

Briefly

Few companies offer workers online access to total compensation information

Despite the growing use of the Internet for personal transactions and the widespread availability of customized information on health care and retirement benefits, relatively few companies offer workers online access to information about their total compensation.

In a study published Nov. 15, Watson Wyatt Worldwide found more than half of surveyed employers (55 percent) offer workers Web access to personalized health benefits information, while 52 percent provide access to retirement benefits information. Just under half (46 percent) offer paycheck information online. However, fewer than two out of 10 employers (16 percent) provide online information about total compensation. The survey results are based on responses from 135 employers.

"Employers have a great opportunity to leverage the Internet and increase the efficiency of their HR processes," said Amy Litten, personalized communication practice leader at Watson Wyatt.

The survey also found a sharp increase in the number of Web-based HR transactions. According to the survey, 39 percent of 401(k)/savings plan transactions now take place on the Web, up from 30 percent in 2002.

IMA's Benefits Report is available for purchase

The Illinois Manufacturers' Association (IMA) biennial *Benefits Report* is now available.

The biennial *Report* contains data on employers' plans for a variety of different benefit plans in addition to total number of holidays provided.

To order a full copy of the 2005-2006 *Benefits Report*, contact Janie Stanley at (800) 875-4462, Ext. 3020, or e-mail jstanley@ima-net.org.

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HUMAN RESOURCES Memo

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Retirement savings feeling the squeeze *Medical costs boost income needs*

Employees who do not contribute to their 401(k) plans can expect to replace as little as 52 percent of their annual preretirement income when they retire -- well short of an average retiree's income needs, according to a human resources study.

This is a sobering figure, particularly when the majority of employees who don't contribute to their 401(k) plan may need to replace as much as 125 percent of their preretirement pay to meet their income and medical needs when they retire. In other words, employees' retirement income could fall short of their projected needs by as much as 73 percentage points. The study by global HR consulting firm, Hewitt Associates finds nearly a third of employees (30 percent) do not contribute to their 401(k).

In contrast, employees who do contribute to their company's 401(k) plan can expect to replace

nearly all — 98 percent — of their annual preretirement income, through a combination of 401(k), pension and Social Security income.

"People's retirement income levels are very quickly eroded if they aren't actively saving for retirement — and that's true even if workers have access to income from pension plans and are covered by rich retiree medical plans," said Lori Lucas, director of Hewitt's participant research.

The study, "Total Retirement Income at Large Companies: The Real Deal," evaluated more than 65 large U.S. employers and 1.8 million employees, assessing projected retirement income adequacy given actual savings patterns.

401(k) Contributors Need to Step Up Savings

The study also raised some concerns for employees who

currently contribute to their company 401(k) plan. If their company offers a 401(k) plan, without the added support of a pension plan or retiree medical subsidy, they may not be on track for retirement. In fact, even if they are actively contributing to their 401(k), they could face a retirement income shortfall of nearly 27 percentage points.

"Pension cost volatility and soaring health care costs are putting more companies in a situation where they can only afford to offer 401(k) plans as their retirement vehicle, yet many of their workers are not responding by stepping up their savings in these plans," said Allen Steinberg, a retirement and financial management consultant with Hewitt.

The good news is that even modest changes in savings behavior can help employees close

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Last chance to register for this Dec. 2 event

Don't miss IMA's Annual Meeting

The Illinois Manufacturers' Association (IMA) will join other business groups in hosting a joint annual meeting, under the auspices of the Illinois Coalition for Jobs, Growth & Prosperity, Friday, Dec. 2, 2005, at the Palmer House Hilton in Chicago.

The IMA is a founding member of the pro-business Coalition. The Coalition has been a unifying force in the

business community since its inception in the fall of 2003. The joint annual meeting will allow Coalition members to continue to find success in common-ground areas that help make Illinois a better place to conduct business.

Break-out sessions will be from 9:00 a.m. - 11:15 a.m. The reception will be from 11:15 a.m. - noon. The lunch/keynote speaker program will be from noon - 2:00

p.m., and nearly all of Illinois' gubernatorial candidates have accepted the invitation to give brief presentations.

Sponsorship opportunities are also available. For more information, see the IMA Web site at <http://www.ima-net.org/Sponsorship05.pdf>. For more information, contact Kimberly McNamara at (630) 368-5300, Ext. 2109 or e-mail kmcnamara@ima-net.org.

Retirement

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the retirement savings gap. For example, an average employee who contributes to his or her 401(k), but doesn't have a pension plan or retiree medical subsidy, can reduce his or her retirement income shortfall to less than 5 percentage points by retiring two years later (at age 67) and contributing 2 percent more per year to his or her 401(k) than the average 8 percent of pay.

Medical Costs Raise Income Needs

Hewitt's study assumes that an "adequate" retirement income supports a standard of living in retirement that is consistent with income levels when people are actively employed. Though retirees may expect to pay less in taxes and will no longer need to earmark a portion of their income for savings, they will need sufficient income to cover inflation and medical costs during their retirement.

"The typical employee pays 25 percent of his or her personal health care costs, such as premiums, while the typical retiree pays 50 to 100 percent. For low-wage workers without subsidized retiree medical coverage, medical costs can increase the income required for retirement by a substantial amount," said Lucas. "We think it's critical to raise awareness among employees about the escalating need to save. Companies can help by offering features in their 401(k) plans that encourage employees to save more — for example, offering an option to automatically increase contribution levels over time."

Early Retirement Moves out of Reach

Hewitt's study indicates that most employees cannot afford to retire before the age of Medicare eligibility (age 65). For employees currently contributing to their 401(k) plan, early retirement can mean a retirement income shortfall of as much as 31 percentage points relative to what such employees may need in retirement. For employees who fail to contribute, early retirement can produce a shortfall as high as 88 percentage points.

"Projected retirement income is lower with early retirement — while projected retirement needs are greater due to a longer lifespan and costly medical coverage prior to Medicare eligibility. This just means that many people will need to consider retiring later, rather than earlier," stated Steinberg. "Alternatives such as phased retirement are likely to become increasingly attractive to employees."

Strategies to Strengthen Savings

The longer employees can save additional funds, the greater the impact on their retirement income. For employees younger than 25 who contribute to their 401(k) plans, saving an

additional 2 percent of pay in their 401(k) annually can boost income replacement levels by more than 17 percentage points. Mid-career employees can boost income replacement levels by 4 to 6 percentage points, moving closer to an adequate retirement income.

In addition, deferring retirement by two years increases employees' retirement income levels by approximately 14 percentage points, regardless of whether they contribute to their 401(k). However, many employees retire earlier than expected, due to illness or job layoffs. Beyond saving more and retiring later, employees should consider the following strategies to help them save for retirement.

- **Improve investment diversification.** Heavy concentrations in company stock can lead to devastating losses in 401(k) portfolios, yet the average 25-year-old with company stock has 43 percent of his or her 401(k) balance in company stock. Those with no company stock tend to have less equity exposure than might be generally recommended. By improving diversification or assuming more risk levels, a 25-year-old can improve his or her retirement income replacement by as much as 20 to 25 percentage points. Third-party investment advice, investment guidance and premixed portfolios also can help.
- **Avoid high fees, when possible.** Retail mutual funds charge, on average, more than two and a half times the expenses of privately managed, commingled funds. When rolling over money, consider the fact that investing in retail mutual funds outside of plan-provided funds can reduce retirement income by nearly one-fifth over the long term. Leaving assets in such mutual funds after retirement exacerbates savings erosion.
- **Preserve 401(k) savings in job transitions.** Hewitt's study finds that mid- and late-career hires may be positioned less advantageously for retirement than employees with a full career of participation in their current employer's retirement programs — even when outside assets such as prior 401(k)s and IRAs are taken into account. This may be attributable to the tendency of many workers to cash out their 401(k) savings upon termination rather than preserving these assets for retirement. Employees should preserve even small balances for retirement, particularly when job changes are frequent.
- **Save early, save often.** More than half (54 percent) of employees in their 20s do not actively save in their 401(k) plans, which causes them to lose the value of their 401(k) savings that compounds over time. Employees should build their retirement nest egg by saving as soon and as much as possible.

Manufacturing employment posts gains in November

Employment growth among U.S. manufacturers continued in November, as more employers filled vacant positions.

However, there was a decrease in the percentage of employers who plan to hire over the next 30 days. The findings were reported Nov. 22 in the November Leading Indicator of National Employment (LINE), a collaborative effort between the Society for Human Resource Management (SHRM) and the Rutgers University School of Management and Labor Relations.

The November gain in employment parallels an increase found in November 2004, suggesting that much of this month's employment increase is due to normal seasonal fluctuations. In addition, there was more hiring among hourly production workers than salaried employees in November. Finally, employment expectations over the next 30 days are down. Employment expectations have continued to decline over the last six months, and expectations are lower than they were in November 2004.

LINE reports on five employment measures. For a full copy of the report and a detailed description of each component, visit www.shrm.org/LINE.

Dates of Note

- **Dec 2: IMA EVENT: 2005 Annual Meeting of the Illinois Coalition for Jobs, Growth & Prosperity**, Chicago, IL. Join manufacturing colleagues at the 2005 Annual Meeting of the Illinois Coalition for Jobs, Growth & Prosperity, of which the Illinois Manufacturers' Association (IMA) is a founding member. For more information, contact Kimberly McNamara at (630) 368-5300, Ext. 2109, or e-mail: kmcnamara@ima-net.org.