'Stretch match' is the key to higher DC savings: LIMRA

By Editorial Staff *Thu, Feb 25, 2016*

LIMRA Secure Retirement Institute noted that a 100% match of the first 3% of savings tends to promote savings rates of 6%, but a 50% match of the first 6% tends to promote savings rates of 9%. Both strategies cost the plan sponsor the same amount.

Workers from for-profit and not-for-profit organizations will save only enough in their defined contribution (DC) plan to receive the full company match, according to new research from LIMRA Secure Retirement Institute.

"Plan providers can help employers increase their employee's savings behavior by recommending a stretch match strategy, which would require an employee to save a higher percentage to attain the full company match," said Institute analysts Michael Ericson in a release this week.

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Only 4 in 10 workers from both non-profit and for-profit companies consider themselves "savers" and four in 10 working households have less than $25,000 saved for retirement, the LIMRA study showed. Of those who have access to a DC plan, 20% were not contributing to their employer's DC plan. [Only about half of full-time U.S. workers have a tax-deferred savings plan at work.]

For-profit workers who don't contribute to their workplace defined contribution plan were more likely to say they cannot afford to do so or they have competing saving priorities, compared with not-for-profit workers (67% vs. 53%).

In other findings: More than a third of Millennial workers in both the not-for-profit and for-profit sectors are saving 10% or more (34% and 35% respectively). Only 27% of Boomers and 28% of Gen X not-for-profit workers are saving at that rate. In the for-profit sector, Boomers and Gen X workers save a bit more than their Millennial counterparts—36% of Boomers and 35% of Gen X workers are saving 10% or more in their retirement plans.

Pre-retirees surveyed had no plan on how they will withdraw the assets from their DC plans once they retire—just one third have calculated their savings and expenses in retirement. Nearly half of pre-retirees said they plan to withdraw 9% or more of their assets each year in retirement—more than twice the rate recommended by most retirement experts.