Saving for retirement

Employee and employer attitudes towards retirement benefits

BUCK
A Gallagher Company

Survey report

About the report

Buck, a Gallagher company, commissioned an independent research firm to survey 344 employees with retirement benefits to gain insight into their satisfaction with their retirement benefits plans and if they are confident in their ability to save enough to meet their income needs in retirement.

The research was supplemented with a survey of 200 HR and benefits professionals who administer retirement plans, so it is possible to compare the views of the employee against those of the employer.

The research was conducted in late July through August, 2023. The margin of error for this study is +/-5% at the 95% confidence level for each audience.

About Buck

Buck, a Gallagher company, is an integrated HR, pensions, and employee benefits consulting, technology, and administration services firm. Founded more than 100 years ago as an actuarial consultancy, we've evolved to serve organizations and trustees across the health, wealth, and career spectrum.

With the ultimate goal of securing the futures of our clients' employees and members, we develop tech-enabled programs that engage individuals and drive organizational performance. Our award-winning engagement solutions and people-first approach empower the world's most forward-thinking organizations to protect the physical and financial wellbeing of their employees and members and improve how their people work and live.

For more information, visit buck.com.

Executive summary

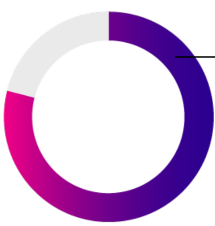
When the Employee Retirement Income Security Act (ERISA) of 1974 passed, defined contribution (DC) plans were viewed as “supplemental” to more traditional defined benefit pension plans. However, they have quickly evolved to be the primary way Americans working for private employers accumulate wealth for retirement. Our question: Are Americans confident in their ability to save enough to meet their income needs in retirement?

Employees are generally satisfied with their retirement benefits – well sort of!
Employees expect their defined contribution (DC) plan to be a key vehicle for funding their retirement: 70% plan to use these savings to fund their retirement expenses. We found that 45% of respondents believe they need over $1M to retire, and 10% believe they need more than $2M.

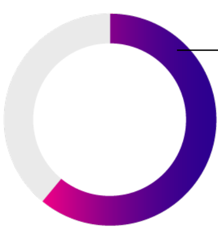
Employers and employees are on the same page when it comes to the retirement package: 79% of employees are satisfied with it, and employers think that 74% of their employees are satisfied. Nearly three-quarters (73%) of employees are not sure they will be able to save enough to cover their expenses in retirement.

Current economic uncertainty - rising inflation and increase in the cost of living that has made the headlines for the last year – is worrying employees. 76% of employees have increased concerns that the unstable economy will impact their ability to save for retirement.

Employees

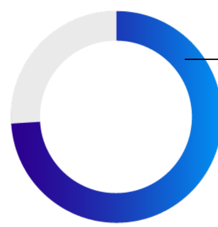


79%
are satisfied with their retirement benefits

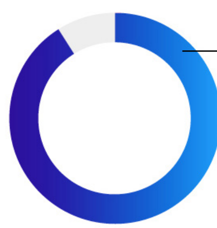


61%
believe they can get a better retirement package with another employer

Employers



74%
believe their employees are satisfied with their retirement benefits

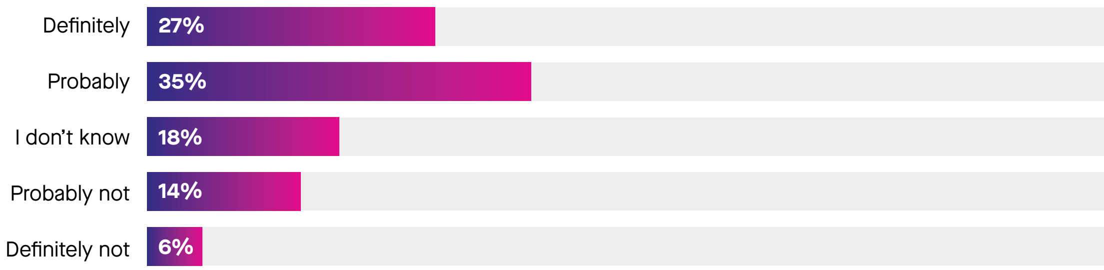


91%
believe their retirement benefits are competitive

Employers and workers do differ on how competitive they think the retirement package is: While 91% of employers think their retirement benefits stand up to what other companies provide, 61% of employees think they could get a better retirement package with another employer.

It’s clear from the data that employee attitudes towards their retirement benefits are complex and contain contradictions. While a majority (79%) are satisfied with their retirement benefits, only 27% are confident that they’ll be able to save enough to cover their expenses in retirement. This may be because, for many employees, retirement is a concern for the future and therefore not front and center as they handle day-to-day expenses.

Employees rate their ability to save enough to cover their expenses in retirement



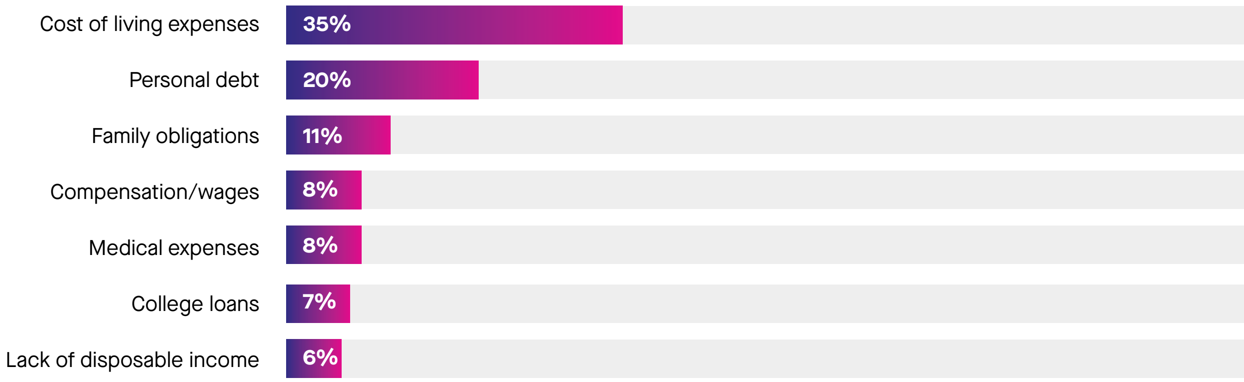
When considering a new job, employees care almost equally about their medical coverage. Employees were asked to identify the top three benefits they look for when considering a new job, and the data shows they care almost equally about their retirement benefits (65%) and medical coverage (67%), followed by dental insurance (36%) and flexible schedules (33%). Employers recognize this, but think medical coverage is a more significant consideration (77%), with retirement benefits second (70%) followed by flexible schedules (36%) and dental insurance (32%).

Financial worries are of course detrimental to employee productivity - and failure to build an adequate nest egg will make it harder for people to retire. Yet for some, continued work beyond retirement age may not be feasible given the physical demands of the job, caregiving needs for themselves or family members, and the like. For employers, this can result in challenges when it comes to moving forward with succession plans.

A sign of the times

It's an indication of how focused employees are on their immediate cash needs rather than longer term financing of their retirement that, when faced with the option of receiving a $500 pay increase or a $500 increase in contributions made by the company, 53% preferred the raise. Furthermore, 79% of employee respondents would like their employer to offer supplemental saving accounts such as emergency savings, in addition to retirement benefits. Cost of living expenses (35%) and personal debt (20%) were identified as the top two obstacles to saving for retirement.

Employees identify their greatest obstacle to saving for retirement



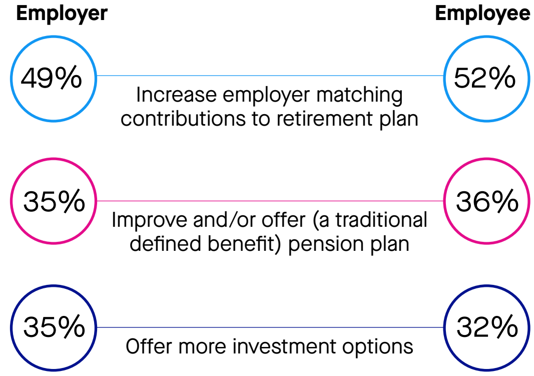
Meeting the financial needs of employees in retirement

There is consensus among employees and employers on the ways to improve retirement benefits. Both agree that the employer contribution is the top feature to improve, i.e. the amount an employer will contribute to a 401(k), 403(b), or other type of retirement plan as a percentage of an employee's total annual compensation.

These plans require employees to be active participants – setting aside a portion of their salary as plan contributions, making investment choices, and being responsible for making sure they save enough to cover expenses in their retirement. Workers do recognize the importance of the company's matching contributions: 55% know they contribute the required percent of their compensation to receive the company match. And 52% indicated they would definitely increase their contribution if their employer matched a higher amount.

Many employers recognize this: 49% agree that increasing matching contributions is a good first step to improving employees' ability to save, and 39% have considered increasing matching contribution levels in the last two years.

Top three strategies employers and employees think could improve retirement benefits



Increasing the company match can make a difference

Organizations can be creative in how they design the match. For example, increasing the company match from 50% to 100% on the first 6% of participant savings has a meaningful impact.

A participant with a savings rate of 6%, who receives a 50% match on the first 6% of savings, will be able to sock away a total of 9% of annual salary to their retirement savings.

If the match is increased to 100% on the first 6% of savings, their annual savings rate increases to 12%, and this can make a meaningful difference over the course of a career with compounded investment returns on the additional savings.

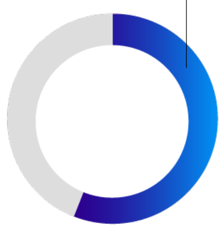
A case for revisiting defined contribution plan design

While most employees are satisfied with their retirement benefits, they don't necessarily believe they will prove adequate.

In the last decade, the regulatory framework has provided plan sponsors with new tools to enhance DC plans to function as the primary retirement savings vehicle. Plan sponsors now have more freedom to enhance retirement savings and distribution. Some examples include:

- Allowing employer contributions to a 401(k) plan to be made in the form of non-elective contributions as opposed to matched employee deferrals
- For participants paying off student loans, making a 401(k) plan "matching" contribution that is based on student loan repayments
- Increasing savings rates by adjusting the auto-increase formula to a higher level, helping plan members meet the level needed to accumulate sufficient retirement savings
- Adding lower-cost annuities to the plan or other withdrawal features that serve differing participant needs for retirement income

57%
of organizations currently offer or plan to offer matching student loan benefits



Despite the new regulatory environment, 46% of employers say their retirement package has stayed the same in the last two years, and 19% have made cuts. These figures tally relatively closely with employee perceptions. 39% of employees have not seen a change in their retirement benefits, and when employers have made cuts, 20% of employees reported a reduction in matching contributions and 18% reported increased fees.

A case for traditional defined benefit pension plans

Both employees (36%) and employers (35%) highly ranked offering or improving a pension plan as a key to improving retirement benefits. A defined benefit plan continues to be one of the most secure and predictable source of retirement income, a valuable tool to attracting and retaining talent, and a key lever to encourage retirement and succession planning.

However, due to the various risks assumed by employers, over the last two decades many have closed their defined benefit pension plans to new entrants and/or frozen additional accruals followed by pension risk transfer (i.e. lump sum windows, annuity purchases) activities before entirely terminating the plan. This has led to an increased reliance on defined contribution vehicles as the primary source of retirement savings.

Engaging participants in their retirement

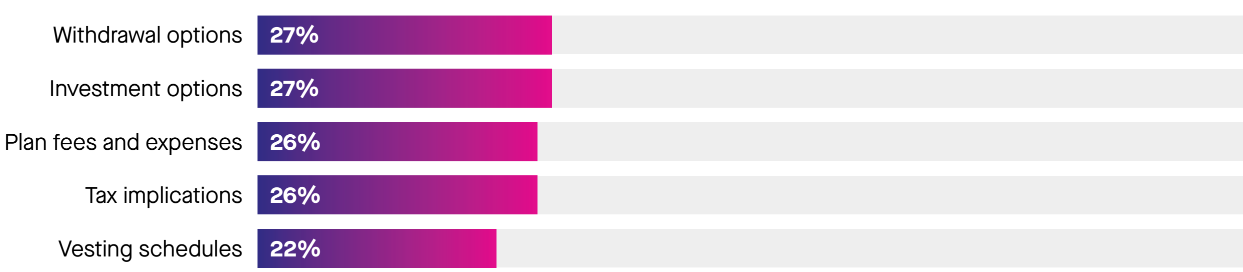
Employees expect their DC plan to be a key vehicle for funding their retirement: 70% plan to use these savings to help fund their retirement expenses.

Plan sponsors have a vested interest in making DC plans work better so their members can accumulate wealth for retirement and enjoy a stable source of income in retirement: 28% of employers are interested in improving education and communications. And some employers think that offering group education on how to maximize the retirement plan (18%) and/or providing 1:1 financial guidance and planning (23%) could be worth adding.

For employees there are clearly areas of a retirement plan they find confusing: Top of the list are withdrawal options and investment selection, followed by plan fees and expenses, tax implications, and vesting schedules.

It is also important to note that even though workers recognize the importance of their employer's matching contribution, a troublesome 39% are unsure if they contribute the required percent of their compensation to receive the company match.

The most confusing parts of the retirement benefit plan for employees



Where to go from here?

There's no question that employees and employers both value retirement benefits highly and recognize the importance of saving. However, many employees remain focused on their immediate cash needs, lack confidence in their ability to save enough to offset their financial needs in retirement, and have increased concerns given the unstable economy.

When it comes to boosting employee confidence in their ability to plan for their financial future, education and engagement strategies also play an important role that can't be ignored. Only 55% of employees are sure they contribute the required percentage of their annual compensation to receive the full company match, indicating the need for higher employee engagement.

For employers looking to deliver on their promise to help their workforce retire with dignity, the challenge is how to design a competitive retirement benefit package that eases employees' financial concerns and helps them reach their savings goals. As a starting point, it's encouraging to see that employees and employers are aligned regarding what strategies they'd like to see implemented to enhance their retirement benefits – increasing the employer's matching contribution and offering more investment choice. Looking to the future, plan sponsors will want to regularly assess what policies or strategies are in place to increase retirement plan participation, drive savings rates higher, and improve participant investment outcomes.

Survey key findings

Employee and employer attitudes towards retirement benefits

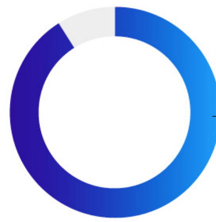
Employees

79%
are satisfied with their retirement benefits

61%
believe they can get a better retirement package with another employer

Employers

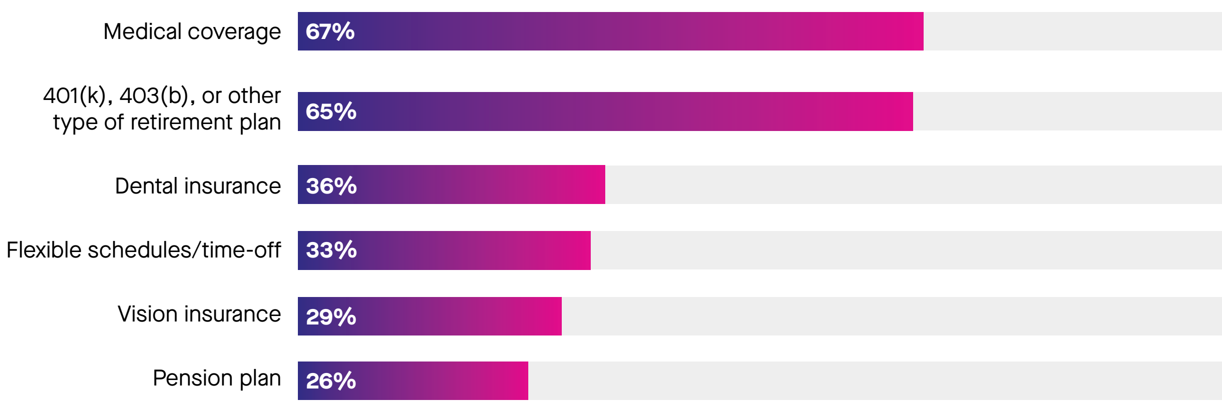
74%
believe their employees are satisfied with their retirement benefits



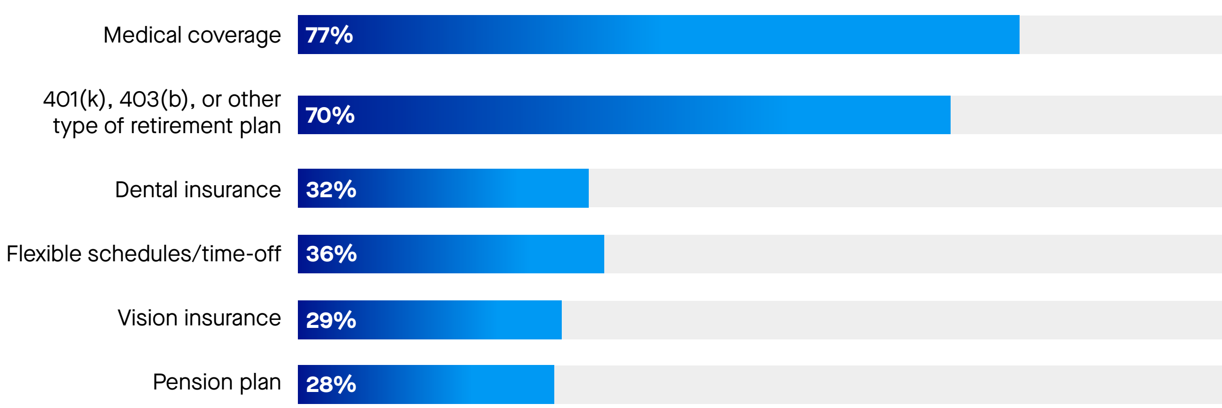
91%
believe their retirement benefits are competitive

Retirement benefits are a key driver for attraction and retention

Employees identified the top 3 benefits they considered before accepting their current job offer

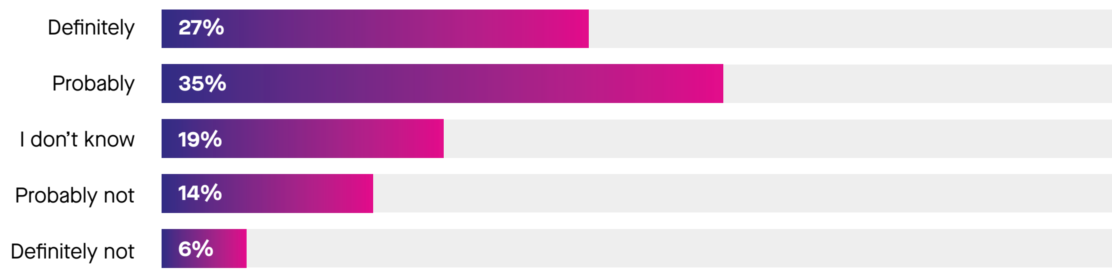


Employers identified the top 3 benefits they think employees consider before accepting a job offer at their company

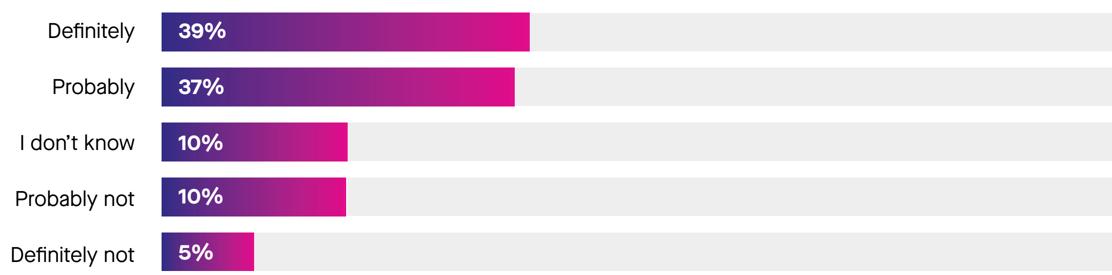


Confidence levels related to saving enough to fund retirement are low

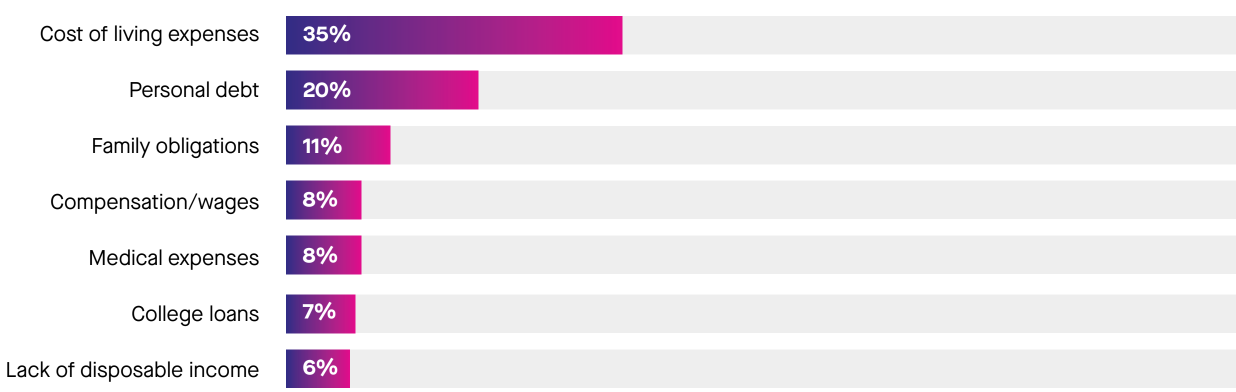
How employees rate their ability to save enough to cover their expenses in retirement



Employees who are increasingly concerned about their capacity to save for retirement given the unstable economy

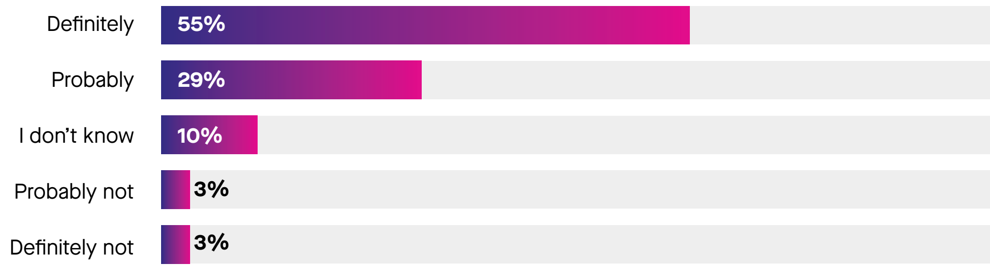


Employees identify their greatest obstacle to saving for retirement

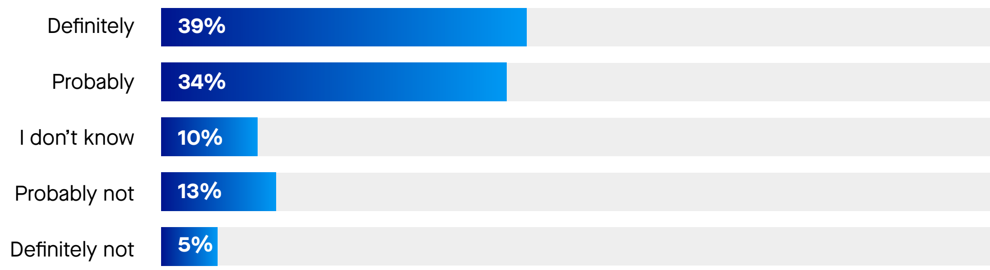


The importance of the employer matching contribution

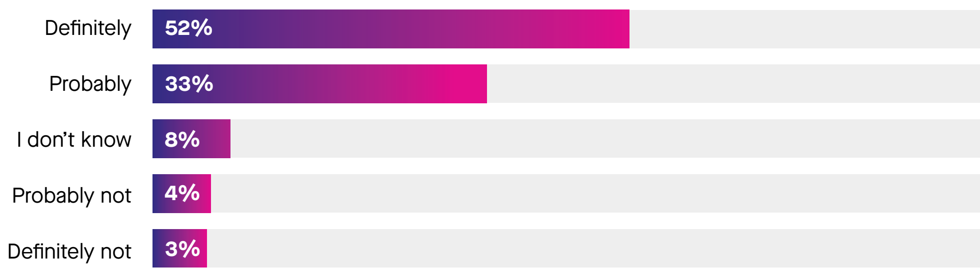
Employees who contribute the required percentage of their compensation to a 401(k), 403(b), or other type of retirement plan, to receive the full company's maximum match



Employers that have considered increasing their matching contribution level in the last 2 years

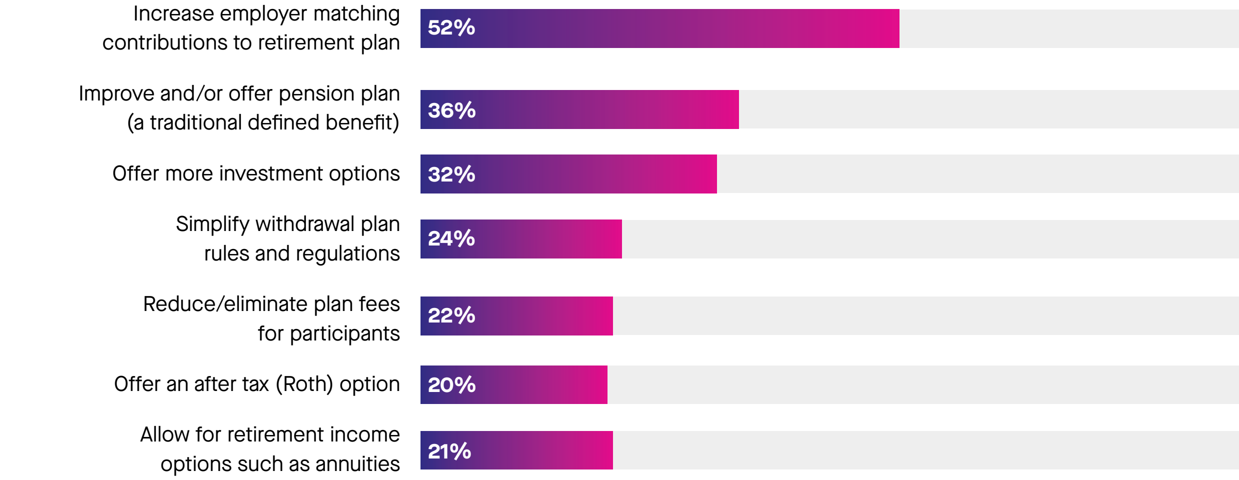


Employees who would increase their personal contribution to their retirement plan if their employer matched a higher amount

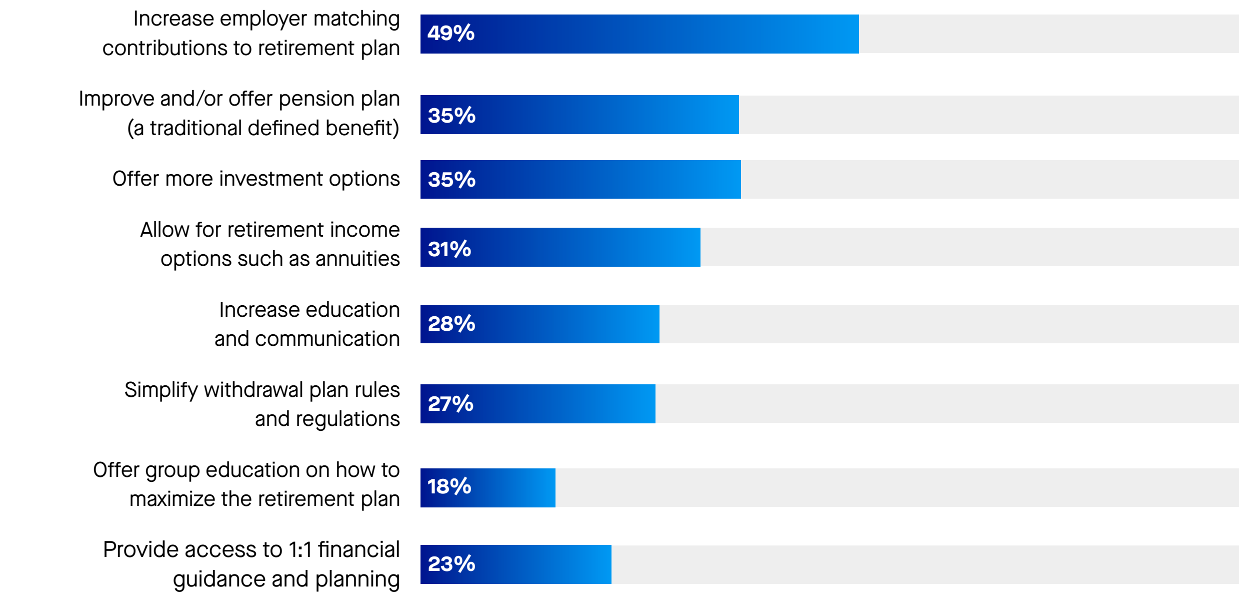


Enhancing retirement benefits

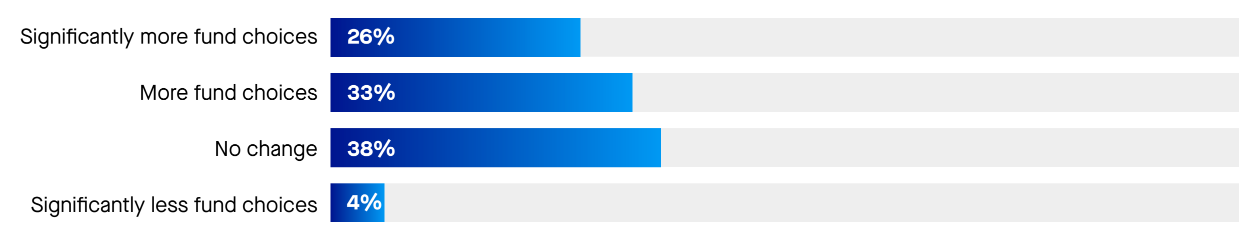
How employees think their employers could improve their retirement benefits



How employers think they could improve the retirement benefits offered to employees

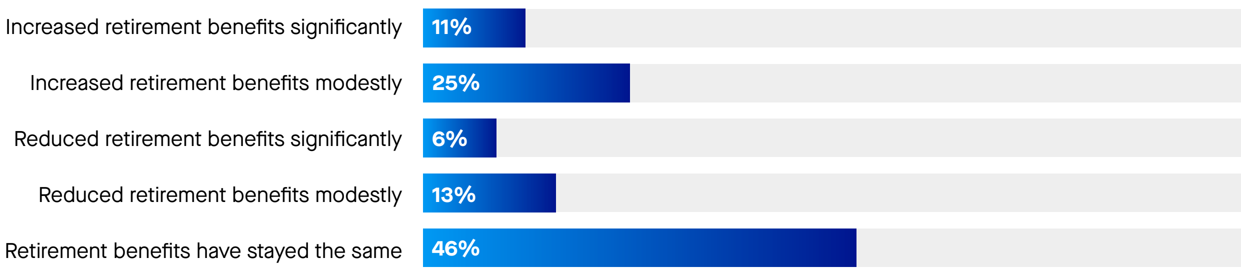


Organizations that have made adjustments to their retirement fund choices in the last 2 years

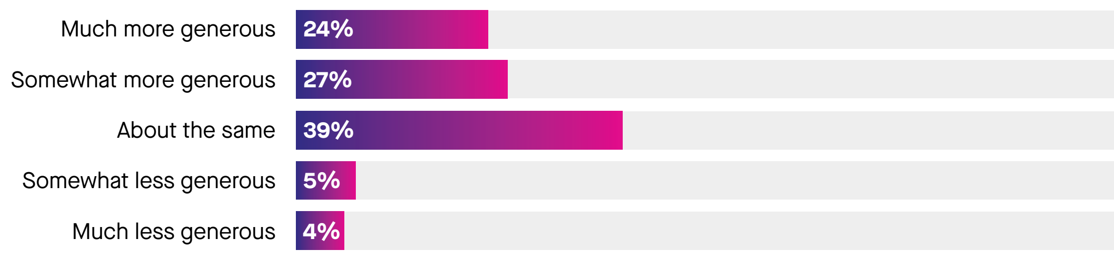


Some retirement plans have become more generous in the last 2 years - but there have also been cuts in benefits

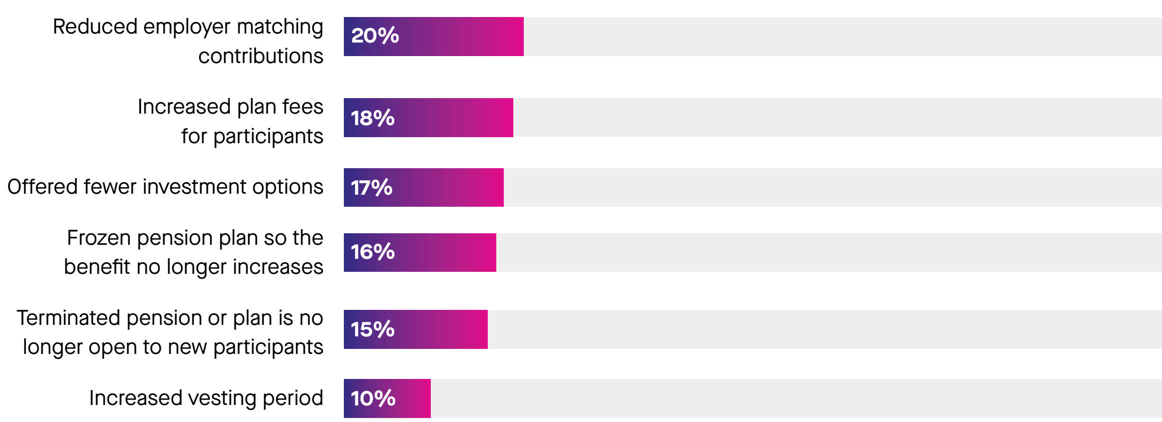
Employers that have made adjustments to their retirement benefit packages in the last 2 years



Employee perceptions on whether their total retirement benefit is more or less generous than it was 2 years ago

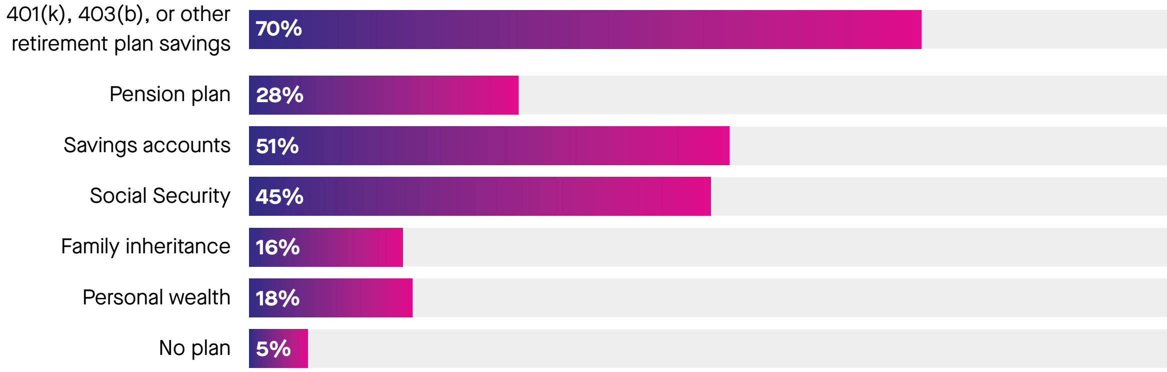


The top 6 ways employees say their employers have cut their retirement benefits in the last 2 years



Affording retirement

Employees' anticipated income sources in retirement



Employees are focused on immediate cash needs

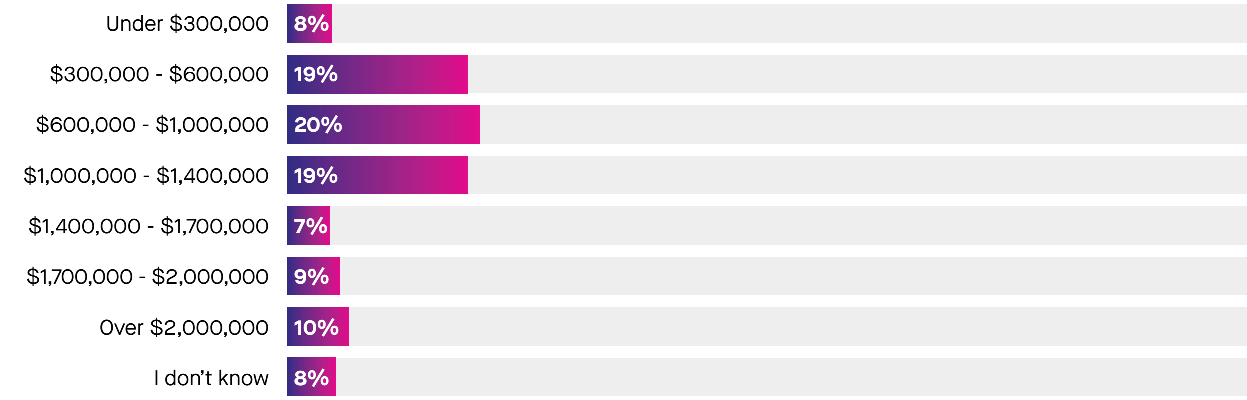
53%
of employees would prefer a $500 pay increase instead of a $500 increase in the contribution their employer makes to their retirement plan

79%
of employees would like their employer to offer supplemental savings accounts, such as emergency savings, in addition to retirement benefits

57%
of employees would like their employer to offer a retirement match for student loan payments

57%
of organizations currently offer or plan to offer matching student loan benefits

Anticipated savings needed for retirement



Continued need for retirement benefits education

The most confusing parts of a retirement benefit plan for employees

27%
Withdrawal options

27%
Investment options

26%
Plan fees and expenses

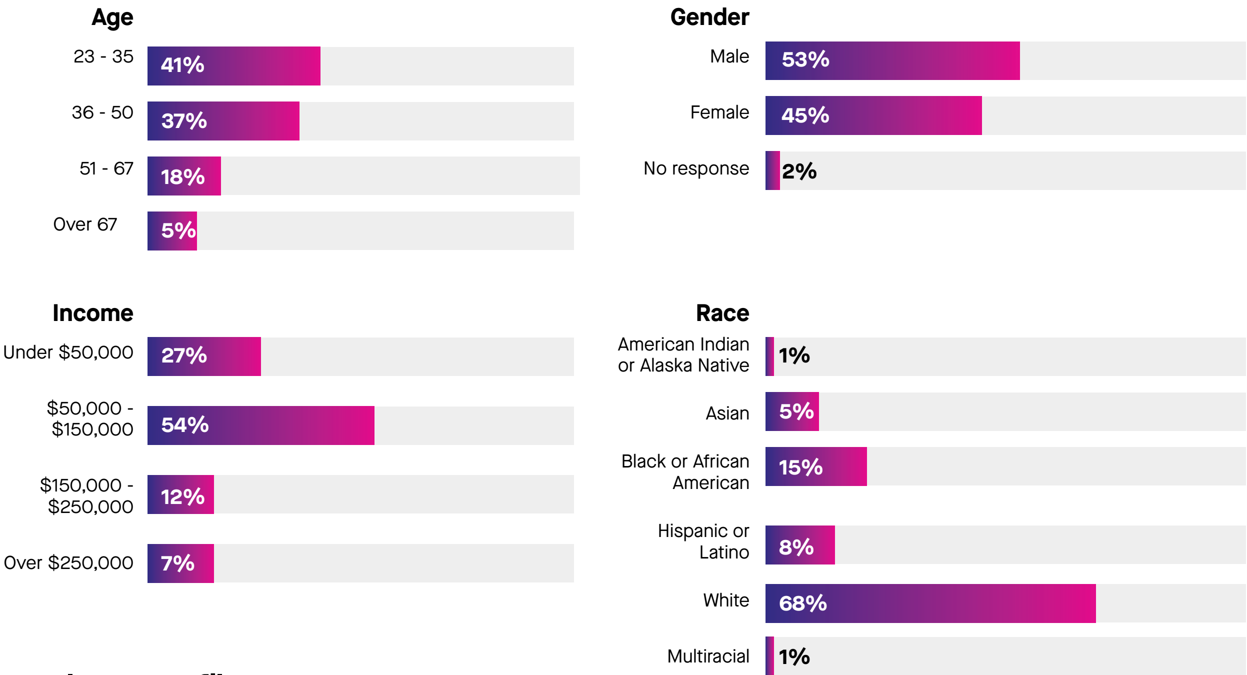
26%
Tax implications

22%
Vesting schedules

28%
of employers think that increasing education and communications could help to improve their retirement benefits

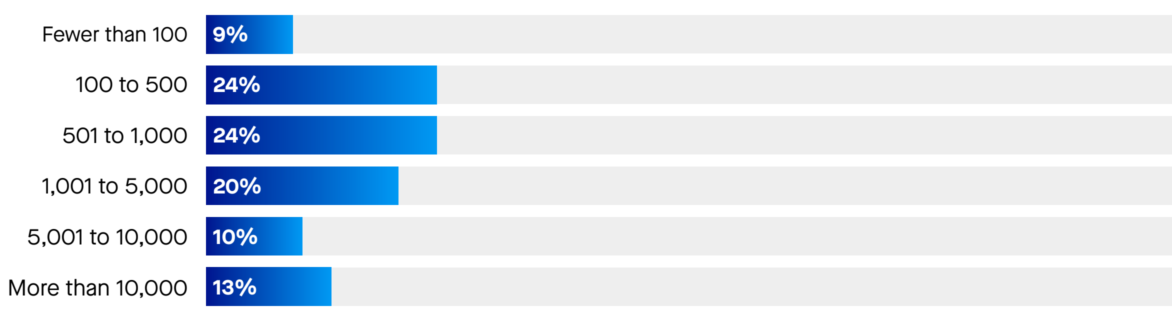
About the research

Employee participant profile



Employer profile

Number of employees across all locations



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