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Transamerica Survey Finds Healthcare Organizations Seek To Bolster Retirement Plan Participation

Transamerica today revealed the latest annual survey findings of retirement plan trends for healthcare institutions. The survey results provide an inside look into the challenges healthcare institutions face to attract top talent in a changing environment and help ensure a stable retirement for staff.

The thirteenth annual study, conducted by Transamerica Retirement Solutions and the American Hospital Association, surveyed 87 hospital administrators and chief financial officers. The study presents insight on issues that impact defined contribution and defined benefit plans sponsored by health care organizations for employees. The report's findings can guide healthcare plan sponsors and their financial advisors as they benchmark their organizations in many areas of retirement plan design and management, in order to critically evaluate opportunities for improvement.

Healthcare Sector Overview

A variety of political and economic shifts bring considerable change, challenge, and volatility to healthcare institutions – including hospitals, group practices, rehabilitation, and care facilities.

Foremost among healthcare issues is the fate of the Affordable Care Act and any subsequent replacement. The ACA may potentially be repealed, replaced, or modified. Other industry factors include prescription drug pricing, the shrinking resources available to pay for charitable care and emergency services, and an increasing shortage of nursing staff in the United States.

Survey Results and Findings

To attract and retain key talent, healthcare organizations have been updating their retirement benefits programs to look more like those found in the corporate sector.

Many healthcare organizations are not-for-profit, and offer 403(b) retirement plans rather than corporate 401(k) retirement plans. The survey found that fewer healthcare organizations sponsor 403(b) plans and more healthcare organizations sponsor 401(k) plans than in the prior year. While the number of healthcare organizations sponsoring 403(b) plans dropped to 72% in 2016 from 88% in 2015, the number sponsoring 401(k) plans rose to 49% from 38%, an 11% increase.

Like 403(b) plans, traditional defined benefit (DB) plans are also becoming more scarce as health care organizations choose to freeze or terminate their current DB plans. Only 27% of healthcare organizations now offer a traditional DB plan (a pension), and 38% of these organizations say their plan is frozen, allowing no new contributions. Of organizations that have a DB plan, only 28% say the plan is still active. The financial pressure leading healthcare organizations to freeze or terminate DB plans comes from retirees' longer life spans, as well as investment returns and interest rates persistently falling short of assumptions.

"The low interest environment has made it difficult for these defined benefit plan sponsors to reach assumed rates of return on investment assets, and any potential interest rate increases over the next five to ten years might put further pressure on defined benefit plans as bond prices decline," said Brodie

Wood, senior vice president at Transamerica. “Many healthcare organizations find that they are pouring more money into their defined benefit plans, only to be further behind in pension obligations at year end. DB plan funding requirements leave healthcare organizations with fewer dollars to invest in operations. For these reasons, many healthcare organizations have little choice but to freeze their existing DB plans and seek ways to terminate frozen plans.”

The decline in active defined benefit plans leaves defined contribution plans as the primary vehicle for employees’ retirement savings, and healthcare organizations report that motivating employees to save adequately is the greatest challenge for their retirement plan. Retirement plan participation rates have dropped to the 70% level for non-highly compensated employees, but have remained at levels over 95% for highly compensated employees.

“Convincing staff to save for retirement is a challenge, and many organizations view the retirement plan’s participation rate as the key indicator of plan success,” Wood said. “A disparity between highly and non-highly compensated employees can limit plan design options for plan sponsors.”

Plan Design Trends
Plan design strategies that incent participants to contribute more to their retirement accounts are on the rise. These include “Stretch the Match” strategies that encourage employees to increase their own contributions in order to receive the employer’s matching contributions. These strategies have proven effective in enhancing employees’ savings rates and increasing employees’ retirement readiness.

Retirement plan experts largely agree that automatic enrollment and automatic deferral increases are the most effective way of putting participants on the road to retirement readiness, especially in industry sectors where participation is chronically low, as is the case in healthcare. Although many healthcare organizations (55%) have adopted automatic enrollment of employees into the retirement plan, more organizations need to implement automatic contribution increases to better help participants save more for a comfortable retirement. The survey found only 40% of healthcare organizations have implemented automatic contribution increases.

Automatic contribution increases can be a critical factor in improving employees’ retirement readiness, because many healthcare organizations (71%) set automatic enrollment savings rates at three percent.

Custom asset allocation funds are no longer the prevalent Qualified Default Investment Alternative (QDIA) among healthcare plans. The most popular QDIA choice is a target-date fund series. Two-thirds of healthcare organizations choose a target date series of funds as the default election.

Advisory and Plan Management
Four out of five healthcare organizations rely on a plan advisor to help with a variety of plan functions. Healthcare plans rely on the advisor (most often an investment advisor or a securities broker) to help explain fees, assist with plan design recommendations, support due diligence, make sure the plan is compliant, and improve education and outcomes for participants.

The number of healthcare organizations implementing Total Retirement Outsourcing rose 12% from 2016 from 2015. Total Retirement Outsourcing moves the retirement plan to a single service provider from multiple providers.

Many healthcare organizations also require providers to offer on-site staff to provide education support and help participants with their retirement plan decisions. About one-third of healthcare organizations have a full-time onsite plan representative assigned by the plan's service provider. This representative helps employees better understand the plan, and can provide general financial guidance.

The entire survey is available for download at http://bit.ly/tahe2017.

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About The 2017 Retirement Plan Trends in Today's Healthcare Market

Retirement Plan Trends in Today's Healthcare Market is the 13th annual study conducted by Transamerica Retirement Solutions and the American Hospital Association. The study presents insight on current issues that impact defined contribution and defined benefit plans of healthcare organizations. The report provides analysis to guide healthcare plans sponsors and their advisors as they benchmark their organizations in many areas of plan design and management, in order to critically evaluate opportunities for improvement. The survey was comprised of 83 questions and was conducted online between March and September 2016. A total of 87 hospital administrators and chief financial offers responded to the survey, representing healthcare organizations with at least one active defined contribution plan. This material is being provided for informational purposes only. It should not be viewed as an investment recommendation by Transamerica for customers or prospective customers. Customers seeking advice regarding their particular investment needs should contract a financial professional.

About Transamerica

With a history that dates back more than 100 years, Transamerica is recognized as a leading provider of life insurance, retirement and investment solutions, serving millions of customers throughout the United States. Recognizing the necessity of health and wellness during peak working life, Transamerica's dedicated professionals work to help people take the steps necessary to live better today so they can worry less about tomorrow. Transamerica serves nearly every customer segment, providing a broad range of quality life insurance and investment products, individual and group pension plans, as well as asset management services. In 2016, Transamerica fulfilled its promises to customers, paying more than $7.2 billion in insurance and annuity benefits, including return of annuity premiums paid by the customer. Transamerica's corporate headquarters is located in Baltimore, Maryland, with other major operations in Cedar Rapids, Iowa. Transamerica is part of the Aegon group of companies. Based in the Netherlands, Aegon is one of the world's largest providers of life insurance, pension solutions and asset management products, operating in more than 20 markets worldwide. For the full year of 2016, Aegon managed $784 billion in revenue generating investments. For more information, please visit www.transamerica.com.

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