

# A Shared Benefit

Employer Views on the Value of 401(k) Plans

A report prepared by CFO Research Services in collaboration with Charles Schwab

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## Sharing benefits and responsibilities in retirement planning

Who really benefits from a 401(k) plan? It isn't hard to see the benefits to employees, who are becoming increasingly more self-reliant in ensuring they have enough savings to retire. But there is another, more surprising, answer to this question. The majority of CFOs and other senior finance executives surveyed for this research report believe that their company's retirement plan enhances its corporate reputation and contributes to the long-term financial success of the business, while also helping employees save for retirement.

But this shared benefit to employer and employee is a two-way street. Both parties share the responsibility for the success of a company's retirement plan. Most respondents to our survey only give their employees a "C" as a grade in financial literacy (that is, the employee's ability to make informed decisions about his or her long-term financial future); they believe that employers should take at least some responsibility for educating employees and providing them with help and guidance. But many respondents also think that employees are responsible for being their own advocate in saving for retirement and in engaging in their employer's retirement plan.

The landscape of retirement benefits has been evolving over the past 25 years. New types of retirement plans have emerged, traditional defined benefit plans have become less prominent, and employees today are faced with an increasingly complex array of choices for their retirement investment dollars. Especially with the evolution and growth in popularity of 401(k) plans, the respective roles of the employer and the employee in providing and managing retirement benefits have also begun to shift. Employers are focusing more on plan design and employee education, while employees are becoming more active in managing their own financial futures.

In June 2008, CFO Research Services (a unit of CFO Publishing Corp.) conducted a survey among senior finance executives in the United States to examine these shifts. We looked at finance executives' perceptions of the appropriate role for an organization in supporting retirement planning for its employees, focusing particularly on 401(k) plans. Among other questions, we asked what finance executives see as the appropriate balance

between supporting the financial well-being of their company's employees and supporting the financial well-being of the company itself.

We found that most finance executives see a division of shared responsibilities between the employer and the employee. The company designs the offerings, encourages participation, and provides information the employee needs to make informed decisions. The employee gathers that information and makes the choices that are right for his or her individual circumstances and priorities. This partnership between employer and employee is seen as important not only for ensuring the employee's financial well-being over the long term, but also for attracting and retaining a productive and motivated workforce.

### About this report

We gathered a total of 208 responses from senior finance executives from a broad cross-section of company segments, as follows:

#### Annual revenue

\$100 million-\$250 million	33%
\$250 million-\$500 million	16%
\$500 million-\$1 billion	15%
\$1 billion-\$5 billion	22%
\$5 billion-\$10 billion	4%
\$10 billion+	10%

#### Title

Chief financial officer	39%
Director of finance	15%
VP of finance	14%
Controller	13%
Treasurer	6%
EVP or SVP of finance	2%
CEO, president, or managing director	2%
Other	8%

Respondents work for companies in nearly every industry. The manufacturing and wholesale/retail trade industries are particularly well represented.

Note: Percentages may not total 100%, due to rounding.

## An important tool for strengthening the workforce and the company

Finance executives feel strongly about the value of a 401(k) plan for their company and its employees. Survey results show that, rather than considering 401(k) plans as a financial or an administrative burden, finance executives largely view them as an important tool for strengthening both their workforce and their company.

A very large majority (84%) of respondents agree with the statement that their company’s 401(k) plan is necessary for attracting and retaining a high-quality workforce. (See Figure 1.) A CFO in the software industry writes in our survey that the 401(k) plan “helps the company stay competitive in the staffing marketplace.”

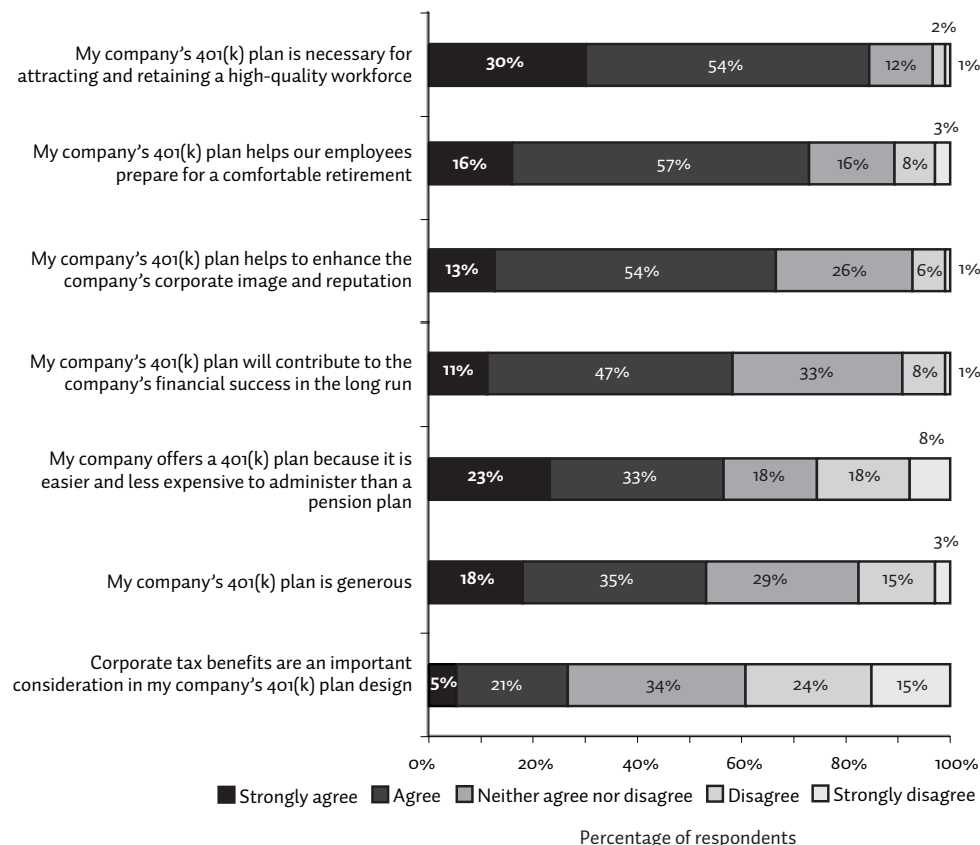
In addition, two-thirds of respondents (67%) agree that their company’s 401(k) plan helps burnish its corporate image and reputation, and almost six out of ten (58%) say their plan contributes to the company’s long-term financial success.

In helping their employees secure their futures, employers also are positioning themselves to attract a skilled and committed workforce which, in turn, helps the company secure its own future.

Finance executives in our survey underscore this view in their open-ended responses. The vice president of finance at a mid-sized consumer goods company says simply that a 401(k) offering is “necessary today to keep employees happy.” The controller at a smaller company in the same industry writes, “Personal tax benefits from participation make for happier and more productive employees who are less likely to leave.”

**Figure 1. Employers view their 401(k) plan as important for strengthening their workforce and their company.**

To what extent do you agree with the following statements about the value of a 401(k) plan to your company?



## Better plans equal better participation

Finance executives understand that the stronger a plan is, the more likely employees are to take advantage of it. Finance executives who say their company is more successful at enrolling employees in its 401(k) plan (that is, has more than 75% of eligible employees enrolled) also tend to view their plan more favorably. Eighty percent of respondents from companies with higher plan enrollment agree that their plan helps their employees prepare for a comfortable retirement. (Fifty-four percent of these respondents say they agree, while 26% are more emphatic, indicating that they “agree strongly.”) This compares with 65% of respondents from companies with lower enrollment (less than 75% of eligible employees enrolled) who agree that their plan helps their employees prepare, of whom only a handful (5%) say they “agree strongly.” Similarly, 66% of respondents from higher-enrollment companies say that their 401(k) plan is generous, but only 39% of respondents from lower-enrollment companies agree with that statement.

Interestingly, executives appear to be more concerned with a plan’s impact on the workforce than with its cost. Relatively few finance executives (26%) agree that corporate tax benefits are an important consideration in their company’s 401(k) plan design. (See Figure 1, page 3.) In addition, even though a majority of respondents agree that “my company offers a 401(k) plan because it is easier and less expensive to administer than a pension plan,” in response to a separate question only 16% of respondents identify the cost of administering a plan as one of their most significant concerns.

These results indicate that finance executives see 401(k) plans as more than just the “cost of doing business,” and value them as a means of engaging a skilled and productive workforce and contributing to their company’s financial success. These plans can be a vital element of the longer-term compensation incentives that are part of a comprehensive human resources strategy. (See “Diversity of benefits and investment choices can be important for employees’ retirement savings strategy.”)

### Diversity of benefits and investment choices can be important for employees’ retirement savings strategy

In our survey, many respondents report that their 401(k) plan is part of a broader portfolio of longer-term compensation benefits. Of the other types of longer-term compensation listed by respondents, almost half (49%) are management-only stock option plans, and another 29% are employee stock purchase plans. In open-ended responses, respondents frequently mention various other types of deferred compensation plans as another benefit their company offers.

Interestingly, of the respondents who list other types of longer-term compensation, almost half (47%) also say their company offers a defined benefit (DB) plan. This means that 35% of all respondents report that their company offers both 401(k) plans and DB plans.

An important part of promoting financial literacy among employees can be encouraging more diversification in their long-term financial planning. Several finance executives highlight the importance of offering a variety of investment choices to their employees, noting that plans that are more restrictive in their investment choices are not as attractive. As the CFO of a consumer goods company says, a 401(k) plan provides “another retirement vehicle other than our ESOP. Hopefully, our employees don’t end up with all of their eggs in one basket (the ESOP).”

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Finance executives view 401(k) plans as more than simply the “cost of doing business”—respondents say the plans are important for attracting and retaining a skilled and committed workforce.

## Making the employer/employee partnership work

Finance executives overwhelmingly (95%) cite their company's matching contributions as an important feature of its 401(k) plan (see Figure 2), and almost all of these respondents give this feature the highest importance. A few finance executives make note of the different approaches their companies take to company contributions. Some companies contribute to employees' 401(k) accounts based on company profitability or on employee length of service, regardless of whether the employee is contributing out of his or her own paycheck. A number of respondents feel that these programs can be highly motivational. As the manager of retirement funds at a large pharmaceutical firm comments, "Our company has a relatively high company match, which has resulted in high employee participation. I believe this has helped

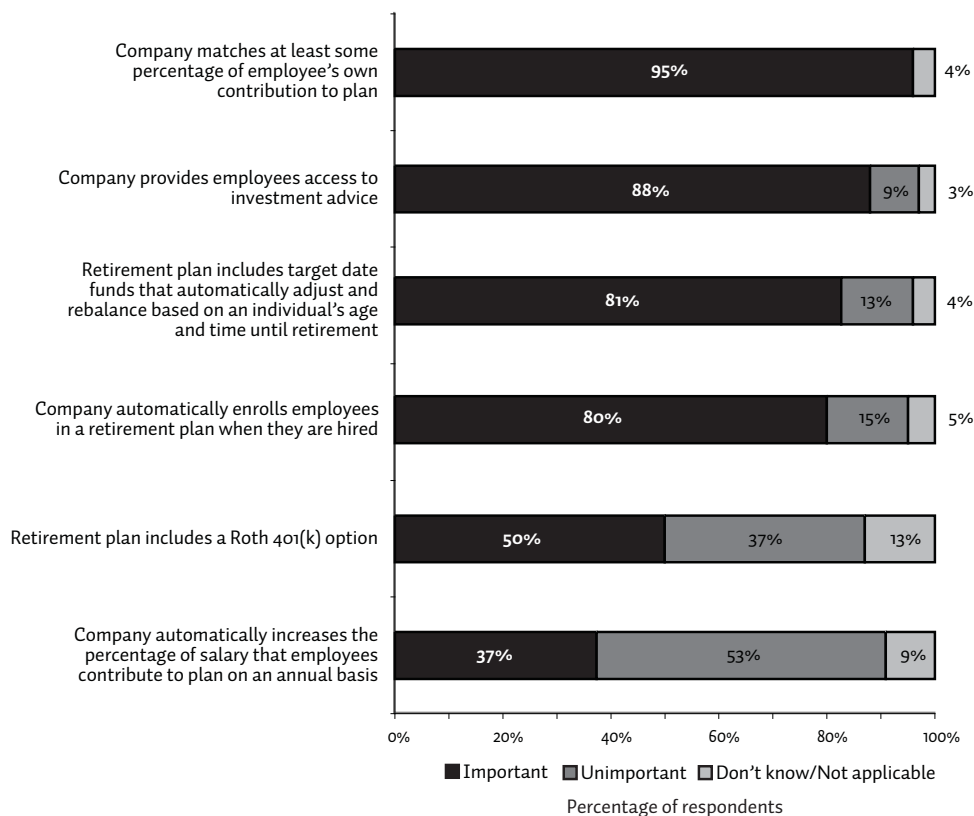
to demonstrate to employees that our company is 'doing the right thing' [by] strongly encouraging employees to participate in the 401(k) plan."

But a successful plan also relies on the engagement of employees—at least to some extent. And finance executives tend to view their company in a kind of partnership with its employees, with the company providing education and information about the plan and the employees acting on that information. Respondents see employees as responsible for managing their own accounts, increasing savings, and handling finance issues that extend well beyond the 401(k) plan. (See Figure 3, next page.) Respondents view their company's responsibilities as educating employees about the features, benefits, costs, and rollover options of its plan.

But employees shouldn't have to go it alone, according to employers. Respondents also point out several ways

**Figure 2. Finance executives overwhelmingly elect matching contributions as among the most important features of their 401(k) plan.**

In your opinion, how important is it to offer the following features in your company's 401(k) plan?

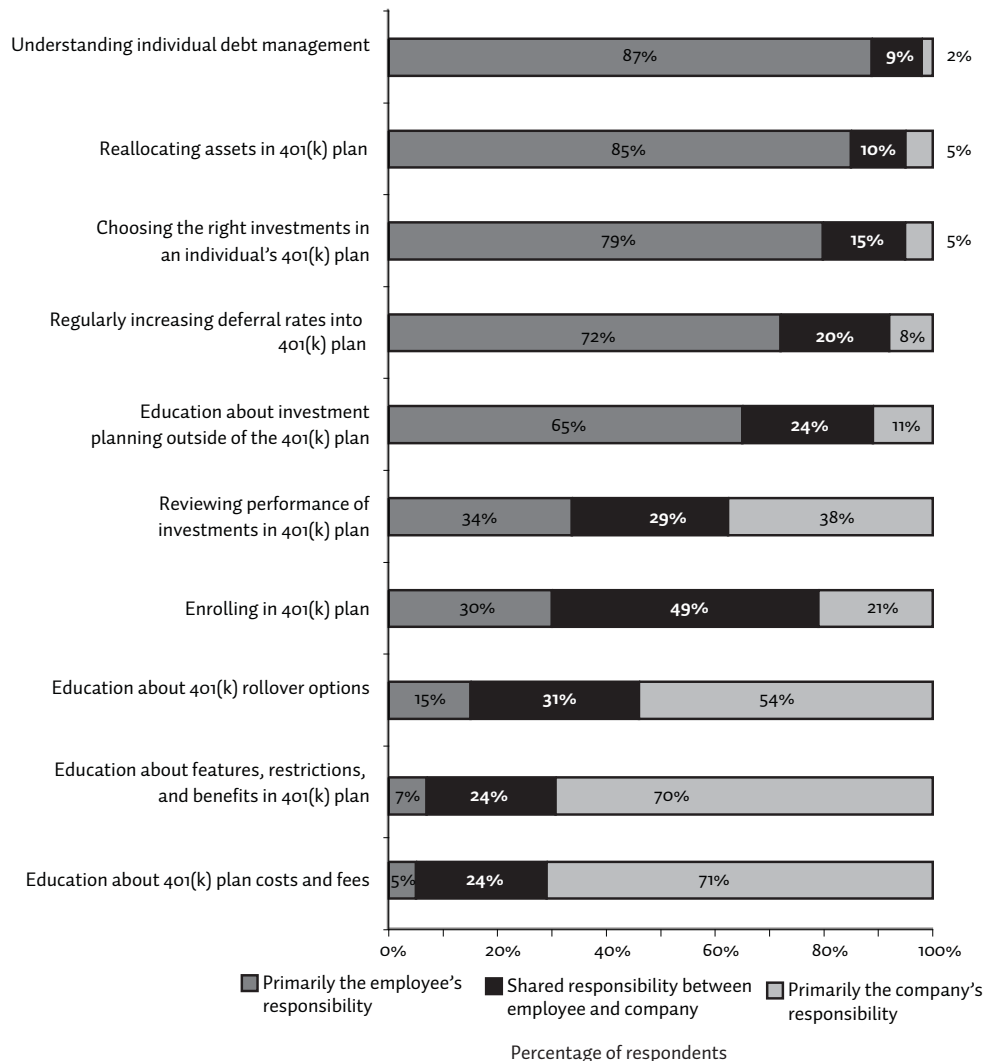


that companies can support their employees in retirement planning. For a company to gain the greatest benefit from its 401(k) plan, its employees must be equipped to take advantage of the plan; the obvious first step is getting them enrolled. Nearly half (49%) of the finance executives in our survey view the responsibility for enrolling in a plan as being evenly divided between the company and the employee (see Figure 3), and 80% of the respondents say that automatically enrolling employees in a retirement plan upon hiring is important (see Figure 2).

Finally, 88% of respondents say that offering employees access to investment advice, which they can then use to make their own decisions, is an important feature of their company's plan. (See Figure 2.) Another 81% of respondents believe it is important for their retirement plan to include target date funds that automatically adjust and rebalance based on an individual's age and time until retirement. It seems clear that many employers are providing a range of tools and resources employees can use to effectively manage these complex and long-term decisions.

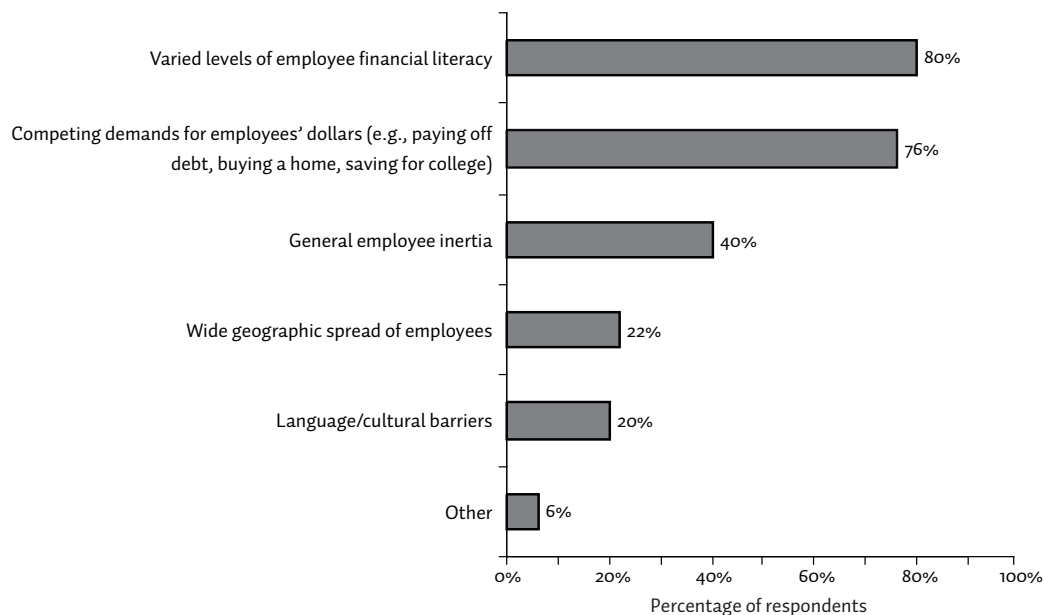
**Figure 3. Finance executives tend to see the company as more responsible for providing information on plans to help employees make informed decisions.**

How would you characterize the respective roles of your company and the employee in the following areas of retirement and financial planning?



**Figure 4. “Financial literacy” of employees remains a top concern for finance executives.**

In your opinion, what are the most significant challenges you face in getting employees to take action with your company’s 401(k) plan?

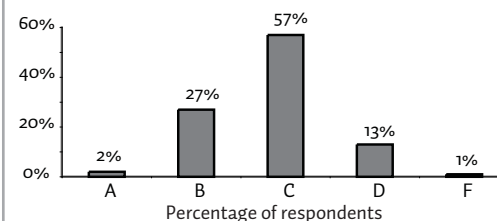


But finance executives still see room for improvement in making the partnership with employees work. When finance executives are asked what challenges they face in getting employees to take action with their company’s 401(k) plan, eight out of ten (80%) cite varied levels of employee financial literacy. (See Figure 4.) And when asked to grade employees on their financial literacy, a majority of finance executives (57%) give them a low grade of “C.” (See Figure 5.) This grade is consistent even at companies with higher enrollment rates (>75% of eligible employees enrolled); only companies that report the highest levels of enrollment (>90%) grade employees’ financial literacy more favorably.

Finance executives may well believe their company can or should do more to educate employees about retirement planning. In fact, in contrast to what may be a widely held perception, many of the companies in our survey do not appear to blame shortfalls in participation in retirement plans on employee inaction. When respondents identify the challenges they face in getting employees to take action with their company’s 401(k) plan, less than half (40%) ascribe the difficulty to employee inertia. (See Figure 4.)

**Figure 5. Most finance executives still see room for improvement in terms of their employees’ financial literacy.**

If you used an academic scale to grade the employees of your company on their “financial literacy,” what grade would you give them?



Companies appear to be ready to take on the educational challenge. More than half (55%) of respondents say they expect their company will increase the amount of time and money it commits to ensuring its employees’ retirement readiness over the next five years; very few plan to reduce the level of resources they commit. In most companies, this means continued involvement from finance: three-quarters of respondents say the finance team either takes a leadership role in retirement planning at their company or is actively involved as a “team member” with other functions in making retirement benefits decisions. Senior finance executives appear to believe that retirement planning is important enough to command their active participation and attention.

## Facing the challenges ahead

As they consider how best to help employees improve their ability to make knowledgeable choices about retirement, finance executives are facing new challenges. Respondents tell us that economic conditions are at the top of their list of challenges (48%), followed by concerns over increased risk of fiduciary or legal liability on the part of the company (44%). (See Figure 6.) Concerns over cost or an aging workforce appear comparatively low on the list of challenges. (See “401(k) plans can offer benefits to young and old alike,” page 9.)

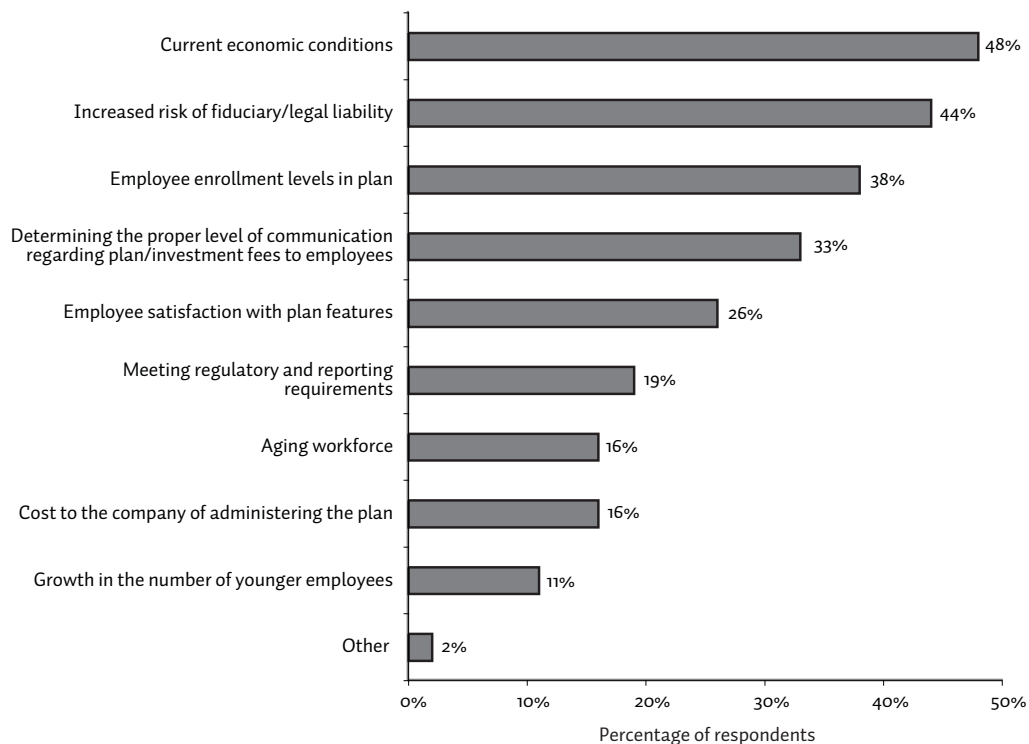
A volatile economy understandably changes the dynamic in making long-term financial decisions. In volatile economic times, investing in a 401(k) plan may not register as a person’s top priority, and managing 401(k) investments and driving continued employee participation and engagement become greater challenges for the employer.

When prices for staples such as food and gas rise, personal credit becomes more difficult to obtain and discharge, and the value of stock portfolios goes down, saving for retirement may well be less of a priority than more immediate demands for a household’s dollars. One CFO of a large company in the education field comments that “low levels of participation, early withdrawals, and low returns on investments are increasing risk and reducing the perceived value of the benefit for employees.” In hard economic times, it is simply more difficult for employees to participate or save at the levels they may want to.

Employees shouldn’t have to “go it alone”—respondents place high importance on providing matching contributions, access to investment advice, automatic enrollment, and target date funds.

**Figure 6. Finance executives express the most concern over economic conditions and increased risk in managing 401(k) plans.**

What do you think are the most significant challenges your company faces in offering its 401(k) plan?



Note: Respondents were asked to select their top three answer choices

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## Helping employees understand the long-term benefits of participating in a plan and adopting strategies to balance financial commitments can be key to weathering cyclical financial storms.

Respondents seem to recognize this difficulty, as three-quarters (76%) say that competing demands for employees' dollars (e.g., paying off debt, buying a home, saving for college) represent a substantial challenge to more active participation in 401(k) plans. (See Figure 4, page 7.) But this is where the importance of education and advice becomes even more apparent. Helping employees understand the long-term benefits of participating in a plan and adopting strategies to balance financial commitments can be key to weathering cyclical financial storms and keeping employees pointed in the right direction toward reaching their retirement savings goals.

### 401(k) plans can offer benefits to young and old alike

Most respondents say that workforce demographics (an aging workforce, growth in the number of younger employees) are not a major concern, despite media reports about the impact of the "Baby Boomer bulge" on retirement funding. When asked to pick the most significant challenges their company faces in administering its retirement plan, only 16% of respondents cite the aging workforce, and even fewer (11%) are concerned about growth in the number of young workers. (See Figure 6, page 8.)

A few executives note that it is simply more difficult to get younger employees to focus on retirement planning. A CFO in the consumer goods industry writes, "Younger, hourly workers are living hand-to-mouth, and no level of education appears to convince them to save for a distant retirement date."

However, others note that their 401(k) plan provides an opportunity for education. A controller in the travel/hospitality industry writes: "We have a mixed employee demographic, and such a benefit [401(k) plan] attracts the more experienced, savvy candidates and is truly a learning/instructional tool for the young staff members. The knowledge they gain early on will serve them through retirement."

## Helping to raise the grade for retirement planning

Our survey reveals that many finance executives see the value in having employees who can make informed choices for their long-term financial well-being. However, they also recognize that their company can do more to support employees' ability to manage their financial futures and improve their grade in financial literacy. They appear ready to help employees by committing time and resources to workplace retirement plans, by making investment advice available, and by providing tools such as automatic retirement plan features and target date retirement funds.

Overall, finance executives see a fairly clear division of responsibilities for administering 401(k) plans. The company designs the plan as part of a balanced portfolio of longer-term compensation incentives; provides information on the features, costs, and benefits of the plan; and works to encourage employees to enroll and contribute at appropriate levels. The employee is responsible for absorbing that information and being his or her own advocate—at least to a degree.

In the end, finance executives see this partnership as helping to attract and maintain a happy, productive, and skilled workforce. The field of retirement planning continues to evolve, and naturally the relationship between employer and employee continues to evolve as well. As new regulations are introduced and new products are developed, employees have more choices available. And employers are taking their responsibility seriously, going beyond simply making a plan available and instead providing the information and support their employees can use to make good decisions about their long-term financial well-being.

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Companies are continuing to commit the resources needed to help their employees make good retirement decisions.

## A retirement plan provider's perspective

Prepared by Jim McCool, Executive Vice President, Charles Schwab Corporate & Retirement Services

Individuals are taking more responsibility for managing their own retirement savings. At the same time, employers are stepping up to the highest level we have seen since the introduction of 401(k) plans to provide the tools and knowledge employees need to maximize their savings. For Schwab, employers are an extremely important partner in our mission to serve individual investors and help Americans become more financially literate. In addition, Schwab works hard to partner with employers to provide them with the resources and products they need to engage their employees. And it is gratifying to see that senior finance executives are placing increasing importance on a strong 401(k) plan and committing more resources than ever to their employees, who are relying more heavily on the workplace for help in getting (and staying) on the right path to saving for retirement.

### Employers on the leading edge are taking action

This research report makes it clear that many senior finance executives not only view 401(k) plans as a valuable benefit to their employees in preparing for a secure retirement, but they also see them as beneficial to the corporation. These plans are seen as increasing the effectiveness of recruiting and retention, enhancing corporate reputation, and contributing to the long-term financial success of the company.

So what are the most innovative and forward-looking employers doing to provide 401(k) plan benefits that drive positive results for both companies and employees? The "early adopter" employers that we work with are those that aggressively look for ways to provide help and guidance to their employee base. They take a proactive approach to tackling challenges from employees who are overwhelmed by the decisions they need to make, lack clarity on how a 401(k) plan works, or need help balancing short-term financial priorities with long-term retirement goals. The need is clear: 80% of the senior finance executives we surveyed believe that

varied levels of employee financial literacy is a significant challenge in driving participation in 401(k) plans. In general, employees need help finding answers to three basic—and yet deceptively complex—questions that must be explored to form the basis of a sound and informed retirement savings strategy: (1) How much do I need to save?; (2) Where should I invest my savings?; (3) How much money will I have in retirement?

A good advice program offered through an employer helps answer those questions. And the confidence that employees gain by knowing they are on the right track is priceless. But getting advice yields more quantifiable results for employees as well. According to our own separate study of our plan clients from 2005 to 2007, participants in Schwab-administered plans who took advantage of advice services offered through their 401(k) plan earned an annualized average return of 10.2% over the three-year period.\* (See chart below.) By comparison, those who did not seek advice or use a target date retirement fund during the same three-year period earned an annualized average return of only 7.8%.\* This difference can have a tremendous impact when you factor in the power of compounding interest in a retirement savings account over 20, 30, or 40 years.

	2005	2006	2007	3-Year
Rate of return for employees who used plan advice	9.2%	14.11%	7.4%	10.2%
Rate of return for employees who did not use plan advice or a target date retirement fund	6.6%	11.11%	5.78%	7.8%

Source: Charles Schwab data

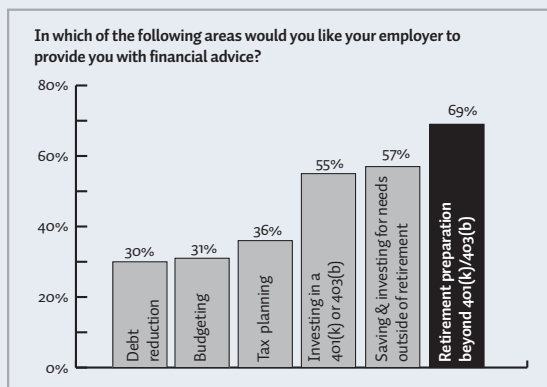
In addition to advice, another successful practice we have found among employers with which we work is to embrace automatic plan features. Automatic enrollment is becoming increasingly common and has a huge impact on the number of employees enrolling and remaining invested in 401(k) plans. In 2007, 93% of automatically enrolled participants in Schwab-administered plans remained in their plans. And while this is an encouraging result, employers that are truly leading the way on the



401(k) front are instituting additional automatic strategies, including automatically enrolling employees directly into target date funds or similar types of investments and setting up automatic savings increases that allow employees to increase the amount they contribute to the plan at the same time each year. These automatic increases are critical in ensuring that employees save their way to retirement and take full advantage of their employer match.

### What employees want

In *Rethinking Retirement*, a study conducted by Schwab in collaboration with Age Wave in March - April 2008, we polled 3,866 individuals from four different generations about their hopes and dreams for retirement. We found a strong appetite for assistance from their employer in helping them navigate financial matters extending beyond offering a competitive retirement plan. As you can see in the chart below, nearly 60% of respondents say they would like their employer to provide them with professional advice regarding saving and investing outside of retirement. But, reflecting the change we are seeing in the role of the workplace, the most common area where respondents wanted assistance from the employer was specifically on retirement preparation beyond the 401(k) plan (69%).



Source: *Rethinking Retirement: Four American Generations Share Their Views on Life's Third Act* (2008), Charles Schwab/Age Wave study.

It is also worth noting that, according to the *Rethinking Retirement* survey, 30% of respondents think that the most valuable benefit an employer can offer is automatically increasing employees' savings levels into a 401(k) plan on an annual basis. According to senior finance executives in this research report, 37% agree that this is an important plan feature.

However, just as finance executives believe that employers and employees have shared and complementary responsibilities when it comes to managing a workplace retirement plan, respondents to the *Rethinking Retirement* survey do not want to hand the reins of responsibility over to their employer entirely. In fact, three-quarters of all respondents say that while they prefer to handle the majority of the decision-making related to their 401(k) or 403(b) themselves, they also want to be able to get advice when needed. Only 9% of respondents say they want to fly solo and make decisions without any advice.

### A partnership between employer and employee

While this research study uncovers a number of interesting insights, there are a few particularly important points worth emphasizing. First, the senior finance executives we surveyed see a significant level of value to their business in providing a workplace retirement plan. Second, the role of employers in preparing people for a financially secure retirement is obviously in flux. The majority of CFOs and finance executives we surveyed believe that their 401(k) benefit contributes to the long-term financial success of their company, and nearly 70% agree that their 401(k) enhances their corporate reputation in an increasingly competitive business landscape. It is also clear that the employers feel it is no longer enough to simply make a 401(k) plan available and leave employees to their own devices. A team effort is required, with employers doing all they can to get their workforce on the right track and employees taking full advantage of the tools their company provides. Effective partnerships like this will help drive the future success of companies and contribute to the financial well-being and literacy of the American workforce—and those are benefits we can all find value in.

charles SCHWAB

To continue this conversation, please contact us at:

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[www.scrs.schwab.com](http://www.scrs.schwab.com)

877-456-0777

\*2007 results are based on 432 plans with 276,852 participants and an average age of 43. 2006 results are based on 732 plans with 417,000 participants and an average age of 43. 2005 results are based on 490 plans with 265,000 participants and an average age of 43. Performance quoted is past performance and is not a guarantee or indicator of future results.

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