News
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Employers Reluctant to Cut Retirement Benefits in Difficult Economy

Employer Acceptance of Investment Advice and Auto-Enrollment also Revealed in Tenth Annual Transamerica Retirement Survey

LOS ANGELES – August 19, 2009 – In this difficult economy, the 10th Annual Transamerica Retirement Survey found that while nearly half of the U.S. employers surveyed had undertaken cost-cutting measures such as lay-offs and salary freezes, relatively few had reduced or eliminated retirement benefits. This survey of a nationally-representative sample of 596 employers, conducted between January and February of 2009, also yielded insights into the willingness of employers to offer plan features that were brought to the forefront in the Pension Protection Act of 2006, including investment advice and automatic enrollment.

When asked what cost-cutting measures their company had implemented in the past 12 months, only 10 percent of employers surveyed indicated they reduced or eliminated retirement benefits. This pales in comparison to 39 percent that had implemented layoffs or downsizing, 23 percent that reported frozen salaries, and 20 percent that eliminated bonuses. The reluctance of employers to reduce retirement benefits is supported by additional findings that most employers (81 percent) agree that their employees view a 401(k) or similar plan as an important benefit, and that most employers (79 percent) who offer a 401(k) or similar employee-funded retirement plan also believe that it is important for attracting and retaining employees.

"With so many employers having to take the unfortunate step of layoffs as a cost-cutting measure, it is encouraging that so many are still committed to preserving current levels of retirement benefits for the employees they are able to retain," said Catherine Collinson, President of the Transamerica Center for Retirement Studies. "Our survey findings underscore the importance of employer-sponsored retirement plans in the workplace from both the worker and employer perspectives."

The overall percentage of employers that made any change to their retirement plans in the last 12 months (24 percent) remained consistent with past surveys. The most notable difference from the previous survey, conducted between October and November of 2007, was a decline in the percentage of employers making changes to their investment lineup (9 percent in 2009 vs. 14 percent in 2007).

The percentage of employers offering a match fell slightly from 80 percent to 76 percent, with the most pronounced decline among large companies with 500 or more employees (78 percent in 2009 vs. 87 percent in 2007). This year's survey found that fewer than 5 percent of employers decreased their company match in the last 12 months compared to 2 percent who reported doing so in the 2007 survey.

Only 21 percent of the employers surveyed offer a company-funded defined benefit pension plan. Among them, 85 percent are not considering any changes to it within the next 12 months and 9 percent are not sure.

Looking into the future, relatively few employers indicate they are considering making changes to their retirement plans in the next 12 months. Eighty-three percent of employers now say they are not planning any changes in the next year, while 11 percent indicate they are considering some form of change. The vast majority (95 percent) of employers that offer a 401(k) or similar plan agreed that they are satisfied with their retirement plan provider.

Some Employers Reluctant to Offer Investment Advice

The survey found more than half of employers that offer 401(k) or similar employee-funded plans offer some form of investment guidance or advice (58 percent), down slightly from the previous survey (61 percent). Of the 42 percent of employers that do not offer investment advice, a significant majority (88 percent) indicate that they do not plan to do so in the future.

Although liability issues remain the biggest concern for employers that do not plan to offer investment advice, far fewer cited it as a reason this year (36 percent vs. 45 percent in the previous survey). The drop in those concerned about potential liability may in part be explained by provisions of the Pension Protection Act of 2006 that added some fiduciary relief for plan sponsors offering advice as long as the plan meets certain criteria.

"Especially now, when so many workers are looking for direction on how to save for retirement and navigate this difficult economy, it's more important than ever that they be offered investment advice or guidance as part of a company-sponsored retirement plan," said Catherine Collinson. "As policymakers evaluate the legalities of investment advice, it's important to maintain the array of choices currently offered as well as further address plan sponsors' concerns about potential liability so they will be more likely to offer it as part of their plans."

A significant percentage of small business plan sponsors with 10 to 499 employees indicated that the main reason for not offering advice was that their employees don't need it (23 percent). This sentiment contradicts the majority of small business workers (53 percent) who indicated they would like more information and advice from their company on how to reach their retirement goals.

Little Growth Seen in Employers Putting Plans on Auto-Pilot

Nearly one-quarter (24 percent) of the companies that offer a 401(k) plan automatically enroll employees into their plan. The percentage of plan sponsors offering this feature remains relatively unchanged from the 2007 survey (23 percent). The survey also found that large companies (39 percent) are more likely to offer automatic enrollment than small companies (21 percent). The median default contribution rate for plans with automatic enrollment is 3 percent, with 29 percent including a provision to automatically increase participants' contribution rate on their anniversary date of hire.

The number of plans choosing a conservative default investment option fell from 24 percent to 12 percent between 2007 and 2009, while a growing number of plan sponsors chose a fund with a diversified mix of investments (e.g., balanced, target maturity or lifecycle fund), or a managed fund for their default. This shift was presumably a result of implementation of the Qualified Default Investment Alternative (QDIA), which was legislated in the Pension Protection Act of 2006 and became effective for retirement plan contributions made on or after December 24, 2007.

Of the employers surveyed that do not offer automatic enrollment provisions, 80 percent do not plan to do so in the future. The most commonly cited reason was already-high participation rates (32 percent). More than one-in-five cited concerns about cost and administrative complexity (21 percent).

"At this juncture, while so many employers face uncertainty and cost-cutting measures, it should not be surprising that so few have the appetite to enhance their retirement plans to offer automatic enrollment," said Catherine Collinson. "For those plan sponsors not offering automatic enrollment, it's important for them to take advantage of their retirement plan providers' enrollment capabilities, which may include on-site enrollment meetings and on-line enrollment, to help ensure the highest levels of plan participation. When the economy improves, hopefully, more plan sponsors will consider adding automatic features to their plans."

Employers' Top Priorities for New Administration

The survey also asked employers what they thought should be the top priority for the President and Congress to improve Americans' retirement security. Their top three most frequently cited responses included:

- Educating Americans early in life by implementing financial literacy curriculum in schools (23 percent)
- Provide tax credits to workers who make contributions to an IRA or 401(k) (15 percent)
- Encourage plans to offer to pay benefits in a form that guarantees retirees a set level of monthly income in retirement, regardless of how long they live (12 percent)

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About Transamerica Center for Retirement Studies®

The Transamerica Center for Retirement Studies® ("The Center") is a non-profit corporation and private foundation. The Center is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third-parties. For more information about The Center, please refer to **www.transamericacenter.org**.

About the 10th Annual Retirement Survey

The employer survey was conducted by telephone within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between January 5, 2009 and February 28, 2009 among 596 for-profit employers with 10 or more employees across all locations, including 296 small companies with 10 to 499 employees and 300 large companies with 500 or more employees. No estimates of theoretical sampling error can be calculated; a full methodology is available.

The worker survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between December 16, 2008 and January 13, 2009 among 3,466 full-time and part-time workers. No estimates of theoretical sampling error can be calculated; a full methodology is available.

About the 9th Annual Retirement Survey

The employer survey was conducted by telephone within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between October 11 and November 21, 2007 among 652 for-profit employers with 10 or more employees across all locations. A full methodology is available.

About Harris Interactive

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