

Attraction and Retention: What Employees Value Most

By Steve Nyce

Even with unacceptably high unemployment in the national economy, U.S. companies are struggling to attract talented employees with critical skills.¹ Employees, meanwhile, remain anxious about their retirement prospects and yearn for financial security, including benefit guarantees.² 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.

"Retirement benefits trail health care benefits for both attraction and retention."

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*, next page). The high cost of health care leads employees' list of retirement security concerns and significantly affects their retirement timing decisions.³

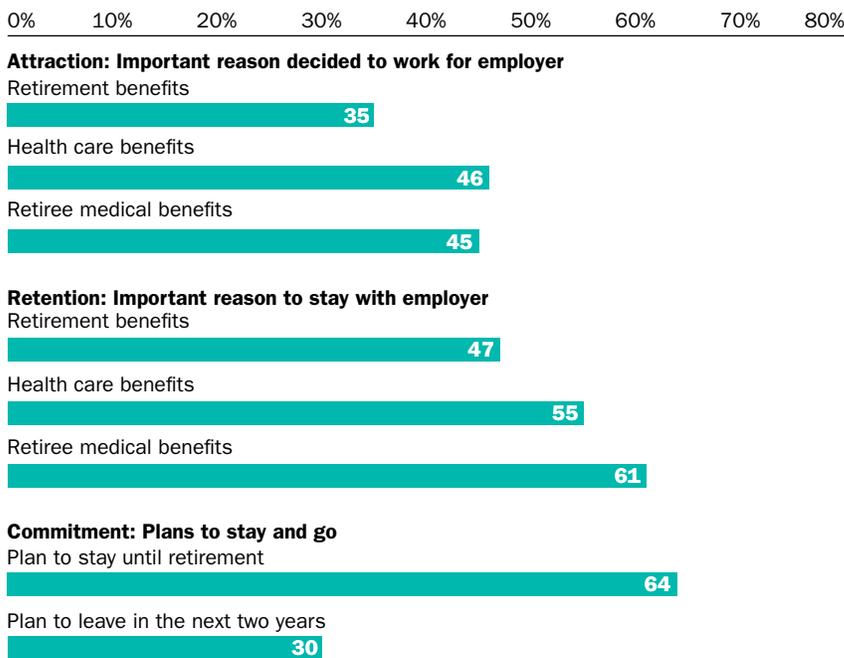
Retirement benefits trail health care benefits for both attraction and retention. Roughly one-third of all responding employees say their retirement benefits were a primary reason for taking their current job, and nearly half say the benefits give them a compelling reason to stay.

¹ See "The Talent Management and Rewards Imperative for 2012: Leading Through Uncertain Times," 2011/2012 Talent Management and Rewards Study, North America, Towers Watson Research Report at www.towerswatson.com/research/5563#Home.

² See the first two articles in this research series, "Retirement Planning in a Post-Crisis Economy," *Insider*, January 2012, at www.towerswatson.com/united-states/newsletters/insider/6214; and "American Workers Seek More Security in Retirement and Health Plans," *Insider*, February 2012, at www.towerswatson.com/united-states/newsletters/insider/6411.

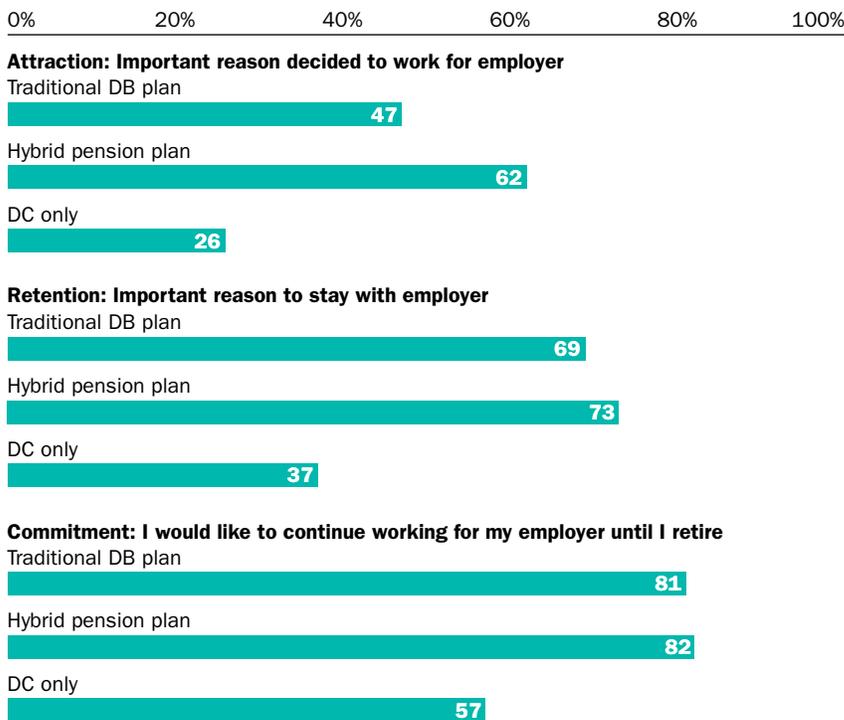
³ *Ibid.*

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.

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.

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).

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.

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.

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

	Changes over the last three years?	My company's retirement program is an important reason ...		I would like to continue working for my current employer until I retire
		To join	To stay	
All respondents		35%	47%	64%
Made changes to DB plan	Yes, but still have DB plan	50%	65%	77%
	Yes, now DC only	27%	33%	53%
	No, still have DB plan	51%	70%	79%
	No, DC only	26%	38%	58%
Cut 401(k) match	Yes	32%	39%	58%
	No	36%	50%	66%
Cut retiree medical benefits	Yes, but still have RM plan	57%	64%	73%
	Yes, now no RM plan	32%	34%	57%
	No, still have RM plan	54%	74%	79%
	No, don't have RM plan	40%	44%	68%
Reduced pay	Yes	31%	43%	59%
	No	37%	50%	67%

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."
Source: 2011 Towers Watson Retirement Attitudes Survey.

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

	DB plan			DC only		
	Feb. 2009	June 2010	June 2011	Feb. 2009	June 2010	June 2011
My company's retirement program was an important reason I decided to work for my current employer	31%	33%	51%	21%	21%	26%
My company's health care program was an important reason I decided to work for my current employer	N/A	36%	52%	N/A	28%	43%
My company's retiree health program was an important reason I decided to work for my current employer	N/A	N/A	48%	N/A	N/A	32%

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."
Source: 2011 Towers Watson Retirement Attitudes Survey.

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

	DB plan			DC only		
	Feb. 2009	June 2010	June 2011	Feb. 2009	June 2010	June 2011
My company's retirement program is an important reason I will stay with my current employer	52%	59%	68%	33%	32%	37%
My company's health care program is an important reason I will stay with my current employer	N/A	55%	65%	N/A	45%	50%
My company's retiree health program is an important reason I will stay with my current employer	N/A	N/A	63%	N/A	N/A	54%
I would like to continue working for my current employer until I retire	67%	80%	79%	53%	62%	57%
I will probably leave my current employer within the next two years	16%	20%	30%	22%	24%	30%

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."
Source: 2011 Towers Watson Retirement Attitudes Survey.

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

	Age	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	<40	28%	43%	63%	35 pps	19%	17%	28%	9 pps
	40s	38%	24%	43%	5 pps	21%	24%	22%	1 pps
	50+	30%	35%	40%	10 pps	27%	20%	25%	-2 pps
My company's retirement program is an important reason I will stay with my current employer	<40	37%	63%	72%	35 pps	29%	26%	36%	7 pps
	40s	61%	51%	61%	0 pps	32%	37%	33%	1 pps
	50+	61%	61%	68%	7 pps	37%	32%	45%	8 pps
I would like to continue working for my current employer until I retire	<40	44%	70%	74%	30 pps	37%	39%	47%	10 pps
	40s	74%	76%	77%	3 pps	58%	66%	63%	5 pps
	50+	81%	87%	86%	5 pps	80%	76%	76%	-4 pps

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.

⁴ See "The Talent Management and Rewards Imperative for 2012: Leading Through Uncertain Times," 2011/2012 Talent Management and Rewards Study, North America, Towers Watson Research Report at www.towerswatson.com/research/5563#Home.

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.

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

“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 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%	52%	0 pps
	10+ yrs	77%	85%	83%	6 pps	70%	70%	70%	0 pps

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."
Source: 2011 Towers Watson Retirement Attitudes Survey.

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.

Many more workers who accept a job that offers a DB plan intend on a long career with their employer. More than three-quarters of new hires at companies with a DB plan say the retirement program gives them an important reason to stay on the job, and 85% say they hope to work for their employer until retirement.

Employees cite job security, pay and good benefits as top reasons for taking their job

Given the state of the economy and job market, it is no surprise that job security, base pay and benefits rank high on the list of factors that influence all employees to accept a job (Figures 8 to 10, next page). While health and retirement benefits have traditionally held the strongest appeal for older workers, younger workers have gained an appreciation for them as well. For workers of all ages with a DB plan, both retirement and health care benefits are among the top four influences on job acceptance. For the first time, younger employees with a DB plan cite retirement benefits more often than vacation/paid time off.

Employees at DC-plan-only companies generally rank retirement benefits as far less important than do workers at companies with a DB plan. But all employees report that health care benefits were pivotal in attracting them to their current job. These findings reinforce the results in the first two articles in this series showing the inextricable link between rising health care costs and employees' growing concerns about financial and retirement security.⁵

Conclusion

As the economic recovery hangs in the balance, employers and employees alike are taking a wait-and-see approach in matters of employment. Many businesses are flush with cash but reluctant to make more capital investments or hire more workers, choosing to focus instead on strengthening their balance sheets. Meanwhile, many employees have been in a comparable holding pattern, shoring up their household finances and waiting for the dust to settle before exploring new job opportunities.

These trends have helped organizations reduce costly and unwanted turnover, which has boosted their bottom line. But employees have been asked to work longer hours while seeing their merit increases squeezed and their jobs become less secure. Naturally enough, many of them now value financial security considerably more highly than they did before the financial crisis.

Retirement and health care benefits are a cornerstone of compensation, and today's precarious economic

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⁵ See Steve Nyce, "American Workers Seek More Security in Retirement and Health Plans," *Insider*, February 2012, at www.towerswatson.com/united-states/newsletters/insider/6411.

Figure 8. Most important factors in attracting employees younger than 40 to a company

Younger than 40		Younger than 40 with DB plan		Younger than 40 with DC plan only	
1.	Job security	1.	Job security	1.	Job security
2.	Base pay	2.	Base pay	2.	Base pay
3.	Health care benefits	3.	Health care benefits	3.	Health care benefits
4.	Vacation/paid time off	4.	Retirement benefits	4.	Vacation/paid time off
5.	Organization's reputation as a great place to work	5.	Vacation/paid time off	5.	Organization's reputation as a great place to work
6.	Length of commute	6.	Career development opportunities	6.	Length of commute
7.	Career development opportunities	7.	Organization's reputation as a great place to work	7.	Career development opportunities
8.	Retirement benefits	8.	Promotion opportunities	8.	Challenging work
9.	Challenging work	9.	Incentive pay opportunity	9.	Retirement benefits
10.	Promotion opportunities	10.	Length of commute	10.	Promotion opportunities

Note: Ranking is based on five most important factors out of 23 options.
Source: 2011 Towers Watson Retirement Attitudes Survey.

Figure 9. Most important factors in attracting employees in their 40s to a company

Age 40–49		Age 40–49 with DB plan		Age 40–49 with DC plan only	
1.	Health care benefits	1.	Health care benefits	1.	Health care benefits
2.	Base pay	2.	Base pay	2.	Base pay
3.	Job security	3.	Job security	3.	Job security
4.	Vacation/paid time off	4.	Retirement benefits	4.	Vacation/paid time off
5.	Challenging work	5.	Organization's reputation as a great place to work	5.	Challenging work
6.	Organization's reputation as a great place to work	6.	Challenging work	6.	Length of commute
7.	Retirement benefits	7.	Vacation/paid time off	7.	Organization's reputation as a great place to work
8.	Length of commute	8.	Career development opportunities	8.	Retirement benefits
9.	Career development opportunities	9.	Length of commute	9.	Career development opportunities
10.	Relationship with supervisor/manager	10.	Incentive pay opportunities	10.	Relationship with supervisor/manager

Note: Ranking is based on five most important factors out of 23 options.
Source: 2011 Towers Watson Retirement Attitudes Survey.

Figure 10. Most important factors in attracting employees age 50 and older to a company

Age 50+		Age 50+ with DB plan		Age 50+ with DC plan only	
1.	Job security	1.	Job security	1.	Health care benefits
2.	Health care benefits	2.	Retirement benefits	2.	Job security
3.	Base pay	3.	Health care benefits	3.	Length of commute
4.	Retirement benefits	4.	Base pay	4.	Base pay
5.	Length of commute	5.	Challenging work	5.	Vacation/paid time off
6.	Challenging work	6.	Vacation/paid time off	6.	Challenging work
7.	Vacation/paid time off	7.	Organization's reputation as a great place to work	7.	Organization's reputation as a great place to work
8.	Organization's reputation as a great place to work	8.	Length of commute	8.	Retirement benefits
9.	Organization's product(s) or service(s)	9.	Career development opportunities	9.	Physical work environment
10.	Caliber of coworkers	10.	Organization's product(s) or service(s)	10.	Organization's product(s) or service(s)

Note: Ranking is based on five most important factors out of 23 options.
Source: 2011 Towers Watson Retirement Attitudes Survey.

conditions have strengthened their appeal. The most striking shift in attitudes toward retirement security, risk tolerance, and the value of retirement and health care benefits has been among younger employees at organizations with a DB plan. This seems surprising at first, as young people are generally more risk tolerant than their elders. But this recession has hit younger workers particularly hard. Few new jobs have been created and more older employees are delaying retirement, making it more difficult for younger workers to find jobs or to advance in their careers.

These findings highlight the considerable differences in employee attitudes toward benefits and acceptable levels of risk among different workers. Conventional approaches that segment employees by age or generation might overlook salient differences in workers' preferences that directly affect attraction and retention. This research shows strong evidence that employers with a DB plan will have more stable workforces than those with only DC plans.

In good economic times and bad, attracting, developing and retaining a talented workforce provides a competitive edge. Companies should consider their rewards — specifically their benefit programs — in the context of their business strategy and objectives as well as these emerging trends in worker preferences. For the time being at least, it appears a significant segment of the workforce under 40 highly values the security provided by a DB plan. Employers with existing DB plans have a significant competitive advantage in attracting and retaining these employees. In this way, employers can reduce human capital risks and increase the returns they accrue from their reward and talent management programs.

About the survey

The *Towers Watson Retirement Attitudes Survey* was conducted in June/July 2011 and includes responses from 9,218 full-time U.S. employees at nongovernmental organizations with 1,000+ employees. This is Towers Watson's fifth consecutive year of surveying U.S. employees about their attitudes toward their health care and retirement benefits. The primary results reported in this article reflect a subset of questions about retirement and health care programs completed by 3,074 respondents. Comparable surveys fielded in February 2009 and May/June 2010 asked similar questions, and we use selective results from those surveys to track trends in employee attitudes. All results are weighted by age, gender and household income to the national average of workers. Margins of error for the total sample are +/- 1.2% and for the benefits sample are +/- 1.7%.

Respondents were asked to self-report whether they participate in a DB pension plan and/or a 401(k)/403(b) retirement savings plan. Within the sample of respondents to the retirement and health care questions, 1,662 had only a DC plan and 1,232 had a DB plan. Nearly all respondents with a DB plan also had a DC plan (92%). Roughly 80% of respondents with a DB plan are currently accruing benefits under their plan. Among those whose benefits are frozen, 70% are age 50 or older, and 85% have 10 or more years of service with their current employer. Younger employees with a DB plan were oversampled in order to improve confidence in comparisons of retirement attitudes by plan types and age groups. Margins of error for the age and plan type results are +/- 5% or less.

“This research shows strong evidence that employers with a DB plan will have more stable workforces than those with only DC plans.”

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