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Bank of America Merrill Lynch Study Finds Retirement Readiness and Overall Financial Wellness Increasingly Linked to the Effectiveness of Workplace Savings Vehicles

Annual Research Examines Employee Engagement with Financial Benefits and How They Must Evolve to Help Them Achieve Their Goals

NEW YORK – Bank of America Merrill Lynch today announced findings from its 2013 Workplace Benefits Report, a study of the increasingly significant role financial benefit plans play in helping the American workforce achieve financial wellness. Based on a nationwide survey of more than 1,000 employees from companies of all sizes, this research offers new insights into the availability, utilization and evolution of these workplace benefits – from 401(k) plans and health savings accounts (HSAs) to financial advice and education. Key findings include:

- More needs to be done to help employees confidently transition into retirement
- Tax-advantaged saving for medical expenses is becoming the norm, though many are saving less for retirement as a result of rising healthcare costs
- 401(k) contribution rates indicate that the majority of younger workers may be comfortable with an automatic deferral of 5 percent
- One out of four "pre-retirees" – employees who indicate being within five years of retirement – expects to have less than $250,000 saved
- Workers are willing to give up portions of their salary for guaranteed retirement income
- Employees are looking to their employers for access to one-on-one advice from a financial professional

"Corporate benefit leaders, the retirement services industry and legislators must continue to work together to improve and protect the effectiveness and health of our country's retirement system," said Kevin Crain, head of Institutional Retirement and Benefit Services for Bank of America Merrill Lynch. "We see many employers actively working to empower employees to take greater control of their financial success, as well as enhancing their financial benefits to ensure they are results-based, easy to use and encourage healthy behaviors."

For many employees, achieving financial wellness is increasingly tied to preparing for income needs during retirement, addressing the rising cost of health care and balancing competing financial demands throughout their lifetime. Although employers have made strides in recent years to help put employees in a better financial position, this study reveals a need for greater focus on the retirement readiness of the nation's workforce and access to personalized advice that goes beyond retirement goals.

Retirement Readiness

Two-thirds (66 percent) of employees indicate that their focus on retirement goals has increased during the last five years. However, most employees (85 percent) feel they are not saving enough, and 60 percent believe it will be very difficult to ever save enough to support their standard of living during retirement.

This lack of confidence may be one of the reasons why 78 percent see themselves working into their late 60s or 70s, up from 72 percent one year ago. Another reason may be that workers in later stages of their careers often find themselves on their own when it comes to transitioning into retirement. In fact, only 34 percent of workers feel that their employer provides sufficient advice to help employees with this transition.

When it comes to preparing for long-term financial security, the importance of workplace retirement savings plans is not lost on employees. The study found that the majority of people (71 percent) believe their workplace retirement savings plan will be their largest or second-largest source of retirement income, followed by Social Security (43 percent) and other savings and investments (38 percent).

Health Savings

The rising cost of healthcare remains a top concern for employees. Eight out of 10 (80 percent) indicate that they have experienced an increase in healthcare costs during the last two years – among whom more than half (56 percent) say they are saving less for retirement as a result.

Seventy-six percent of employees indicate that their company now offers an HSA option, among which 38 percent participate in this tax-advantaged savings vehicle. HSA participation increases to 50 percent among pre-retirees; however our research finds that younger workers (35 percent) are also using these vehicles to start saving early for current and future medical expenses. Nearly half of all respondents (47 percent) who participate in an HSA or flexible spending account (FSA) began doing so or increased their level of participation in these vehicles as a result of rising healthcare costs.

"As healthcare costs continue to rise and private sector and state employers continue to reduce or eliminate retiree health benefits, Americans need to become better savers and more informed consumers in this area of their lives," said Bob Kaiser, head of Health Benefit Solutions for Bank of America Merrill Lynch. "We do see positive trends among our HSA users, with the number of our active and funded accounts more than doubling since 2011, and balances in these accounts increasing year-over-year for the last few years."

According to consulting firm Devenir, nationwide assets in HSAs grew to an estimated $15.5 billion as of the end of 2012 and are projected to reach $26 billion by 2015.

Saving Behaviors and Perspectives

Other notable retirement saving behaviors and perspectives of our nation's workforce revealed through our 2013 study include:

- Two-thirds (66 percent) of employees contribute 5 percent or more of their salary to a 401(k) plan. Among pre-retirees, more than half (56 percent) contribute at least 10 percent of their salary to their 401(k), and 29 percent contribute 15 percent or more to their 401(k). Among “early starters” – those under the age of 30 saving in a 401(k) plan – 55 percent contribute 5 percent or more of their salary and only 8 percent of these younger workers have a contribution rate of less than 3 percent.

- Consistent with findings from our 2012 research, 84 percent of respondents said their employer provides some form of 401(k) match, and nearly four out of five plan participants (78 percent) contributed at least enough last year to meet the match – among pre-retirees this increases to 90 percent. However, only 20 percent of all plan participants contributed the maximum legal amount last year, and only 37 percent of pre-retirees are maximizing their annual contributions.

- For the first time, the survey asked how employees would use an unexpected bonus of $1,000 from their employer, if they could only use it for one thing. Perhaps offering some perspective on the current financial state of American workers, 36 percent would use it to pay down debt, 26 percent would save for retirement, 15 percent would put it toward bills or other necessities and just 8 percent would use it to treat themselves or their family to something special. Not surprisingly, the greatest percentage of employees who would pay down debt was under the age of 30 (45 percent), and the greatest percentage of employees who would put it toward retirement was pre-retirees (42 percent).

- Years ago, saving $500,000 or more for retirement may have allowed someone to live their remaining years in relative comfort. However, factors such as inflation, longevity, rising health care costs, and others may make the $500,000 of today a less comfortable nest egg for some people. When we asked employees if they felt they would be able to accumulate more than a half a million dollars before they retire, 55 percent believed they would. This percentage was consistent among pre-retirees (53 percent), though paled in comparison to the 77 percent of early starters confident in their ability to save that amount or more. Conversely, one out of four pre-retirees (24 percent) believes they will save less than $250,000 before retiring.

- Also consistent with our 2012 research, when asked about the desire for a guaranteed source of income during retirement, four out of five (79 percent) employees would be willing to give up 5 percent or more of their salary if it meant having reliable income to help them live comfortably during their later years, and 38 percent would be willing to give up 10 percent or more. Among pre-retirees, those willing to give up 10 percent or more of their salary for such a guarantee climbs to 52 percent.

Making Advice More Accessible

When asked what financial matters they need the most help with, 59 percent of employees cited advice and guidance around saving for retirement, followed by managing debt, budgeting, and planning for healthcare costs. The majority of employees (58 percent) are seeking advice across all aspects of their financial life – including two-thirds of female employees (66 percent) and half of male employees (49 percent).

When asked about the resources and tools they would like their employer to provide to help them obtain financial advice, top choices cited by employees were access to a one-on-one relationship with a financial professional (51 percent), followed by online tools (46 percent), financial seminars relevant to their life stage and personal situation (39 percent), and relevant research or literature to help them make investment decisions (38 percent).

“Offering employees access to meaningful advice and education can have a significant impact on their financial health,” added Crain. “Helping them navigate the road to and through retirement can lead to positive long-term outcomes for both employees and employers.”

Financial Wellness Score

Employees indicate that there are several financial, psychological and emotional influences in their lives that have a negative impact on their ability to save adequately for retirement and to achieve financial wellness. These include rising healthcare costs (28 percent), not knowing how much they will need to retire (28 percent) or having a sense that they will never be able to save enough (24 percent), competing financial obligations and desires (28 percent), uncertainty about how or where to invest (26 percent) and a general fear of investing (26 percent).

“Too often financial stress and the weight of uncertainty surrounding one’s ability to accomplish their goals can cause them to remain inert and unwilling to look truths about their financial future in the eye,” Michael Liersch, Ph.D., director of behavioral finance for Merrill Lynch. “Recognizing that these challenges are in most instances not insurmountable, and admitting to one self that there are behavioral changes that can be made to address them, are simple but critical first steps. From there, even small, positive actions today can have a significant impact on improving near- and longer-term financial wellness.”

To better understand the current state of employees’ overall financial well-being we used this study to create a Financial Wellness Score, a new tool that uses factor analysis to identify the financial attributes and perspectives linked to one’s ability to meet future goals and present-day needs. Going beyond more traditional approaches – which merely assess one’s likelihood of meeting a retirement savings goal – the Financial Wellness Score offers insight into the interconnectivity between household finances, employer benefits and the behavioral aspects of one’s financial life. Ten attributes were identified and used to score individuals from zero (lowest) to 10 (highest). Through this tool we found 65 percent of employees would not be considered financially well (with a score of four or lower on the 10 point scale) – and only 11 percent have achieved financial wellness (with a score of 8 or higher).

For more information about the Financial Wellness Score, and to review the full findings from the study, “2013 Workplace Benefits Report: Employees’ Views on Achieving Financial Wellness,” please visit http://baml.com/benefitsreport.

Workplace Benefits Report Methodology
Boston Research Group completed a nationwide survey of 1,014 employees from companies of all sizes between March 6 and March 17, 2013, on behalf of Bank of America Merrill Lynch. To qualify for the online survey, employees had to be enrolled in a 401(k) plan. No quotas were set and no weighting was necessary.

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