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HR's role in preparing workers for retirement

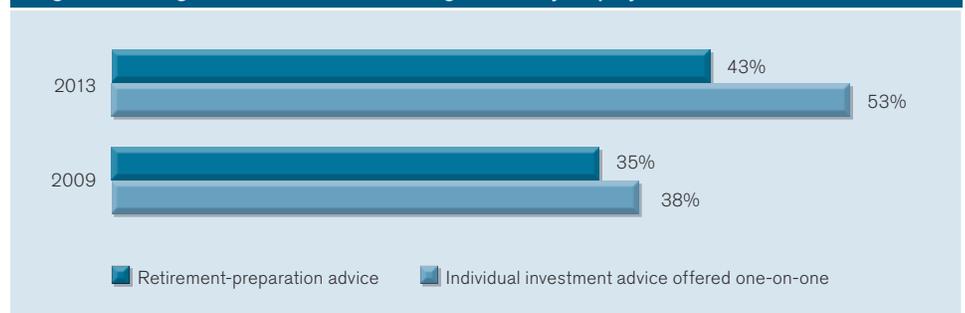
Evidence is mounting that many Americans are unprepared financially for their retirement, and new data show that HR professionals and their employers are becoming increasingly aware of the problem, and they are giving workers more guidance and options for their eventual departure from the labor force.

More than half (53%) of HR professionals said their companies in 2013 offered individual investment advice to employees in a one-on-one format, according to SHRM's *2013 Employee Benefits* research report.¹ That number is up from 38% in 2009 (see

Figure 1). Another 43% of surveyed HR professionals said their employer provided retirement-preparation advice on an organizational level, an increase from 35% in 2009.

Perhaps not coincidentally, a vast majority of HR professionals say they are concerned about Americans' lack of financial preparedness, according to another recent SHRM report. More than nine in 10 respondents (97%) said a "decline in employees' retirement savings" would have an impact on the workforce in the next five years, according to the *2013 SHRM Workplace Forecast*.² Of that group,

Figure 1: Changes in retirement counseling offered by employers



Source: 2013 Employee Benefits (SHRM, 2013)

68% said the decline in retirement savings would have a “major impact” on the workforce, and 29% said it would have a “minor impact.”

In the same report, 95% of respondents said “an increased proportion of older workers in the workforce” would have an effect on the labor market in the next five years (52% said it would have a “major impact,” and 43% cited a “minor impact”). HR professionals can expect this trend—an aging workforce, coupled with widespread concerns about workers’ retirement preparedness—to become a significant part of their workforce management responsibilities in the near term.

What employers provide

One pattern that has continued in 2013 is companies’ embrace of defined contribution retirement plans. In 2013, 92% of employers offered defined contribution retirement plans, most commonly in the form of 401(k) packages, according to SHRM’s *Employee Benefits* report. That percentage is up slightly from 90% in 2009 (see Figure 2).

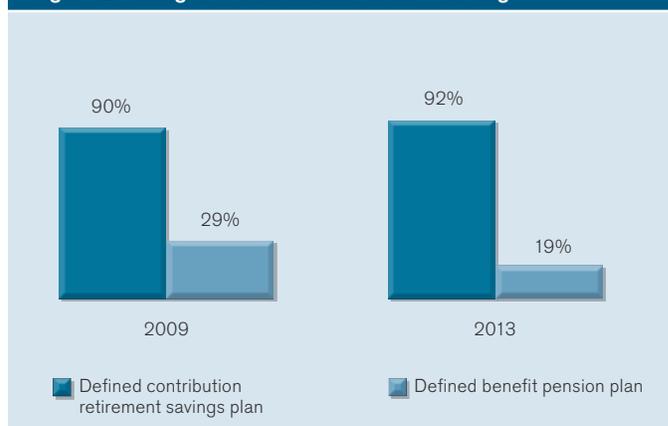
At the same time, companies are abandoning traditional pension packages for their workers at a rapid rate. Only 19% of employers provided defined benefit pension plans in 2013, down significantly from 29% in 2009, according to SHRM’s benefits study. Companies are also providing other retirement choices for their workers—38% of HR professionals said their company offered a Roth 401(k) savings plan in 2013, up from 24% in 2009, according to SHRM’s benefits report.

The main advantage of a Roth plan versus a traditional 401(k) lies with tax benefits. Withdrawals of Roth contributions are not taxed, provided the accounts have been held for five years and withdrawals are made on or after attainment of age 59-and-a-half.³

Other reports have shown that even with an improving economy and potentially more choices for retirement planning, many workers do not expect to be at ease when they enter their golden years. The percentage of workers confident about having enough financial resources for a comfortable retirement was basically the same in 2013 as a record low registered in 2011, according to the Employee Benefit Research Institute (EBRI) *2013 Retirement Confidence Survey*.⁴

More than half of those surveyed by EBRI expressed some form of confidence about their finances for retirement (13% were “very confident,” and 38% were “somewhat confident”), but another 28% were “not at all confident,” and 21% said they were “not too

Figure 2: Changes in retirement benefits offerings



Source: 2013 Employee Benefits (SHRM, 2013)

confident.” One reason confidence remains low, according to EBRI, is the fact that many workers are only now realizing how much they need to save for retirement. This may explain the rise in advice and counseling outlined in SHRM’s benefits report as well.

In turn, a large percentage of individuals surveyed by EBRI are delaying their retirements. In the 2013 EBRI survey, 22% of respondents said they expect to retire “later than planned” (see Figure 3). This number is down from a recent peak of 25% in 2009, but still much higher than the low of 14% in 2008, when the Great Recession was starting to have its biggest impact on job losses and depletion of retirement savings plans.

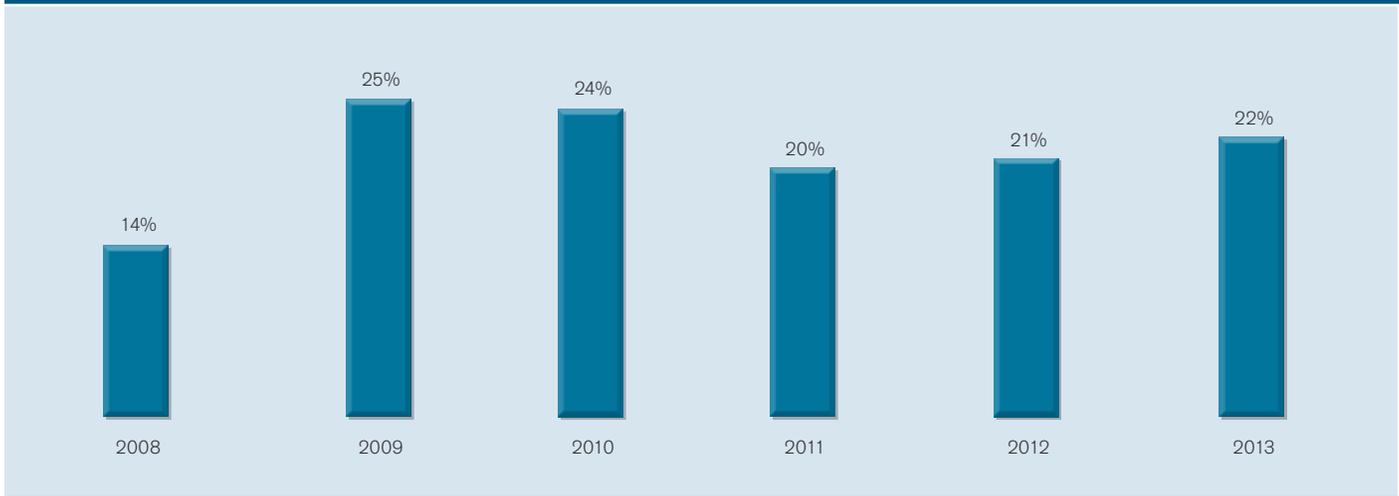
Many factors connected to delayed retirement

When asked why they were delaying retirement, EBRI’s respondents cited a variety of reasons, including the poor economy (25%), lack of faith in Social Security or government (21%), inadequate finances or not being able to “afford to retire” (21%), and the fact that the cost of living in retirement will be higher than expected (8%).

These sentiments are what, in part, is driving the increase in anticipated retirement age, according to EBRI’s confidence survey. The percentage of workers who expect to retire after age 65 has increased dramatically as of late, from 11% in 1991 to 24% in 2003, 29% in 2008 and 36% in 2013, EBRI’s research shows (see Figure 4).

And even as some retirement portfolios have improved with the recent rebound of the stock market, there are other economic factors that are reducing returns on pensions, 401(k) plans and other nest eggs. Many economists and financial experts point to the current “low-interest” environment in the U.S. economy as a potential hazard for retirement savings in the future.

Figure 3: Workers expecting to retire later than planned



Source: 2013 Retirement Confidence Survey (Employee Benefit Research Institute & Matthew Greenwald & Associates, Inc., 2013)

Low interest rates, while meant to stimulate the economy by providing cheaper means of lending money, also provide lower rates of returns on investment portfolios. In one study by EBRI, 25% to 27% of Baby Boomers and Generation X members who would have had adequate retirement income under historical interest rate averages would end up running short of money in retirement if today’s rates are assumed to be permanent.⁵

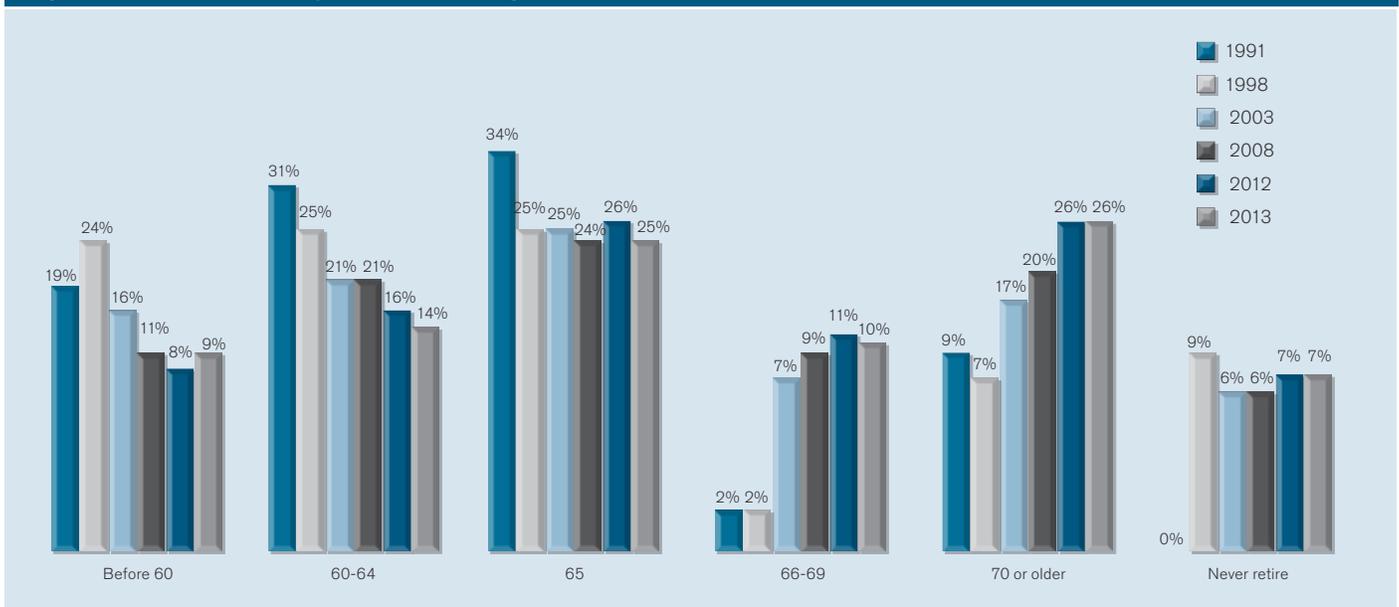
Adding global fixed income packages (such as non-U.S. investments) and creating more diverse income strategies (more high-yield investments) are two actions that benefit plan sponsors are likely to take in order to enhance defined contribution plans, said Stacy Schaus, executive vice president and defined contribution practice leader

with investment services company PIMCO.

Schaus spoke at a May 2013 EBRI forum in Washington, D.C., and said 86% of consultants surveyed recently by PIMCO expect the “low-interest” environment to continue for at least the next two years.

While it is not likely that interest rates will remain low on a permanent basis, this trend presents an opportunity for benefits experts and other HR professionals in the short term to explore new investment options for their employees. Many companies have, in fact, restored certain retirement benefits as the economy has improved in recent years, said Jeanne Thompson, vice president for Fidelity Investments’ Personal and Workplace Investing division, who also spoke at the EBRI event.

Figure 4: Trend in workers’ expected retirement age



Source: 2013 Retirement Confidence Survey (Employee Benefit Research Institute & Matthew Greenwald & Associates, Inc., 2013)

“Back in 2008 and 2009, when the economy started to crumble, there was a lot of media attention given to the loss of employer contributions [on 401(k) plans],” Thompson said. “Companies were struggling not only to keep their business afloat, but their benefits intact.”

A majority of employers (72%) actually maintained employer contributions during the five-year period of 2008-2012, according to Fidelity’s research, Thompson said. That was more likely to occur in large companies with 25,000 or more workers (96%) rather than among smaller employers with 500 or fewer employees (69%).

The portion of plan sponsors that have reduced employer contributions has also declined, from 11% in 2009 to just 4% in 2012, Thompson said. Overall, the percentage of plans that include employer contributions has dropped only slightly as of late, from 20.8% in 2010 to 19.9% in 2012, according to Fidelity’s research.

Other experts say that workers need to take more initiative when saving for retirement. Nearly three out of 10 (28.7%) workers who participate in 401(k) plans were contributing below the employers’ match threshold in 2012, according to a study by HR consulting company Aon Hewitt.⁶

“Participants are leaving money on the table,” said Dan Campbell, leader for Aon Hewitt’s Defined Contribution Practice, who also spoke at the EBRI event.

Perhaps the greatest challenge for HR professionals going forward is creating awareness among workers regarding their retirement options and continuing with educational programs and counseling. As the labor force grows older overall, retirement strategies will continue to be a focal point for HR for the foreseeable future.

Endnotes

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Project Team

Project lead:	Joseph Coombs, specialist, Workplace Trends and Forecasting
Project contributors:	Jennifer Schramm, M. Phil., GPHR, manager, Workplace Trends and Forecasting; Alexander Alonso, Ph.D., SPHR, VP, Research
Copy editing:	Katya Scanlan, copy editor
Design:	Blair Wright, senior graphic designer

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For more information, please contact:

SHRM Research Department
1800 Duke Street, Alexandria, VA 22314, USA
Phone: (703) 548-3440 Fax: (703) 535-6432
Web: www.shrm.org/research