

EXPERTS' FORUM | Human Resources

Retirement Savings Increasing Even During Recession

In 2008, the S&P 500 dropped 37% and as retirement balances followed, many employees stopped looking at their 401(k) statements.

Now, in 2009, the country is in recession, employees are facing job losses and pay cuts, and home values continue to drop while foreclosure rates are reaching epic proportions. In this economic climate, wouldn't you expect the rate of retirement savings to be declining?

In February 2009, the AARP Bulletin commissioned a nationwide survey to find out if Americans are changing their general and retirement savings behaviors as a result of the current economic crisis. The study reports, in the past twelve months, most adults have started to cut back on spending and are actually saving more.

Approximately one-half (51%) of the respondents indicated that they or their spouse/partner are saving for retirement. The top reason for cutting back on spending or saving more was to have more money available for emergencies; the second most popular response was to have additional money saved for retirement.

Has the American mindset begun to change and are people really saving more for retirement? After hearing this news, I wondered if my own company's 401(k) plan had a similar story to tell. Doherty Employment Group's multiple employer 401(k) plan covers small businesses in all 50 states, representing a variety of industries and demographics.

Some of our clients make matching contributions for their participating employees, some make profit sharing contributions and others provide no employer contributions. I thought it would be interesting

to look at our plan data to see if retirement saving patterns have changed as reported by AARP.

Since the employee population eligible for the Doherty 401(k) plan changes from year to year and compensation varies by region, industry and season, the basis for comparison was the rate at which employees are saving.

In other words, on average, what percent of earnings do employees contribute to the retirement plan? By dividing the aggregate total dollars contributed to the 401(k) plan by the total earnings of eligible employees, the "contribution rate" was calculated each month from January 2008 through March 2009 (a similar calculation was done to determine the trend of employer contributions as a percent of pay).

Sure enough! Over the past several months, the 401(k) plan shows an increase in the rate at which employees are saving. So, does this have any meaning for our businesses, our employees and our economy? Whether it is out of fear or out of hope for a better future, employees are back to tucking money away in their 401(k) plans.

Perhaps the years of retirement education and communication are finally taking hold and influencing behavior. Saving for the future is a wise choice - in good times and in bad!

* The AARP Bulletin study was conducted via telephone by International Communications Research. A national sample of 1,035 adults ages 25 and older were interviewed between February 27 and March 8, 2009.



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