RETIREMENT SAVINGS TRENDS

How Employers Can Extend Coverage and Simplify the Retirement Readiness Process

CONTENTS

EXECUTIVE SUMMARY

Are employers stepping up to the plate when it comes to providing employees with retirement savings opportunities?

For the second year, the ADP Research Institute® examined the types of companies — by size and type of industry — that offer retirement benefits, as well as the retirement savings behaviors of approximately 10 million U.S. employees in 2014.

Among the key findings:

- **Just 1/3 of small companies** (those with less than 20 employees) **offer retirement benefits**, compared to nearly 98 % of companies employing 5,000 or more workers.
- By industry, **the percentage of companies offering retirement benefits varied** from manufacturing (67 percent) to leisure and hospitality (23 percent).
- **As employees drew closer to retirement age, more participated in their plan offering.** Overall participation rates increased from 41.1 percent for employees aged 20-24 years to 65.6 percent for employees aged 55+.
- Similarly, **salary deferral rates increased with age**, with employees aged 20-24 years deferring on average 4.6 percent of salary and employees aged 55+ deferring on average 8.5 percent of salary. The pattern of older workers saving more held true for both genders.
- **Consistent with 2013, participation and savings rates varied widely by industry**. For example, 74.5 percent of information sector employees were saving for retirement — more than double those employed in the leisure and hospitality industry.
- **Regardless of industry, the proportion of employees saving for retirement continued to increase with company size.** As in 2013, savings rates declined as company size increased. But irrespective of company size, a higher proportion of workers at higher compensation levels saved at a higher rate.
- When considering compensation groups individually, the research once again showed that in most compensation categories not only were **more females saving for retirement than males; they also were saving at slightly higher rates**.

When nearly 80 percent of employees view benefits like a retirement plan as a key consideration in accepting a new position[1], the challenge for employers is clear: Balancing cost control and fiduciary risk mitigation with employee productivity, satisfaction and retention.

Employers who simplify the retirement savings process by including retirement plans as a part of their benefits offering can develop a significant edge when it comes to attracting, retaining and maximizing the productivity of skilled workers of all ages.

According to the Society for Human Resource Management, employees consistently rank benefits among the top five contributors to their job satisfaction.[2] And when 61% of HR professionals find that employees' financial stress impacts their work performance,[3] an opportunity exists for employers to enhance employees' financial well-being — for the benefit of the individual as well as the organization.

With a clear link between employee financial wellness and elevated productivity, employers who are looking to fuel growth should not overlook the power of retirement benefits.

[1] Bank of America Merrill Lynch Workplace Benefit Report, June 11, 2012.
[2] Employee Job Satisfaction and Engagement 2014, Society for Human Resource Management, May 2014.
[3] SHRM Research Spotlight: Financial Education Initiatives in the Workplace, Society for Human Resource Management, 2012.

INTRODUCTION

The retirement savings crisis in the United States is well documented. Employees are struggling to accumulate sufficient savings to provide for a secure retirement and, unlike prior generations, they are no longer able to rely upon private pensions, home valuations or Social Security. Life expectancies and the number of years the average American will spend in retirement continue to increase. And the cost of health care, typically the largest single expense in retirement, has escalated dramatically.

It's no surprise that retirement plans consistently rank among the benefits most highly valued by employees. And among employers offering a 401(k) or similar plan, 89 percent say it is important for attracting and retaining talent.[4]

So why don't more companies offer retirement benefits? Research shows the most frequently cited reasons are as follows:[5]

- Concerns about cost
- Management isn't interested
- Company isn't large enough
- Lack of interest from employees

The retirement savings crisis presents challenges to both institutions and individuals. Employers, particularly small businesses with less than 50 employees, need to balance the benefits of plan sponsorships with its costs, time commitments and fiduciary responsibilities. And employees need to balance the accumulation of sufficient retirement savings with many other competing financial demands.

Among companies that do not offer a 401(k) or similar benefit, **just 21% say they're likely to begin sponsoring a plan in the next two years.**

Source: 15th Annual Transamerica Retirement Survey, Transamerica Center for Retirement Studies, 2015

To assess the scope of these challenges, a study by the ADP Research Institute® examined the retirement benefits landscape from two perspectives: 1) the types of companies that provide employees with benefits such as access to a 401(k) or similar company-sponsored plan, and 2) the retirement savings behavior of U.S. employees and the factors influencing that behavior.

The study, now in its second year, was designed to better understand how retirement benefit offerings vary across industries and company size, assess the factors that influence savings, pinpoint year-over-year trends, and reveal opportunities for employers to expand workplace retirement plan coverage and help improve employees' retirement savings rates. By comparing their workforces' savings rates to the benchmarks in this study, employers can evaluate their current benefit strategies and target areas for improvement.

[4] 15th Annual Transamerica Retirement Survey, Transamerica Center for Retirement Studies, 2015.
[5] 15th Annual Transamerica Retirement Survey, Transamerica Center for Retirement Studies, 2015.
[6] 2014 Retirement Confidence Survey, Employee Benefit Research Institute, March 2014.

DATA AND METHODOLOGY

The ADP Research Institute used aggregated, anonymous payroll transactional data from 2014. The dataset included approximately 10 million employees between the ages of 20 and 69 with total annual compensation of $20,000 and up from about 161,000 organizations.

This research evaluated the dataset along several dimensions, including demographic profile (age and gender), compensation level and the industry of employment. The study also analyzed the landscape of the employers regarding providing retirement benefits through employment.

The retirement savings included contributions made with before- and after-tax dollars (not including matching contributions from employers) to the following types of deferred compensation plans: 403(b) and Roth 403(b), 401(k) and Roth 401(k), 457 and Roth 457, SIMPLE IRA, and 408(k).

Although 65 is the accepted norm for retirement age by the U.S. Bureau of Labor Statistics, the consensus among several retirement studies[7] is that the average retirement age of the U.S. workforce varies between 61 and 64. To be conservative, this report assumes the average age of retirement to be 61.

The average retirement age of the U.S. workforce varies **between 61 and 64**.

[7] http://www.gallup.com/poll/162560/average-retirement-age.aspx, http://crr.bc.edu/wp-content/uploads/2011/08/IB_11-11-508.pdf

KEY FINDINGS

Who's offering retirement benefits?

In general, the study showed that 50 percent of companies include retirement plans among their employee benefits — a figure that varies by industry as shown in Table I.

In terms of industry, manufacturing led the field with 67.1 percent offering retirement benefits. This could reflect the prevalence of unions in this sector, where certain benefit offerings may be contractually mandated. On the other hand, in the leisure and hospitality sector, only 23 percent of the companies offer retirement benefits, consistent in an industry with a high percentage of temporary, part-time and seasonal workers.

TABLE I: Retirement Benefits by Industry

Industry	% of Employers Offering Retirement Benefits	% of Employees Working at Companies with Retirement Benefits	% of Compensation by Those Who Offer Retirement Benefits
Construction	40.0%	82.0%	86.2%
Education & Health Services	51.5%	93.8%	95.0%
Financial Activities	52.4%	95.9%	96.9%
Information	63.0%	97.8%	98.5%
Leisure & Hospitality	23.3%	78.9%	83.4%
Manufacturing	67.1%	96.5%	97.6%
Professional & Business Services	55.9%	93.6%	95.9%
Transportation & Utilities	49.7%	94.0%	95.7%
Wholesale & Retail Trade	47.8%	93.1%	94.7%
All	**50.1%**	**93.6%**	**95.5%**

Just 50% of companies surveyed **offer retirement benefits.**

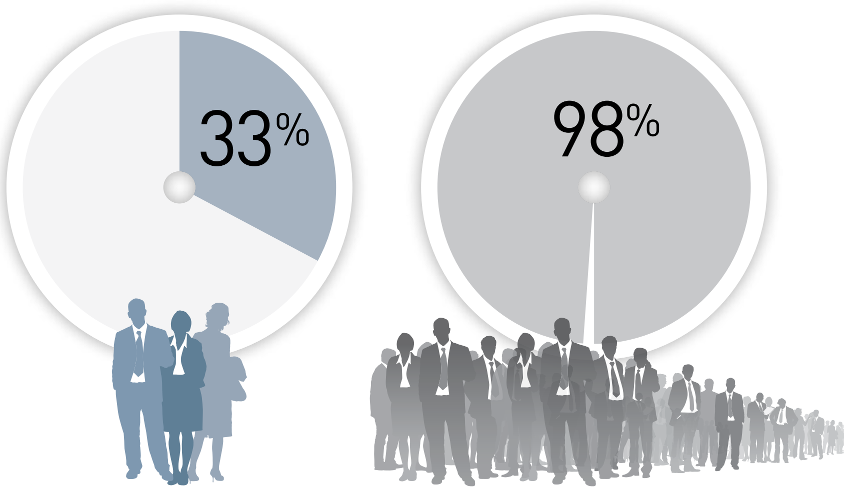
When examined by company size, one third of small companies surveyed (those with less than 20 employees) offer retirement benefits, compared to 98 percent of organizations employing 5,000 or more.

The disparity between small and larger companies could be attributed to cost, administrative complexity and the fiduciary responsibilities that accompany offering a retirement plan. Small employers also lack the bargaining power of larger firms because they generally have less assets invested in their plans.

TABLE II: Size of Companies Offering Retirement Services

Size	% of Employers Offering Retirement Benefits	% of Employees Working at Companies with Retirement Benefits	% of Compensation by Those Who Offer Retirement Benefits
01- 19	33.0%	48.2%	57.0%
20- 49	60.3%	75.0%	81.9%
50-499	85.3%	93.7%	95.6%
500-999	93.3%	97.4%	98.4%
1000-4999	96.0%	98.6%	99.2%
5000+	98.4%	99.8%	99.9%
All	**50.1%**	**93.6%**	**95.5%**

Among companies with fewer than 20 employees, **33% offer retirement benefits**, in contrast to **98%** of companies with 5,000+ employees.



Even when retirement plan coverage is viewed solely in the sub 500-employee segment, tremendous disparity in plan availability is revealed across industries and size segments. For example, only 50 percent of the companies with 1-19 employees in the professional & business services and financial activities sectors offer a retirement plan. This may be related to the perceived challenges small employers see in sponsoring a plan, despite the availability of low-cost, easy-to-manage solutions designed specifically for the micro-market segment.

Other industries, such as leisure and hospitality, feature extremely low retirement plan coverage regardless of employee size, highlighting the challenge in offering meaningful retirement benefits to this growing industry.

TABLE III: Retirement Plans Across All Industries and Companies Sizes

	01-19 Employees			20-49 Employees			50-499 Employees		
Industry	% of Companies Providing Retirement Benefits	% of Employees in These Companies	% of Total Compensation Represented by These Companies	% of Companies Providing Retirement Benefits	% of Employees in These Companies	% of Total Compensation Represented by These Companies	% of Companies Providing Retirement Benefits	% of Employees in These Companies	% of Total Compensation Represented by These Companies
Construction	27.6%	5.7%	5.8%	60.1%	9.1%	9.5%	81.2%	37.4%	39.0%
Education & Health Services	35.9%	2.4%	2.9%	60.0%	3.1%	3.4%	86.8%	32.7%	33.1%
Financial Activities	33.1%	1.9%	2.0%	77.8%	3.2%	3.4%	91.2%	31.7%	31.9%
Information	38.5%	1.2%	1.1%	76.0%	2.4%	2.1%	92.7%	26.9%	25.7%
Leisure & Hospitality	11.7%	0.9%	1.2%	15.8%	1.7%	1.9%	53.0%	24.3%	26.1%
Manufacturing	37.2%	0.9%	0.8%	71.6%	2.7%	2.5%	91.7%	33.1%	30.8%
Professional & Business Services	41.5%	3.2%	3.2%	73.2%	4.7%	4.9%	87%	32.8%	34.9%
Transportation & Utilities	29.2%	1.2%	1.3%	55.2%	2.6%	2.8%	81.5%	28.6%	29.1%
Wholesale & Retail Trade	29.5%	2.2%	2.3%	63.3%	4.0%	4.2%	86.8%	32.7%	33.4%

Industry influences savings behavior

The proportion of workers saving and their saving rates varied widely across industries as shown in Table IV.

Results showed a 40-point swing between the lowest-saving leisure and hospitality sector and the information sector, which had the highest percentage of savers at 74.5 percent. This variance likely reflects a disparity in compensation rates; for example, a large proportion of those working in leisure and hospitality earn lower wages than those in the information sector. It could also be attributed to the higher likelihood of part-time employment (and thus ineligibility for benefits) among leisure and hospitality workers.

An examination of average savings rates showed that the professional and business services industry again led the field at 7.1 percent.

TABLE IV: Retirement Savings by Industry

Industry	% of Employees Saving	% of Savings for Participants
Professional & Business Services	60.3%	7.1%
Manufacturing	69.4%	6.9%
Information	74.5%	6.9%
Transportation & Utilities	54.9%	6.7%
Financial Activities	67.6%	6.6%
Education & Health Services	51.1%	6.5%
Wholesale & Retail Trade	58.5%	6.4%
Leisure & Hospitality	34.5%	6.2%
Construction	43.7%	6.1%

HIGHEST AVERAGE SAVINGS RATE

Professional and Business Services 7.1%

LOWEST AVERAGE SAVINGS RATE

Construction 6.1%

The clock is ticking...and workers know it

Across all sectors, the research showed that employees saving for retirement in 2014 put away an average of 6.8 percent of their income, consistent with 2013 results. Table V also confirms that as employees age, they take retirement planning more seriously — not only do a higher proportion save, but they also do so at a higher rate.

TABLE V: Retirement Savings by Age

AGE GROUP	% of Employees Saving	% of Savings for Participants
20 - 24	41.1%	4.6%
25 - 34	53.9%	5.4%
35 - 44	60.6%	6.0%
45 - 54	63.9%	6.9%
55+	65.6%	8.5%
All	**60.2%**	**6.8%**

MILLENNIALS
(age 20-24)
saved 4.6%

BOOMERS
(age 55+)
saved 8.5%

Among workers reaching retirement age (assumed to be 61) in the next five years, 65.5 percent saved at a rate averaging 8.6 percent. What about those who are five or more years away from retirement? Table VI shows that nearly 59 percent saved at an average rate of about 6.2 percent.

The highest average savings rate of 9 percent was among those planning to retire in 2015.

TABLE VI: Savings by Estimated Retirement Date

Reaching Retirement Age	% of Employees Saving	% of Savings for Participants	Average Compensation of a Saver vs Non-Saver
By 2015	64.8%	9.0%	1.52
By 2016	65.1%	8.9%	1.52
By 2017	65.3%	8.8%	1.53
By 2018	65.4%	8.7%	1.53
By 2019	65.5%	8.6%	1.53
Not Retiring	58.9%	6.2%	1.56
All Employees	**60.2%**	**6.8%**	**1.56**

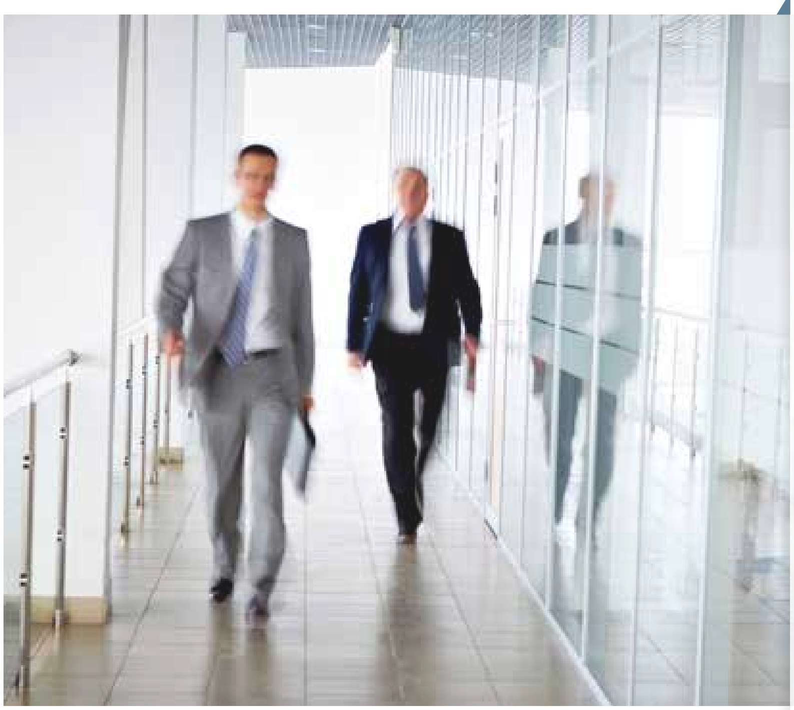
Clearly, as retirement becomes more of a reality, saving for it becomes a more pressing concern. But playing "catch up" takes away employees' ability to capitalize on the power of compounding earnings to help their retirement savings grow. It's also critical to note that even as employees race to catch up, average savings levels never approach the optimal double-digit savings rates frequently recommended by financial experts.

Company size matters

In our study, the relationship between company size and the proportion of employees saving for retirement remained consistent in 2014. Generally speaking, larger employers (up to 4,999 employees) have a greater percentage of employees saving as shown in Table VII. Of note: Among companies with 5,000 or more employees, the percentage of savers actually decreased slightly.

TABLE VII: Retirement Savings by Size of the Company

Company Size	% of Employees Saving	% of Savings for Participants
01- 19 employees	30.7%	7.3%
20- 49 employees	45.2%	7.0%
50-499 employees	58.9%	6.8%
500-999 employees	62.8%	6.6%
1000-4999 employees	66.1%	6.8%
>=5000 employees	63.2%	6.6%



In companies with 5,000 or more workers, **the percentage of employees saving for retirement actually decreases slightly**.

In examining various industries, the difference in savings between large and small companies can be dramatic (Table VIII). In the information field, for example, the percentage of employees saving for retirement was 35 percent in companies with fewer than 20 employees. The proportion of employees saving jumps to 78.8 percent and higher in companies with 1,000 or more employees.

The disparity in participation rates among employees of various company sizes appears to be two-fold:

1) features such as automatic enrollment and matching contributions in larger organizations, which tend to drive higher participation rates, and

2) the lack of availability of plans to employees of smaller companies.

With larger firms more likely to offer not only retirement benefits but also more robust plan features and education resources, these are likely to have a positive effect on employees' savings rate. In smaller companies, employees often must initiate and independently monitor their own retirement savings.

TABLE VIII: Retirement Savings by Industry and Size

Industry/Size	% of Employees Saving					
	1-19	20-49	50-499	50-999	1000-4999	5000+
Information	35.0%	51.0%	65.6%	79.5%	81.5%	78.8%
Manufacturing	32.5%	48.5%	63.0%	72.1%	75.2%	77.9%
Financial Activities	34.9%	59.5%	69.7%	71.1%	72.8%	63.1%
Transportation & Utilities	25.1%	36.8%	51.9%	51.9%	65.1%	56.1%
Professional & Business Services	38.3%	53.8%	62.1%	64.2%	64.7%	56.7%
Wholesale & Retail Trade	27.9%	43.0%	58.0%	59.6%	63.7%	64.1%
Construction	22.2%	34.3%	43.8%	51.4%	56.6%	73.1%
Education & Health Services	30.9%	42.4%	53.0%	53.2%	51.0%	53.2%
Leisure & Hospitality	11.2%	12.4%	34.5%	37.4%	37.9%	41.9%

But smaller is sometimes better when it comes to retirement savings

Though more employees at larger firms are saving for retirement, employees of smaller firms are actually saving at higher rates. As shown in Table IX, in companies with fewer than 20 employees, the average savings rate was higher than 7 percent in the majority of industries.

In contrast, in companies with 5,000 employees or more, just one of the industry groups reached the 7 percent benchmark compared to two (manufacturing and professional/business services) in 2014.

This could be a result of the broader availability of auto-enrollment and re-enrollment programs among larger employers. While proficient at driving higher participation, if such programs use a low default savings rate (such as the commonly used three percent), the net effect on average savings rate can actually be negative.

TABLE IX: Retirement Savings by Industry and Size

	% of Savings for Participants					
Industry/Size	1-19	20-49	50-499	50-999	1000-4999	5000+
Construction	7.1%	6.6%	6.3%	6.1%	5.9%	4.6%
Education & Health Services	7.3%	6.8%	6.7%	6.4%	6.6%	5.9%
Financial Activities	7.2%	7.0%	6.7%	6.4%	6.6%	6.3%
Information	7.4%	7.1%	7.1%	7.0%	6.8%	6.7%
Leisure & Hospitality	7.5%	7.0%	6.5%	6.2%	5.6%	6.1%
Manufacturing	7.1%	6.8%	6.7%	6.6%	6.9%	7.4%
Professional & Business Services	7.4%	7.3	7.1%	7.0%	7.1%	6.9%
Transportation & Utilities	6.8%	6.8%	6.5%	6.4%	7.1%	6.4%
Wholesale & Retail Trade	7.2%	6.7%	6.4%	6.4%	6.4%	6.2%

Compensation level matters more than employer size

Table X shows that, irrespective of company size, a greater proportion of higher-income workers save at a higher rate.

For example, among companies with 20-49 employees, the percentage of those saving for retirement ranged from just over 20 percent in the $20,000-35,000 annual compensation range to nearly 78 percent for workers earning $200,000 or more.

TABLE X: Retirement Savings by Size and Compensation

	Compensation/Size	1-19	20-49	50-499	50-999	1000-4999	5000+
% OF EMPLOYEES SAVING	$20K - $35K	14.0%	22.2%	36.6%	39.3%	40.2%	38.6%
	$35K - $50K	27.7%	41.2%	55.1%	58.5%	60.4%	59.6%
	$50K - $75K	37.8%	53.8%	65.8%	69.1%	71.0%	69.0%
	$75K - $100K	45.8%	61.6%	72.7%	77.0%	79.3%	78.5%
	$100K - $200K	54.0%	69.4%	78.5%	83.6%	85.9%	87.1%
	$200K+	63.9%	77.5%	83.3%	85.1%	88.7%	91.8%
% OF SAVINGS FOR PARTICIPANTS	$20K - $35K	7.6%	5.4%	4.4%	4.2%	4.2%	4.3%
	$35K - $50K	6.3%	5.5%	5.1%	4.9%	5.0%	5.0%
	$50K - $75K	7.2%	6.6%	6.3%	6.1%	6.1%	6.1%
	$75K - $100K	8.1%	7.7%	7.5%	7.3%	7.4%	7.3%
	$100K - $200K	8.2%	8.2%	8.1%	8.0%	8.1%	7.9%
	$200K+	6.0%	6.2%	6.2%	6.1%	6.1%	6.0%

Higher income equates to greater savings

For a second year, the study showed dramatic differences among lower- and higher-income workers. As shown in Table XI, a higher proportion of employees in the higher compensation groups were saving for retirement. Among those earning more than $100,000, the proportion of those saving was nearly 82 percent.

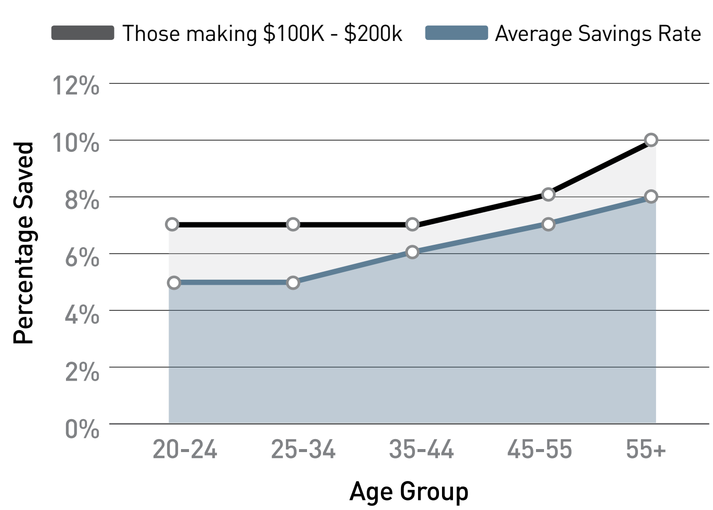
Savings rates increased with compensation in general as well. The only exception was a 2 percent drop-off in savings rate at the $200,000+ income level, which may reflect government limits that depress deferral rates for those in this compensation category.

TABLE XI: Retirement Savings by Compensation Group

Wage Group	% of Employees Saving	% of Savings for Participants
$20K - $35K	36.0%	4.4%
$35K - $50K	55.7%	5.1%
$50K - $75K	66.6%	6.2%
$75K - $100K	74.8%	7.4%
$100K - $200K	81.7%	8.1%
$200K+	85.4%	6.1%
All	**60.2%**	**6.8%**

A higher proportion of employees save as they age and compensation rate increases. It is interesting to note that those in the $100,000 - $200,000 compensation range exhibit the highest rate of savings regardless of age.

It is of further interest to note that the disparity in savings behaviors attributable to age is clearly illustrated here. Even when sufficient compensation is available to support healthy savings habits, the "catch-up" effect is again visible, with the most dramatic savings escalations seen solely among employees 55 and older.



The role of gender in retirement savings rates

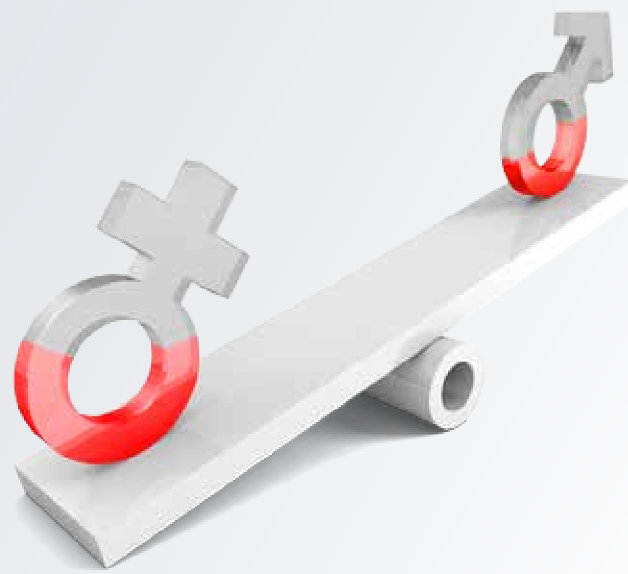
Consistent with 2013, the study found a higher rate of savings among women at every compensation level.

However, the average savings rate between men (6.7 percent) and women (6.8 percent) is similar; due to a higher proportion of female employees at lower compensation levels or in part-time positions that are ineligible for employer-sponsored retirement plans.

Higher savings rates among women likely reflect an attempt to close the retirement savings gap when they start or return to full-time employment and have access to employer-sponsored retirement savings vehicles.

WOMEN	60.3%
MEN	51.4%

The largest savings gap between men and women was in the **$35K-$50K compensation range**.



CONCLUSION

Over the past three decades, the U.S. retirement system has undergone a fundamental shift, evolving from a system dominated by defined benefit plans and Social Security to one in which employees must take active responsibility for their own retirement readiness.

As a result, employer-sponsored retirement benefits have become increasingly important to job candidates, with many viewing them as a key consideration in accepting a new position.

The trends and disparities in retirement savings behaviors identified in this study ultimately reveal opportunities for employers that seek to differentiate themselves, particularly in highly competitive industry sectors where skilled talent is increasingly scarce.

Employers can leverage retirement benefits to enhance their ability to retain and motivate skilled workers, as well as to reduce the financial stressors that can depress performance.

As the research results indicate, when employees have the opportunity to save for retirement, most do. Employers who provide that opportunity in the form of a company-sponsored retirement savings benefit often receive significant benefit in return. For example, 52 percent of employees see retirement benefits as driving company loyalty compared to just 35 percent of employers.[8]

WHY RETIREMENT BENEFITS MATTER:

- Attract the best talent
- Retain the most valuable employees
- Cultivate high employee engagement, loyalty and productivity
- Maintain healthy workforce turnover

To drive growth, smaller employers need to offer retirement benefits. In addition, employers of all sizes and across all industry sectors must seek to optimize plan participation via employee retirement savings education and tools such as auto-enrollment and auto-deductions.

Today, companies of all sizes are increasingly able to include retirement plans among their benefit offerings, thanks to technology that helps reduce administrative burdens, compliance risks and overall cost for plan sponsors.

By helping employees prioritize retirement savings, employers can demonstrate their commitment to employees' financial security while creating an important competitive advantage for their organization.

[8] Are You Listening? What Small Business Employees Want From Their Benefits and What Employers Can Show They've Heard. MetLife 2012.

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ADP Retirement Services
71 Hanover Road, Florham Park, NJ 07932