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Attraction and Retention: What Employees Value Most - March 2012

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Even with unacceptably high unemployment in the national economy, U.S. companies are struggling to attract talented employees with critical skills. ¹

<https://www.towerswatson.com/en/Insights/Newsletters/Americas/Insider/2012/Attraction-and-Retention-What-Employees-Value-Most-March-2012#footnote1> Employees, meanwhile, remain anxious about their retirement prospects and yearn for financial security, including benefit guarantees. ²

<https://www.towerswatson.com/en/Insights/Newsletters/Americas/Insider/2012/Attraction-and-Retention-What-Employees-Value-Most-March-2012#footnote2> Workers' reordered priorities are shaping their decisions about whether to take a new job or to remain with their current employer, according to the 2011 *Towers Watson Retirement Attitudes Survey*. This article describes the attraction and retention value employees assign to their employer's health and retirement benefits.

The right mix of benefits can be a critical component in a successful long-term plan for attracting and retaining employees, proving to be the competitive advantage employers need to succeed in a challenging economic environment.

This article is the last in a three-part series based on the Towers Watson 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 second article, "American Workers Seek More Security in Retirement and Health Plans," looked at how the financial crisis and its fallout have changed the trade-offs employees are willing to make to reduce their retirement and health care risks.

SURVEY HIGHLIGHTS

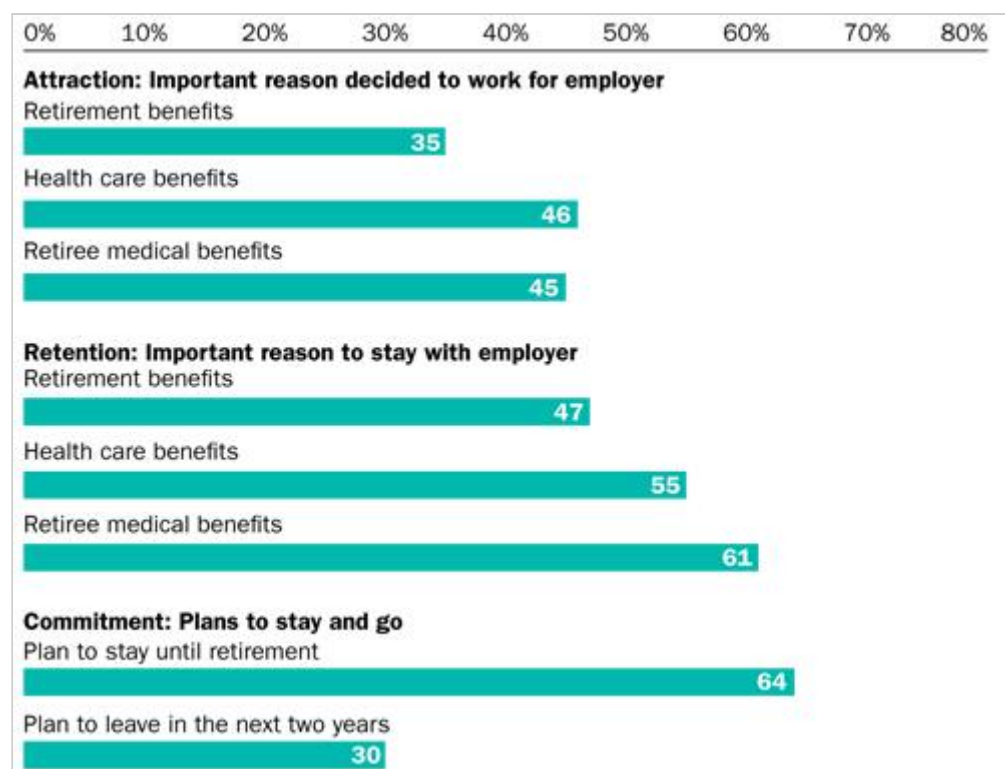
- Between 2009 and 2011, the percentage of workers younger than 40 who agreed their retirement program was an important factor in accepting their job jumped from 28% to 63%.
- More than three-quarters of new hires at companies sponsoring defined benefit (DB) plans say the retirement program gives them a compelling reason to stay on the job, and 85% hope to work with their employer until they retire.
- Forty-six percent of all respondents agree that health benefits were an important factor in their decision to work for their employer, and 55% consider the benefits a good reason to keep working for their employer.

- Among DB plan participants in 2011, 51% say the company's retirement program played a strong role in their decision to join the company, up considerably from 31% in 2009, and there was a similar jump in the attraction value of health benefits. Retirement and health plans have also gained considerably more retention value since 2009, especially among companies with DB plans.
- Workers who lost a DB plan value their company's retirement program even less than workers at companies with only defined contribution (DC) plans. These employees are least likely to want to work for their employer until retirement.
- Among workers of all ages with a DB plan, both retirement and health care benefits are among the top four influences on job acceptance.

HEALTH CARE AND RETIREMENT BENEFITS ARE POWERFUL ATTRACTION AND RETENTION TOOLS

Retirement and health care benefits have long played important roles in workers' employment decisions. Given today's rising health costs, it's not surprising that health care benefits — for both active and retired employees — are an important attraction and retention tool (*Figure 1*). The high cost of health care leads employees' list of retirement security concerns and significantly affects their retirement timing decisions. ³ <<https://www.towerswatson.com/en/Insights/Newsletters/Americas/Insider/2012/Attraction-and-Retention-What-Employees-Value-Most-March-2012#footnote3>>

Figure 1. Importance of retirement and health care plans for attraction and retention



Notes: The survey asked respondents separately about the importance of retirement, active health care and retiree health care benefits as reasons to join and remain with their current employer. Percentages indicate responses of "somewhat agree" or "strongly agree" by those offered the benefits by their employer.

Source: 2011 *Towers Watson Retirement Attitudes Survey*.

Retirement benefits trail health care benefits for both attraction and retention. Roughly one-third of all responding employees say their retirement benefits were a primary reason for taking their current job, and nearly half say the benefits give them a compelling reason to stay.

FOR EMPLOYEES WITH A DB PLAN, THE PLAN STRONGLY ATTRACTED THEM TO THE COMPANY

Plan type is decisive for both attraction and retention. Generally, DB plans carry more weight than DC plans in attracting and retaining employees. Roughly half of employees who work for companies with DB plans say the plan strongly influenced them to accept their job, compared with one-quarter at companies with only a DC plan (*Figure 2*).

Figure 2. Importance of retirement plans for attraction and retention by plan type

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

Source: 2011 *Towers Watson Retirement Attitudes Survey*.

At first blush, it appears that hybrid plans — which typically provide less generous benefits than traditional DB plans — do an even better job than traditional DB plans of attracting employees. But the average age of respondents with hybrid plans is 40, while the average age of those with traditional DB plans is 49. As we explore in more detail below, retirement benefits have become more important to younger and newly hired employees in recent years.

At companies with traditional DB plans, 69% of employees say their retirement program gives them an important reason to stay with their employer, compared with 37% of those at DC-plan-only companies. Indeed, more than 80% of employees at companies with DB plans — both traditional and hybrid — hope to work for their current employer until they retire, compared with only 57% of employees at DC-plan-only organizations.

CUTS IN RETIREMENT BENEFITS HURT ATTRACTION AND RETENTION

As companies have grappled with tighter margins and looked for ways to trim costs over the last few years, employees have felt the squeeze in their pay and benefits.

How have these cutbacks affected attraction and retention? The answer depends on the type and severity of the curtailment. Employees who still have their DB plan and/or retiree medical benefits continue to cite their retirement program as an important reason for joining or remaining with the company.

In organizations that changed their DB plan — such as by closing it to new hires, converting to a hybrid plan or freezing benefit increases — employees who retain their plan, albeit in a modified form, are only slightly less likely than those with an unchanged DB plan to say it strongly affects their employment choices. But employees quickly change their tune if they lose DB accruals altogether, even when the company tries to offset the loss by contributing more to the DC plan. In fact, as shown in *Figure 3*, workers who lost a DB plan are less likely than those with only DC plans (from 2009 to 2011) to value their retirement program as a reason to stay (33% versus 38%). Former holders of DB plans are least likely to want to keep working for their employer until retirement (53%). A very similar pattern emerges for employees who recently lost their retiree medical benefits.

Figure 3. Importance of retirement program for attraction and retention and effects of employer changes

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

Source: 2011 *Towers Watson Retirement Attitudes Survey*.

Retirement programs also lose attraction and retention value at organizations that reduce their 401(k) matching contributions. Employees at companies that scaled back their matching contributions are less likely to want to stay until retirement than workers whose matching contributions were not interrupted (58% versus 66%). Similarly, employees at firms that froze pay increases or reduced or eliminated bonuses are less committed to a long career with their employer. The effects of 401(k) cutbacks and pay reductions, however, are much less striking than the loss of DB plan accruals.

RETIREMENT AND HEALTH CARE BENEFITS GAIN IMPORTANCE AS ATTRACTION AND RETENTION TOOLS

The economic upheavals of the last few years have made financial security a much more valuable commodity. The percentage of employees at organizations with a DB plan who said the plan was an important reason they joined their company rose from 31% in 2009 to 51% in 2011 — nearly a 65% increase — compared with a 23% boost for employees at organizations with DC plans (*Figure 4*). Likewise, health care benefits have become increasingly important to all employees, although DB plan participants value them more highly than do those with only DC plans. In companies with DB plans, the percentage of employees citing their health care plan as an important reason for joining their employer rose from 36% in 2010 to 52% in 2011 — roughly a 50% jump over one year.

Figure 4. Growing importance of retirement and health care plans for attraction

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

Source: 2011 *Towers Watson Retirement Attitudes Survey*.

Retirement programs have also become more valuable retention tools since 2009, although the gains accrue disproportionately to DB plan sponsors. Over the last three years, the percentage of workers saying their retirement program gives them an important reason to stay with their employer jumped from 52% to 68% (*Figure 5*). While health care gained retention value among all employees, its value is highest at companies with a DB plan.

Figure 5. Growing importance of retirement and health care plans for retention

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

Source: 2011 *Towers Watson Retirement Attitudes Survey*.

In terms of longevity, employee commitment is strongest for those with DB plans. Nearly four of five DB plan participants say they want to work for their employer until they retire, compared with two-thirds in 2009. Conversely, the comparable percentage has risen very slightly among employees at companies with only a DC plan over the three-year period.

While the number of employees planning to stay put until they retire is rising, there is also a surprising uptick in the number of employees planning to leave within the next two years, particularly among those with a DB plan. Pent-up retirement demand could be one explanation — reflecting the backlog of older workers whose delayed retirement is finally at hand. This could reflect the improvement in 401(k) account balances as equity prices have recovered from their lows in 2009.

Moreover, an increasing number of younger employees — particularly those with DB plans — appear conflicted about whether to switch employers. Poor economic conditions, including beleaguered labor and housing markets, have stifled job mobility over the last few years, as evidenced by plummeting

voluntary turnover rates.⁴ While younger workers seem to feel the attraction of security and DB retirement programs these days, they might also have a countervailing desire for new opportunities at other organizations when conditions improve. By contrast, employees at companies with only a DC plan — who are less likely to view their employer as long term to begin with — might have fewer conflicts. These trends highlight an attractive opportunity for DB plan sponsors to create a workforce management profile that leverages greater stability and company experience.

RETIREMENT SECURITY HOLDS NEW APPEAL FOR YOUNGEST WORKERS

A secure retirement program holds increasing appeal to all workers, but the increase is especially striking among DB plan participants younger than 40 (*Figure 6*). Between 2009 and 2011, the percentage of workers younger than 40 citing their retirement program as an important factor in accepting their job more than doubled — from 28% to 63% — compared with a nine percentage point gain for employees at organizations that offer only a DC plan. Younger DB plan participants are more than twice as likely as their counterparts with only a DC plan to say their retirement program strongly influenced their decision to join their company.

Figure 6. Importance of retirement plan for attraction and retention by age and plan type

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Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

Source: 2011 *Towers Watson Retirement Attitudes Survey*.

Retirement plans have also become more potent retention tools, again particularly among younger employees with a DB plan. Indeed, nearly three-quarters of these employees cite their retirement program as a strong incentive to stay with their employer — double the percentage in 2009 and twice the retention value reported by younger employees at DC-plan-only companies. The growing retention value of DB plans is also reflected in the substantial uptick in the number of younger DB plan participants who hope to work for their employer until retirement. The strong bond between employees and employers with a DB plan is evident among employees of all ages.

DEFINED BENEFIT PROGRAMS GAIN IMPORTANCE WITH NEW HIRES

Perceptible changes in the employment decisions of recent hires seem to confirm that retirement security has taken on paramount importance for job seekers. Between 2009 and 2011, the number of DB plan participants hired within the last two years who say the retirement program was an important factor in choosing their employer jumped from 27% to 70% (*Figure 7*). At companies with DB plans, employees hired within the last two to five years were more than 3.5 times as likely to say their retirement program strongly affected their decision (67% versus 18%). Meanwhile, retirement programs have become only slightly better attraction tools at companies with only a DC plan over the last three years.

Figure 7. Importance of retirement plan for attraction and retention by years of service and plan type

	Tenure	DB plan				DC only			
		Feb. 2009	June 2010	June 2011	Percentage point change	Feb. 2009	June 2010	June 2011	Percentage point change
My company's retirement program was an important reason I decided to work for my current employer	<2 yrs	27%	60%	70%	43 pps	16%	20%	27%	11 pps
	2-5 yrs	18%	30%	67%	49 pps	19%	19%	19%	0 pps
	6-10 yrs	38%	38%	49%	11 pps	23%	22%	27%	4 pps
	10+ yrs	33%	31%	44%	11 pps	24%	21%	30%	6 pps
My company's retirement program is an important reason I will stay with my current employer	<2 yrs	51%	72%	77%	26 pps	26%	26%	34%	8 pps
	2-5 yrs	34%	51%	71%	37 pps	28%	24%	29%	1 pps
	6-10 yrs	45%	53%	63%	18 pps	31%	32%	38%	7 pps
	10+ yrs	60%	61%	69%	9 pps	41%	36%	43%	2 pps
I would like to continue working for my current employer until I retire	<2 yrs	66%	83%	85%	19 pps	45%	45%	53%	8 pps
	2-5 yrs	47%	59%	73%	26 pps	34%	49%	47%	13 pps
	6-10 yrs	56%	74%	69%	13 pps	52%	63%	62%	0 pps
	10+ yrs	77%	85%	83%	6 pps	70%	70%	70%	0 pps

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