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Mercer Workplace Survey 13

Summary for Employers
November 2013

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Introduction and Methodology

The *Mercer Workplace Survey* is a proprietary research program conducted for Mercer's US Benefits Administration business to track employee attitudes toward, and experiences with, employer-sponsored retirement, health and benefits programs. The series was launched in the spring of 2003 and draws on studies trended to the spring of 2001.

These findings are based on a national cross-section of active 401(k) participants defined as those currently contributing to a 401(k) plan irrespective of balance *or* having a 401(k) balance of $1,000 or more with their current employer whether or not they are currently contributing. Eligible non-participants and those only holding balances at previous employers are not included in this research. Respondents are also required to be enrolled in their employer's health plan. Online interviews were completed with 1,506 participants between May 28th and June 5th, 2013.

Overview

With housing values clearly on the way up and a recovery narrative playing out on the nightly news, American workers are feeling better about the economy. But not enough to shake off their reticence to deepen their commitment to workplace retirement savings.

Partially this is about stagnant personal incomes, feeble economic growth and possibly a misunderstanding about how much of their 401(k) savings they can defer from taxation. But most strikingly it is the specter of health care costs in retirement that is likely triggering this behavoir. From virtually nowhere five or six years ago, health care expenses in retirement today are the driving anxiety for pre-retirees, now in the same league as having adequate overall retirement savings to begin with.

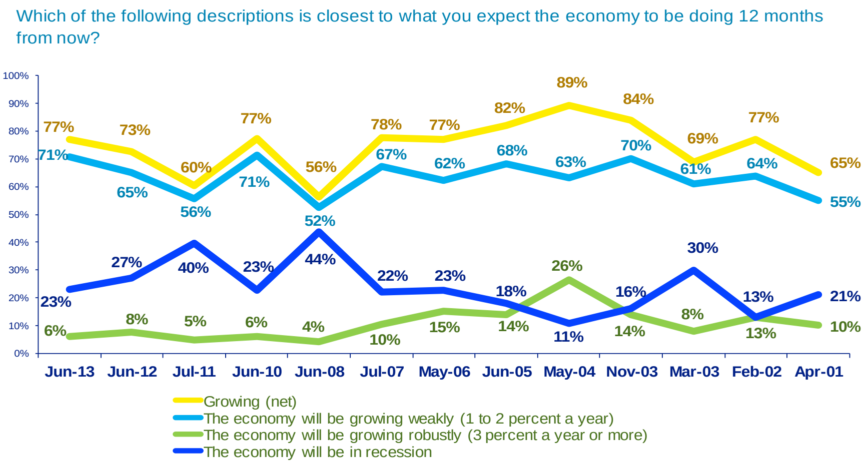
Exactly how workers intend to respond to this new challenge isn't clear. They may be saving more outside their 401(k)s or increasing liquidity elsewhere in their portfolios. What we do know is that they haven't chosen their tax-deferred workplace retirement savings plan as the funding vehicle for these looming health care expenses—at least not yet. Pre-retirees in fact, are likely to dial back on their 401(k) contributions by about 10% in the year ahead. These same workers are deeply distrustful of the Affordable Care Act and consequently expect to be worse off (rather than better) by a ratio of almost 6:1. To a large extent these findings suggest that the retirement outlook today is driven by the caution and fears of those closest to retirement.

It may be going too far to conclude that health care issues and looming changes in health benefits have derailed America's focus on retirement savings. But it's certainly not a stretch to acknowledge that health care issues today have more urgency than ever before and that this shift puts retirement savings under stress.

The Stage is Set for Resurgent Retirement Savings

The improving economic outlook captured so dramatically in last year's study continues in 2013, if at a decelerating pace. More than three-quarters (77%) of employees expect economic growth in the year ahead, up four points to tie the post-recession bounce in 2010. The proportion expecting a recession continues to fall, to 23% (Table 1).

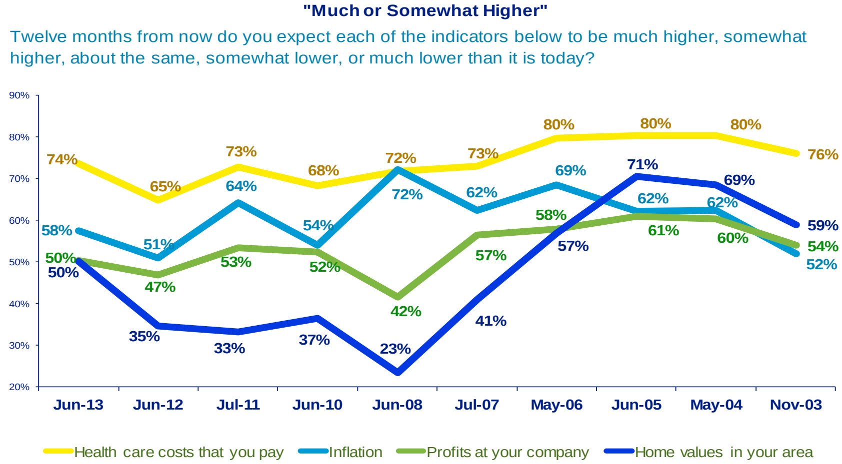
Table 1: Overall Economic Expectations



Improving local home values are the most powerful factor driving this change; fully half of all participants expect home values in their area to be higher a year from now, up 15 points since last year. Less forcefully, they are also more likely to expect higher company profits, higher equity values, higher inflation and higher interest rates (along with higher health care costs). Importantly, the proportion expecting higher unemployment is down—but the proportion expecting *lower* unemployment is flat, i.e., it's not getting worse, but it's not getting better either (Table 2).

Table 2: Economic Expectations

"Much or Somewhat Higher"



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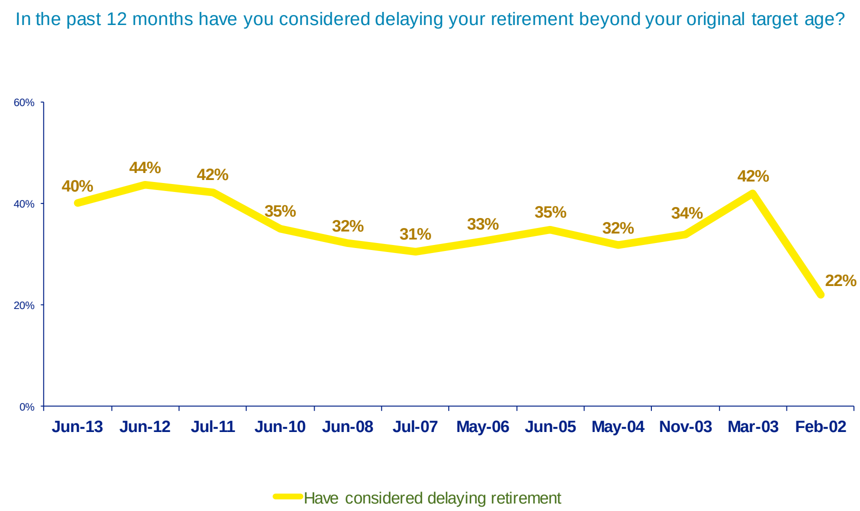
Perceived job security is virtually unchanged, notching a two-point increase in the share of workers concerned about losing their jobs in the next twelve months. Older workers (50+) actually feel somewhat more secure while those under 50 marginally less so. Although high by historic standards, the proportion of workers considering delaying retirement (40%) is down four points (Table 3).

Table 3: Considered Delaying Retirement



Tracking a rising market, participants' confidence in their 401(k) investment decisions is also up somewhat in terms of the investments they select, their asset allocation and their deferral rates. Finally, the match is back—86% of participants expect an employer contribution to their 401(k) accounts in the year ahead, almost tying the 2008 peak of 87%.

Given all these economic indicators we would expect to see retirement savings on the rebound. But, as it turns out, this isn't the case at all.

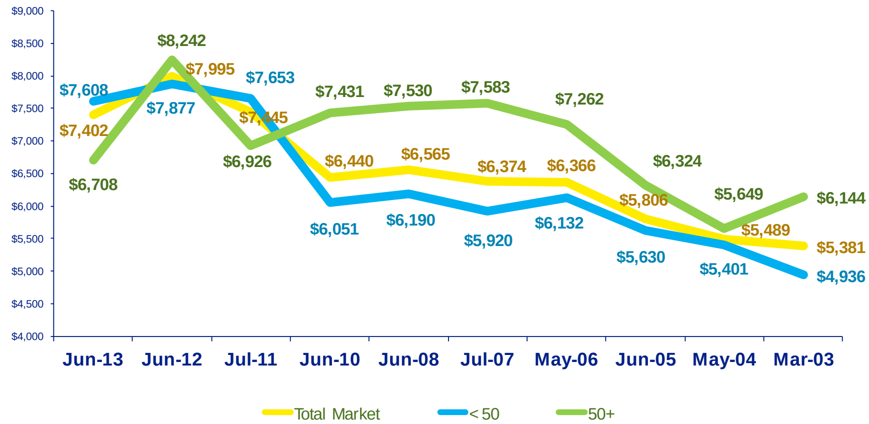
Participants are Holding Off Instead

Participants may be hearing about a recovery but it's not obvious that they are living one. With personal incomes flat and GDP growth feeble, 401(k) participants are actually visualizing somewhat lower retirement savings in the year ahead. Their mean anticipated contribution today is about $7,400, some seven percent lower than last year. For those under 50 the curve hardly bends. But for those 50 and over, a contribution about 10% lower than their abnormally high contribution in 2012 is in the cards − representing only the second time in a decade that younger workers expect to contribute more than older ones (Table 4).

Table 4: Average Anticipated 401(k) Contribution

Average $

Not counting any contributions your employer may make to your 401(k) plan over the next 12 months, how much money, if any, do you expect to put into your 401(k) plan?



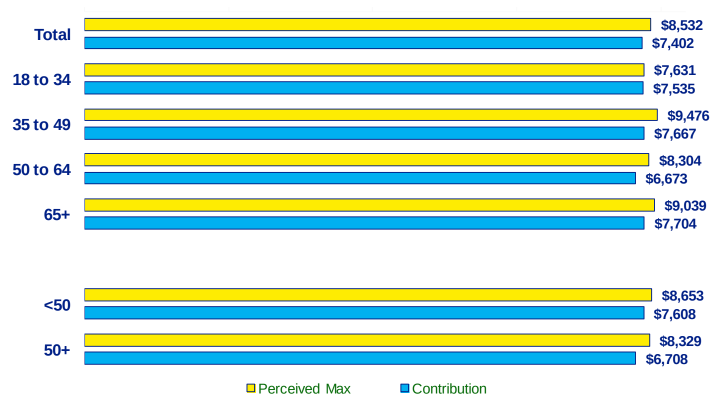
Oddly, this comes as both older and younger workers perceive a drop in the maximum amount they can defer from income taxes by contributing to a 401(k). For those 50 and over it's a 21% drop to about $8,300; for younger workers it's an 11% drop to about $8,600. This leads to compelling—and troubling—arithmetic. Do participants under 50 really believe that they are contributing at about 88% of the tax-deferred max as these responses indicate—when in fact their deferrals on average are about 43% of the max? And does the 50 and over crowd really think that they are deferring at 81% of the max when their reality is barely 29%? Recall that 61% of these same households assert that they are also saving for retirement outside their 401(k)s. How much tax efficiency are they leaving on the table—knowingly or unknowingly (Table 5)?

By Age

Table 5: Contribution vs. Perceived Max

Average $

As far as you know, what is the maximum dollar amount you can defer from income taxes this year by contributing it to a 401(k)? Not counting any contributions your employer may make to your 401(k) plan over the next 12 months, how much money, if any, do you expect to put into your 401(k) plan?



Note small base size for 65+

Health Care is the Elephant in the Room

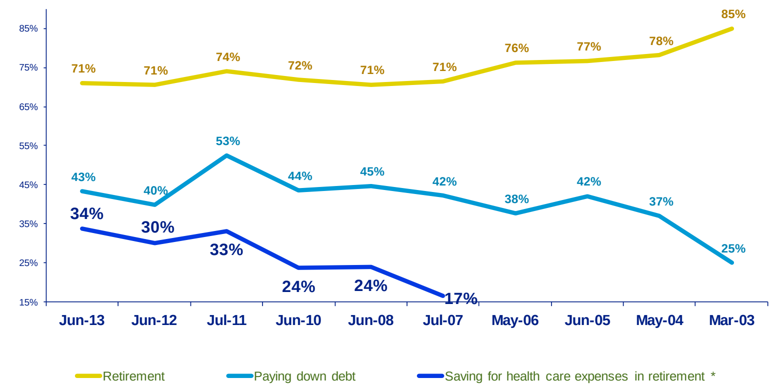
Misperceptions of tax policy aren't the whole story; the bigger story is about looming health care costs, especially for older workers.

From just 17% in 2007, saving for health care expenses in retirement as a major savings objective has increased steadily to 34% today (Table 6). Among participants 50 to 64, 45% are now focused on saving for health care expenses in retirement, a 13-point increase since just last year and nearly double the level of six years ago.

Table 6: Savings Objectives

"Major Objective"

People save for different reasons. For each of the savings objectives below, please indicate to what extent it is a savings objective for you.



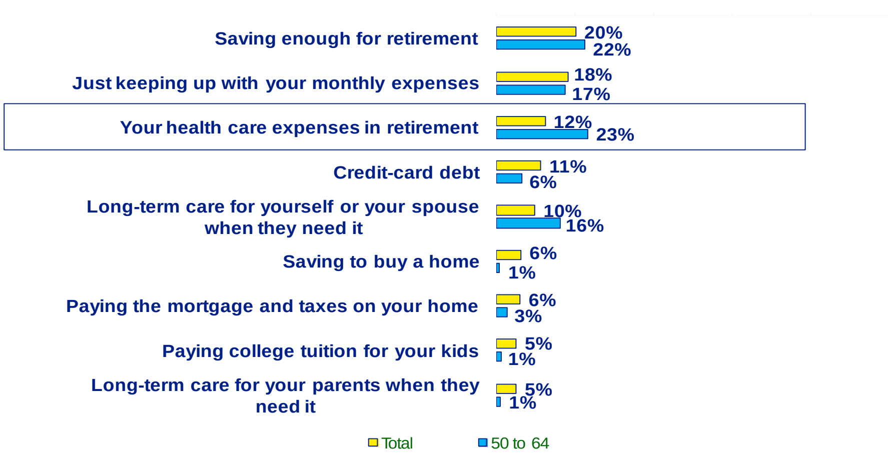
* Changed from "Saving for health care expenses" in 2011

Indeed, when it comes to older participants' biggest financial worry, health care expenses in retirement are much higher than last year and now nominally surpass "saving for retirement" itself as the financial problem likeliest to keep them awake at night (Table 7).

By Age

Table 7: Biggest Financial Worry

What's your biggest financial worry right now—the problem that keeps you awake at night?



With emerging anxiety like that, is it any wonder that traditional retirement savings is under stress among pre-retirees? Again, whether participants are saving more outside their 401(k)s isn't captured by this research so we don't really know whether workers are animated or paralyzed by this threat. We just know that they aren't using their 401(k) as part of the solution set today.

Many Retirement Savings Metrics are Unchanged

That said, 2013 finds many workers in a holding pattern with retirement savings stalled until the economy brightens, the health care outlook crystallizes, or both:

- Most financial worries ("what keeps you awake") are within a point of two of last year.
- Confidence in most aspects of retirement planning, including "being ready for retirement financially", are essentially unchanged.
- Workers' expected sources of retirement income and the proportion of income associated with each source are virtually flat since 2006—about a third from a defined contribution plan, a quarter from Social Security and the balance from personal savings, employment in retirement, defined benefit plans and other sources.
- Participants are looking to replace 78% of their working income in retirement, identical to the level calculated in 2012. As usual, younger workers set their sights higher, older participants are more subdued. Ominously, the share of participants who are "very confident" that they will achieve this goal is down six points, to 18%.
- Some modest ups and downs notwithstanding, most retirement expectations are about where they were in 2012. Working at least part-time in retirement remains by far the likeliest solution to the retirement income challenge.

Is the Expected Retirement Age Creeping Up?

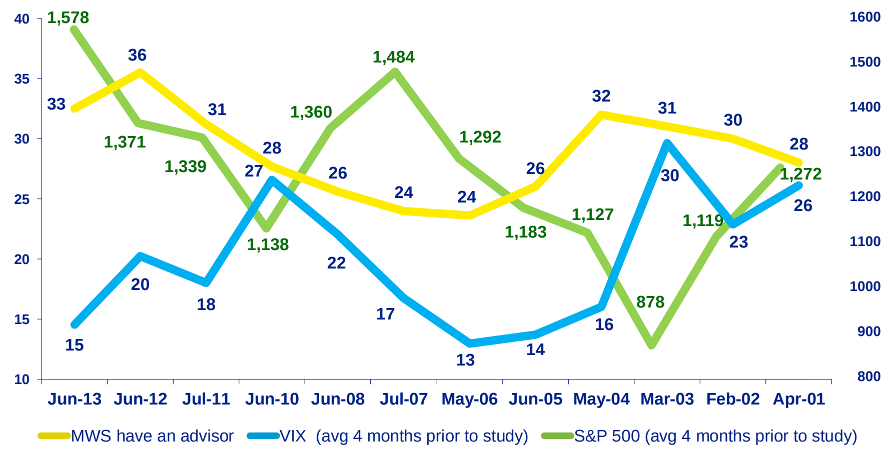
After years of hovering within a rounding error of 65, participants today say they plan to retire when they're 66.4, almost a one-year jump in the average since last year. Indeed, 77% of workers now say they plan to retire at age 65 or higher, up from 71% in 2012. Whether this is trend or anomaly remains to be seen, but working longer is certainly a retirement income strategy.

Advisors and Advice Pay Off

Extending a relationship tracked in these studies since 2001, overall professional advisor use declined slightly in 2013 as the stock market improved and market volatility declined (Table 8).

Table 8: Professional Advisor Use vs. Market Activity

Do you currently have a relationship with a professional financial advisor that's someone you pay either through fees or commissions to assist you in financial decisions, financial product selection, or in selecting providers of financial services?

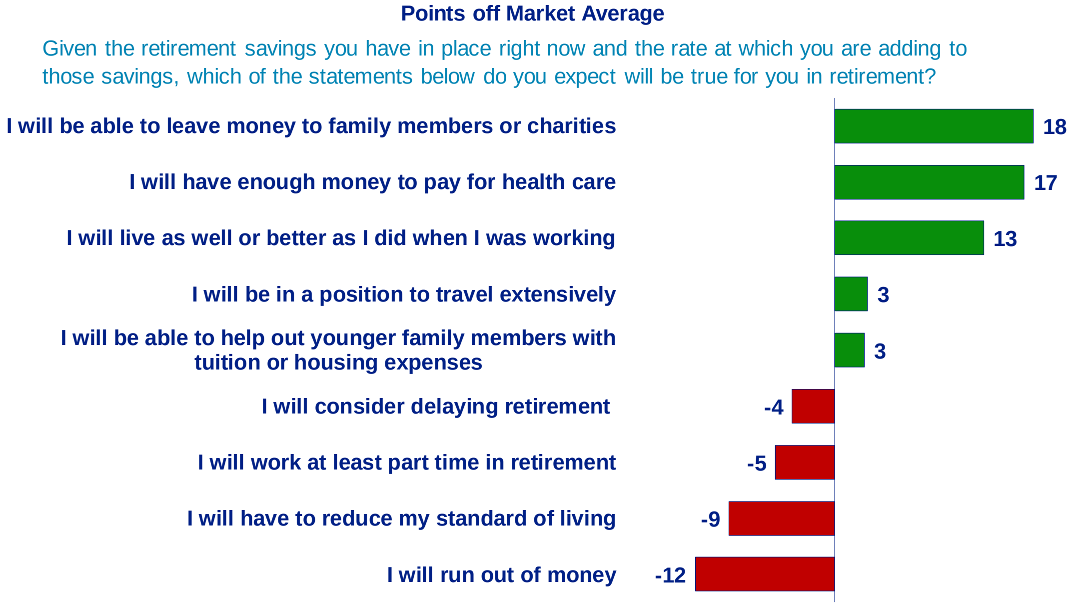


Within DC plans, advisors and advice point the way to success. Although far behind plan sponsors and providers as a source of 401(k) investment information, professional advisors (used by about one-fifth of participants) assist a highly-educated, high income, high balance, high deferral rate subset of the 401(k) population.

Clients of professional advisors are more likely than all participants to transact in their plans, are much more likely to worry about health care expenses and long-term care than just keeping up with monthly expenses and are vastly more confident than all participants that their retirement planning is on track. They are three times more likely to be “very confident” in achieving their retirement income target than participants who rely on their recordkeeper for investment information and are more confident than those who rely on their employer. They are much more likely to expect good things in retirement and much less likely to expect bad things (Table 9).

By Source Rely on Most: Professional Advisor

Table 9: Expectations in Retirement



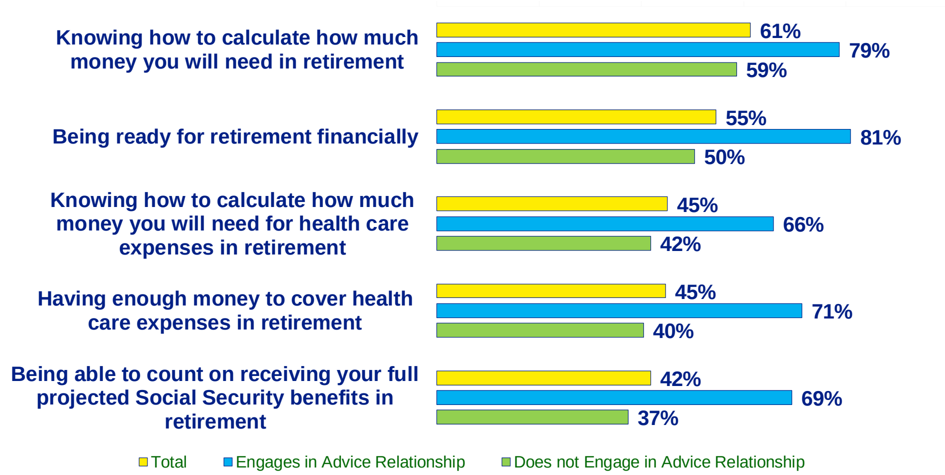
Another select subset of the 401(k) population illustrates similar properties—the 15% of participants who “engage in an online or in-person advice relationship” within the plan. This group is younger, somewhat more male and significantly better-educated than all participants. They too have higher incomes, higher balances and higher deferral rates. But their position is somewhat more fragile in that they are almost twice as likely as all participants to have taken a loan or withdrawal, are much more concerned about job security and are much more likely to be considering delaying retirement. However anxious, they are also engaged; they are more likely than all participants to transact in their plans and are vastly more confident than the unadvised about all aspects of their retirement planning (Table 10). They are twice as likely as all participants to expect to achieve their retirement income target and they too anticipate a cheerful and successful retirement (Table 11).

By Engages in Advice Relationship

Table 10: Confidence in Retirement Planning

"Very or Somewhat Confident"

How confident are you about each of the following aspects of your retirement?



By Engages in Advice Relationship

Table 11: Expectations in Retirement

Points off Market Average

Given the retirement savings you have in place right now and the rate at which you are adding to those savings, which of the statements below do you expect will be true for you in retirement?

Three in ten participants overall assert that they have a formal, written financial plan, a proportion that more than doubles among those with a professional advisor and those who engage in advice relationships.

Antipathy to Health Care Reform Deepens

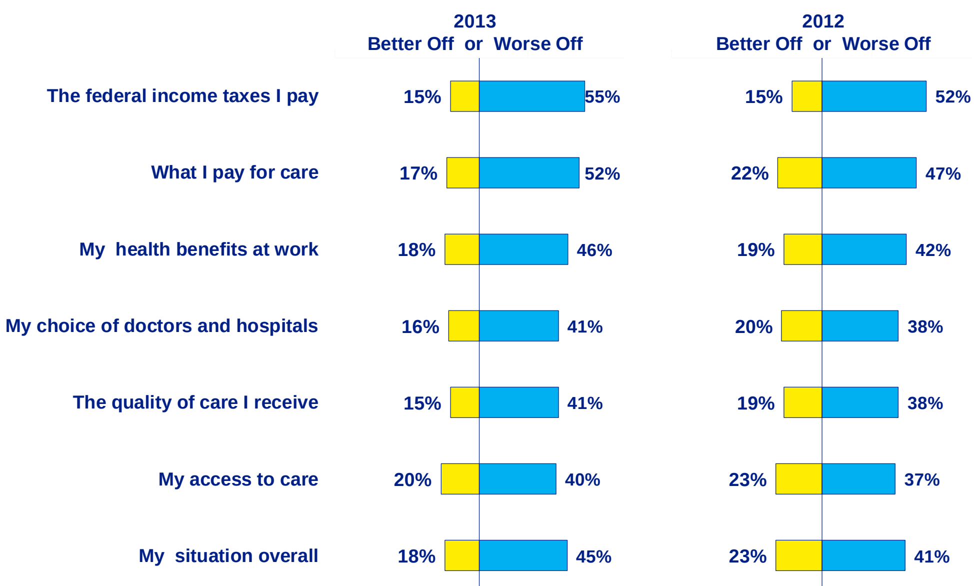
As implementation deadlines approach, (currently insured) workers are increasingly hostile to the Patient Protection and Affordable Care Act. Negative attitudes to health care reform among those who have coverage through their employer have intensified on all six dimensions tested.

Those expecting to be worse off overall now outnumber those expecting to be better off by 2½ to 1 (Table 12). Support remains strongest among those 18 to 34; opposition remains strongest among those 50 to 64.

Younger workers alone are confident that they understand how health care reform will affect them; workers 35 and over are not confident in their understanding.

Table 12: Health Care Reform

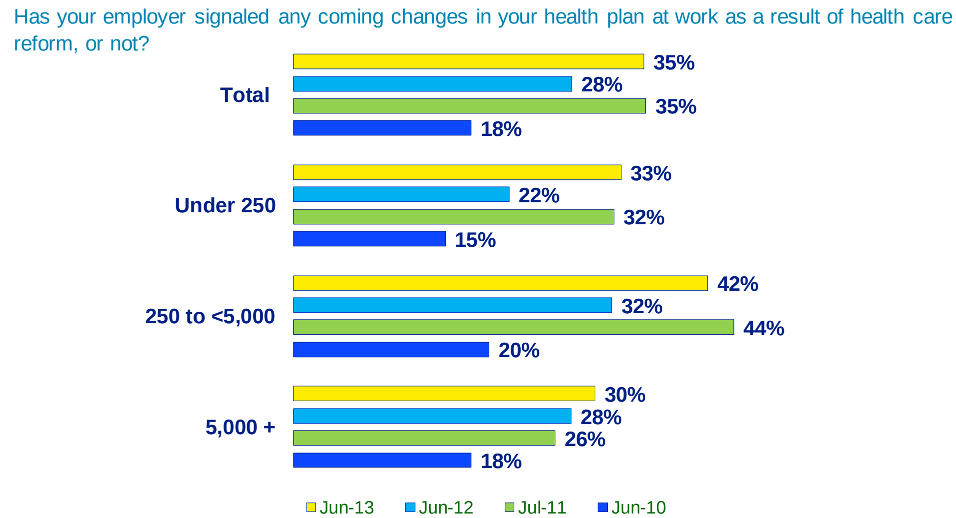
How do you expect President Obama's health care reform to affect you personally when it comes to:



Question wording changed from in 2012: "Assuming the Supreme Court upholds the constitutionality of President Obama's health care plan, how do you expect health care reform to affect you personally when it comes to: "

More participants this year than last report that their employer has signaled coming changes in their health plan at work (35%, up from 28%) with employees of middle market companies the most likely to report such developments (Table 13). Among those expecting changes, higher out-of-pocket costs and major increases in their deductibles lead the pack. Most employees (78%) haven't (yet) done anything as a result of health care reform.

By Company Size
Table 13: Employer Has Signaled Changes

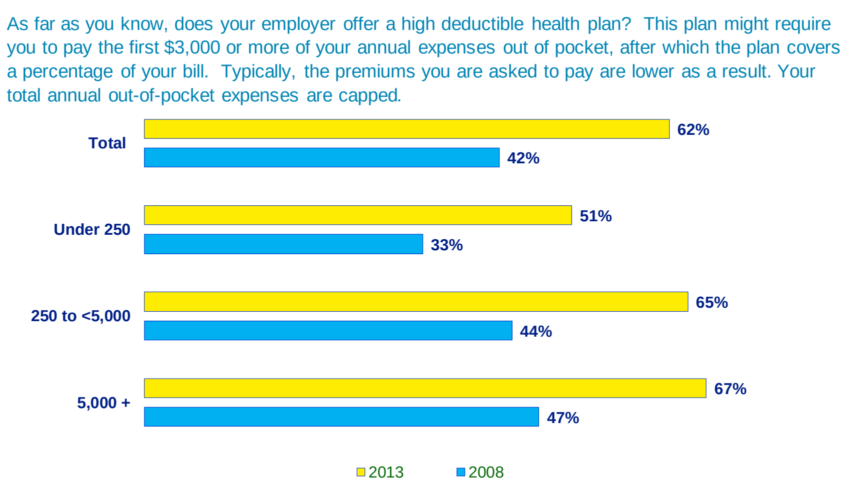


Question changed from "Has your employer signaled any coming changes in your health plan at work as a result of this new legislation, or not?" in 2011

Consumerism Emerges in the Health Care Marketplace as More Workers Experience High Deductible Health Plans and HSAs

The proportion of participants saying their employer offers a high deductible health plan (62%) is higher than it was the last time the question was asked, in 2008. As before, the likelihood of offering such a plan increases with employer size (Table 14). More than half (54%) of participants whose employer offers a plan are enrolled in it, up from 44% five years ago.

Trend By Employer Size
Table 14: High Deductible Health Plan Offered



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Of the 33% of workers who consider themselves enrolled in a high deductible plan, almost all (83%) have access to a health savings account (HSA), up from 72% in 2008. Unsurprisingly, access to an HSA within a high deductible plan increases sharply with employer size. Among employees with access to an HSA in connection with a high deductible plan (28% of all workers), 68% say they are enrolled, suggesting that about one in five workers now funds a high deductible plan through an HSA.

Ironically, the leading reason cited by eligible non-participants in an HSA for staying out is that they will lose their money if they don't use it by the end of the year (false). At least the proportion of participants taking this position is down (nine points) since 2008. Other reasons are "haven't thought about it," "doesn't look attractive" and "too complicated."

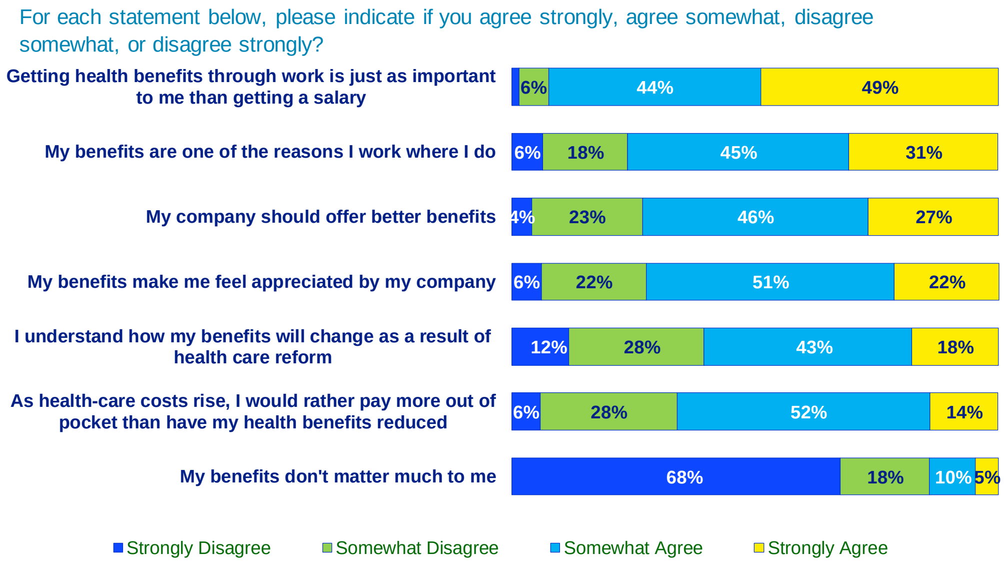
Who has signed up for a consumer-driven health plan in the past 12 months? This group is conspicuously younger, likelier to have children and displays higher educational attainment than all participants. Their incomes and balances are close to average, however, and they are fearful both for their job security and about being ready for retirement financially.

Also given that the concept is still very new, it is not surprising that the private exchange solutions have only modest recognition among workers.

Benefits Remain Important if Slightly Less Valuable

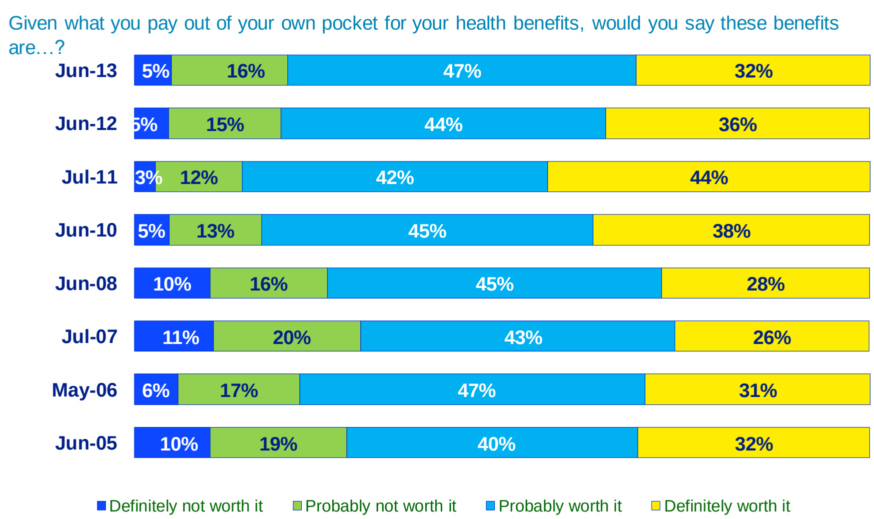
Benefits remain a powerful and critical element of the employee experience. Only 15% of workers agree that "my benefits don't matter much to me," Table 15. With few changes in the depth, character or out-of-pocket expense associated with most benefits since last year, attitudes toward benefits are generally unchanged. There are exceptions: workers in larger organizations are much more likely than their smaller-employer counterparts to report higher out-of-pocket health care expenses and incentives for participating in a wellness or disease management program. Workers in smaller organizations are more likely than those in larger firms to report that their health benefits were scaled back.

Table 15: Perceived Value of Benefits



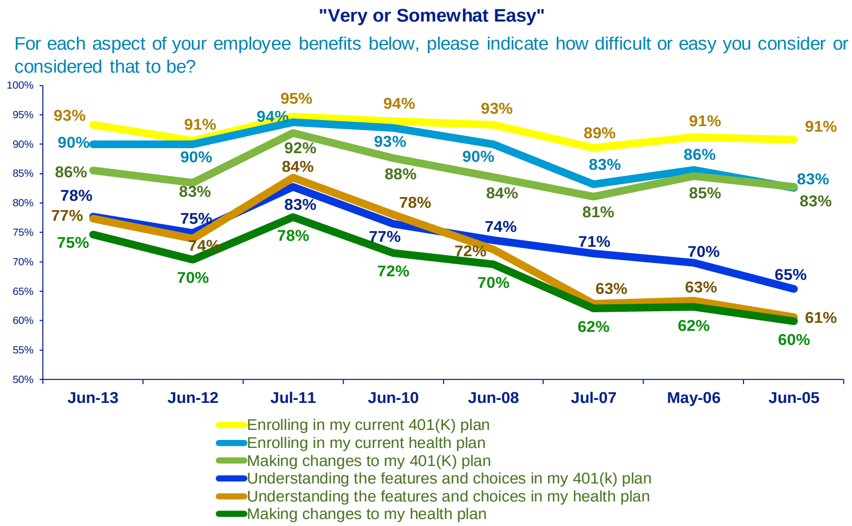
Indeed, after a post-meltdown spike in 2011, the perceived value of health benefits (32% "definitely worth it") continues to erode this year; it is now close to its historic norm (Table 16). The fall-off is most pronounced among workers under 50 (30% "definitely worth it" today, down from 45% in 2011).

Table 16: Out-of-pocket for Health Benefits



Happily, after a troubling dip last year, the perceived ease of enrolling in, making changes to and understanding both health and retirement plans is on the mend (Table 17). Satisfaction with 401(k) and health benefits information generally is high and stable since last year, although satisfaction with information about defined benefit pension plans is down.

Table 17: Employee Benefit Experiences

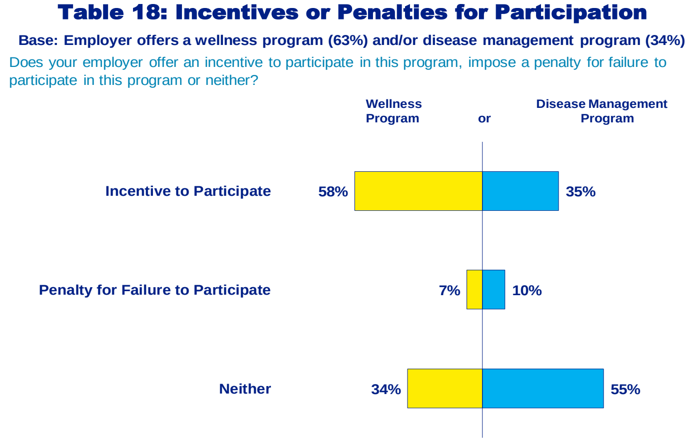


Wellness Programs are Enhanced by Incentives

Slightly more than six workers in ten continue to have workplace access to a wellness program, a disease management program or both, a figure that hasn't changed much over the last four years.

Eligible workers are more likely to take advantage of a wellness program (65% at least "some") than a disease management program (38%). That might be because most workers (58%) eligible for a wellness program report that their employer offers incentives to participate, against only 35% for those eligible for a disease management program. Penalties in either case are rare (Table 18).

Table 18: Incentives or Penalties for Participation



Quick Takes

The share of workers taking out a loan against their 401(k) (13%) or withdrawing all or part of their balance (11%) is virtually unchanged since last year. The need for cash to keep up with everyday expenses is the main reason, followed by covering emergency expenses; buying a car and home renovation are right behind.

401(k) fee disclosure may be having a modest impact; the share of workers who say 401(k) fees are paid entirely by their employer is down six points since 2011, to 24%.

Providers and plan sponsors remain by far the most important sources of 401(k) investment information. Satisfaction with information from plan sponsors is up five points while satisfaction with information from providers is at about the same level and virtually unchanged. Satisfaction with do-it-yourself sources (newspapers, magazines, TV, investment research you seek out yourself) is down. Curiously, participants who increased their deferral rate in the past year (together with participants generally) rely heavily on their provider for investment information while those who decreased their deferral rate rely disproportionately on their employer.

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