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News
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Weathering the Economic Storm: Retirement Plans in the United States, 2007-2012

Transamerica Study Reveals Resilient Retirement Benefits and Continued Employer, Worker Commitment to Retirement Security

LOS ANGELES – November 14, 2012 – The Transamerica Center for Retirement Studies®, as part of its 13th Annual Retirement Survey, has published ***Weathering the Economic Storm: Retirement Plans in the U.S., 2007 – 2012*** to evaluate how American workers and company-sponsored retirement plans have fared during these past five difficult years.

"The findings reveal surprisingly good news and less bad news than some would expect," said Catherine Collinson, president of Transamerica Center for Retirement Studies. "The research brings to light opportunities to improve our current retirement system that can significantly and positively impact workers' ability to achieve retirement readiness without necessarily requiring sweeping legislation or widespread reforms."

Retirement Benefits Stayed Relatively Intact and Feature Adoption Increased

Unlike more extreme cost-cutting measures by employers, like downsizing or layoffs, retirement benefits have remained mostly intact during the Great Recession, with a notable exception of a drop in the number of companies offering defined benefit plans or "traditional pension plans" from 19 percent in 2007 to 16 percent in 2012. Regarding 401(k) or similar plans, the percentage of employers who sponsor a plan increased from 72 percent in 2007 to 82 percent in 2012, an increase which was mostly found among small companies with 10 to 499 employees and which was more likely attributable to the closings of unstable companies that did not sponsor a plan versus healthy companies adopting new plans.

The survey also sheds new light on the current state of employers' matching contributions to 401(k) plans. Among employers who sponsor a plan, the survey found that the percentage offering matching contributions declined from 80 percent in 2007 to 70 percent in 2012. However, matching programs are regaining lost ground: of the 17 percent 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 somewhat comforting to note 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," said Collinson.

A significant number of employers who sponsor a plan have also made more features available to workers in the last five years, with the proportion of large companies offering "automatic" features increasing from 31 percent (2007) to 45 percent (2012) and, among them, 84 percent have adopted a Qualified Default Investment Alternative. The percentage of plan sponsors adopting the Roth feature to their 401(k) plans has increased from 19 percent (2007) to 32 percent (2012).

One likely reason retirement benefits have continued to receive support from employers through a tumultuous economic environment is that a vast majority of employers, at 82 percent (2012), reported that they consider a retirement plan an important tool for attracting and retaining talent.

Workers Remained Committed To Saving for Retirement, But Less Confident

Despite the troubled economy, workers have remained committed to saving for retirement even though the survey found a drop in those who are confident about their ability to comfortably retire from 59 percent in 2007 to just 51 percent in 2012.

Among workers offered a 401(k) or similar plan, participation rates stayed strong and steady at 77 percent; and, in 2012, annual salary deferral rates returned to their 2007 level of seven percent (median) after having dipped slightly to six percent (median) in 2009/10 and 2011. "As evidenced by relatively stable participation and salary deferral rates, we can see that workers have stayed committed to contributing to their 401(k) plans even through tough times," said Collinson.

Unfortunately, the recession affected retirement savings in other ways, as some workers had to dip into their savings, taking loans or hardship withdrawals from their accounts, including many who became unemployed or underemployed.

Workers reported higher levels of total household retirement savings (estimated median) in 2012 than in 2007.

Total Savings in Household Retirement Accounts (Estimated Median)	2007	2012
Echo Boomers	$8,615	$15,213
Gen X	$32,106	$41,821
Baby Boomers	$74,781	$99,320

"The survey found significant increases in retirement savings, yet the reality is that the level of savings in both 2007 and 2012 is inadequate for many workers to meet their future retirement income needs. Perhaps it is the combination of difficult economic conditions and increased awareness of saving shortfalls that has fueled workers' decline in confidence," said Collinson.

American workers have also adjusted their expectations of retirement. Many are now planning to work longer and delay retirement. The survey found that the majority of workers (56 percent) plan to work past age 65, including 43 percent who plan to work past age 70 or do not plan to retire. More than half (54 percent) 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," said Collinson, "but planning not to retire is not a retirement strategy. It's important to have a backup plan for life's unforeseen circumstances, such as a job loss or health issues, which could derail the best of intentions."

Improving America's Retirement Confidence

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. While the current retirement system is facing criticism, it is unlikely that any of the proposed alternative systems would have proved to be immune to the adverse economic conditions of the last five years. Any system that relies on employee contributions, as most of the proposals do, would encounter the same challenges in educating employees about the need to save, and providing sufficient savings incentives to cash-strapped individuals and families. In fact, the survey results provide compelling evidence that the current system's employer-based retirement plans have helped workers continue to save for retirement amidst financial hardships experienced by both individuals and businesses.

Employers play a critical role in helping workers save for retirement, the most obvious of which is through providing access to retirement plans. The impact of employers depends on their commitment to offering specific features, planning tools, and retirement income options as part of their plans. As workers plan to extend their work lives, employers should find additional opportunities to help them through their transitions into retirement. Arguably, their most important role is as a facilitator.

"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 and the retirement services industry can mitigate adverse impacts of economic declines and help workers ultimately achieve retirement readiness," said Collinson.

A full list of recommendations is available online; some tips for employers and policymakers include:

Recommendations for Employers (with their Retirement Plan Providers)

1. **Proactively encourage participation in existing retirement plans**. Consider adding automatic enrollment and automatic escalation features to increase participation rates and salary deferral rates.
2. **Add, increase and/or reinstate matching contributions to 401(k) plans**. Consider structuring the match to promote higher salary deferrals (as a hypothetical example, instead of just matching 50 percent on the first 6 percent of deferrals, consider adding a small match – such as 10 percent or 15 percent – on the deferrals between 6 and 10 percent).
3. **Promote the educational resources offered by the company's retirement plan provider** and encourage employees to take advantage of them.

Recommendations for Policymakers

1. **Expand qualified retirement plan coverage** by increasing the tax credit for employers to start a plan, providing incentives to encourage plan sponsors to cover part-time workers, and implementing reforms to multiple employer plans.
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 eliminating the six-month suspension period following hardship withdrawals**.**

For the full survey results, additional policy recommendations and resources about retirement planning, visit www.transamericainstitute.org.

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About Transamerica Center for Retirement Studies®

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About the 13th Annual Retirement Survey

Employer Survey

A telephone survey was conducted within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® between February 23, 2012 and April 2, 2012 among a nationally representative sample of 750 employers including large (500+ employees) and small (10 – 499 employees) companies. Respondents were targeted based on job title at for-profit companies and met the following criteria: business executives who make decisions about employee benefits at his or her company; employ 10 employees or more across all locations. Results were weighted as needed using weighting targets from the Dun & Bradstreet database to ensure each quota group had a representative sample based on the number of companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Worker Survey

This survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between January 13, 2012 and January 31, 2012 among 3,609 full-time and part-time workers. Potential respondents were targeted based on job title and full-time and part-time status. 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 as needed for the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Unemployed/Underemployed Survey

This survey was conducted online within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® between February 2, 2012 and February 10, 2012 among a nationally representative sample of 621 unemployed or underemployed people using the Harris online panel. Respondents met the following criteria: U.S. residents, age 18 or older; people who were fully employed in a for-profit company employing 10 or more people and are currently unemployed or underemployed. In this report, "underemployed" workers are those who are working part-time only because they are unable to find full-time employment, or working full-time but self report they consider him or herself underemployed. Results were weighted to ensure that each quota group had a representative sample based on the length of time people were underemployed or unemployed. No estimates of theoretical sampling error can be calculated; a full methodology is available.

TCRS 1074-1112