
Helping Employees Save for Retirement: What is the Responsibility of Christian Higher-Education Institutions?

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ABSTRACT: A great deal of evidence suggests that most people have not made adequate provision for retirement. This paper examines the responsibility of Christian higher-education institutions that have elected to provide retirement benefits as part of their employees' overall compensation. It also analyzes the current state of retirement provision at over one hundred Christian higher-education institutions. Institutions who offer retirement benefits should design robust policies that encourage participation, a strategy that could be advantageous to both employees and institutions. While significant plan enhancements have been made, Christian higher-education institutions appear reluctant to implement automatic enrollment and escalation features in their retirement plans.

INTRODUCTION

With the graying of the baby boom generation, more and more attention is being paid to individuals' states of readiness for retirement. A great deal of evidence suggests that most people have not made adequate provision for retirement (Munnell & Sunden, 2004; Employee Benefit Research Institute, 2012). In 2010, it was estimated that only 55 percent of American families have retirement plans beyond Social Security (Federal Reserve Bulletin, 2012). For Christians, retirement planning is an important part of our stewardship responsibilities. One important use of the resources that God has given us is for the provision of our families. The apostle Paul writes that "if anyone does not provide for his relatives, and especially for his immediate family, he has denied the faith and is worse than an unbeliever" (1 Timothy 5:8). Of course, this teaching does not remove our obligation to help others who are in need, but this passage does highlight that we need to take actions to care for our families, even into our retirement years.

Many employers help their workers save through the provision of retirement plans. Over the past 30 years, employer-sponsored defined contribution plans have become a primary vehicle for helping American families meet their long-term savings needs. For many people, income generated from assets accumulated in employer-sponsored retirement plans is a retiree's only supplement to Social Security benefits as defined contribution retirement balances accounted for 61 percent of American families' total financial assets in 2010 (Employee Benefit Research Institute, 2012). The number of defined contribution plans has increased, and they are rapidly replacing defined benefit plans, which are being reduced, frozen, or eliminated. The magnitude of the shift was demonstrated between 1986 and 2004 when 7.5 million participants had their defined benefit plans terminated (PBG, 2005). This movement toward defined contribution retirement plans has shifted the responsibility for retirement planning from employer to employee. This is not only impacting the private sector, but

recent reforms have also eroded generous public sector pensions, leaving participants unprotected from income losses when retirement safety nets fail. The design of employer-sponsored retirement plans has serious economic ramifications for both employees and employers.

Faculty and staff at Christian higher-education institutions make many sacrifices compared to employees in other organizations. They often draw lower wages and salaries than comparably skilled and educated workers in secular institutions and in the private sector. Since a firm's contributions to retirement plans are often based on a percentage of earnings, reduced wages can also result in lower retirement savings. We would hope then, that Christian institutions would take the lead in helping their employees find creative ways to prepare for retirement. However, in a review of retirement benefits offered by over one hundred Christian higher-education institutions, we find that this is not always the case.

This paper will examine the biblical basis for retirement savings and some of the responses from institutions of higher education. Although the paper will focus on how Christian higher-education institutions can enable their employees to be faithful stewards, the philosophies discussed in this paper could be relevant to all employers because retirement preparation is a national issue. We also believe that this paper could be of interest to both professors and students who study personal finance, financial management and non-profit institutions. First, we will review the Biblical basis for savings and outline an employer's responsibility in providing retirement funding. Second, we will examine the current state of retirement preparation and consider the funding challenges of accumulating resources to sustain one's financial needs during retirement. Third, we will review some elements that Christian higher-education institutions could add to their retirement plans to encourage employee participation and outline some potential employer responses. Finally, we will recommend the implementation of some retirement plan elements that employers can implement to encourage the financial stewardship of their employees. This paper will leave to others to discuss the insufficiency of Social Security, the impact that the Affordable Care Act will have on retirement, or private savings such as individual retirement accounts.

BIBLICAL BASIS FOR SAVINGS AND EMPLOYER RESPONSIBILITY

Throughout the Bible, we are told that planning for the future is a necessary and positive activity. In Genesis 41,

Joseph earned fame throughout Egypt and also saved his family by setting aside grain before a coming drought. In the book of Proverbs, the ant is held out as a shining example of a character who "stores its provisions in summer and gathers its food at harvest" (Proverbs 6:8 NIV). In the New Testament (Acts 6), the apostles appointed a group of seven, including Stephen, to help provide for the distribution of food to widows. Although not specifically targeted to saving for the future, this passage indicates the importance of allocating resources wisely to meet various needs. In addition, it suggests that not everyone is skillful at making these decisions, as the apostles were not able to manage this process.

Although saving for retirement is primarily the role of individuals, employers also have responsibilities with regards to their workers — to treat them fairly and to provide just wages. Both Jesus and Paul state that "the worker deserves his wages" (Luke 10:7 and I Timothy 5:18). Even slaves are to be treated justly and fairly, "knowing that you also have a master in heaven" (Colossians 4:1). Jeff Van Duzer writes that the "great narrative" of the Bible suggests that the purpose of a business is "to serve its customers and employees" (Van Duzer, 2010, p. 46). Although employers are not required to, many provide retirement savings as part of an employee's overall compensation package. Once employers decide to provide this benefit, it is their obligation to do this justly and wisely. It can also be in their own interest to do so.

A majority of retirement savings plans offered by Christian higher-education institutions are defined contribution plans. However, a few church denominations still offer defined benefit retirement plans to their employees and extend those benefits to faculty and staff at affiliated higher-education institutions and medical facilities. These plans are often referred to as church plans by the Internal Revenue Service. Church-defined benefit plans generally provide a retirement annuity for a specified period of time. The derived annuity, which is often fully funded by the employer, does not rely on significant employee contributions for retirement security. Employers set aside a large amount of money into investment portfolios and then hire professionals to manage these large asset pools and monitor their risk. The income generated from these assets is used to pay annuities to retired employees. This type of plan does not require extensive financial expertise or elaborate retirement planning on the part of employees. As long as the employer sets aside a sufficient amount of funds and invests them prudently, the risks associated with these retirement benefits rest almost entirely in the hands of the employer.

Defined contribution plans are individual accounts composed of two elements: deferred employee compensation and employer contributions. Employers offering defined contri-

tribution plans deposit money into the retirement accounts of individual employees; employees are then responsible for managing all retirement elements and risks. Unlike defined benefit plans, an “employer-guaranteed” income stream is not associated with defined contribution retirement plans. Employees are personally responsible for designing their own investment portfolio and calculating the appropriate withdrawal rates to prevent premature exhaustion of retirement assets. Essentially, employees are expected to do themselves what employers did in defined benefit plans: consistently contribute money during their working years to develop a pool of assets large enough to sustain a stream of income for an employee’s retirement years.

Retirement plans are a valuable employee benefit, one that generally has a significant impact on the lives of employees and their families. Over the last few years, government regulations concerning these plans have become stricter, with employers being required to provide diversified low-cost investment options in their retirement platforms. Given the growing use of defined contribution plans and the changing regulatory environment, employers who offer retirement benefits as part of an employee’s overall compensation package have an obligation to design comprehensive retirement plans and encourage active participation by their employees.

FUNDING CHALLENGES

The historical trend of declining employer-funded retirement plans and the gravitation toward a personal savings model have contributed to the present retirement predicaments facing citizens of the United States. The 23rd annual Retirement Confidence Survey reveals that 49 percent of Americans are either not too confident or not at all confident that they will have enough money for a comfortable retirement and that the percentage of workers, or their spouse, who have saved for retirement has been decreasing since 2009 (Employee Benefit Research Institute, 2013). The study also reveals that less than fifty percent of surveyed households have tried to calculate the amount of financial resources needed in retirement. These results show the magnitude of retirement challenges and reveal that these problems will persist into the future impacting workers, employers, and the nation’s economy.¹

Employers are in a precarious position: Americans are living longer, creating an increased demand for reliable retirement income sources; yet employees lack a sense of urgency or ability to save for long-term needs. Low savings rates might lead to insufficient asset accumulation for employees at Christian higher-education institutions whose

salaries are often below industry norms (since tuition is often the primary source for payment of salaries and benefits). This insufficient asset accumulation might prevent employees from being financially prepared to depart academia when God calls them to another purpose. A study completed in 2011 shows that personal financial issues are a reason that some faculty members will stay in education beyond their normal retirement age (Yakoboski, 2011). As a result, employees’ lack of retirement preparation could compound budgetary pressures at Christian institutions that face fragile financial positions.

The number of colleges facing a decline in financial health is increasing. A recent study of 1,700 non-profit higher-education institutions reveals that one-third of the colleges were declining in terms of financial health (Denneen & Dretler, 2012). Financial health is a concern at Christian higher-education institutions who will likely continue to face price-sensitive families who question the value of a college education in a period of time when tuition increases are outpacing inflation. This is also occurring at a time when the U.S. college-age population is decreasing and there is growing competition from online instruction.

With current and foreseeable pressures on Christian higher-education institutions, the need to adequately prepare employees for retirement is substantial. Adequate retirement preparation could reduce the number of employees who decide to work beyond their normal retirement age. Fidelity recently completed a study of attitudes toward retirement of faculty members aged 49-67. The results of the study showed that 74 percent plan to delay their retirement beyond age 65 or are never planning to retire. The two primary reasons cited for the delay were economic and professional in nature. One of the primary economic concerns revealed in the study was a lack of retirement savings (Fidelity, 2013). A similar study by AARP of baby boomers also revealed that 70 percent of survey respondents plan to work beyond their traditional retirement age (AARP, 2010). The responses of both of these studies indicate the scale of the retirement challenges and serve as a warning sign of potential future challenges facing Christian higher-education institutions.

Christian higher-education institutions might encounter adverse financial conditions if a disproportionate number of employees delay retirement beyond age 65, because senior employees typically earn more than their younger counterparts. While senior faculty members are more experienced and provide substantial intangible benefits, their higher salaries will continue to pressure operational budgets at Christian institutions which often spend a significant portion of their tuition dollars on salary related items. In addition to budget

pressures, senior faculty members who are financially unable to retire at their normal retirement age create the unintended consequence of preventing the organization from reallocating resources and streamlining operations as technology and globalization increase the demands for skills in some programs and decrease it in others. Thus, higher-education institutions that foresee future financial challenges should consider designing creative retirement plans to help reduce one of the economic barriers cited by some faculty members for delaying retirement — financial preparation.

One essential component needed in helping employees design an adequate retirement plan is estimating the amount of money an employee needs to save every month. Actuarially calculating retirement adequacy is difficult due to many unknown variables such as rising health-care costs, inflation, longevity, and retirement asset returns. In addition, a standard retirement adequacy definition does not exist or is often controversial to Christians. However, to develop a plan, assumptions about future events are necessary. An Aon Hewitt retirement study estimates that a person at age 25 will need to contribute approximately 15 percent of their wages for an adequate retirement. The 15 percent contribution could be comprised of both employee and employer contributions (Aon Hewitt, 2012). The Vanguard Group provides a similar range of 12 to 15 percent. Regardless of the exact figure needed for an adequate retirement, most individuals cannot rely solely on contributions from employers. Many employees with defined contribution retirement plans will need to participate to achieve sufficient retirement savings.

Voluntarily saving money for retirement requires a sacrifice of current consumption which can be difficult. Behavioral economists have written that participants in defined contribution plans often lack self-control or the willpower to increase participation levels (Mullainathan & Thaler, 2000); it is easy to postpone unpleasant tasks (Thaler & Benartzi, 2004). Postponing retirement planning can translate into lower asset balances, leaving individuals with a less-than-optimal retirement income stream. Individuals who start saving early increase the probability of accumulating optimal retirement assets during their working years and of being able to support their family's financial needs during retirement.

RETIREMENT PLAN ELEMENTS

Accumulation of assets is a salient element in defined contribution retirement plans. One option to increase the amount of assets in an individual's retirement account is to

encourage employee participation by adding a retirement plan feature called automatic enrollment to an employer's retirement plan. The adoption of this feature allows an employer to deduct a specified percentage of wages from an employee's paycheck unless the employee opts out of the plan or selects a different deferral percentage. This retirement plan element became feasible when the Pension Protection Act of 2006 was passed. This act provided incentives, in the form of reduced regulation, to those employers who add automatic enrollment elements to their retirement plans. Although workers have the freedom to opt out of the program, the default situation is that employers actively encourage employees to save more for retirement. Elective participation in retirement savings is particularly important for employees who are offered matching contributions by employers. One study indicates that 50 percent of employees are not attaining high enough participation levels to qualify for all of the employer's match (WorldatWork and The American Benefits Institute, 2013). Perhaps the best way to expand participation and increase the number of workers who attain an elective savings level necessary to maximize an employer's retirement match is to add an automatic enrollment element to an employer's retirement plan.

The phenomenon of increased retirement participation through the use of automatic enrollment is already being observed by for-profit organizations. A 2007 study by The Vanguard Group revealed that new employees had higher participation rates when employers had automatic enrollment features in their retirement plans (Nessmith, Utkus & Young, 2007). The study also revealed that participation impacts were most notable for low-wage and young employees. A case study completed by the TIAA-CREF Institute revealed similar results with participation rates increasing from 53 percent to 95 percent after the implementation of auto-enrollment plans (Chambers, Hamilton & Yakoboski, 2011). Employers who design automatic enroll elements into their plan prevent employees from retirement decision avoidance and increase retirement savings participation.

While auto-enrollment features are designed to overcome the perceived inability of participants to voluntarily enroll in employer-sponsored plans, they are occasionally criticized for not equating to increased retirement savings. The criticism revolves around inadequate default savings rates set by employers (Nessmith, Utkus & Young, 2007). To mitigate low initial default rates, automatic escalation features can be designed into retirement plans. Auto-escalation features expand participation rates by increasing the percentage of elective salary deferral gradually. Automatic escalation increases are generally processed in the payroll department concurrently with annual merit awards.

This feature helps ensure that an employee's elective contribution toward his or her retirement does not remain at their automatically enrolled rate. Although the use of auto-escalation is relatively new, limited tests show that employee participation rates actually increase with usage of these plan elements (Thaler & Benartzi, 2004; Vanguard, 2013).

The benefit of having both automatic enrollment and escalation elements in a retirement plan is significant. Employer-defined automatic enrollment savings rates (usually set at 3 percent) are designed to encourage participation by all employees. Unfortunately, this employer-defined savings rate might be less than optimal for some employees to meet their retirement savings needs. Adding an automatic escalation feature to a retirement plan means that an employee's elective savings rate increases (usually 1 percent) each year. The combination of features appear needed as there is a notable difference in participation rates at tax-exempt organizations who offer 403(b) plans compared to for-profit organizations who offer 401(k) plans. The percentage of participants contributing to 401(k) plans are 76 percent (Vanguard, 2013) while the participation rate in 403(b) programs is significantly lower at 66 percent (Benish, 2013). The comprehensive analysis of two behavioral economists concludes that employers need to design plans that "influence people's behavior in order to make their lives longer, healthier, and better" (Thaler & Sunstein, 2008, p. 5). Without adequate retirement preparation, other economists warn of a decline in consumption in retirement (Banks, Blundell & Tanner, 1998). The primary vehicle to retirement consumption beyond the basic insurance levels provided by Social Security appears to be employer-sponsored savings programs.

While defined contribution plans offered by for-profit organizations have been studied and researched extensively (Munnell & Sunden, 2004), less research and attention has been given to tax-exempt organizations who offer 403(b) plans. Thus, in the fall of 2013, a review of retirement benefits summaries of all 116 U.S. members of the Christian Colleges and Universities (CCCU) was completed. Sixty-one of the members did not publicly disclose information

about retirement benefits. Eleven other institutions only stated that a defined contribution retirement plan was available. Of the remaining 45 institutions one school gave employees a choice between a defined benefit and defined contribution retirement plan.

The remaining 44 schools were then broken into four categories. The first category includes institutions that mandate retirement plan participation. In these plans, employees are given a base wage and are required to contribute a portion of their earnings to their own retirement plan. Category two includes institutions that offer elective-only matching contribution plans. Employees in this category must participate to receive any employer retirement benefit. The third category includes institutions with both a matching and non-matching contribution element. Institutions with this type of plan make a general contribution to their employees' retirement account without requiring employee participation but they also offer matching incentives to encourage employee participation. The final category includes institutions with non-matching contribution plans. These institutions provide a contribution to employees' retirement plans without requiring employee participation. The results of this study, which are summarized in Figure 1, reveal that 39 percent of schools make non-matching contributions into employees' retirement plans but do not mandate participation. Sixteen percent of institutions mandate employee participation, while the remaining 45 percent offer matching incentives to encourage employee participation.

Our review of CCCU institutions highlights three important items. First, those institutions providing non-matching contribution plans, 39 percent, could give employees a false sense of security or provide them with an excuse to ignore their personal responsibility toward their own retirement preparation. Second, none of the 44 institutions currently disclosed their use, if any, of auto-enrollment or escalation elements designed into their retirement plans. Third, 16 percent of institutions mandate employee participation. The primary difference between automatic enrollment and mandatory participation is that mandatory participation is required as a condition of employment. Automatic enroll-

Figure 1: CCCU-Defined Contribution Plan Types

Mandatory participation plans	7 (16%)
Elective-only matching contribution plans	15 (34%)
Matching and non-matching contribution plans	5 (11%)
Non-matching contribution plans	17 (39%)
Total CCCU schools offering defined contribution retirement plans and publicly disclosing some details	44 (100%)

ment features are not required as a condition of employment, which provides employees with the freedom to opt out of the plan. Given the more flexible nature of automatic enrollment and escalation features, it would seem that these elements would be preferred to employer mandates. These features provide employees with the flexibility to adjust their retirement planning to unique personal circumstances while forcing them to actively consider the potential impact that a lack of participation could have on their long-term retirement needs when they opt out of the plan.

Potential reasons why employers are not including automatic enrollment or escalation elements into retirement plans might include additional administration costs, such as complex payroll processing, legal expenses associated with revising retirement documents, or fear of further salary reductions by faculty and staff that have already made significant sacrifices compared to employees in other organizations. Below average compensation could be a significant concern, but research studies have shown that adding these two features in retirement plans will significantly improve participation levels of low-income workers (Vanderhei, 2007). However, concerns regarding administrative processing complexities might be short-sighted, having long-term negative financial implications on the institution. A failure to encourage employees to meaningfully participate and accept ownership of their retirement financial future could cause retirement delays. Delayed retirements could equate to financial stress for institutions as aging employees consume a larger percent of the institution's limited resources.

Beyond helping employees save for retirement, adding auto-enrollment and escalation features could decrease the institutional costs associated with operating retirement plans. Institutions with large retirement asset balances often receive preferential administration fees compared to institutions with low retirement assets balances. Utilizing auto-enrollment and escalation features is one way to grow plan assets translating into lower retirement plan operating fees for the institution.

RETIREMENT ELEMENTS RECOMMENDED

Although employers are not obligated to provide retirement benefits, employers who offer defined contribution retirement plans as part of an employee's overall compensation have an obligation to design robust and responsible plans. Adding automatic enrollment and escalation features into their retirement plans will help employees be better stewards of the resources that God is currently giving them. These two elements are especially helpful to

employees who do not have the sophisticated financial skills or self-discipline to manage this complex process.

There are three potential strategies for putting automatic enrollment into a retirement plan. The first strategy would be to auto-enroll only new employees. This would minimize the amount of processing necessary in the human resources department, but the participation increases would impact only a small segment of the workforce. A second strategy would be to have all employees go through a one-time auto-enrollment process at the beginning of a new calendar or fiscal year. This strategy would maximize participation across the institution at one point. However, this one-time automatic enrollment process could have a significant short-term impact on staffing in the human resources department. A third strategy would be to go through an annual auto-enrollment process. The benefit of the third strategy would be to get employees, who might have previously chosen to opt out, to participate. The third strategy would ensure that employees reevaluate their financial circumstances annually and forces them to consider the impact of their choices on retirement preparation. Regardless of the auto-enrollment strategy selected, this feature encourages employee participation and reinforces retirement ownership. Although automatic and escalation features might not be helpful to all employees, it could be beneficial to the cohort of employees who often postpone making difficult decisions.

CONCLUSION

This paper examines the responsibility of Christian higher-education institutions with regard to retirement funding for their employees and also examines some preliminary data on their actual behavior. The percentage of Americans who are responsible for accumulating sufficient assets to meet their life cycle financial needs is increasing, and the partnership between employer and employee has never been more critical. Designing elements into retirement plans that increase participation rates (such as automatic enrollment and escalation elements) could have a positive long-term impact on both Christian colleges and their employees. Plan elements that increase participation merit consideration as low participation in retirement plans might translate into financial stress for both employers and employees if workers are financially forced to continue working beyond their normal retirement age.

Data based on a review of CCCU institutions show that Christian colleges may be "behind the curve" when it comes to implementing such plans. Although it is not

the employer's responsibility to provide all of the resources for an employee's retirement needs, where employers are involved they have the responsibility to encourage and assist their workers wherever possible. While further analysis is necessary, we encourage all institutions of Christian higher education, and in fact all Christian institutions, to examine and implement plans that include automatic enrollment and escalation. Our institutions have the responsibility to be salt and light in this important area of worker compensation. Christian business and economics faculty, as those who are more intensely aware of the coming financial challenges, should take the lead to encourage these plans within their institutions.

ENDNOTE

- ¹ For a comprehensive look at retirement funding challenges, see Porter and Steen, 2012.

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