

Few Sponsors Foresee Employees as Retirement-Ready

By Jessica Papini

Investors are not adequately prepared financially for retirement, despite participation in retirement plans increasing, according to a "401(k) Benchmarking" survey by Deloitte Consulting of New York, in which more than 800 plan sponsors were surveyed electronically. Deloitte conducted the survey in conjunction with the International Foundation of Employee Benefit Plans and the International Society of Certified Employee Benefit Specialists, both of Brookfield, Wisc.

Twenty-one percent of respondents believe that "very few" employees are or will be financially prepared for retirement. Sixty-five percent said "some" employees would be prepared, and only 13% said "most" employees would be prepared.

"Employees are not saving adequately enough for retirement," said Leslie Smith, a director in the human capital practice at Deloitte and author of the survey. "There is still plenty of room for improvement in 401(k) plan design and communication."

"Plan sponsors perhaps are feeling frustrated and concerned that while they're providing a plan and matching benefits, people are not taking the most advantage that they could. Because of this, people may not have enough of an account balance to retire," she said. "There will be implications if people need to work longer or continue in a part-time capacity. There will be lots of issues that everyone would have to worry about if we find that people cannot retire."

A large part of the problem is getting people to enroll in a plan. "Inertia is a big driver," Smith said. "If individuals are not in a plan, they probably won't sign up for it, and if they are in the plan, at 3% they prob-

ably won't increase [contributions]."

As a result, automatic enrollment is on the rise. Twenty-three percent of respondents reported automatically enrolling new employees, up from 14% last year. Another 29% of respondents are considering adding this feature.

"Employers are beginning to be very aggressive and want 100% of their employees enrolled in 401(k) plans," said David Wray, president of the Profit Sharing/401(k) Council of America in Washington. "Over time, the [retirement] savings plan system will have over 90% participation from employees. It might take a while, but that is clearly the direction the market is moving toward."

Plan sponsors are also increasing their reliance on contribution step up programs, which automatically increase a participant's deferrals each year. Sixteen percent offer step-up features on a stand-alone basis and another 2% as part of automatic enrollment.

Employers are beginning to take a more active approach to educating employees about retirement savings. "We are seeing a trend of very targeted and personalized information going out to investors, instead of generic mass mailings to homes," Smith observed. Employers will target groups of investors that don't have diverse portfolios or investors that are not taking full advantage of a company's match. Additionally, plan sponsors state the most effective way to communicate with investors is by individual or group meetings.

Generous and well-matched 401(k) plans can also be an effective recruiting tool. If a smaller company wants to compete for employees from larger companies, a state-of-the-art plan will attract people more than a basic plan, said Smith. Eighty-percent of respon-

dents believed their 401(k) plans were an effective recruiting tool.

Lifecycle funds are becoming increasingly popular as an investment option. "This does not mean that employers can walk away from educating their employees on wise investment choices," Smith said.

Individuals themselves are concerned about financial preparation for retirement. Sixty-nine percent of individuals between the ages of 50 and 59 are concerned about outliving their financial resources, while 80% are concerned about having adequate income during retirement, according to a survey of 1,019 investors in that age group by the Guardian Life Insurance Company of America. Forty-eight percent are unsure of their best choices for retirement savings and worry that their retirement portfolio is not well diversified.

"Defined contribution plans transfer investment responsibilities to investors and require them to learn a lot," said Niels Holch, executive director of the Coalition of Mutual Fund Investors. With pension funds, a professional manager handled investors' retirement plans, he said. "The most daunting task right now is to improve education resources available to people, free of a sales pitch."

"Slowly, people are getting the message about saving for retirement. There are a lot more processes steering people in appropriate diversified investment options," Wray commented. "People have to get in the mindset of taking responsibility and having some discipline regarding their retirement savings," said Don Cassidy, executive director of the Denver-based Retirement Investing Institute. "There needs to be a lot of effort and some money spent on educating people." MME