

# BENEFIT

## Plan Trends



A monthly update focusing on Retirement and Executive Viewpoints

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## Retirement Savings Goals Tied To Plan Access

While there is a clear link between having access to an employer-sponsored retirement plan and the retirement savings of individuals, it appears that workers who are likely to have the ability to save seek out employers who offer retirement benefits, according to a study by the Investment Company Institute (ICI) in March 2011.

The results of the study, “Who Gets Retirement Plans and Why: An Update,” are based on an analysis of data from the Bureau of Labor Statistics’ Current Population Survey (CPS) and the most recent survey of Consumer Finances (SCF). Conducted every three years by the Federal Reserve Board, the SCF asks households detailed questions about their balance sheets and incomes, as well as their reasons for saving.

When households headed by an individual aged 21–64 were asked to cite their most important reason for saving, 37% were primarily saving for retirement, while another 29% were mainly saving for “liquidity,” or that their saving was precautionary to guard against unexpected

circumstances. Meanwhile, 24% of respondents are primarily saving for education, a home, or a major purchase, and 8% are saving for investments or their families.

Reasons for saving varied greatly by age, with only 13% of respondents aged 21–29 reporting they are saving primarily for retirement, compared with 50% of respondents aged 55–64. Moreover, the survey found that just 20% of households headed by an individual with less than a high school education were saving mainly for retirement, compared to 47% of households headed by college-educated individuals.

“The fact that few younger workers cite retirement as the primary reason they save is consistent with economic models of life-cycle consumption, which predict that most

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*Of those respondents who said they have access to an employer-sponsored plan, 80% indicated they participate, with workers at small companies being as likely as employees at large companies to contribute.*

workers will delay saving for retirement until later in their working careers,” the study’s authors said.

Based on an analysis of the latest CPS data, the study found that, of all of the private-sector workers surveyed, 50% have access to an employer-sponsored retirement plan, with full-year, full-time employees (58%) being more than twice as likely as part-year, part-time workers (24%) to have a retirement plan at work. Meanwhile, employees with a college degree (60%) were found to be far more likely than workers with less than a high school diploma (24%) to work for an employer that sponsors a retirement plan. Private sector workers at smaller organizations are far less likely than workers at larger companies to have access to a plan, with 69% of respondents working for the largest employers (1,000+ employees) reporting that their company sponsors a retirement plan, compared to just 17% of respondents at the smallest firms (fewer than 10 employees).

The cost of sponsoring a plan does not appear to fully explain the low rate of retirement plan sponsorship among small employers, the study’s authors observed. They pointed out that, as a group, workers at small firms differ considerably from those at large firms, as they are less likely to work full-time and tend to earn less. However, researchers noted, “small firms with an older and higher-earning workforce are just as likely to offer a plan as large companies with a similar workforce.”

Of those respondents who said they have access to an employer-sponsored plan, 80% indicated they participate, with workers at small companies being as likely as employees at large companies to contribute. According to the study’s authors, “employer sponsorship rates are the primary cause of participation rate differences across groups of workers classified by occupation, ethnicity, immigration status, education, and the industry of their employer.”

At the same time, however, researchers acknowledged that retirement plan participation rates vary sharply between certain

groups, with full-time, full-year employees (85%) more likely to participate in their employer’s retirement plan than part-time, part-year workers (35%). Similarly, the retirement plan participation rates were found to be higher among workers earning \$110,000 or more a year (95%) than among workers earning \$14,000 or less (38%), and participation rates were shown to be higher among workers aged 45 to 54 (86%) than among employees aged 21 to 29 (63%).

“Employers are more likely to offer retirement benefits as part of their compensation packages if their workforces value such benefits,” the study’s authors observed. “It is reasonable to predict that the likelihood of a firm offering retirement benefits is greater if a higher proportion of its workforce has the ability to save and is focused on saving for retirement.”

## Pay Freezes And Layoffs Decrease

With the economy showing signs of improving, fewer employers report having frozen wage increases, cut employee bonuses, and implemented layoffs in the last six months of 2010 than in the same period of the previous year, according to a survey by the Society for Human Resource Management (SHRM).

The poll of 405 human resource (HR) professionals conducted between November 2010 and January 2011 found that 60% of businesses had made budget cuts across the entire organization in the second half of 2010, down from a high of 73% in the same period of 2009. The most recent survey also showed that 39% of companies had recently frozen employee wages, 38% had cut employee bonuses, and 36% had implemented layoffs, down from their highest levels in the second half of 2009.

Over the last six months of 2010, 38% of the HR professionals said they have re-hired employees laid off due to the economic downturn, even as the percentage

of respondents who reported hiring contract or temporary employees in the past six months had increased since the fall of 2008 from 12% to 23%.

“Organizations are responding to minor improvements in the economy by reinstating employee wage increases and bonuses, which shows that they are invested in keeping their workforce intact,” said Evren Esen, manager of SHRM’s Survey Research Center. “Fewer organizations have hiring freezes and layoffs; both signs that some job growth is occurring.”

The survey also showed, however, that employers are still feeling the effects of the economic downturn, with 20% indicating they had reduced employee benefits in the last six months, the highest level since the first poll of this kind was taken in the fall of 2008. The findings indicated that the benefits most frequently reduced were health care coverage for employees (91%), followed by health care coverage for spouses and dependents (89%), company-paid relocation programs (55%), and the amount of leave an employee could accrue (54%).

When asked what actions their organizations might take in the next six months if economic conditions remain difficult, 65% of respondents may allow attrition, 49% may freeze employee wage increases, 57% may make budget cuts across the organization, 47% may cut employee bonuses, and 46% may implement hiring freezes. By contrast, less than one-third (32%) of respondents said that they may reduce employee benefit offerings.

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## Promoting CEOs From Within Can Pay Off

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Companies that exclusively promote chief executive officers from within outperform companies that recruit CEOs from outside the company, according to a study released in April 2011 by the Kelley School of Business at Indiana University

and global management consulting firm, A.T. Kearney.

The study, “Homegrown CEO: The Key to Superior Long-Term Financial Performance is Leadership Succession,” analyzed the performance of 36 S&P 500 non-financial companies across 25 industries that exclusively promoted CEOs from within their own ranks between 1988 and 2007. The results showed that these companies outperformed other companies across seven measurable metrics: return on assets, equity and investment, revenue and earnings growth, earnings per share (EPS) growth, and stock price appreciation. The analysis further revealed that not a single non-financial S&P 500 company with an externally recruited CEO generated performance numbers over this period that surpassed or even equaled those of the top 36 in the above metrics.

Researchers observed that these findings are particularly striking given that the median compensation—including salary, bonus, and equity incentives—for external CEOs is 65% higher than for those promoted from within. The results also indicated that 40% of CEOs recruited from outside remain with the company for two years or less, and almost two-thirds leave before their fourth anniversary.

“Boards of directors often fail when it comes to CEO succession planning,” said Paul A. Laudicina, chairman and managing partner of A.T. Kearney. “Rather than focus on leadership development and creating a qualified stable of internal CEO candidates, boards too often end up going outside the organization to fill the top spot. Unfortunately, their stakeholders more often than not pay a big price for their star search.”

The study’s authors made four specific recommendations for promoting CEOs from within the organization. First, involve the board early, providing access to internal talent on a regular basis and exposure to the benchmarking of potential leadership and any gaps in leadership. Second, start the CEO




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leadership-screening process early in a candidate's career, so that the right fit can be found. Third, establish an effective search and nominating committee made up exclusively of independent directors. And, finally, engage outgoing CEOs in the CEO succession-planning process.

## Americans Are Working Longer

As growing numbers of Americans find they need more time on the job to prepare for retirement, the percentage of people aged 55 and older who are still working is rising, with an especially large increase in labor force participation occurring among older women, according to a report published by the Employee Benefit Research Institute (EBRI).

The findings of the study, written by EBRI senior research associate Craig Copeland, are based on the U.S. Census Bureau's data on labor force participation among Americans aged 55 and older, including annualized data on labor force participation from the Current Population Survey (CPS) starting in 2007 and data from the March 2010 Supplement to the CPS.

The results indicated that, while the percentage of Americans aged 55 or older in the labor force declined from 34.6% in 1975 to 29.4% in 1993, the labor force participation rate among people in this age group steadily increased thereafter, reaching 40.2% in 2010—the highest level in 35 years.

Broken down by gender, the analysis showed that the labor force participation rate for men aged 55 and older fell from 49.3% in 1975 to 37.7% in 1993, before again rising to 46.4% in 2010. Meanwhile, the labor force participation

rate for women in this age group was essentially flat from 1975 to 1993, declining slightly from 23.1% in 1975 to 22.8% in 1993, but then rising to its highest level in 2010, at 35.1%.

Labor force participation increased between 1975 and 2010 for older Americans of all ages: from 65.1% to 73.3% for people aged 55–59, from 48.2% to 55.2% for those aged 60–64, and from 13.7% to 17.4% for those aged 65 and older.

In addition, the study found that people aged 55 or older with pension income in their own name have lower labor force participation rates than those without this income: In 2009, 23.6% of those with pension income were in the labor force, compared with 50.3% of those without pension income.

Copeland predicted that this trend towards remaining in the workforce longer may continue as full benefits from Social Security start at later ages, Medicare premiums and non-Medicare-covered health costs rise, and awareness of longer life spans and issues of long-term care grows among people who are caring for their aged parents.

He also noted, however, that people with higher levels of education appear to be staying in the workforce longer, while people with lower levels of education are retiring earlier: For example, among Americans aged 55–64 without a high school diploma, the labor force participation rate declined from 1987 to 2009, but rose over the same period for those with at least some college. “There is an increased desire among many Americans to work longer, particularly among those with more education, for whom more meaningful jobs that can be done well into older ages are often available,” Copeland said.



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