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Study Finds Employer-Sponsored Retirement Plan (ESRP) Match Can More Than Double Annual Participant Savings

Low Interest Rates and "Oops" Factor Confound Older Investors, But Ameriprise, Edward Jones, Wells Fargo Advisors Leaders in Ideal Retirement Income Program Components

(Rye, NY) – A new study reveals an employer-sponsored retirement plan (ESRP) match can more than double average annual plan participant savings – especially for moderate-income households – and on the retirement income front, older investors have an exploding but unmet need, up 27% in two years, for help managing their retirement resources – according to **Hearts & Wallets**, the preeminent financial research platform for consumer savings and investing insights.

One piece of the retirement puzzle is helping savers accumulate better nest eggs. The other is helping older investors tap into their resources in more effective ways. The Hearts & Wallets study, ***Retirement Income Programs & Employer-Sponsored Retirement Plan Engagement,*** examines ESRP trends and also presents Hearts & Wallets biannual benchmarks on retirement income programs, most desired plan components and industry leaders.

Hearts & Wallets research draws upon the firm's ongoing qualitative, quantitative, market sizing and competitive intelligence analysis. The Hearts & Wallets Investor Quant (IQ) research platform is the deepest and broadest single dataset on retail investor buying patterns and U.S. family finances. Annual data collection from over 5,500 U.S. households fuels the IQ database while consumer focus groups conducted throughout the year identify emerging investor trends to keep Hearts & Wallets clients on the cutting edge of shifts in consumer opinion.

Matching Magic

A jumpstart to ESRPs, a major source of retirement funding for many Americans, is sorely needed to reverse declining ESRP savings and participation rates. The past year saw average annual household savings increase almost a full percentage point to 5.5, up from 4.6% in 2013, based on Hearts & Wallets data. Yet average household savings allotted to employer-sponsored retirement plans (ESRPs) dropped 7 percentage points in one year, going from 29% in 2013 to 22% in 2014. Eligible and participating households fell from 60% in 2013 to 56% in 2014.

The influence of a plan match is often underestimated since not all plans offer this incentive. The Hearts & Wallets analysis reveals the average national saver will be motivated to save $1,200. To the person for whom "getting the match" is very important, savings will more than double from $1,400 to $2,600. The boost of a match is highest for middle-income savers, who increase their savings by 2.5 times with the motivation of a match.

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Nationally, only 10% of savers eligible for an ESRP say their employer offers a 6%-plus match. A third say their match is 4% to 6%. Another third say the match is up to 3%. Almost a quarter (24%) say no match is offered.

"Employer match holds great promise to increase overall participant savings rate, especially for middle income savers who respond so well to this positive incentive," Chris J. Brown, Hearts & Wallets partner and co-founder, said. "Match becomes a powerful tool for employers and plan sponsor to drive results and benefit employees."

No Sale with Retirement to Younger Savers

Segmentation is critical for effective ESRP calls to action. Of the 57 million households with ESRP access, half are Emerging (ages 21 to 27) and Early Career (ages 28 to 39) lifestage investors who do not respond to the same messages as older investors.

"Hearts & Wallets research shows younger Americans want freedom from dependence on employment for income but do not crave 'retirement' per se," Laura Varas, Hearts & Wallets partner and co-founder, said. "Saving for a traditional retirement is only about half as effective as a motivation for young savers as it is for older ones. The targeting of marketing messages will engage the full spectrum of eligible savers and encourage eligible Emerging households to start building wealth as soon as possible."

ESRP Saving Rate Benchmark Firms

Top performing firms for average household ESRP savings rate benchmarks are **JP Morgan Chase & Co.**, **Bank of America**, **Fidelity**, **Vanguard** and **TIAA-CREF** with 20% or more of plan participants saving more than 5% of household income. Saving rates are influenced by participant income, employment industry, sponsor match and marketing messaging.

"With the right data, firms can decode the optimal ways unique to the participant base to inspire higher household ESRP savings rates," Brown said. "The key factors are income, industry, sponsor match and effectiveness of messaging. Lifestages and income level segments respond very differently. For example, a message of 'tax deferral' is well received by more affluent savers. We also see industry-specific differences."

Rising Demand for "Manage Components," Especially Minimizing Taxes

Americans say they need the most help – and get the least assistance – with managing a retirement income program. Unmet needs exploded from 2012 to 2014 with demand for components in the manage category growing 10-plus points. More than a third (33% to 42%) of older Americans desire services that execute a retirement income program, monitor progress, and minimize taxes and income across multiple accounts.

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"Despite Americans desire for one-stop shopping, they can't get satisfaction from firms today," said Varas. "Consumers want a consolidated view of all financial income streams in one place. This area is ripe for innovative firms."

More than two-thirds of consumers say they already have an "investment selection that will generate income," improving from 51% to 67% in two years. "Many firms are working on new investment products. They would do well to focus on unmet needs across the 'manage" spectrum of services," Varas added.

The service consumers most desire is help minimizing taxes. The unmet need for "recommendations for minimizing taxes" is highest at employer-based providers / "stores," H&W's term for retail and defined contribution providers that work directly with investors.

Written Plans Still Lag

Older Americans are getting better about having a written retirement income plan, but levels are still below 2008, when 82% had a good idea of where they would obtain their income, suggesting the low-interest rate environment continues to confound older savers. One in five affluent pre-/post-retirees has a written plan. Those with at least a "pretty solid idea of where my income should come from" grew slightly, going from 73% in 2012 to 77% in 2014.

Planning shifts into high gear once individuals reach the pre-retirement threshold. One-third of Late Careers (ages 53 to 64 with head of household having no plans to retire within five years) have a poor idea of income.

"Thinking seriously about retiring" remains the No. 1 planning trigger, but financial advisors are playing more of a role, jumping 6 points from 23% in 2012 to 29% in 2014. Spousal influence is third at 17% in 2014, down from 20% in 2012. Employers are less influential, dropping to 10% from 16% in 2012. The "Oops!" factor – "already started taking income and realized needed to" plan – afflicts 16% of affluent households, being most prevalent in the lower mass affluent.

Customers of **Ameriprise Financial, TD Ameritrade** and **USAA** are most likely to have better quality, written retirement income plans. Ironically employer retirement-plan based stores have some of the lowest scores. This is, in large part, because of regulations that require a one-size-fits all program.

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Industry Leaders in Retirement Income Program Components

Ameriprise Financial customers on average have more components of the ideal retirement income program than any other firm, especially for "manage" components. The analysis also shows customers of **Edward Jones, Wells Fargo Advisors** and **Charles Schwab** have more robust programs than most others. On execution support, Ameriprise, Edward Jones and Wells Fargo Advisors perform well. These leaders are also less likely to have customers who cite the "oops" factor as a reason for starting to plan.

About the Hearts & Wallets Study

Methodology
Retirement Income Programs & Employer-Sponsored Retirement Plan Engagement analyzes the state of retirement income plans and employer-sponsored retirement plans and is drawn from the **Hearts & Wallets Investor Quant (IQ) Database.** This syndicated research platform serves as the engine for Hearts & Wallets' qualitative, quantitative, market sizing and competitive intelligence research. It consists of 10,000 sets of consumer feedback on financial services firms annually from 5,500 U.S. households and over 30,000 U.S. households over five years.

About the Hearts & Wallets®
Hearts & Wallets LLC is the preeminent financial research platform for consumer savings and investing insights that inspire innovation, inform choice and modify behavior. Most of the top 10 retail financial services firms, in terms of assets under management and investors served, subscribe to the Hearts & Wallets Investor Quant (IQ) database engine platform with data on 30,000 U.S. households over five years. The firm's integrated research platform combines consumer marketing and strategy frameworks with a deep, practical understanding of how the investment, retirement and banking industries function. Hearts & Wallets grows financial services client businesses by illuminating new, smart ways to truly help American savers and investors. Clients better understand the unmeet needs of distinct population segments, improve their products and services, gain a powerful competitive edge, and ultimately, enhance consumer lives. The company is headed by two of the leading research experts in retirement market trends for the financial services industry, **Chris J. Brown** and **Laura Varas**. Their studies and conferences are must-have resources for retirement industry strategists, product managers and marketing and sales executives. For more information, visit **www.heartsandwallets.com.**

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