Employers Cut Retirement Support By 25%, Survey Finds: Financial Advisors' Daily Digest

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SA For FAs
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Summary

- A survey by Willis Towers Watson uncovers a key reason for retirement pessimism among today’s workers.
- Dirk Cotton: Retirement risk is greater than the sum of its parts because risk factors typically combine and enlarge the problem.
- Neuberger Berman: The return of global equity investing is a reminder of the upside of diversification.

Employer contributions, a crucial element of workers’ retirement savings, have fallen significantly since the start of the new century. That is the bracing finding of a report from Willis Towers Watson (WTW).

The global employee benefits and insurance brokerage uncovered a key reason for retirement pessimism among today’s workers. They’re not imagining reduced support. According to WTW’s data, total employer retirement contributions (weighted by employer size) have fallen from 9.1% of employee pay in 2001 to 6.8% in 2015. That’s a reduction of about 25%!

And lest you say that employers have grown stingier – despite reported corporate earnings soaring during the period – the WTW report shows that total employer benefits increased from 14.8% per employee to 18.3% during the period, an increase of close to 24%!

So where is all this corporate largesse going? You probably already guessed it: Employer layouts for health care doubled between 2001 and 2015, rising from 5.7% to 11.5% of employee pay. WTW’s results are based on a survey of 4,721 full-time U.S. employees.

The survey questions respondents on their views about their retirement security and on their preferences for benefit allocation. A whopping 76% feel their generation will be worse off in retirement than their parents’ generation.

At the start of the study period, in 2001, health-care expenses made up about two-fifths of employee benefits and retirement expenses about three-fifths; by 2015, the ratio flipped. Writes Willis Towers Watson:

> Many employees appear to have reached the limit of how much they are willing or able to pay for health care benefits, which raises the question: Have we gone too far in cutting retirement support at a time when escalating health care costs — among other factors — are making it difficult to save more?"

This is a complicated topic. Not only have employer health care expenses grown, but consumers have complained that their out-of-pocket expenses have also risen. We have the same dysfunctional dance of health care and retirement expenses playing out in the public sphere as well, with an obese Medicare squashing a penurious Social Security.

Meanwhile, the problems of employees become employers' problem as well, as WTW writes:

> The simple fact is that employees bring their anxieties and distractions to work each day, where their worries impair performance, trigger lost days, raise stress levels and ultimately drag down productivity."

With all the public discussion, and policy tweaks and sledgehammers, brought to bear on these problems, it seems like we are far from finding an effective resolution.