

The 2007 Ameriprise Workplace Financial Planning Benefit Decisions Study

Measuring benefits change and financial stress from an employee financial planning perspective

Abstract

More research is not required for one to conclude that the level of complexity of financial decision-making for today's workers continues to increase on all fronts. With growing health care expenses and multiple sources of financial stress increasingly outstripping the readiness and ability of people to save for retirement, research findings that point to a wholesale lack of preparation, savings inertia and an unfounded overconfidence are hardly surprising.

But what The 2007 Ameriprise Workplace Financial Planning Benefit Decisions study reveals is the high desire people have for financial planning available in a workplace context. As employer-driven benefits such as pensions and retiree health care wane, workers regularly confront a nexus of financial decisions related to retirement plans, health insurance and other benefits. The 2007 Benefit Decisions study found that better than two out of three people would be interested in an employer-subsidized financial planning benefit to help provide a better foundation for these decisions. Survey respondents also indicated that financial planning would have positive effects on their workplace morale and help increase confidence in their benefits decisions.

> Study background

The 2007 Ameriprise Workplace Financial Planning Benefit Decisions study is a new composite study combining elements of its past Benefits Cost Increase and Financial Stress studies, with data on workplace financial planning benefit trends.

The resulting trends study continues to measure key historical metrics related to benefit costs and financial stress and their impact on retirement saving and investing.

Ameriprise conducted Benefit Cost/Health Care Cost studies in 2005, 2004 and 2003; as well as Employee Financial Stress Studies in 2005, 2004 and 2002. These studies provide historical comparison data for applicable portions of the 2007 Benefit Decisions study.

Synovate's Telenation Survey was used for all periods of data collection for 2007. In gathering the survey sample, key screening questions were used. These concerned the availability of employer-sponsored 401(k) retirement plan and health care insurance benefits. The rationale for these screens was to achieve a sample population that had access to and experience with a full range of employee benefits. This was essential to assess financial stress and decision-making dilemmas among benefits coverage and retirement savings, as well as measure the need for workplace financial planning.

To that end, a total of 1,409 persons were contacted in 2007; of these 842 were enrolled in or eligible for their company's 401(k) plan and 653 received health insurance coverage from their employer. Weighting to achieve national representativeness adjusts this sample size to 617. The weighted sample yields 95 percent confidence in ± 3.95 percent variability for percentage data. The confidence intervals for sub-groups will necessarily be larger.

> Respondent profile

The sample consists of 96 percent that consider themselves heads of households, 66.1 percent are married and 63 percent are male. Segmented by age, 35 to 40-year olds make up the largest cohort with 29 percent, followed by 25 to 34-year olds at 25.2 percent, 45 to 54-year olds at 24.7 percent, 55 to 64-year olds at 14.2 percent. Those under 25 make up just 5.1 percent of the sample and 65 to 74-year olds represent only 1.8 percent. The sample is made up of respondents from across the U.S., with the highest concentration residing in the South (36.5 percent), and the remaining respondents spread more evenly across the Northeast (18.3 percent), the Midwest (23.7 percent) and the West (21.5 percent). The sample is weighted to reflect the U.S. Census statistics.

Higher annual income respondents make up the most significant portion of the sample, with 28.6 percent in the over \$100,000 income range, 22 percent in the \$75,000 to \$100,000 range, 24 percent in the \$50,000 to \$75,000 range, 10.8 percent in the \$40,000 to \$50,000 range, 7.2 percent in the \$30,000 to \$40,000 range, and 7.3 percent in the less than \$30,000 range. In addition to income, more than three out of four (78.1 percent) respondents own their home.

Participation in an available 401(k) retirement plan has increased to 76 percent of eligible employees, showing a steady rise from 65 percent in 2002. While the increase over time is significant, nearly one in four (24 percent) still fail to take advantage of this option to enhance their retirement savings. Of those eligible and participating, 55 percent are contributing five percent or less of their annual earnings into the plan, and one in four contribute only one percent or less. Only 12 percent contribute in the 11 to 15 percent range, and six percent contribute 16 percent or more.

Among the options for health care insurance, 78 percent use their employer-sponsored benefits, while 13 percent receive coverage through their spouse, five percent obtain coverage from an outside source and four percent decline health care coverage.

> Summary/Intro

Today's employee faces an unprecedented set of contingent personal financial decisions in selecting and managing their workplace benefits and compensation. Pensions, health care benefits, and retiree benefits are being cut back, frozen or eliminated, as employers continue to look for ways to trim rising costs. At the same time, key changes in society are affecting both the cost of health care and how Americans hope to finance their retirement: people are living longer life spans, personal savings rates are in negative territory, and the age people can receive Social Security benefits is rising. It is projected that the Social Security trust fund will become insolvent in 2040 and Medicare by 2018, according to the 2006 Trustees Report for the two programs.

Economic and benefit cost trends have prompted a major shift in the past ten years toward defined contribution-style retirement and health care plans, bringing a greater expectation of individual responsibility. Subsequently, most workers must increasingly look at the achievement of their retirement dreams from the perspective of their present livelihood—the income and benefits provided by their employer. This is the finite source of their present and future wealth, and is the linchpin for every financial decision that follows.

Each employee benefit decision is interrelated with their other benefits choices and personal financial needs, requiring integrated decision making by each employee. No benefits enrollment choice is made in a vacuum. Yet typically, core benefit and compensation decisions are made by four out of five workers without the benefit of a financial plan or advice. The 2007 Benefits Decisions study explores the financial stress inherent in these benefit decisions, the impact of benefit cost increases on financial decision making such as retirement savings, and the mitigating potential of a workplace financial planning benefit.

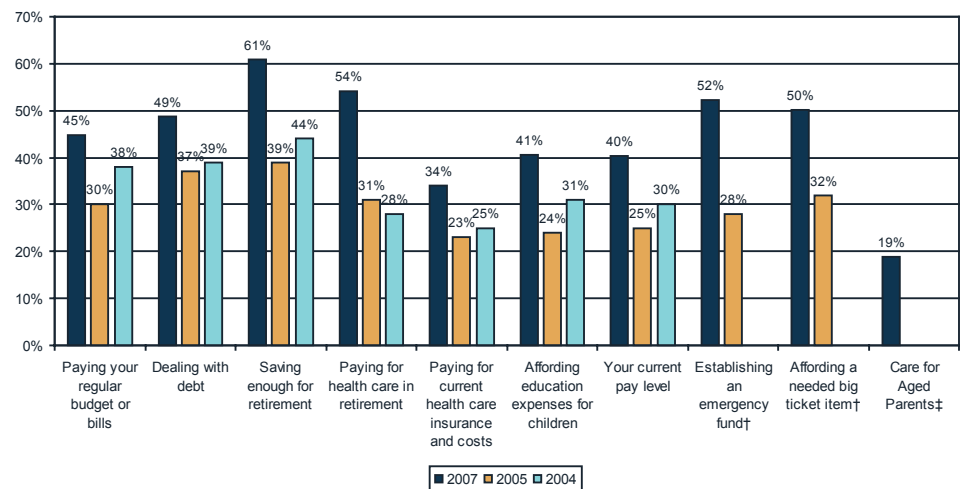
> Mounting sources of financial stress

In all categories measured, the sources of financial stress have increased considerably since 2005. In 2007:

- > 61 percent experienced financial stress related to saving for retirement.
- > 54 percent experienced stress regarding paying for health care in retirement.
- > 52 percent are stressed about saving for an emergency fund.
- > 50 percent are stressed about saving for “big ticket” items.

Even with the addition of a few new response categories in the 2007 and 2005 studies, 2007 saw sources of stress increase in every category, dramatically in some cases (Figure A).

Figure A. Sources of Financial Stress



† Data not collected in 2004. ‡ Data not collected in 2005 or 2004.

The highest stressors continue to be saving for retirement and paying for health care in retirement, which indicates that while people recognize their future needs, they are unable to find and apply strategies to meet those challenges in order to alleviate their financial stress level and increase their confidence.

Nearly one in five (19 percent) report high or extremely high levels of financial stress in the past 18 to 24 months, which is slightly ahead of 2005 (16 percent), but unchanged from 2004 and 2002 findings. Combined, moderate to extremely high levels of financial stress are indicated by 57 percent of respondents, ahead of 53 percent in 2005, but in line with 60 percent in 2004 and 61 percent in 2002.

When asked how this level of stress has changed, one in four (25 percent) feel that it has gotten worse in the past 18 to 24 months, up from 16 percent in 2005 and more in line with 2004 (22 percent) and 2002 (26 percent). Similarly, only 17 percent feel the level of stress has improved in 2007, the lowest percentage recorded to date and much lower than 30 percent in 2005, 31 percent in 2004 and 22 percent in 2002 (Figure B).

While less than one in 10 would admit that their level of financial stress impacts their performance on the job, 87 percent of those that do feel it has an impact also believe their performance would improve if the stress was alleviated.

➤ Increasing benefit costs prompt trade-off decisions

Better than eight out of 10 (81 percent) report that their out-of-pocket expenses for health care are increasing. This is a definite jump from 68 percent in 2005, 71 percent in 2004 and 69 percent in 2003. Out-of-pocket expenses reported for other benefits such as life insurance, dental insurance and 401(k) plans were also slightly higher than 2005, when they were first measured (Figure C).

Figure B. Change in Stress Level

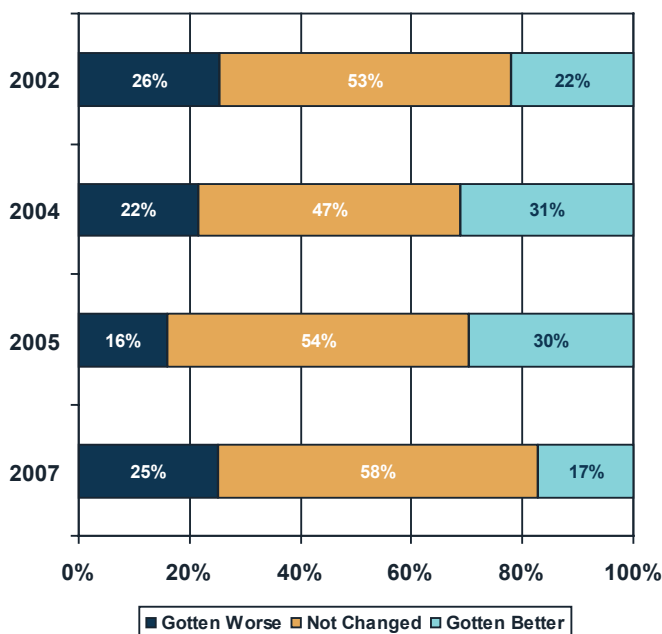
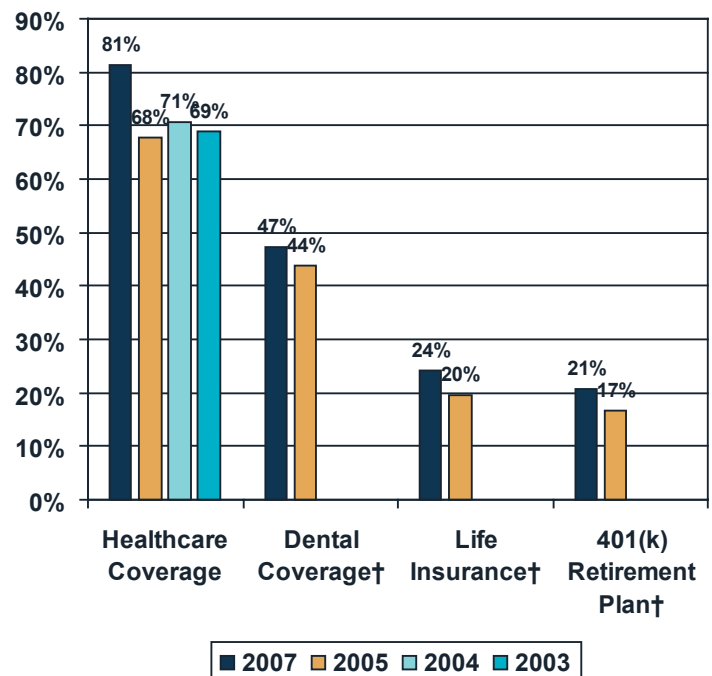
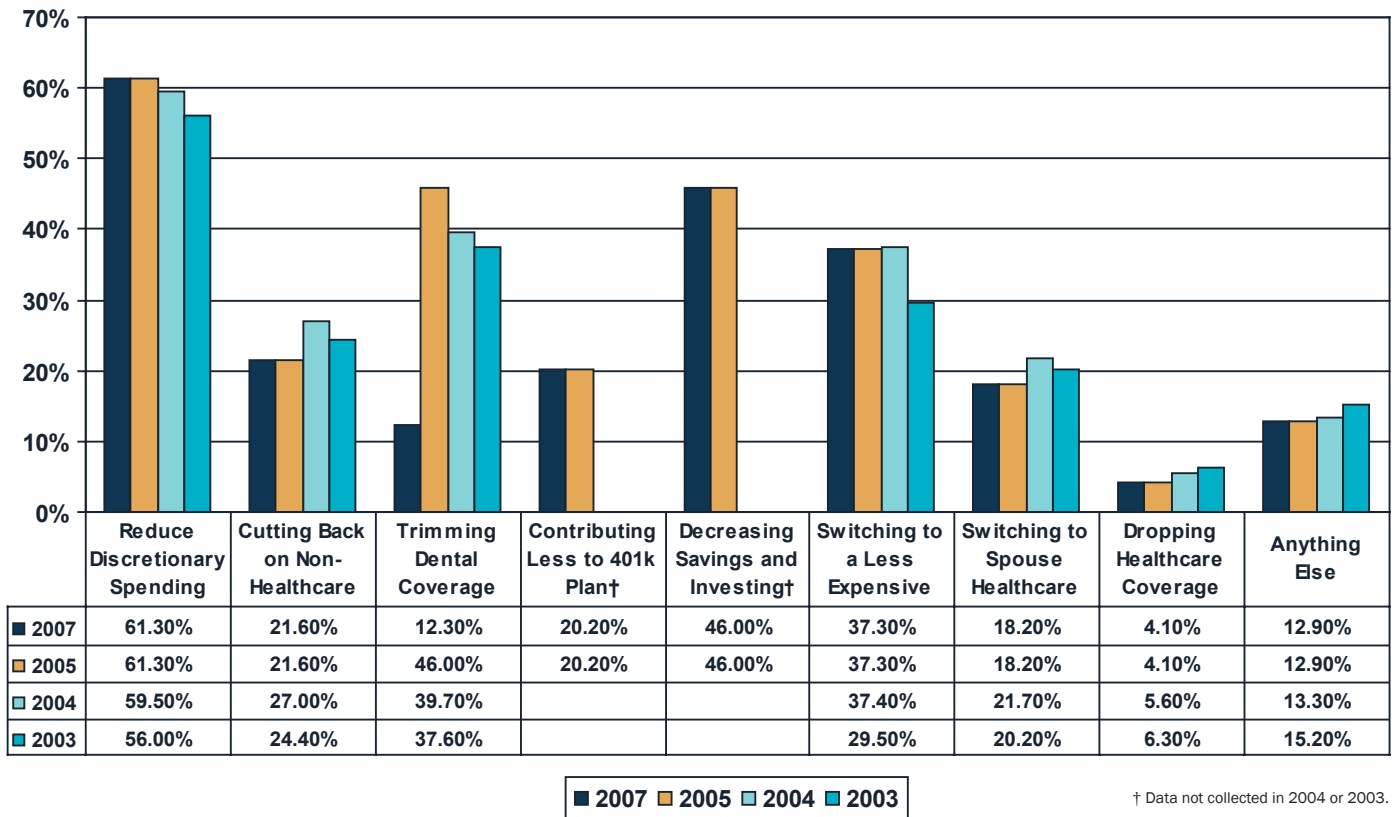


Figure C. Employee Out-of-pocket Benefit Cost Increases



† Data not collected in 2004 or 2003.

Figure D. Ways Employees Cope With Health Care Benefit Cost Increases



Alarming, decreasing saving and investing continues to be the second most popular response mechanism for increased out-of-pocket benefit expenses (46 percent), higher than all other options in 2007 except reducing discretionary spending (61 percent). These cost trade-offs results are remarkably consistent over the four years of data that has been collected (Figure D). Near-term health care coverage continues to be a non-negotiable benefit for many when pitted against long-term saving for retirement.

One in four (26 percent) also would consider reducing their 401(k) retirement plan contributions to offset increased out-of-pocket benefits costs, down just slightly from prior years. Of those that would consider reducing their 401(k) retirement plan contributions, most would try to keep the drop in their contribution rate between 1.0 and 3.0 percent, while more than one in four would make a reduction of 5.0 percent or more (Figure E). Of those that would consider making

a reduction of any kind, a significant majority (62 percent) admit they would face some loss of employer-matching contributions to their retirement accounts (Figure F).

Figure E. Reduction Level of Those Cutting Back on 401(k) Saving

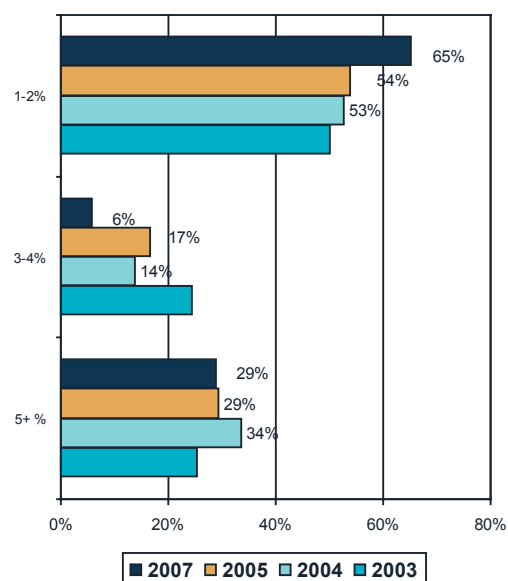
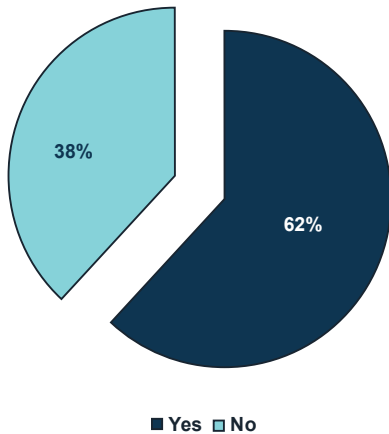


Figure F. Percent of Employees Losing Match Dollars When Reducing 401(k) Saving



Also consistent over the four years of survey data, more than 40 percent report an impact on their financial health and stress levels related to increases in their health care insurance costs. And 44 percent feel that increasing benefit costs will impact their ability to fund retirement and other financial goals, with better than one in four very concerned.

The provision of employer support for benefit decision-making has declined somewhat since 2005, with 39 percent of respondents indicating their employers have provided education or tools to assist with their benefits decisions. Use of this support by employees remains high in 2007 at 76 percent, while flagging a bit from 84 percent in 2005.

> The case for a financial planning benefit

While employer-provided education support for benefits decisions has been scaled back, employees are increasingly recognizing how a financial planning benefit could be of assistance in making effective and balanced choices.

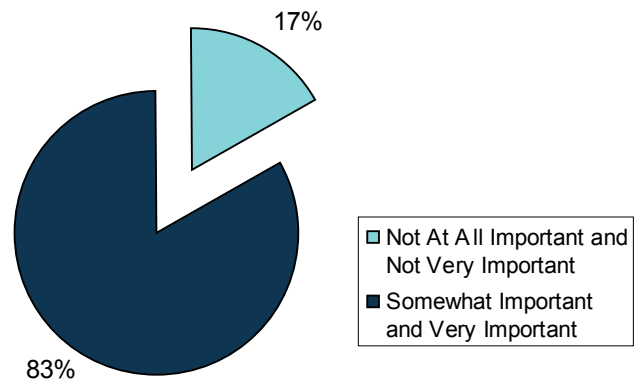
Nearly three of four employees (70 percent) would be moderately or very interested in one-on-one

financial planning if offered through their employer. And more than four of five employees (81 percent) would take advantage of a financial planning option if their employer paid for a portion of it as part of the employee benefits package. Of those that say they wouldn't use a financial planning benefit, about half imply that they already have a financial plan of some kind, one in five believe they can do it themselves, and 14 percent say the cost would be too high.

An employer-sponsored financial planning benefit option is believed to have positive effects on workplace morale-related issues, and would increase confidence in decision making regarding benefits.

For example, employees overwhelmingly believe that a financial planning benefit would make them feel their employer recognizes and values their effort in the workplace (87 percent). A similarly high percentage of workers (83 percent) indicate that it is moderately or very important that they feel valued and recognized by their employer through the benefits offered in the workplace (Figure G).

Figure G. Importance of Feeling Valued by Employers Through Workplace Benefits



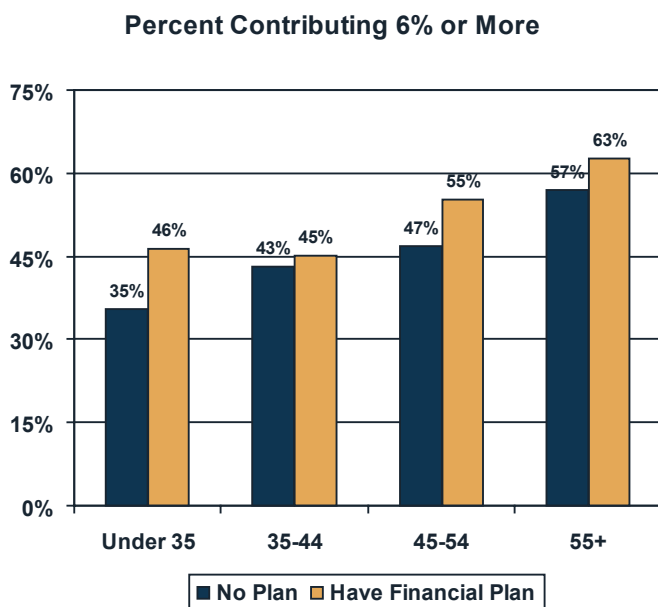
Most specifically, nearly nine in 10 (89 percent) respondents believe a financial plan that directly addressed their workplace benefit costs and contingent financial decisions would be helpful. The study found that, while 56 percent of employees are somewhat confident in their benefits decisions,

only 35 percent are very confident and 9.0 percent have little or no confidence. Of those that are not very confident in their benefits decisions, 81 percent believe financial planning would improve their confidence level.

Overall the Study found that slightly less than one in five report that they have a written, professionally prepared and paid-for financial plan. (See the Appendix for a separate demographic analysis of the sample subset with a written, professionally prepared and paid-for financial plan.) Those who do have a financial plan are far more likely to agree that an employer-provided financial planning benefit would make them feel valued by their employer.

Financial planning also helps investors get started at an earlier age with their saving and investing in company-sponsored plans, and they are more likely to contribute substantially throughout their life cycle. The percentage of employees contributing 6.0 percent or more to their 401(k) retirement plan increased in all age groups, but most dramatically in the under age 35 group, which increased from 35 percent to 46 percent (Figure H).

Figure H. Retirement Plan Contributions of Employees With and Without Financial Plans



Persons who lack a financial plan are more likely to cut back on their saving and investments in company sponsored plans when confronted with increases in out-of-pocket benefit expenses. Of those facing one or more benefit cost increases, 54 percent of those without a financial plan would reduce their retirement savings level, compared with 46 percent of those with a financial plan.

In addition, males, who make up 63 percent of the survey sample, are more likely to contemplate reducing their 401(k) contributions if they lack a financial plan when facing a significant increase in out-of-pocket benefit cost increases; those with a plan are more likely to resist this temptation.

While experiencing cash flow stressors is inexorably linked to concern about funding retirement and overall levels of financial stress, those with a financial plan are less effected by these trends. Of those experiencing high or very high financial stress from two or more sources, 35 percent do not have a financial plan compared with 29 percent that have a plan.

Fifty-eight percent of employees feel that they need, or would need, at least some help in making investment decisions for 401(k) funds. While this is six percent lower than June 2005, it is slightly higher than 2004 (53 percent) and 2002 (55 percent). Those needing a good or great deal of help increased to 16 percent in 2007, a steady increase from 13 percent in 2002. Males who have a financial plan are more likely to believe that they need assistance with investing their 401(k) funds.

> Conclusion

Traditionally, employers have viewed financial planning as an offshoot of retirement plan or financial education programs—not as an employee benefit. Even more to the point, most employers have not fully considered the interrelated financial decisions employees now face and the mounting financial stress created by increased individual responsibility.

The data from this study continues to find strong evidence that many employees are willing to sacrifice a portion of their retirement nest egg to compensate for increases in present benefits costs. Subsequently, it's no surprise that the top sources of financial stress concern saving for their retirement needs.

This study joins a growing body of evidence that suggests employer supported and subsidized financial planning in the workplace is highly valued by employees, and beneficial in strengthening employee-employer relationships.

> Appendix

Demographic analysis of survey sample subgroup: Those with a written, professionally prepared and paid-for financial plan.

Of the study's overall sample, nearly one in five indicated they have a written, professionally prepared and paid-for financial plan.

Of those respondents with a plan, 69 percent are married and 68 percent are male.

While the larger sample has a more normal distribution among age cohorts, the subset of those with a financial plan is more weighted in those in or near retirement. Within age groups, 65 to 74-year olds have the largest percentage with a financial plan (36.2 percent), followed by 45 to 54-year olds at 26.1 percent, 55 to 64-year olds at 24.6 percent, 25 to 34-year olds at 19.7 percent. Of those under 25 years old, only 7.7 percent have a financial plan percent.

To an even greater degree than the overall sample, higher annual income respondents make up the most significant portion of the subset of people having a plan: 39.1 percent of those with a plan are in the over \$100,000 household income range, 20.5 percent are in the \$75,000 to \$100,000 range, 21.5 percent of people in the \$50,000 to \$75,000 range, 8.5 percent in the \$40,000 to \$50,000 range, 7.3 percent in the \$30,000 to \$40,000 range, and 2.9 percent in the less than \$30,000 range.

In addition to income, four out of five (79.9 percent) respondents with a financial plan own their home.

> About Ameriprise Financial

Ameriprise Financial is a leader in workplace financial planning providing corporations and other institutions with a broad spectrum of employee financial education and financial planning programs to help improve benefits utilization and the financial lives of employees. The AmeripriseSM Workplace Financial Planning unit serves more than 1,600 companies and their approximately 1.8 million employees across the United States.

Ameriprise Financial, Inc., is a leading financial planning and services company with approximately 12,000 financial advisors and registered representatives that provides solutions for clients' asset accumulation, income management and insurance protection needs. The company's financial advisors deliver tailored solutions to clients through a comprehensive and personalized financial planning approach built on a long-term relationship with a knowledgeable advisor. The company specializes in meeting the retirement-related financial needs of the mass affluent and affluent. Financial planning services and investments are available through Ameriprise Financial Services, Inc., Member FINRA and SIPC. For more information, visit ameriprise.com.



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