

# American Workers Seek More Security In Retirement and Health Plans

By Steve Nyce

Since the 2008–2009 financial crisis, America’s economic engine has continued to sputter. Unemployment remains high, pay is stagnant (or worse), and health and retirement plans don’t seem as generous, predictable or secure as they used to be. Employees remain anxious about their long-term retirement prospects, and many fear further reductions in retirement benefits and higher out-of-pocket health care costs.

The silver lining is that the downturn has sharpened the focus on retirement security and health spending. Recent financial losses and higher health costs have highlighted the value of security, and many workers exhibit a new willingness to pay for guaranteed benefits.

This article is the second in a three-part series based on the 2011 *Towers Watson Retirement Attitudes Survey*, which highlights American workers’ attitudes toward their household finances, employer-provided benefits and retirement readiness. The first article, “Retirement Planning in a Post-Crisis Economy,” focused on workers’ finances, retirement plans and savings, and retirement delays. The last article will examine the changing impact of retirement and health benefits on attracting and retaining employees.

## Survey highlights

- Over the last three years, retirement security has acquired a higher value for nearly nine in 10 older workers.
- Health care costs top the list of workers’ retirement security worries.
- Most employees identify their employer’s retirement program as their primary means of saving for retirement, especially younger workers with a defined benefit (DB) plan and mid-career workers with only a defined contribution (DC) plan.
- More than four in five respondents say their employer has curbed their pay and/or benefits over the last three years, and nearly half are

worried about future reductions to their retirement benefits. An even greater number fear higher health costs are ahead.

- While 26% of employees believe retirement benefits are crowding out take-home pay, 49% blame higher health costs.
- More than half of responding employees are willing to trade off some portion of pay for more generous retirement benefits, and almost half would do so for more predictable health costs.
- Older workers, women and lower-paid workers are most often willing to trade investment control for stronger guarantees.

## Retirement security has become more important to many employees

The economic and financial crises over the last three years unveiled a retirement savings crisis long in the making. While Social Security’s shortfalls are a perennial worry, recent steep declines in 401(k)

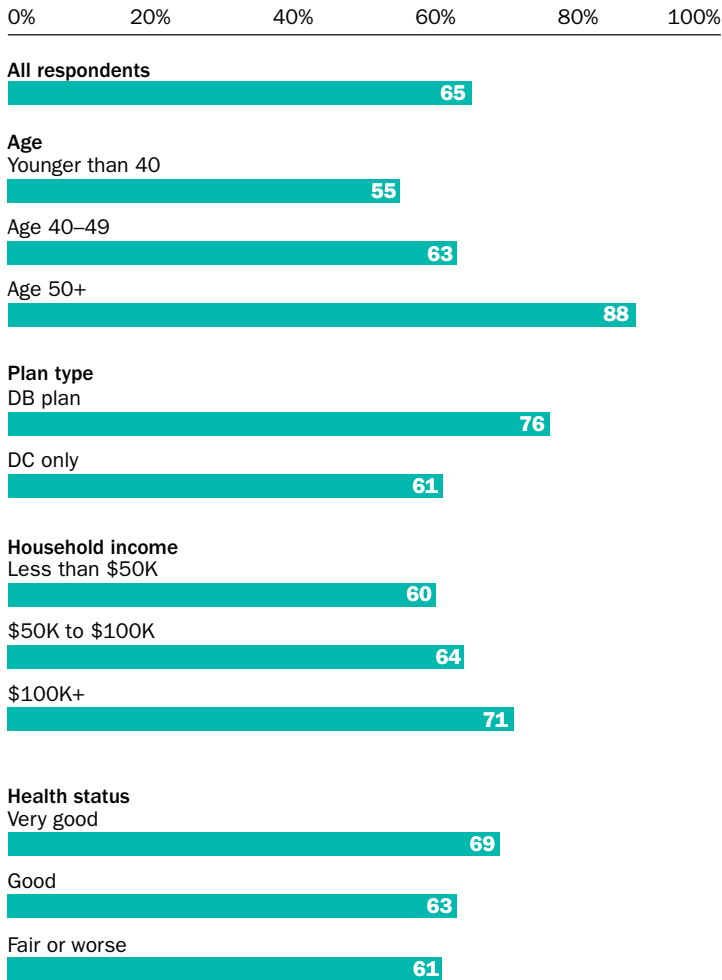
“Over the last three years, retirement security has taken on greater priority for nearly nine in 10 older workers.”

## About the survey

The *Towers Watson Retirement Attitudes Survey* was conducted in June/July 2011 and includes responses from 9,218 full-time U.S. employees at nongovernmental organizations with 1,000+ employees. This is Towers Watson’s fifth consecutive survey of U.S. employees’ attitudes toward their health care and retirement benefits. The primary results reported in this article reflect a subset of questions about retirement and health care programs completed by 3,074 respondents. Comparable surveys fielded in February 2009 and May/June 2010 asked similar questions, and we use selective results from those surveys to track trends in employee attitudes. All results are weighted by age, gender and household income to the national average of workers. Margins of error are +/- 1.2% for the total sample and +/- 1.7% for the benefits sample.

Respondents self-reported whether they participate in a DB pension plan and/or a 401(k)/403(b) retirement savings plan. Seventy-three percent of respondents having an employer-sponsored retirement plan had only a DC plan, and the others had a DB plan. Nearly all respondents with a DB plan also had a DC plan (92%). Roughly 80% of respondents with a DB plan are currently accruing benefits under their plan. Among those whose benefits are frozen, 70% are age 50 or older, and 85% have 10 or more years of service with their current employer. Younger employees with a DB plan were oversampled to improve confidence in comparisons of retirement attitudes by plan types and age groups. Margins of error for the age and plan type results are +/- 5% or less.

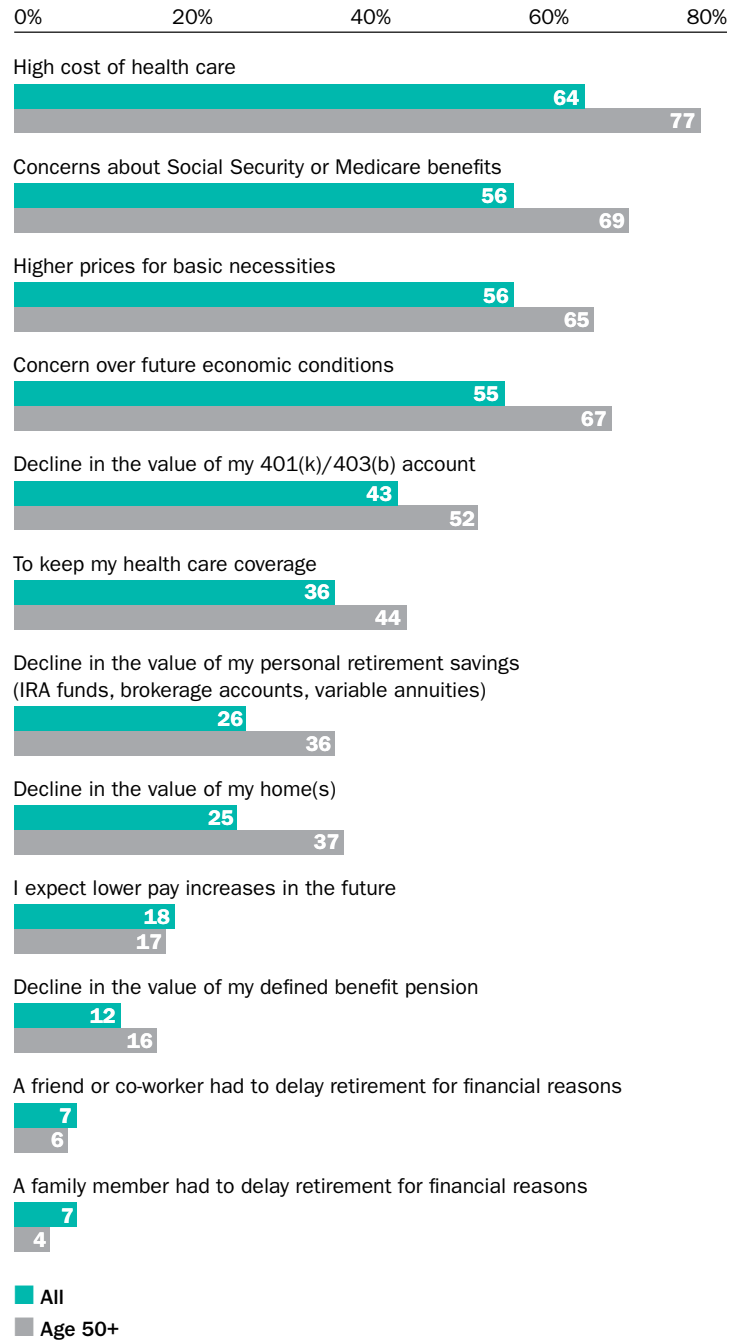
**Figure 1. Retirement security has become a more important issue for me over the last three years**



Note: Percentages indicate responses of "somewhat agree" or "strongly agree."  
Source: 2011 Towers Watson Retirement Attitudes Survey.

“Health costs head employees’ lists of retirement security worries.”

**Figure 2. Which of the following are the most important reasons you are more concerned about retirement security?**



Note: Responses are from those who also indicated that retirement security has become a more important issue over the last three years.  
Source: 2011 Towers Watson Retirement Attitudes Survey.

accounts — in some cases combined with inadequate savings over a longer period — and falling housing prices have forced many workers to shelve their dreams of a comfortable retirement, at least temporarily.

Since the economic crisis, nearly two-thirds of survey respondents have been paying closer attention to their retirement readiness. This is particularly true of older workers, DB plan participants and higher-income workers. Over the last three years, retirement security has taken on greater priority for nearly nine in 10 older workers (Figure 1, previous page).

The rising cost of health care has far-reaching implications. As noted in the first article in this series, health care costs are a primary reason for delaying retirement.<sup>1</sup> As shown in Figure 2, previous page, health costs head employees' lists of retirement security worries, especially among older workers. Runners-up include concerns about the long-term viability of Social Security and Medicare and, more broadly, a lack of confidence that economic conditions will improve.

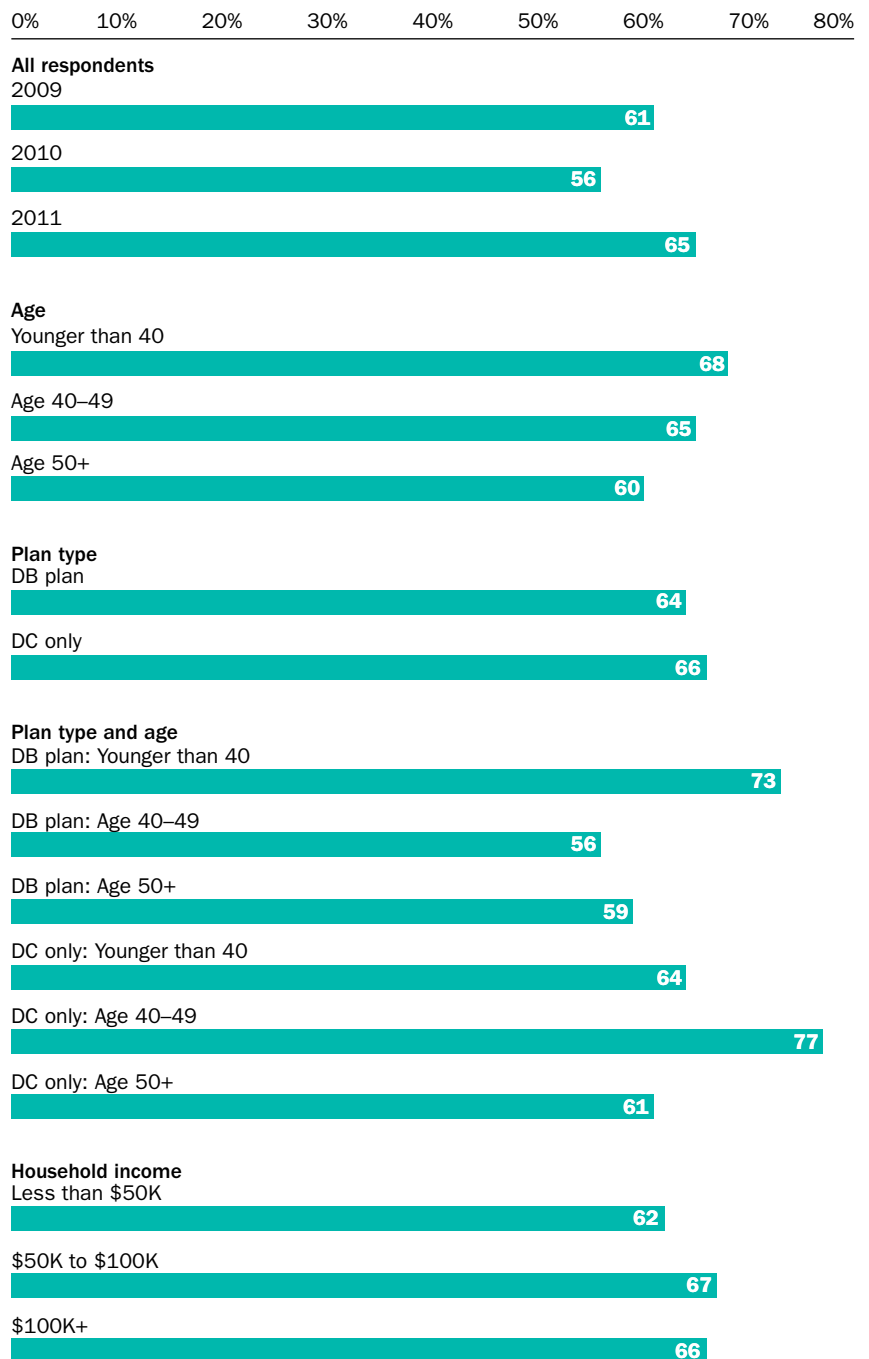
### Most employees look to their company's retirement plans for income security

Nearly two-thirds of responding employees say their company's retirement program is their primary means of saving for retirement (Figure 3). This percentage fell from 2009 to 2010 but then jumped to its highest point in 2011. Employees of all ages and at all earnings levels identify their employer plans as essential to their retirement security. The strongest response is from younger employees, especially those with a DB plan, and mid-career employees with only a DC plan.

<sup>1</sup> Steven Nyce, "Retirement Planning in a Post-Crisis Economy," *Insider*, January 2012, at [www.towerswatson.com/united-states/newsletters/insider/6214](http://www.towerswatson.com/united-states/newsletters/insider/6214).

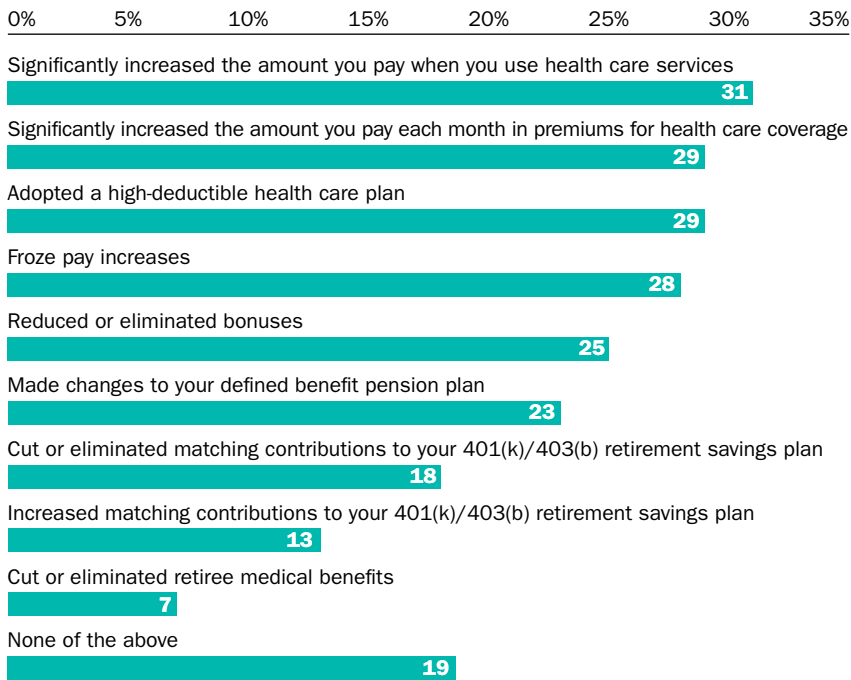
“Employees of all ages and at all earnings levels identify their employer plans as essential to their retirement security.”

**Figure 3. My company's retirement program is the primary way I save for retirement**



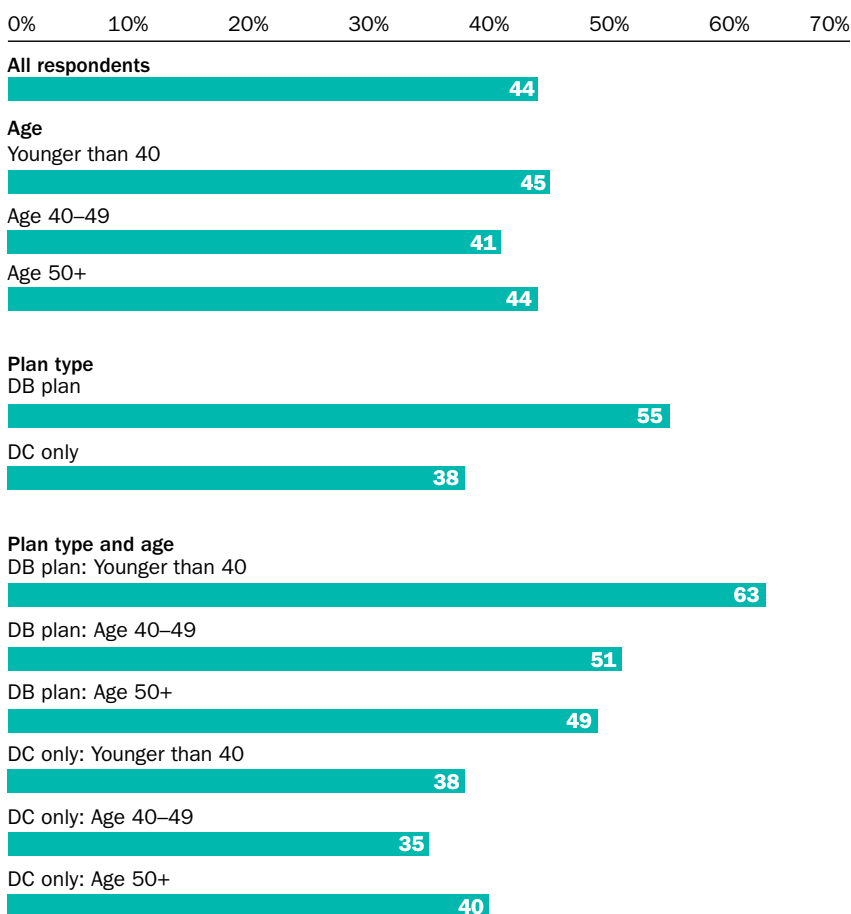
Note: Percentages indicate responses of "somewhat agree" or "strongly agree."  
Source: 2011 Towers Watson Retirement Attitudes Survey.

**Figure 4. Has your employer done any of the following over the last three years?**



Source: 2011 Towers Watson Retirement Attitudes Survey.

**Figure 5. I am concerned my employer will reduce my retirement benefits in the next two years**



Note: Percentages indicate responses of "somewhat agree" or "strongly agree."  
Source: 2011 Towers Watson Retirement Attitudes Survey.

## Employees are increasingly concerned about their eroding retirement and health care benefits

Many companies have been retooling their retirement and health care benefits to keep operating costs under control. More than four in five respondents say their employer has curbed their pay and/or benefits over the last three years (Figure 4). The most frequent change was higher health care premiums or costs, such as higher deductibles, although freezes on pay increases and bonuses were not uncommon. Nearly a quarter of respondents say their employer revamped their DB plan, such as by freezing benefit increases, closing the plan to new hires or adopting a hybrid plan. Slightly fewer — 18% — say their employer reduced or even eliminated their 401(k) matching contributions. Many employers reduced DC contributions soon after the financial crisis but have since reinstated them, according to research by Towers Watson.<sup>2</sup>

## Employees waiting for the other shoe to drop

Many employees fear more cuts to their retirement and health care benefits are on the horizon. Nearly half are worried about reductions to their retirement benefits over the next two years, with younger DB plan participants particularly concerned (Figure 5). This is not surprising, as DB plan freezes have become increasingly common in recent years.<sup>3</sup>

Employees are even more concerned about having to shoulder more financial responsibility for their health care costs. Their fears are not unwarranted, as the number of companies adopting account-based or high-deductible health care plans climbed by more than 60% between 2006 and 2011 — from 33% to 53%.<sup>4</sup> Nearly three-fourths of employees are

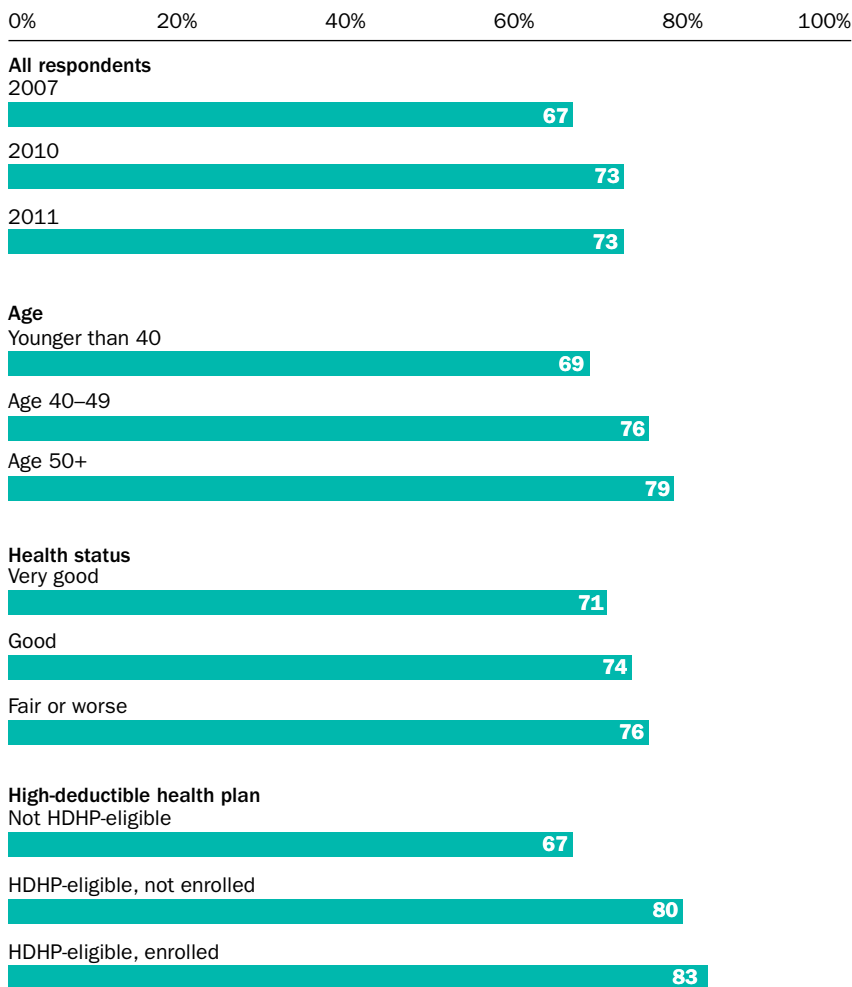
<sup>2</sup> See Vishal Apte and Brendan McFarland, "A Look at Defined Contribution Match Reinstatements," *Insider*, October 2011, at [www.towerswatson.com/united-states/newsletters/insider/5641](http://www.towerswatson.com/united-states/newsletters/insider/5641).

<sup>3</sup> See Brendan McFarland, "Pension Freezes Among the *Fortune* 1000 in 2011," *Insider*, November 2011, at [www.towerswatson.com/united-states/newsletters/insider/5858](http://www.towerswatson.com/united-states/newsletters/insider/5858).

<sup>4</sup> Towers Watson and National Business Group on Health, "Shaping Health Care Strategy in a Post-Reform Environment," *16th Annual Survey on Purchasing Value in Health Care* (2011) at [www.towerswatson.com/assets/pdf/3946/TowersWatson-NBGH-2011-NA-2010-18560.pdf](http://www.towerswatson.com/assets/pdf/3946/TowersWatson-NBGH-2011-NA-2010-18560.pdf).

"More than four in five respondents say their employer has curbed their pay and/or benefits over the last three years."

**Figure 6. I am concerned my employer may increase out-of-pocket health care costs through higher deductibles and copays in the next two years**



Note: Percentages indicate responses of “somewhat agree” or “strongly agree.”  
Source: 2011 Towers Watson Retirement Attitudes Survey.

concerned about higher out-of-pocket health costs and copays over the next two years, compared with two-thirds in 2007 (*Figure 6*). Older workers and those eligible for high-deductible health care plans are most concerned.

Sometimes overlooked by employees (or at least less obvious) is the impact of higher benefit costs on overall compensation — notably take-home pay. When benefit costs outpace productivity, they consume a larger share of compensation budgets, often crowding out pay increases.<sup>5</sup>

While 26% of employees believe the cost of retirement benefits is squeezing their pay, 49% blame higher health care costs (*Figure 7*). Employees recently on the receiving end of pay and/or benefit adjustments are most likely to link the changes to higher benefit costs (possibly because employer communications have spelled out the link). Those most sensitive to the connections were more likely to have experienced losses in their retiree medical benefits.

<sup>5</sup> For further discussion, see Steven Nyce and Syl Schieber, “Treating Our Ills and Killing Our Prospects,” August 2011, at [www.towerswatson.com/research/5216](http://www.towerswatson.com/research/5216).

**Figure 7. Rising costs of retirement and health care have reduced my annual pay increases**

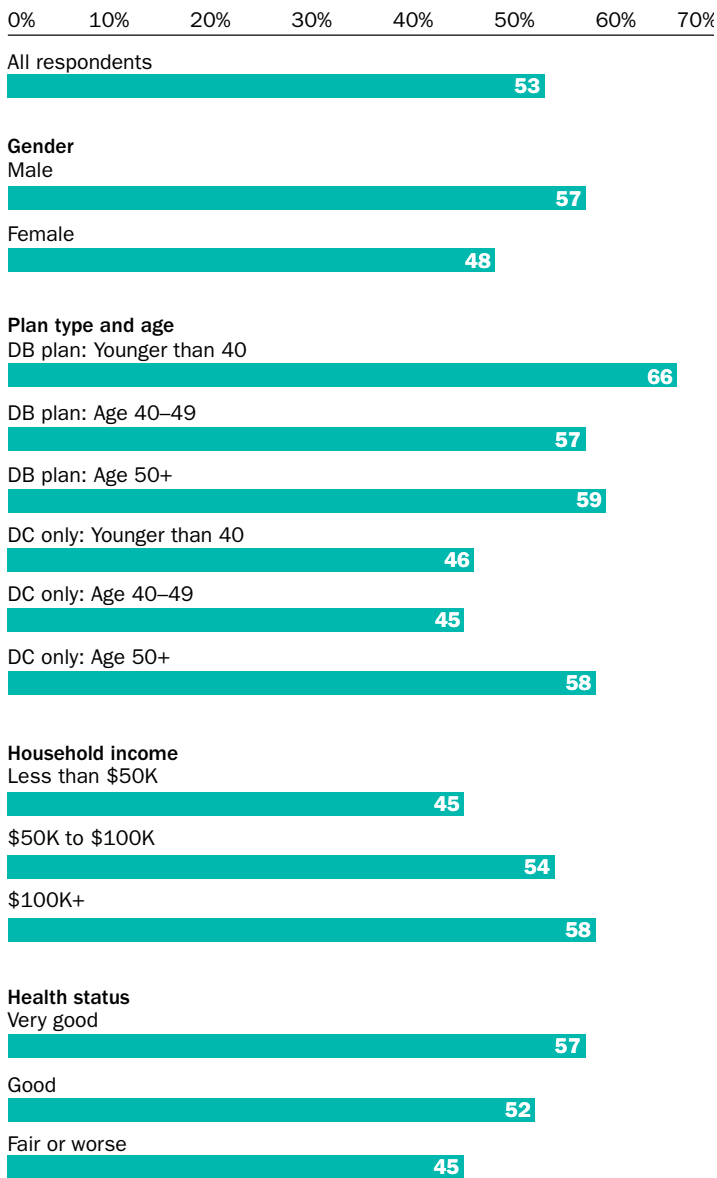
	Rising costs of retirement at my firm have reduced my annual pay increases	Rising costs of health care at my firm have reduced my annual pay increases
<b>All</b>	26%	49%
<b>Age</b>		
Younger than 40	32%	50%
Age 40-49	19%	43%
Age 50+	20%	51%
<b>Plan type</b>		
DB plan	31%	58%
DC only	24%	45%
<b>Household income</b>		
Less than \$50K	24%	39%
\$50K to \$100K	24%	48%
\$100K+	29%	54%
<b>Recent changes by employer</b>		
Reduced pay	29%	56%
Made changes to DB plan	37%	61%
Cut/eliminated matching contributions in 401(k) plan	37%	60%
Reduced value of health care benefits	31%	61%
Cut/eliminated retiree medical benefits	51%	71%

Note: Percentages indicate responses of “somewhat agree” or “strongly agree.”

Source: 2011 Towers Watson Retirement Attitudes Survey.

“When benefit costs outpace productivity, they consume a larger share of compensation budgets, often crowding out pay increases.”

**Figure 8. I would be willing to pay a higher amount out of my paycheck each month for a larger, more generous retirement benefit**



Note: Percentages indicate responses of “somewhat agree” or “strongly agree.”  
Source: 2011 Towers Watson Retirement Attitudes Survey.

“Between 2009 and 2011, employees became considerably more willing to sacrifice some take-home pay in exchange for lower, more predictable health costs.”

## Employees increasingly willing to pay for benefit generosity and security

More than half (53%) of responding employees say they are willing to trade off some portion of pay for more generous retirement benefits (Figure 8). Those most willing to trade current pay for bigger retirement benefits include males, DB plan participants — especially younger ones — higher earners, healthier workers and older employees with only a DC plan. These older workers may still be reeling from declines in their retirement account balances and home values from the financial crisis.

Demand is also growing for greater certainty in both retirement and health care benefits. This may reflect firsthand experience with financial market volatility, worries about the economy and fears of future cutbacks to benefits. As Figure 9 shows, 55% of employees are willing to pay more for a guaranteed retirement benefit, compared with 46% in February 2009. Moreover, concerns about high health care costs and predictability reemerge. Between 2009 and 2011, employees became considerably more willing to sacrifice some take-home pay in exchange for lower, more predictable health costs.

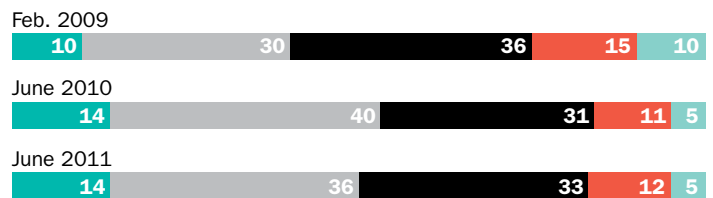
**Figure 9. Willingness to pay more for guarantees in retirement and health care benefits**

0% 20% 40% 60% 80% 100%

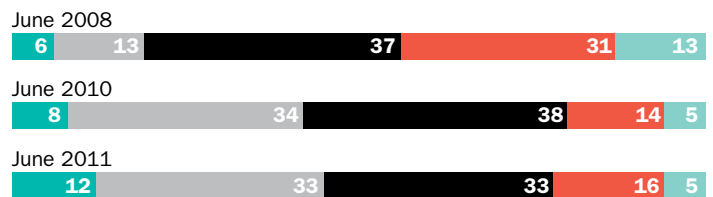
I would be willing to pay a higher amount out of my paycheck each month to ensure I have a guaranteed retirement benefit (e.g., \$1,000 per month for life)



I would be willing to pay a higher amount out of my paycheck each month to ensure I have access to health care benefits, if I retire before I'm eligible for Medicare



I would be willing to pay a higher amount out of my paycheck each month in order to keep lower, predictable costs when using health care services



■ Strongly agree ■ Agree ■ Partly agree/partly disagree  
■ Disagree ■ Strongly disagree

Source: 2011 Towers Watson Retirement Attitudes Survey.

This new interest in security is most pronounced among younger employees and those with a DB plan. In fact, among responding DB plan participants younger than 40, willingness to pay for a guaranteed retirement benefit has risen roughly 70% since 2009 (Figure 10). Similarly, guarantees in retirement benefits and pre-65 retiree health care coverage are more attractive to older workers with only a DC plan, perhaps reflecting their recent investment

experiences and growing concerns about their own retirement prospects.

While many employees are willing to exchange a bonus opportunity for a more generous retirement benefit, they are more reluctant to part with paid time off, as shown in Figure 11. Employees are most attracted to guarantees around retirement benefits. By more than 3 to 1, employees are more likely to prioritize retirement guarantees over pay increases.

**Figure 10. Willingness to pay more for guarantees in retirement and health care benefits by plan type**

I would be willing to pay a higher amount out of my paycheck each month to ensure I have ...	Age	DB plan				DC only			
		Feb. 2009	June 2010	June 2011	Percentage point change	Feb. 2009	June 2010	June 2011	Percentage point change
... a guaranteed retirement benefit (e.g., \$1,000 per month for life)	<40	39%	66%	66%	27 pps	44%	46%	51%	7 pps
	40s	50%	55%	55%	5 pps	57%	55%	53%	-4 pps
	50+	51%	61%	57%	6 pps	47%	60%	60%	13 pps
... access to health care benefits, if I retire before I'm eligible for Medicare	<40	37%	66%	66%	29 pps	38%	41%	42%	4 pps
	40s	50%	58%	61%	11 pps	41%	51%	40%	-1 pps
	50+	52%	61%	57%	5 pps	42%	54%	52%	10 pps

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."  
Source: 2011 Towers Watson Retirement Attitudes Survey.

**Figure 11. Degree of preference toward pay and retirement benefit design features**

Option A	Year	Prefer A		Neutral			Prefer B		Option B
		1	2	3	4	5	6	7	
<b>Pay vs. retirement</b> Larger pay increases today and a lower retirement benefit	2010	9%	11%	11%	24%	15%	15%	15%	Smaller pay increases today and a higher retirement benefit
	2011	9%	8%	13%	27%	19%	13%	12%	
<b>Pay vs. retirement certainty</b> A larger pay increase today and an uncertain retirement benefit	2010	N/A	N/A	N/A	N/A	N/A	N/A	N/A	A smaller pay increase today and a guaranteed retirement benefit
	2011	6%	6%	10%	19%	18%	23%	18%	
<b>Bonus vs. retirement</b> A larger bonus opportunity today and a lower retirement benefit	2010	8%	9%	9%	20%	14%	20%	22%	A smaller bonus opportunity today and a higher retirement benefit
	2011	6%	8%	10%	21%	18%	20%	17%	
<b>Time off vs. retirement</b> Less paid time off per year and a higher retirement benefit	2010	N/A	N/A	N/A	N/A	N/A	N/A	N/A	More paid time off per year and a lower retirement benefit
	2011	10%	11%	16%	30%	15%	11%	7%	

Source: 2011 Towers Watson Retirement Attitudes Survey.

“Employees are most attracted to guarantees around retirement benefits.”

Responding workers demonstrate a slightly stronger preference for larger retirement benefits versus more predictable health care costs, but this preference seems to be weakening (Figure 12). Again, many employees say they are willing to accept lower paychecks and bonuses in exchange for greater certainty around out-of-pocket health care costs. A substantial percentage of employees are even willing to give up some paid time off to reduce the volatility of their health costs.

In general, older employees and those with a DB plan demonstrate the strongest preference for more generous retirement benefits and more predictable out-of-pocket health costs (Figure 13). While larger retirement benefits are attractive, stability and guarantees seem to hold the most appeal for employees, likely reflecting widespread economic insecurity following bruising experiences in financial and housing markets. Employees of all ages are most willing to exchange their bonuses for more secure benefits but are less willing to part with vacation time.

Figure 12. Degree of preference toward pay and health care plan design features

Option A	Year	Prefer A		Neutral			Prefer B		Option B
		1	2	3	4	5	6	7	
<b>Retirement vs. health care</b> Higher retirement benefits when I retire and higher, less predictable health care costs during my working career	2010	11%	15%	17%	30%	13%	8%	6%	Lower retirement benefits and lower, more predictable health care costs during my working career
	2011	9%	11%	20%	33%	15%	8%	4%	
<b>Pay vs. health care</b> Larger pay increases today and higher, less predictable health care costs	2010	8%	8%	11%	26%	17%	17%	13%	Smaller pay increases today and lower, more predictable health care costs
	2011	6%	7%	14%	28%	21%	15%	9%	
<b>Bonus vs. health care</b> A larger bonus opportunity today and higher, less predictable health care costs	2010	6%	8%	9%	22%	16%	19%	19%	A smaller bonus opportunity today and lower, more predictable health care costs
	2011	5%	5%	12%	24%	19%	21%	15%	
<b>Time off vs. health care</b> More paid time off per year and higher, less predictable health care costs	2010	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Less paid time off per year and lower, more predictable health care costs
	2011	5%	6%	14%	31%	21%	15%	8%	

Source: 2011 Towers Watson Retirement Attitudes Survey.

Figure 13. Degree of preference toward pay and benefit design features by age and plan type

	Younger than 40		Age 40–49		Age 50+	
	DB plan	DC only	DB plan	DC only	DB plan	DC only
<b>Pay vs. retirement</b> Smaller pay increases today and a higher retirement benefit	25%	12%	21%	12%	42%	38%
<b>Pay vs. retirement certainty</b> A smaller pay increase today and a guaranteed retirement benefit	38%	32%	43%	31%	54%	50%
<b>Bonus vs. retirement</b> A smaller bonus opportunity today and a higher retirement benefit	41%	27%	31%	26%	54%	50%
<b>Time off vs. retirement</b> Less paid time off per year and a higher retirement benefit	15%	17%	24%	13%	37%	25%
<b>Retirement vs. health care</b> A higher retirement benefit and higher, less predictable health care costs during my working career	16%	17%	20%	19%	25%	29%
<b>Pay vs. health care</b> Smaller pay increases today and lower, more predictable health care costs	29%	18%	29%	20%	34%	33%
<b>Bonus vs. health care</b> A smaller bonus opportunity today and lower, more predictable health care costs	35%	28%	35%	34%	49%	41%
<b>Time off vs. health care</b> Less paid time off per year and lower, more predictable health care costs	30%	18%	30%	16%	30%	26%

Note: Percentages reflect top two positive responses on a seven-point preference scale.  
Source: 2011 Towers Watson Retirement Attitudes Survey.



## Many employees prefer retirement benefit guarantees to self-managing retirement assets

Our first article in the series showed that about half of employees feel comfortable making their own retirement investment decisions, while for others it remains a daunting challenge.<sup>6</sup> As shown in Figures 14 and 15, some employees are willing to relinquish control over their retirement investments in exchange for more stability in their retirement benefits over the long term.

In general, older employees, women, lower-paid workers and those with health issues are most

willing to trade investment control and higher risk for stronger guarantees (Figure 14). Conversely, younger DB plan participants are more risk tolerant and value investment control more highly than do all other groups (Figure 15). Interestingly, younger employees with only a DC plan are just as likely as their older counterparts to rank stability over investment control. This difference likely relates to the larger risk budget afforded by DB plans and to younger employees with a DB plan being the most comfortable making their own retirement investment decisions.<sup>7</sup> It is important to note, however, that most employees fall toward the middle of the security/flexibility/control continuum.

“Most employees fall toward the middle of the security/flexibility/control continuum.”

<sup>6</sup> Steven Nyce, “Retirement Planning in a Post-Crisis Economy,” *Insider*, January 2012, at [www.towerswatson.com/united-states/newsletters/insider/6214](http://www.towerswatson.com/united-states/newsletters/insider/6214).

<sup>7</sup> *Ibid*, see Figure 9.

**Figure 14. Degree of preference toward management of retirement investments by gender, income and health status**

Investment responsibility Option A	Gender/income/health status	Prefer A		Neutral			Prefer B		Investment responsibility Option B
		1	2	3	4	5	6	7	
Having your retirement plan make the investment decisions and a guaranteed retirement benefit that does not change based on the performance of the financial markets	Male	10%	16%	14%	25%	15%	9%	10%	Having the freedom to make your own investment decisions with an opportunity for higher returns or the chance for lower returns
	Female	18%	19%	15%	27%	11%	6%	18%	
	<\$50K	17%	23%	16%	29%	9%	4%	17%	
	\$50K to \$100K	15%	20%	15%	27%	12%	7%	15%	
	\$100K+	12%	13%	15%	22%	18%	9%	12%	
	Very good	9%	16%	13%	27%	15%	9%	11%	
	Good	15%	19%	15%	25%	13%	8%	5%	
	Fair or worse	24%	19%	17%	21%	12%	4%	3%	

Source: 2011 Towers Watson Retirement Attitudes Survey.

**Figure 15. Degree of preference toward management of retirement investments by plan type and age**

Investment responsibility Option A	Plan type and age	Prefer A		Neutral			Prefer B		Investment responsibility Option B
		1	2	3	4	5	6	7	
Having your retirement plan make the investment decisions and a guaranteed retirement benefit that does not change based on the performance of the financial markets	DB plan: Younger than 40	6%	15%	15%	23%	20%	10%	12%	Having the freedom to make your own investment decisions with an opportunity for higher returns or the chance for lower returns
	DB plan: Age 40–49	15%	19%	12%	26%	15%	4%	8%	
	DB plan: Age 50+	23%	19%	14%	20%	11%	8%	5%	
	DC only: Younger than 40	11%	19%	16%	31%	13%	5%	4%	
	DC only: Age 40–49	12%	16%	14%	27%	12%	11%	8%	
	DC only: Age 50+	19%	13%	15%	26%	6%	11%	10%	

Source: 2011 Towers Watson Retirement Attitudes Survey.

## Conclusion

The financial crisis has deeply affected employees' attitudes toward their retirement and health care benefits. Most employees look to their employers to help them close the gaps on protection — in both health care costs and retirement security. Recent losses in retirement savings and housing values have motivated many more Americans to reconsider their retirement readiness. The ongoing health care cost crisis also plays a large role in today's widespread financial anxiety and is strangling American workers' retirement prospects.

Some years ago, employers became concerned about pension risk, and many altered their plans to reduce volatility and other risks. Many have also taken or are considering taking similar steps in their provision of health care coverage. While retirement plan changes have been ongoing for many years, the financial crisis made workers more aware of how vulnerable they were to market risk and volatility. Furthermore, account-based health plans have given many employees a new awareness of health costs. A dramatic shift in employee attitudes emerged in 2010 and remains strong in the 2011 results.

Compared with survey responses gathered immediately after the crisis, employees seem increasingly willing to “pay” more — in terms of compensation and investment control — for financial

security. While this response is not surprising from those close to retirement, even much younger workers are attracted to these guarantees. In fact, some of the most dramatic changes in attitudes toward risk, reward and security trade-offs have been among employees younger than 40.

The reality is that predictable health costs and retirement guarantees have become enormously important to employees of all ages. This would be a good time for employers to revisit or initiate worksite education about preparing for retirement and managing financial risks. But employers should not lose sight of employees' preference for flexible designs. These survey results suggest that most employees are seeking a balance — insulation from extreme market fluctuations combined with a strong hand in planning for their future.

As the economy struggles to right itself, changes are inevitable. Employees are keenly aware of their increased financial vulnerability and seem interested in striking a new balance between risks and total rewards, particularly in their benefit programs. Reflecting employees' preferences in retirement and health care plans as well as communications may ease workers' financial anxieties and boost engagement levels. It could also provide a strategic advantage to the employer's workforce planning, talent management, and attraction and retention efforts.

“The financial crisis made workers more aware of how vulnerable they were to market risk and volatility.”

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