RETIREMENT & BENEFIT PLAN SERVICES

WORKPLACE INSIGHTS™

2013 Workplace Benefits Report

Employees' Views on Achieving Financial Wellness

Bank of America Merrill Lynch

Empowering Employees to Improve Financial Wellness

Retirement plans have evolved from simple tax-advantaged savings accounts to the very foundation of American workers' financial wellness. Three decades ago employers gave employees near-total independence to plan and save for retirement. More recently employers have focused on supporting employees and helping them improve their overall financial wellness.

The retirement system continues to evolve. Many employees are not taking full advantage of their benefit plans and run the risk of not becoming as financially prepared for retirement as they could be. Companies that want to maximize productivity and be the employers of choice must provide clear strategies and resources for empowering their employees to improve retirement readiness and financial wellness. These may include resources, results-based plan design, financial planning tools and personalized advice that encourage and support financially healthy behaviors. Indeed, retirement has a new reality:

- Employees are seeking more help directly from their employers.
- Employers are responding by taking steps toward an empowerment approach.
- Plan service providers, such as Bank of America Merrill Lynch, are delivering new ideas and innovation to help employers help their employees.

In this, the first Workplace Benefits Report to focus solely on employees' financial wellness, employees reveal that their retirement and health care benefits are integral to their financial wellness. We surveyed more than 1,000 employees to hear directly how their workplace benefits are helping them manage competing financial goals. While some employees are pursuing financial wellness, more employees are asking for help.

We believe that the two industries — employers and service providers — have critical roles to play in delivering better workplace benefits for employees and helping them improve their financial wellness. I welcome you to read on for some of the most compelling discoveries from employees across the country.

Kevin Crain
Head of Institutional Retirement & Benefit Services

2013 Workplace Benefits Report – Highlights

In this report, which is dedicated to employees' perspectives on achieving financial wellness, we learned, quantitatively and qualitatively, just how important retirement and health care benefits are to employees' overall financial wellness. At a time of more economic challenge and increasing cost pressures on households, employees are clear that they rely on their workplace benefits more than ever. In fact, a majority of employees reveal that if not for the relative safety net of retirement and health care benefits, they might experience grave personal financial hardship.

In this first report dedicated to the employee perspectives on workplace benefits, several key discoveries emerged:

- A new Financial Wellness Score quantifies how "financially well" employees are.
- Improved plan design and support can encourage employees to better utilize benefits.
- Access to health care is a critical benefit to employees, and they are concerned about the potential effects of a health care "shock" on their financial wellness.

HIGHLIGHTS OF KEY FINDINGS

65% of all employees are not financially well PAGE 4

Over the last **5 years** employees in every age group have increased their focus on retirement and are relying more heavily on the benefit plans provided by their employers PAGE 8

59% of employees report they need help managing retirement savings PAGE 10

BUT

21% are seeking education and guidance about their plans PAGE 10

Improvements in overall financial wellness can help employees prepare for a **30-year retirement** PAGE 12

Workplace benefit plans help more employees achieve higher financial wellness

We believe that offering well-designed and integrated financial benefits is imperative to helping employees achieve financial wellness. Despite employers' efforts, many employees have fallen behind. A new score, created by Bank of America Merrill Lynch, comprised of 10 distinct components listed on page 3, helps to quantify the stark reality of the current state of financial wellness among employees.

Many employees report being ill-prepared to manage both current and long-term financial needs. Nearly all employees surveyed report being stressed about their financial situations and are seeking more help from their employers. Even most of those closest to retirement feel that they are not in control of their financial situation and have not saved enough for retirement.

The results and information uncovered in this report provide employers with additional insights to help them improve their workplace benefit plans. We are prepared to help our clients provide solutions for more effective plan design, retirement planning tools and personalized advice[1] that may result in improved employee financial wellness, satisfaction and productivity.

Nearly all participants in this survey report stress about their financial situations

Methodology:

Boston Research Group completed a national sample of 1,014 surveys for Bank of America Merrill Lynch. Surveys were collected from March 6 through March 17, 2013. Employees who responded to the survey were screened to ensure current participation in a 401(k) plan. Bank of America Merrill Lynch was not identified as the sponsor of the study. No quotas were set and no weighting was necessary.

[1]Investment advice is provided to plan participants solely through the Advice Access service.

The new Bank of America Merrill Lynch Financial Wellness Score[2]

Our survey utilized factor analysis to statistically identify the key components of employees' financial wellness: that is, their abilities to meet both future goals and present-day needs. Ten key financial components were identified and used to create a Financial Wellness Score with scores ranging from 0 (lowest) to 10 (highest).

The components of financial wellness, listed at right, go beyond the traditional view of the probability of meeting retirement savings goals. For the first time, we can see inter connectivity between household finances and workplace benefits, along with psychological and behavioral aspects of one's financial life.

THE 10 COMPONENTS OF THE BANK OF AMERICA MERRILL LYNCH FINANCIAL WELLNESS SCORE:

- √ Always able to pay monthly mortgage or rent
- √ Always have money for basic necessities
- √ Always able to pay for health care costs
- √ Feeling of secure employment at current firm
- √ Can afford to maintain a good standard of living
- √ Feeling of control over financial situation
- √ Saving enough for retirement
- √ Confident in ability to afford health care-related payments, considering employer's health plan
- √ Ability to handle three months unpaid without a problem if encountering a health-related financial crisis
- √ Low level of financial stress

[2]The Financial Wellness Score is a composite of survey responses to 10 components identified by Bank of America Merrill Lynch as central to an employee's pursuit of financial wellness. A point range of 8-10 is considered financially well and a point range of 4 or below is considered not financially well.

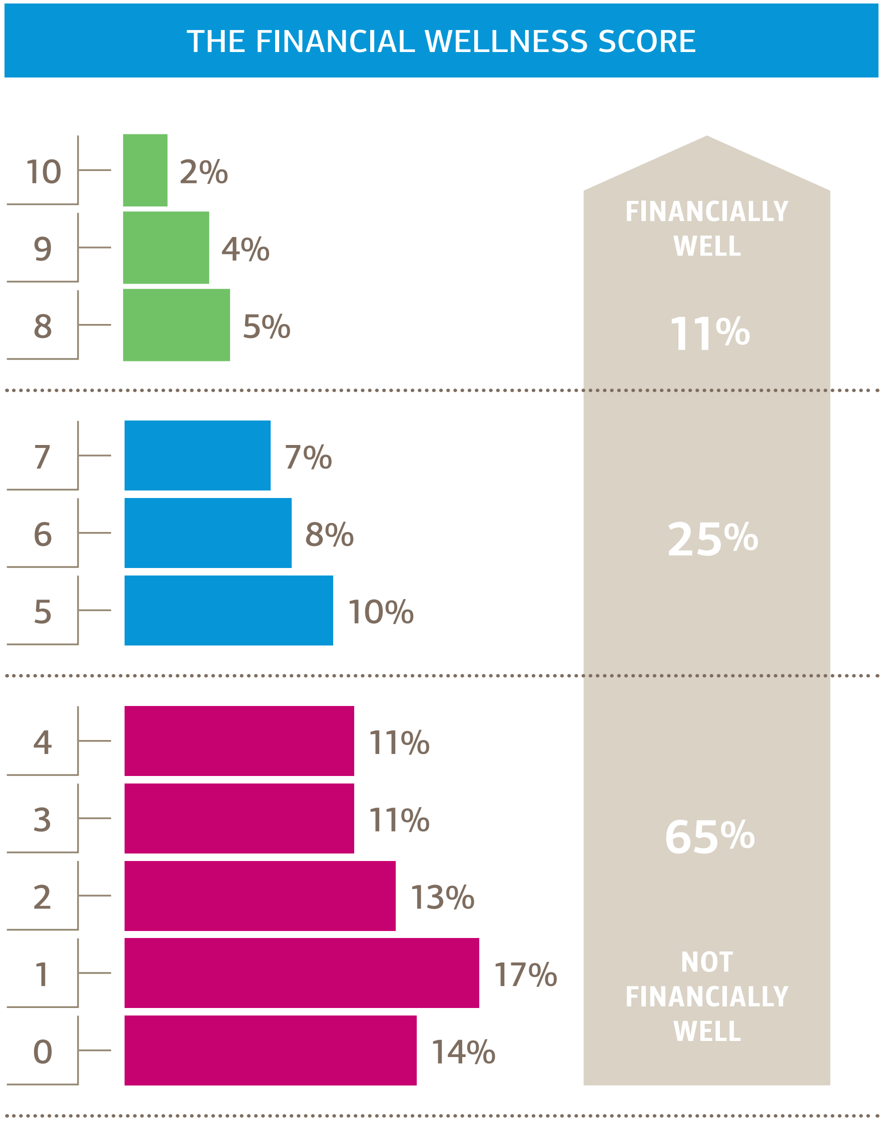
A surprising number of employees are not financially well

The Financial Wellness Score consists of ratings from 0 points to 10 points based on employee answers to the 10 components listed on page 3. Each positive answer was given one point. If an employee provided a positive response to all components, he or she would have a Financial Wellness Score of 10. If an employee did not give a positive response to any of the components of financial wellness, he or she would have a score of 0.

In surprising results:

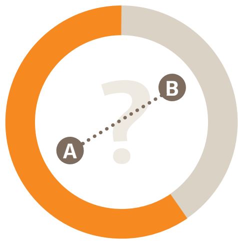
- **11% scored in the financially well group** (score of 8 to 10),
- **25% of all participants fell somewhere in between** (score of 5 to 7) and may be poised to become financially well or to fall into the not financially well group, and
- **65% of all participants scored in the not financially well category** (score of 0 to 4).

And **90% of all surveyed employees feel some degree of stress about their financial wellness**, even when participating in retirement and health care plans at work.



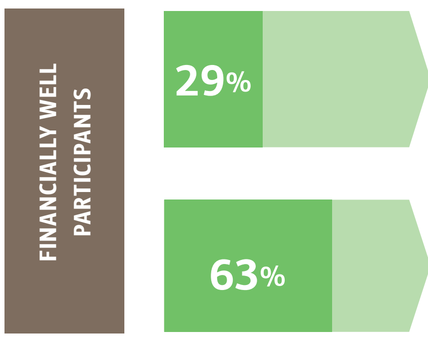
Totals do not add to 100% due to rounding.

Reaching retirement goals is difficult. Many employees feel it will be difficult to reach their desired level of retirement savings.



60% of surveyed participants find it difficult to reach their retirement savings goal.

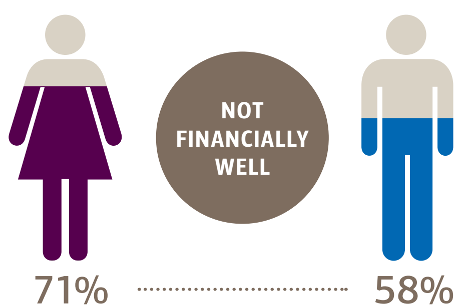
For those who have the highest financial wellness scores, the road to retirement is easier.



less than a third say it will be **very easy to reach their retirement savings goal and**

nearly two-thirds say it will be **somewhat easy to reach their retirement savings goal**

Women have lower financial wellness than men. Based on responses by gender, we found that a significantly higher number of women are financially unwell today and are concerned about their financial health. They are particularly concerned about paying for health care expenses, having enough money for basic necessities and paying their monthly mortgages or rents.



Participants are concerned about their financial wellness. Looking at the details of the Financial Wellness Score, there were other compelling findings, including:

85%

report they are **not saving enough** for retirement

63%

do **not** feel **secure with employment at their existing firms**

75%

do **not** feel **in control** of their financial situations

68%

do **not** feel they can **afford a good standard of living** for their families

76%

think that suffering a **health-related financial crisis** that resulted in three months without pay would be a **problem,** and **26%** say it would represent a **major crisis**

Financial wellness is not just for the wealthy

On a positive note, we found that even **when a plan participant has lower income and assets, he or she may score in the highest group of financial wellness.**

Higher income does not guarantee higher financial wellness.

An important question for determining financial wellness is: Which behaviors and actions drive people up, as well as down, the Financial Wellness Score? On the surface we might think that one's income and accumulated assets play the key role. But, in and of themselves, income and assets play a small role.

It is correct to assume that for the most part those with higher incomes and accumulated retirement assets, on average, have higher financial wellness scores. However, when we control for income level and assets, financial wellness scores vary widely. Put another way, **having a high income does not guarantee financial wellness** — and a relatively low income does not necessarily drop employees to low financial wellness.

Of those respondents who are married or living with a partner, **71% of those who have the highest financial wellness scores (8 or higher) regularly discuss their finances with their spouse or partner.** Only 39% of those who are not financially well (scores of 4 or lower) regularly have such discussions. Spending behaviors and managing within one's financial means are as important as leveraging an employer's retirement savings and health care benefits.

Participants who stay engaged and knowledgeable about their benefit plans also demonstrate higher financial wellness. For example, see the comparisons between those who are the most secure in their financial wellness (scores of 8 and above, on the left in each graphic) and those who are the least secure on their scores of financial wellness (scores of 0 and 1, on the right in each graphic):

reading information about benefits:
46% vs. 19%

seeking out advice and guidance resources:
38% vs. 11%

deferring higher amounts to get the **maximum company match**:
95% vs. 67%

MAX

deferring up to the annual **legal maximum:**
43% vs. 10%

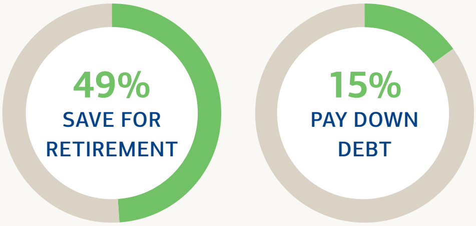
knowledgeable about current plan fees
53% vs. 15%

+$1,000

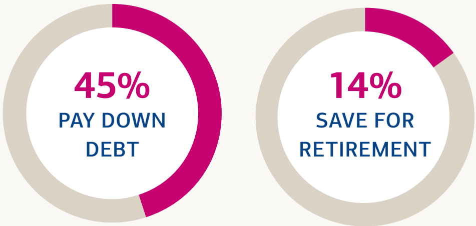
Those who are financially well would direct an additional $1,000 toward retirement. Participants who score at either end of the Financial Wellness Score have different priorities if they were to receive additional money. Those who are financially well are able to direct additional money to long-term retirement savings rather than paying down debt. In contrast, those who are not financially well have the opposite situation: the majority would use extra money to pay down debt first.

EXTRA $1,000 – FINANCIALLY WELL**

49% would save an extra $1,000 for retirement compared with 15% paying down debt



EXTRA $1,000 – NOT FINANCIALLY WELL**



45% would spend an extra $1,000 to pay down debt, and 14% would save for retirement

** The most secure financially well participants scored 8 to 10 and the least secure financially well participants scored 0 to 1.

Participants are focusing on retirement and relying on their employers’ plans to empower them

This survey also found that over the past five years, employees of every age have increased their efforts toward preparing more for retirement. Relying on their employers’ retirement plans is a key strategy for improving both retirement readiness and financial wellness. In fact, nearly **four in five participants** feel that the financial benefits they participate in at work improve their financial wellness.

Satisfaction with workplace benefit plans is high and improves as financial wellness improves:*

61% vs. **27%**

of **financially well participants** report that they are **“very satisfied” with workplace benefits**

of **not financially well participants** report that they are **“very satisfied” with workplace benefits**

Women are more likely than **men** to describe themselves as **“very satisfied” with their benefit plans**

40% vs. 37%

Employees who are financially well may have the option to retire early. When asked at what age they hope to retire, many participants had no idea. But those financially well were more definitive. The steps they have taken to achieve greater financial wellness increases the aspiration that they will retire (stop working full-time) and that it may be before age 65. Many of the financially well may still choose to stay in the workforce for engagement and personal satisfaction, but they may have more options than those not financially well.

HOPE TO RETIRE BEFORE AGE 65

40% vs. 17%

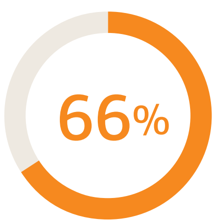
FINANCIALLY WELL* **NOT FINANCIALLY WELL***

* The most secure financially well participants scored 8 to 10 and the least secure financially well participants scored 0 to 1.

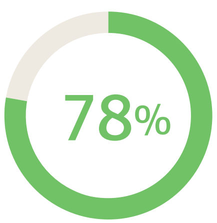
The importance of a retirement savings plan at work is not lost on employees. Overall, the message that each individual owns his/her own retirement is making a difference in how employees think about their employer retirement savings plans. Nearly two-thirds of employees say they have increased their focus on retirement over the past five years. At the same time they express a desire for their employers to provide tools and resources that empower them. The importance of a well-designed retirement plan is more important than ever and is the key to both retirement readiness and financial wellness during employment.

71% report that their workplace plans will be their 1st or 2nd largest source for retirement income

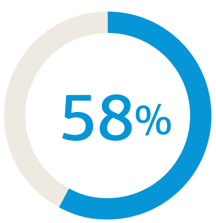
Employees who participate in their employer’s retirement plans may be better positioned for retirement.



are **contributing 5% or more** of their salary **into a 401(k)**



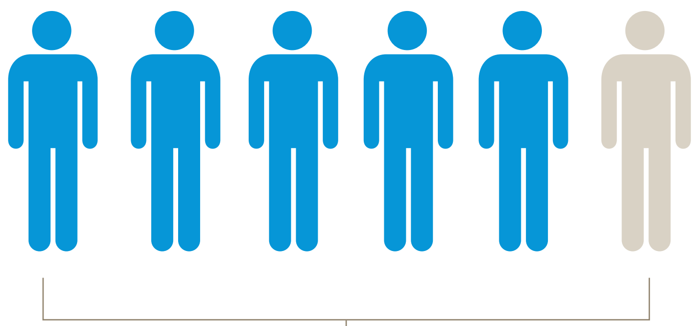
contributed enough last year to get **maximum employer match**



have **increased their contributions** since enrolling in their plans

However, maximizing annual plan contributions is lost on most employees. In contrast to the 78% of all participants who contribute to the full match rate, only 20% are contributing to the annual maximum limit. This may indicate that employees are not fully embracing the message that they need to save over and above the employer match to meet their retirement goals. Employers may want to consider increasing the match percentage or communicating more specifically that saving only to the match is unlikely to help achieve a secure retirement.

It’s encouraging that five out of six employees would not use their plan assets if they lost their jobs:

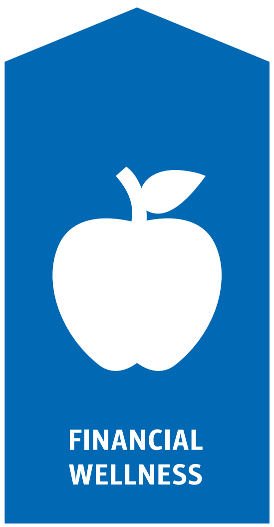


47% would **roll over the money into an IRA** or similar tax-deferred account

36% **would leave the money in the plan**

What employees desire and what actions they take (or should be taking) are often out of alignment

Employee behaviors often can be disconnected from their beliefs. When employees are feeling financially well, they can lose some of the disciplined focus that helped them achieve their current level of financial wellness.



A disconnect in behavior: Desire for financial advice and tools DECREASES as financial wellness INCREASES — shouldn't the opposite be happening?

Employees know they are not saving enough for retirement, yet they are not seeking help:

85% of all surveyed participants report that they are not saving enough for retirement.

And 59% of all participants reported that they need help managing retirement savings.

Yet only 21% of all participants seek education and guidance about their plans. Employees may need additional information and encouragement to use advice and guidance resources offered through their employers.

Employees can benefit from more personalized advice and guidance: they handle uncertainty better and take better control of their financial wellness. Participants indicate that there are many negative influences on retirement savings levels, including increasing health care costs, not knowing how much money is needed to retire, competing financial obligations, uncertainty about where and how to invest, fear of the market and a sense that they will never be able to save enough. Getting appropriate advice and guidance can help alleviate those fears and empower individuals to make better decisions that will improve their financial wellness.

51%

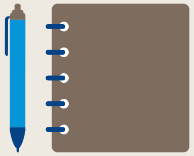
of all employees indicate that they would like their employers to **provide access to one-on-one advice provided by a financial advisor**

46%

would like **online tools**

39%

would like access to relevant **financial seminars** provided by their employers



While demographics influence many behaviors and actions, most employees are focused on similar retirement goals

When it comes to financial wellness and retirement readiness, both pre-retirees (those planning to retire in five years or less) and early starters (those under age 30) are focused in similar directions. There are a few notable differences, however, suggesting that the reality of owning one's retirement is taking hold:

- **The youngest generation of workers** today generally does not believe Social Security will be there to support their retirements, and they are taking key steps to improve their retirement readiness and financial wellness. They also are more likely than pre-retirees to express a desire for needing help to plan for retirement, managing debt, budgeting and saving for college.

- **One in five early starters want help** planning for health care costs, and more than half (57%) want one-to-one relationships with financial advisors — and more than any other group they want to meet with advisors in person.

Men and women differ in some noteworthy ways in their approach to benefits. In particular, two-thirds of the women say they want financial planning guidance, compared with less than half of the men.

In addition to asking total respondents about goals and focus relative to retirement, we also broke the group down into early starters and pre-retirees. Here's a snapshot of the overall group as well as a look at how each subgroup thinks.*

WHAT EMPLOYEES BELIEVE ABOUT RETIREMENT	TOTAL RESPONDENTS	EARLY STARTERS	PRE-RETIREES
Retirement savings plans at work will be the largest or second largest source of income in retirement	71%	75%	59%
Social Security will be the largest source of income in retirement	29%	19%	42%
Plan to save $1 million or more for retirement	31%	44%	22%
Request research on plan investments from employers	38%	53%	36%
Feel that the recession and increased market volatility play larger roles in their retirement savings than they did for their parents	54%	60%	46%
Need to save and invest more for retirement	49%	57%	42%
Need to save and invest for a longer period of time to meet their retirement goals	24%	30%	21%
Willing to give up 5% or more of salary for guaranteed income	79%	82%	84%

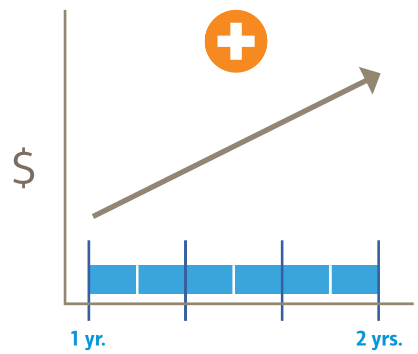
*Please note columns do not add up due to the nature of our calculations. For example, 71% of those surveyed responded affirmatively to the first question, which includes a positive response from 75% of early starters and 59% of pre-retirees.

Health care is increasing in importance

While health care benefits are key to financial wellness, the costs are challenging for employees to manage. **As a result of rising health care costs, 56% of all plan participants save less for retirement.**

80%

of all participants have experienced **increases in health care costs** within the past 2 years



48%

of all participants agree that they can **always pay for health care expenses**

Since the passage of the Patient Protection and Affordable Care Act into law, employees have become more aware of health care costs. As a result, saving for health care is becoming as important as saving for retirement—and more employers are offering, and more employees are enrolling in, tax-advantaged health savings accounts.

76%

report it would **be a problem if they had a health crisis** that required them to be **3 months away from work, unpaid**

47%

of all participants who currently **participate in a flexible spending account or a health savings account** indicated that they started using the plans or increased usage **because of health care cost increases**

Implications for employers

Employees are seeking help and clearer direction that could result in improved retirement readiness and financial wellness. Employers are in the best position to take the lead, provide more information and education, and help empower employees to achieve better financial wellness. And their motivations need not be purely paternalistic: A financially healthier workforce is likely to be more satisfied and productive, and an attractive benefits package may help companies become the employers of choice.

For example nearly two-thirds (63%) of employees reported that their employers provide health and wellness programs. Of those:

- 64% said the **programs had a positive impact** on their **feelings about their employers**
- 62% said it had a **positive impact on their health.**

Employers are in the best position to take the lead and help empower employees to achieve better financial wellness

EMPLOYERS CAN TAKE SEVERAL ACTIONS TO HELP EMPOWER THEIR EMPLOYEES:

- **Review your plan data.** See which benefits employees are using well and which they are not. Then reinforce good behavior to increase employee wellness and reduce the need for advice.
- **Market benefits packages to employees.** Help employees engage and change behavior by addressing how to take better advantage of the benefits they have today.

- **Show employees how to maximize the benefits packages.** Don’t leave it up to the employees to figure out the value of their benefit plans — they don’t often make the link. Put specific measurements and benchmarks in place to monitor behavior and corresponding financial wellness, and share with your employees.
- **Provide more 1:1 advice and tools.** Employees look to their employers to provide clear direction and resources from relevant research to online tools. And more than half of employees surveyed would like their employers to provide access to 1:1 financial advice.
- **Consider automatic features.** Automatic enrollment and automatic contribution increases can boost retirement plan participation. For those who are not financially savvy, this can make a huge difference in bridging their retirement readiness gap or improving financial wellness.

About the 2013 Workplace Benefits Report

Bank of America Merrill Lynch's *Workplace Benefits Report* is an annual study focused on the role financial benefit plans play in employers' talent management strategies — and in the overall financial wellness of their employees. This year, we are producing two studies. This first study focused on employee perspectives about the benefits offered by their employers and the closer integration of retirement benefits and health care. The second study, scheduled for the fall of 2013, will focus on trends and new insights from the employers' perspectives.

Understanding the ever-evolving retirement landscape, the new implications for financial wellness as a result of the changes in health care, and how changing demographics and priorities affect employers and employees continues to be a top priority for Bank of America Merrill Lynch. By monitoring and keeping abreast of these key indicators and opinions, we can more confidently empower plan sponsors to stay ahead of the curve while helping meet the varied needs of their plan participants.

For more information about how we can help your company and its employees with workplace benefits, contact your Bank of America Merrill Lynch representative or call **1.877.902.8730.**

Visit us online at **benefitplans.baml.com** or email us at **benefitplans@baml.com.**