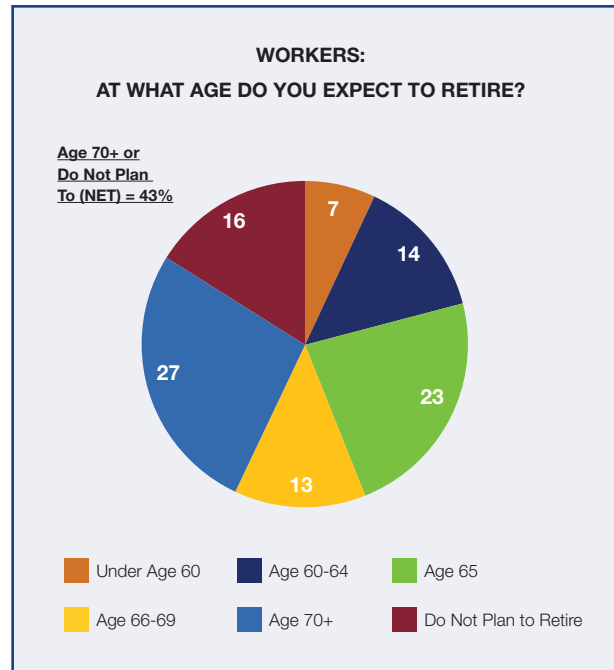
Despite the impressive gains reported in total household retirement savings, the survey found in 2007 and, five years later in 2012, that the level of savings is inadequate for many workers to meet their future retirement income needs. Prior to the Great Recession, workers' confidence in their ability to retire with a comfortable lifestyle was low—and now it is even lower, having dropped from 59% in 2007 to just 51% in 2012. Perhaps it is the combination of general economic uncertainty and increased awareness of the amount needed in retirement that has fueled workers' decline in confidence.

WORKERS ARE DELAYING RETIREMENT

American workers have also adjusted their expectations of retirement. Many are now planning to work longer and delay retirement. The majority of workers surveyed (56%) plan to work past age 65, including 43% who plan to work past age 70 or do not plan to retire. More than half (54%) plan to continue working after they retire. Yet only one in five has a back-up plan if forced into retirement sooner than expected.

Delaying retirement is an important way to help bridge a shortfall in savings, but planning not to retire is not a retirement strategy. It's important to have a back-up plan for life's unforeseen circumstances, such as a job loss or health issues, which could derail the best of intentions.

Working together, the retirement industry, including plan providers and advisors, along with policymakers and employers, have an opportunity to strengthen the current retirement system and help workers improve their retirement readiness.



IN CONCLUSION: WORKPLACE RETIREMENT BENEFITS HELD UP SURPRISINGLY WELL—MORE CAN BE DONE TO IMPROVE THEM

Over the past five years, throughout the Great Recession, workers have remained committed to saving for retirement—but it is clear that they need to save more. The current savings shortfalls are real, and Americans must strive to build a savings culture in which employees are financially literate, have access to the tools to save and plan, can make informed decisions, and have the ability to live within their means while saving for rainy days and retirement.

Workplace retirement benefits play a vital role in helping workers save for retirement. Despite the many difficult decisions made by employers in the last five years with regard to cost-cutting measures, employer-sponsored retirement benefits have remained relatively intact, and many plan sponsors even enhanced their plans by adopting “automatic” features, Qualified Default Investment Alternatives, and the Roth option.

Critics of the current retirement system highlight perceived shortcomings. Are these critics right—are 401(k)s really inadequate for American employees? Many of the challenges faced by the current system,

including susceptibility to adverse economic conditions, would be faced by almost any of the alternative systems being proposed. Any system that relies on employee contributions, as most of the proposals do, will encounter the same challenges in educating employees about the need to save, and providing sufficient savings incentives to cash-strapped individuals and families. This report identifies compelling successes of employer-based retirement plans, including 401(k) or similar plans, in helping workers save for retirement.

Moreover, the survey found many opportunities for further enhancements to retirement plans, all of which can help improve employees' retirement outlook, that are well within reach and do not necessarily require extensive legislation or sweeping reforms which could be time-consuming and costly to implement. The notion that there could be a single solution for retirement security seems impossible; however, many meaningful steps can be taken and improvements made, which in part and in total have the potential to dramatically improve Americans' retirement readiness.

HOW TO IMPROVE THE CURRENT RETIREMENT SYSTEM

As America faces the fallout of the Great Recession and Baby Boomers are beginning to retire, concerns about retirement security are at an all-time high. Although financial market performance cannot be controlled, by coming together to give more workers access to retirement plans, investment fund choices, education, and distribution options, employers, policymakers, advisors, and the retirement services industry can mitigate adverse impacts of economic declines and help workers ultimately achieve retirement readiness.

Recommendations for Employers (with their Retirement Advisors & Plan Providers)

1. Offer a retirement plan if not already in place. And, if in place, extend eligibility to all employees, including part-time employees.
2. Proactively encourage participation in existing retirement plans. Consider adding automatic enrollment and automatic escalation features to increase participation and salary deferral rates.
3. Add, increase and/or reinstate matching contributions to 401(k) plans. Consider structuring match to promote higher salary deferrals (as a hypothetical example, instead of matching 50 percent on the first 6 percent of deferrals, consider adding a small match—such as 10 or 15 percent—on deferrals between 6 and 10 percent).
4. Assess educational offerings to determine whether they are meeting the needs of all employees, especially those employees who may find materials and concepts difficult to understand, and make any necessary changes accordingly.
5. Promote the educational resources offered by the company's retirement plan provider and encourage employees to take advantage of them. Also, consider:
 - a. Implementing an educational campaign to help workers get “back on track” with their retirement.
 - b. Establishing an annual 401(k) retirement readiness check-up at the same time of year as healthcare open enrollment.
6. Offer pre-retirees greater levels of assistance in planning their transition into retirement—including the need for a back-up plan if they find themselves retiring sooner than expected due to unforeseen circumstances.
7. Promote awareness of the Saver's Credit and Catch-Up Contributions.

Recommendations for Policymakers

1. Pursue legislative and regulatory initiatives to expand qualified retirement plan coverage for all workers including part-time workers:
 - a. Implement reforms to multiple employer plans to facilitate the opportunity for small business employers to join existing plans to achieve economies of scale similar to large employers;
 - b. Expand the tax credit for employers to start a plan; and
 - c. Provide incentives to encourage plan sponsors to cover part-time workers.
2. Expand the Saver's Credit by raising the income eligibility requirements so that more tax filers are eligible.
3. Extend the 401(k) loan repayment period for terminated plan participants and eliminate the six-month suspension period following hardship withdrawals.
4. Increase workers' awareness of and ability to have their account distributed in a lifetime income stream (e.g., require plan statements to have estimated retirement income, facilitate the ability of plans to both offer an annuity as a distribution option and to have an in-plan annuity as an investment option).
5. For automatic enrollment, raise the safe harbor default contribution rate to a level higher than the current 3 percent.
6. Target outreach campaigns to the demographic segments at greatest risk to help improve savings rates.
7. Help workers ease their transition to retirement by facilitating phased retirement.

Recommendations for Workers

1. Calculate your retirement savings needs—and save at a level to achieve those needs.
2. Develop a retirement strategy and write it down. Envision your future retirement, formulate a goal for how much you will need to save each year (be sure to include employer-sponsored retirement plans and outside savings), and factor living expenses, healthcare needs, long-term care, and government benefits.
3. Get educated about retirement investing. Seek professional assistance if needed. Learn about Social Security and Medicare.
4. If your employer offers a plan, participate. Be sure that your annual salary deferral takes full advantage of employer matching contributions, if available. Contribute as much as you can. If you decide against maximizing annual salary deferrals in the plan, be sure to save for retirement outside of work.
5. Consider retirement benefits as part of your total compensation. If your employer doesn't offer you a plan, ask for one.
6. Take advantage of the Saver's Credit if eligible.
7. Have a back-up plan in the event you are unable to work before your planned retirement. Identify potential cost-cutting lifestyle changes such as moving to a smaller home or taking on a roommate(s), consider protection products such as disability insurance and life insurance, get educated about possible ways to help make savings last longer including when to take withdrawals from retirement accounts to minimize taxes and penalties.

ABOUT TRANSAMERICA CENTER FOR RETIREMENT STUDIES®

The Transamerica Center for Retirement Studies (TCRS) is a nonprofit, private foundation dedicated to conducting research and educating the American public on trends, issues, and opportunities related to saving, planning for, and achieving financial security in retirement.

TCRS engages with the public through a comprehensive website, publishing of research findings and actionable advice through media articles, and collaborating with industry groups and organizations who share a similar passion for improving the retirement outlook for all Americans. TCRS also contributes to grassroots education by appearing in articles throughout the country's community papers and radio stations.

TCRS' research and outreach is based on the premise that there is no such thing as an "average American"—and that every demographic has the opportunity to improve their retirement security. TCRS is propelled by the certainty that each person also has the ability to take charge of their own financial futures through education, engagement and ultimately proactive saving and investing behaviors. TCRS is focused on uncovering best practices for educating and affecting positive change among the American public to help achieve greater levels of financial security in retirement.

Each year, TCRS conducts an Annual Retirement Survey, one of the largest, independent studies of its kind. The survey emphasizes savings trends, attitudes and behaviors among American workers and segments within the population, including unemployed and underemployed workers, trends of employer-sponsored retirement plans and their participating employees, and the implications of legislative and regulatory changes.

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For more information about TCRS, please refer to www.transamericacenter.org.

ABOUT EMERGING FROM THE ECONOMIC STORM

Emerging from the Economic Storm: Retirement Plans in the United States, 2007-2012 was derived from a comprehensive report, *Weathering the Economic Storm: Retirement Plans in the United States, 2007-2012*. The full report can be found at www.transamericacenter.org.

ABOUT THE 13TH ANNUAL RETIREMENT SURVEY

Employer Survey

A telephone survey was conducted within the U.S. by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® from February 23 - April 2, 2012 among a nationally representative sample of 750 employers including large (500+ employees) and small (10 – 499 employees) for-profit companies. Past years utilized the same methodology with variations in sample size.

Worker Survey

This survey was conducted online within the U.S. by Harris Interactive on behalf of Transamerica Center for Retirement Studies® from January 13-31, 2012 among 3,609 full-time and part-time workers in for-profit companies of 10 or more employees. Past years utilized the same methodology with variations in sample size.

Unemployed/Underemployed Survey

This survey was conducted online within the U.S. by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® from February 2-10, 2012 among a nationally representative sample of 621 unemployed or underemployed people.

See www.transamericacenter.org for the full methodology for all years.

ABOUT THE AUTHOR



Catherine Collinson serves as President of the Transamerica Center for Retirement Studies®, and is a retirement and market trends expert and champion for Americans who are at risk for not achieving a financially secure retirement. Catherine oversees all research and outreach initiatives, including the Annual Transamerica Retirement Survey.

With over 15 years of retirement services experience, Catherine has become a nationally recognized voice on retirement trends for the industry. She has testified before Congress on matters related to employer-sponsored retirement plans among small businesses, highlighting the need to raise awareness of the Saver's Credit among those who would benefit most from the important tax credit. Catherine is regularly cited by top media outlets on retirement-related topics. Her expert commentary has appeared in major publications, including: The Wall Street Journal, U.S. News & World Report, USA Today, Money, The New York Times, and The Huffington Post. Catherine speaks at major industry conferences each year, having appeared at events hosted by organizations including PSCA, LIMRA, SVIA and PLANSponsor. She also authors articles published in leading industry journals, such as ASPPA, SPARK and PSCA.

Catherine is currently employed by Transamerica Retirement Solutions and serves as Senior Vice President of Strategic Planning. Since joining the organization in 1995, she has been instrumental in identifying and evaluating short- and long-term strategic growth initiatives, developing business plans and building infrastructure to support the company's high-growth strategy.

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