

Does Higher Retirement Plan Participation Reduce Employee Turnover?

The answer may be yes!

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When employees are polled as to why they might jump ship and look for a new job, one reason that invariably makes it to the top of the list is better benefits. After all, that is the whole point behind employer-sponsored plans — attracting and retaining valuable employees. In fact, Human Resources executives are focusing on talent acquisition and retention like never before, given the shortage of knowledge and experience in the workforce as evidenced in key sectors of the economy today. As a result, more and more employers are relying on their benefits package to help find and keep the employees they need in order to succeed in an increasingly competitive marketplace.

Common sense tells us that employees who do stay on the job tend to be more engaged with their employer, and are more likely to participate in their employer's voluntary benefits plans. On the flip side, employees who change jobs frequently tend not to be engaged with their employer and are more likely to decline enrollment in their employer's voluntary benefits plans.

While there is a great deal of speculation around the link between turnover and plan participation rates, there has been little empirical evidence that supports the link one way or another. Over the years, individual employers have conducted studies to support the notion that higher plan participation rates may

help to reduce turnover, but there has been little in the way of a broad-based study that corroborates or refutes this conclusion. That is, until Cammack LaRhette Consulting, an employee benefits and human resources consulting firm, conducted a unique study over the last two years to analyze the relationship specifically between voluntary retirement plan participation and employee turnover.

In the retirement plan world, it is a generally accepted fact that employers with high levels of employee turnover usually have low plan participation rates. The reasons for this may vary:

1. the employees may be younger and do not feel that they need to begin saving for retirement;
2. earnings are low and employees feel that they cannot afford to save for retirement; or
3. the expectation set of the employees is that they will only be in a particular job for a short period of time, and they decline enrollment until they secure their next, and hopefully, longer-term position.

Cammack LaRhette's Survey Findings

Over the past two years, Cammack LaRhette undertook a Turnover and Participation study that compared the turnover rates of employees who chose to participate in their employer's voluntary retirement plan with those who declined enrollment. Based on retirement plan data from more than 75 employers with more than 100,000 employees, the 2007 study showed that the percentage of non-participating employees who left their jobs was more than double the percentage of those who chose to participate in their voluntary retirement plan (rounded to 20 percent and to 9 percent, respectively). This reaffirms Cammack LaRhette's 2006 study based on data from more than 85 employers with more than 115,000 employees, where a similar but even higher ratio was uncovered, showing that the percentage of non-participating employees who left their jobs was 2.5 times the percentage who chose to participate in their voluntary retirement plan (or rounded to 25 percent and to 10 percent, respectively).

See Exhibit A for a summary of the study data results.

Exhibit A: Study Data Summary

| | Percent Turnover of Participants | Percent Turnover of Non-Participants |
|------------------|----------------------------------|--------------------------------------|
| 2007 Study Total | 8.68% | 20.33% |
| 2006 Study Total | 9.92% | 25.18% |

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About the Study Sample

In 2007, the study sample included 77 employers, with an average size population of 1,414 employees, although employers in this group ranged in size from three employees to more than 19,000 employees. The turnover percentage of employees in all 77 plans who made elective deferrals to their retirement plans was 8.68 percent, while the turnover percentage of employees who did not voluntarily participate in their retirement plans was 20.33 percent, a difference of 11.65 percentage points. Of the 77 employers, 66 exhibited an equal or higher turnover rate for employees who did not participate in the retirement plan. (Note: the data is based on 2005 compliance testing information.)

In 2006, the study sample included 86 employers, with an average size population of 1,355 employees, although employers in this group ranged in size from a single employee to more than 20,000 employees. The turnover percentage of employees in all 86 plans who made elective deferrals to their retirement plans was 9.92 percent while the turnover percentage of employees who did not voluntarily participate in their retirement plans was 25.18 percent, a difference of 15.26 percentage points. Of the 86 employers, 75 exhibited a higher turnover rate for employees who did not participate in the plan. (Note: the data is based on 2004 compliance testing information.)

About the Calculations

To determine turnover percentages for employees who chose to make voluntary contributions to their retirement plan, Cammack LaRhette totaled the number of employees who both: a)

made deferrals to their retirement plan; and b) terminated in the year of the study. Cammack LaRhette then divided that figure into the total number of employees who elected to make deferrals to their plan (active or terminated). A similar process was followed to determine the turnover percentage for non-participating employees.

It appears that year-over-year changes in participation may directly correlate to employee turnover rates.

A Two-Year Comparison — Could This Be a Trend?

More importantly, among the 71 employers whose data was common to both studies, the overall participation rate increased by approximately 2 percentage points (1.74 percent) while employee turnover *decreased* by approximately 4 percentage points (4.24 percent), exhibiting a positive correlation. According to the author of the study, by replicating the study using employers common to last year's study, it appears that year-over-year changes in participation may directly correlate to employee turnover rates.

Exhibit B summarizes the year-over-year changes.

As with the prior year's study, Cammack LaRhette cautions against the thinking that simply increasing voluntary retirement plan participation will automatically increase employee

retention levels, though it will not harm employee turnover. It should be noted that a variety of factors could influence an employee's decision to leave their employer, so there is not a simple cause and effect relationship here. In fact, Cammack LaRhette noted that there were some employers in the study group that showed that participation was negatively correlated to turnover. In other words, as participation levels increased, so did turnover rates and vice versa. However, these employers tended to be smaller in size (fewer than 100 employees), or they experienced planned reductions in force, where long-service employees who also tended to be plan participants, were offered early retirement or other incentives to leave their employer.

Cammack LaRhette plans to replicate the study on an annual basis, which may further support or disprove the theory that higher retirement plan participation leads to decreased employee turnover. In the interim, employers should diligently track their own data to determine if there is a link between retirement plan participation and employee turnover.

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Cammack LaRhette Consulting (www.clcinc.com), a nationally recognized full-service employee benefits and human resources consulting firm, offers large and mid-sized businesses and organizations value added consulting services for Retirement Plans, Health & Welfare Plans, Human Resources and Human Resources Technology Services.

Exhibit B: Year-Over-Year Changes Summary

| | Percent Turnover of Participants | Percent Turnover of Non-Participants | Percent Overall Turnover | Change in Participation | Change in Turnover | Correlation |
|--|----------------------------------|--------------------------------------|--------------------------|-------------------------|--------------------|-------------|
| Totals for Employers in the 2006 and 2007 Studies | 8.70% | 20.64% | 16.91% | 1.74% | 4.24% | 2.44% |