EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Implications of Employee Tenure on Benefit Design

March 22, 2023

Speakers

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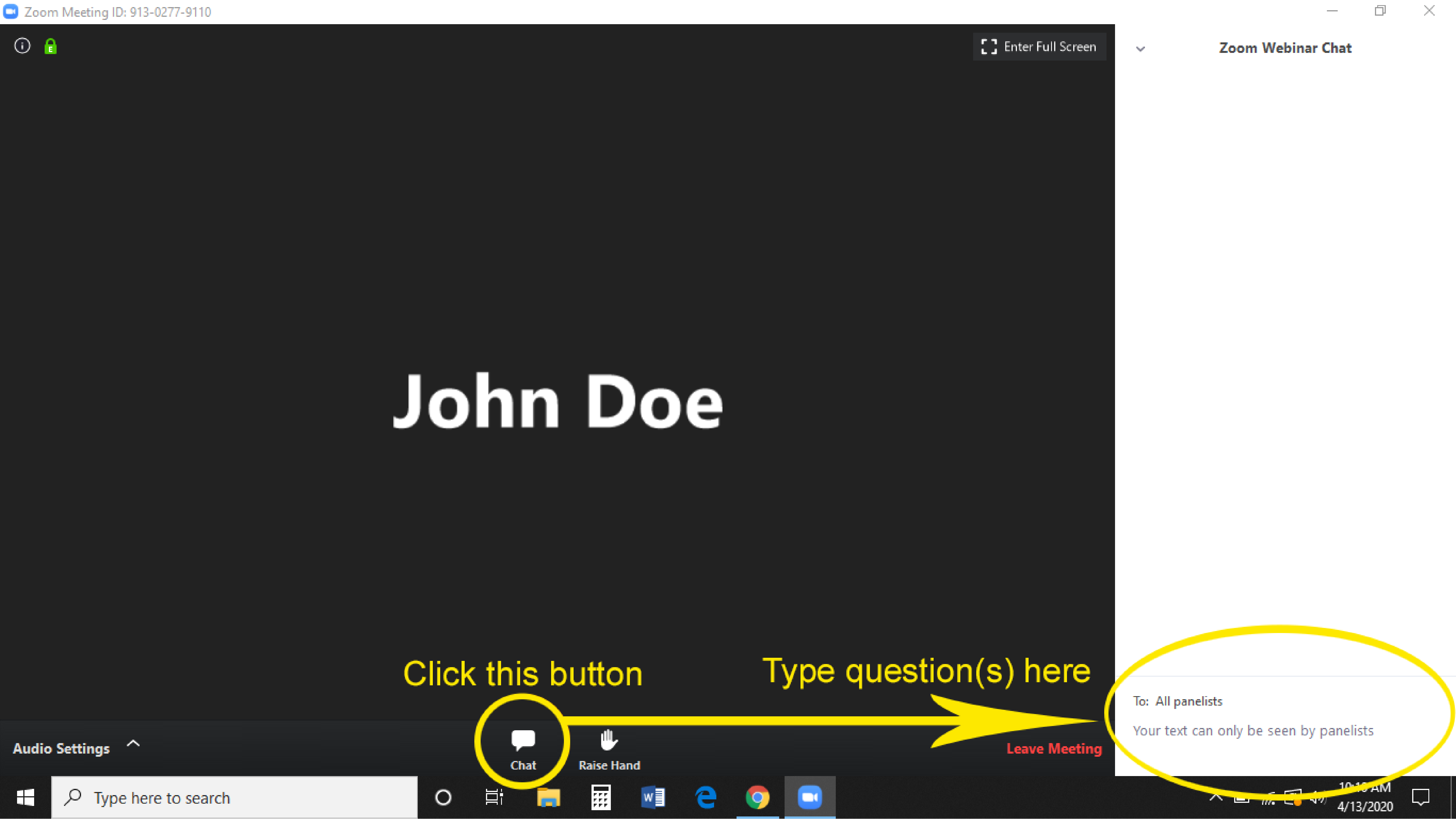
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Tenure Trends of American Workers

Overview

Tenure—the amount of time a worker has been with his or her current employer

Data—January Current Population Survey (CPS)—tenure levels as of January of each year presented

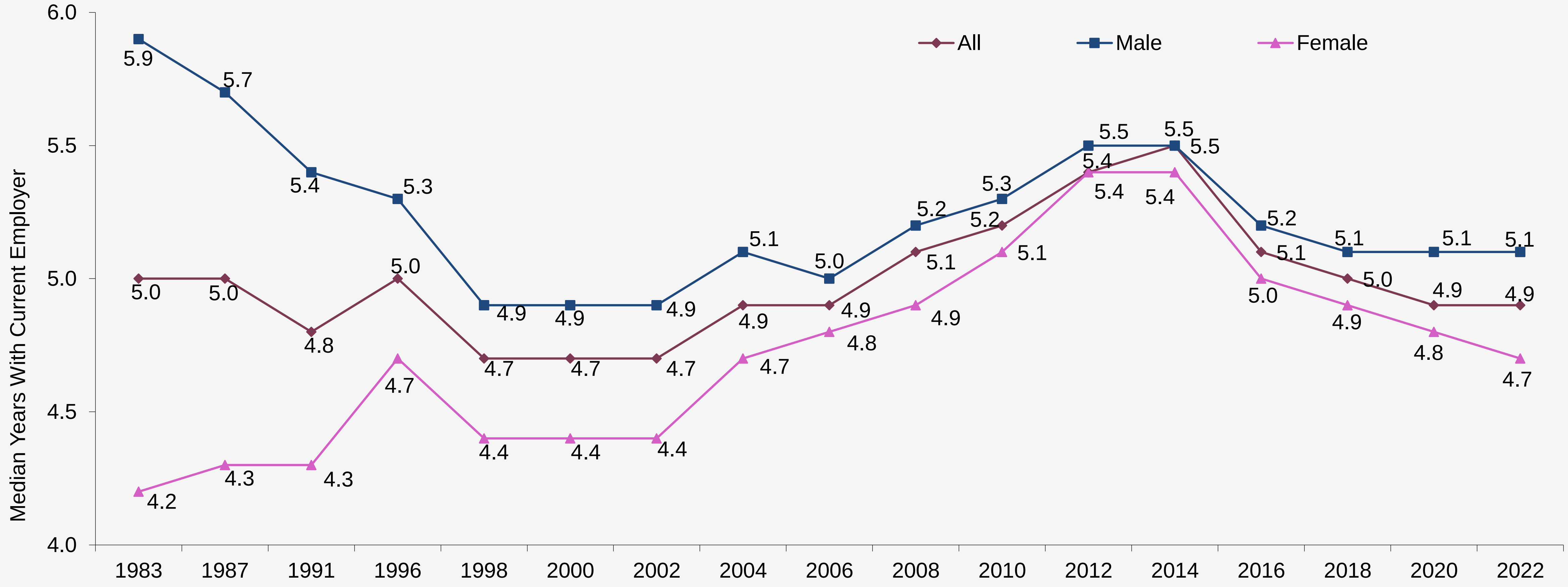
- Key trends from *Issue Brief* (#578 1/19/23)
  - Median tenure
  - Percentage of workers above various thresholds of tenure
  - Demographics—gender and public/private sector
- Other demographic factors (not in *Issue Brief*)
  - Race/ethnicity
  - Defined-contribution-plan-eligible participants

Key Tenure Trends

Median Tenure
- Gender
- Public/Private Sector

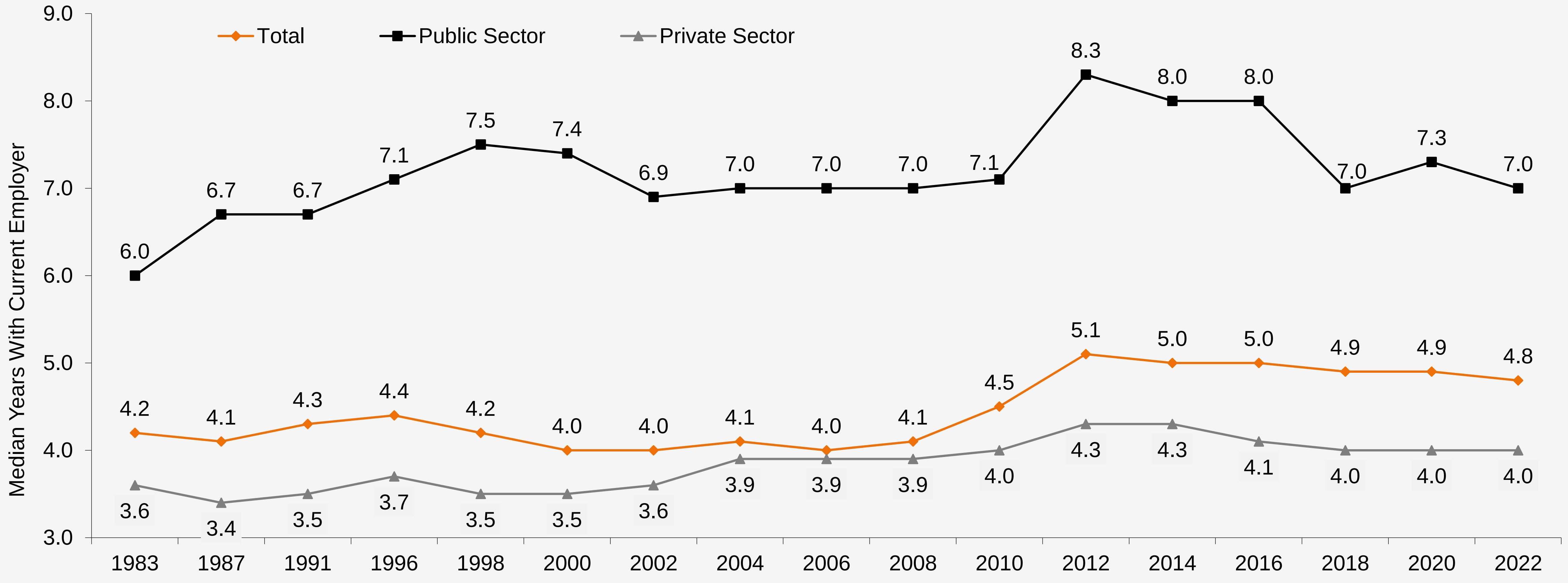
Percentage Above Specific Years of Tenure

Median Years of Tenure for Wage and Salary Workers (Ages 25 or Older), by Gender, 1983–2022



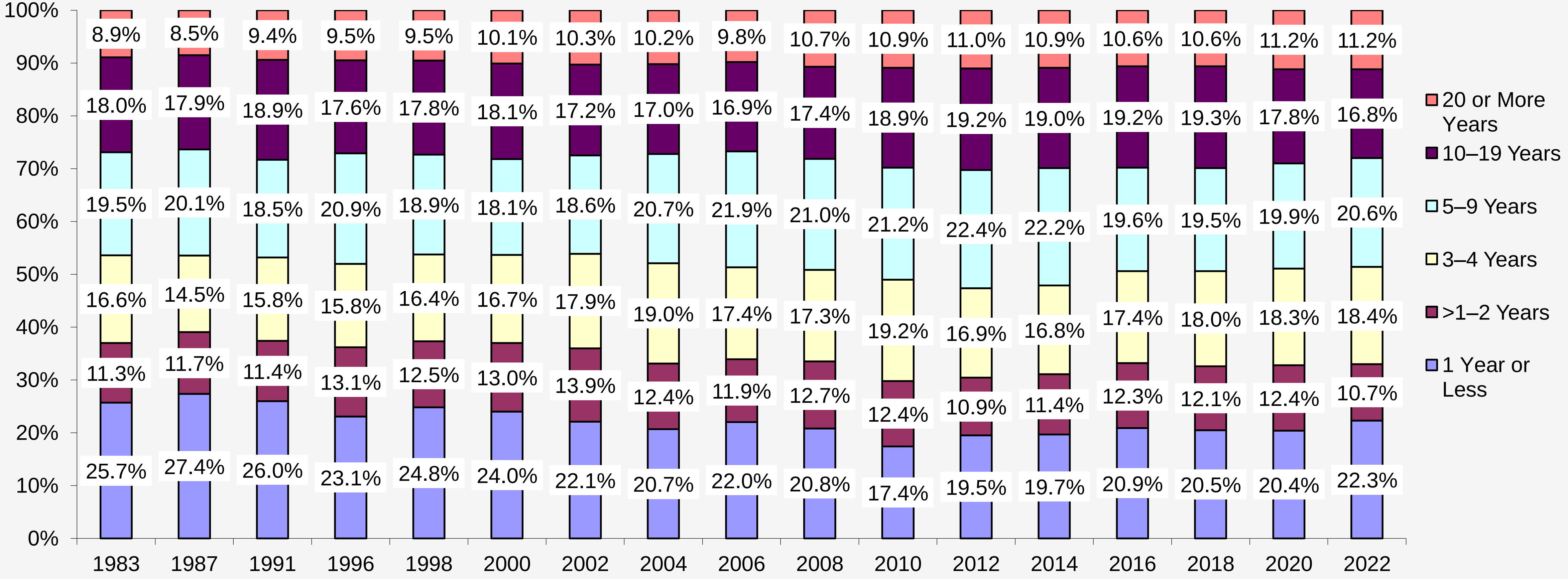
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/history/tenure_09192002.txt, www.bls.gov/news.release/archives/tenure_09182012.pdf, and www.bls.gov/news.release/tenure.nr0.htm (all last viewed March 20, 2023).

Median Tenure Levels for Wage and Salary Workers (Ages 20 or Older), by Sector, 1983–2022



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/history/tenure_09192002.txt, www.bls.gov/news.release/archives/tenure_09182012.pdf, and www.bls.gov/news.release/tenure.nr0.htm (all last viewed March 20, 2023); and Employee Benefit Research Institute estimates from the January 2014, 2016, 2018, 2020, and 2022 Current Population Surveys.

Employee Tenure Distribution: All Wage and Salary Workers (Ages 20 or Older), 1983–2022



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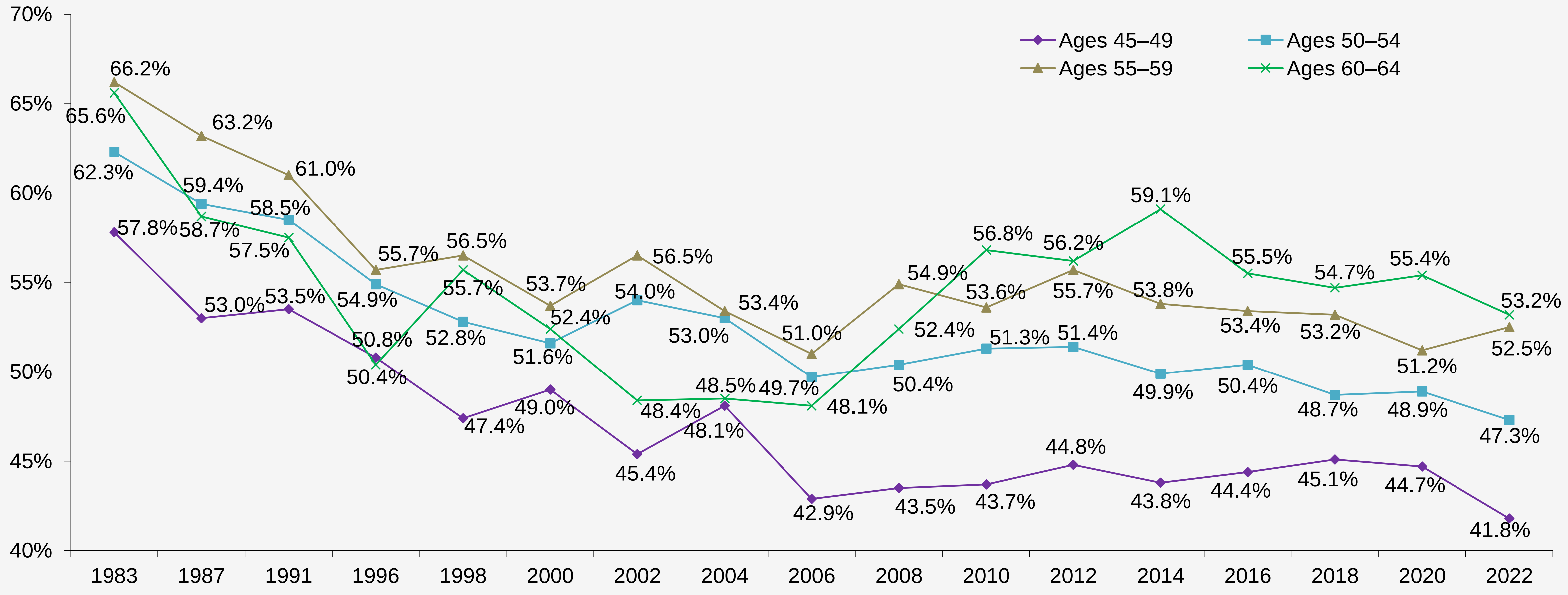
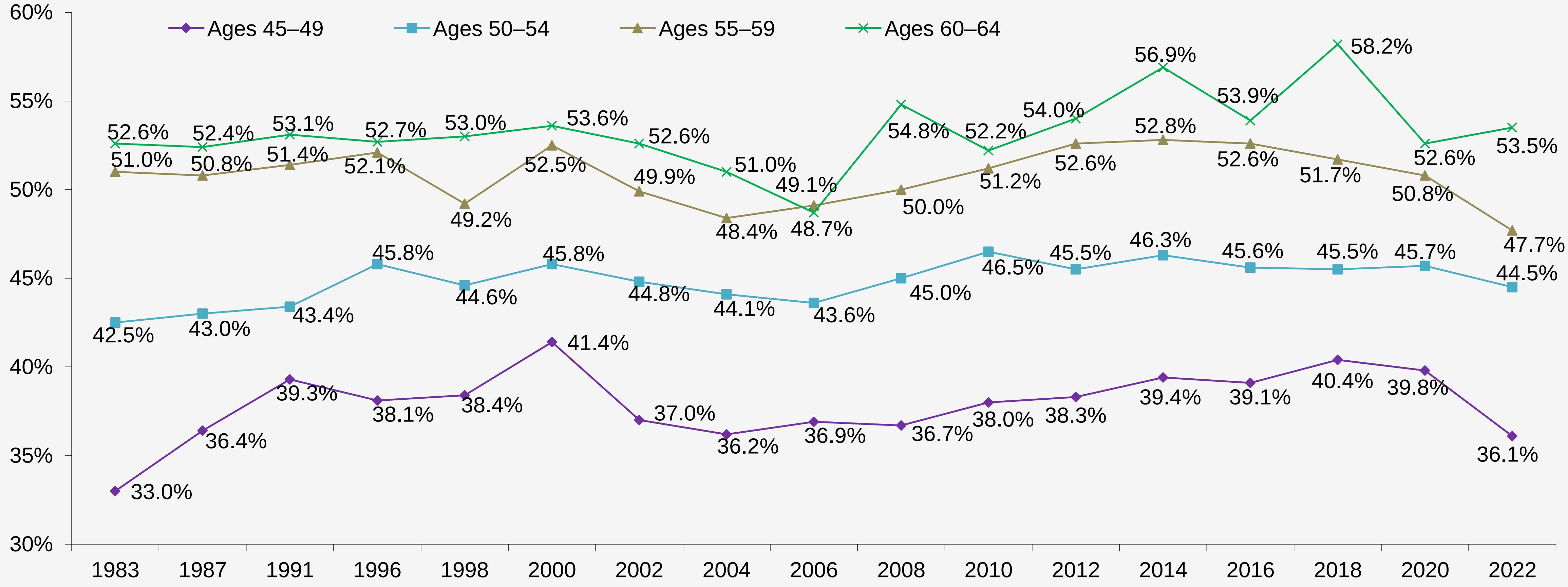
Percentage of Male Wage and Salary Workers (Ages 45–64) Who Had 10 or More Years of Tenure, by Age, 1983–2022



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/history/tenure_09192002.txt, www.bls.gov/news.release/archives/tenure_09182012.pdf, and www.bls.gov/news.release/tenure.nr0.htm (all last viewed March 20, 2023).

Percentage of Female Wage and Salary Workers (Ages 45–64) Who Had 10 or More Years of Tenure, by Age, 1983–2022



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/history/tenure_09192002.txt, www.bls.gov/news.release/archives/tenure_09182012.pdf, and www.bls.gov/news.release/tenure.nr0.htm (all last viewed March 20, 2023).

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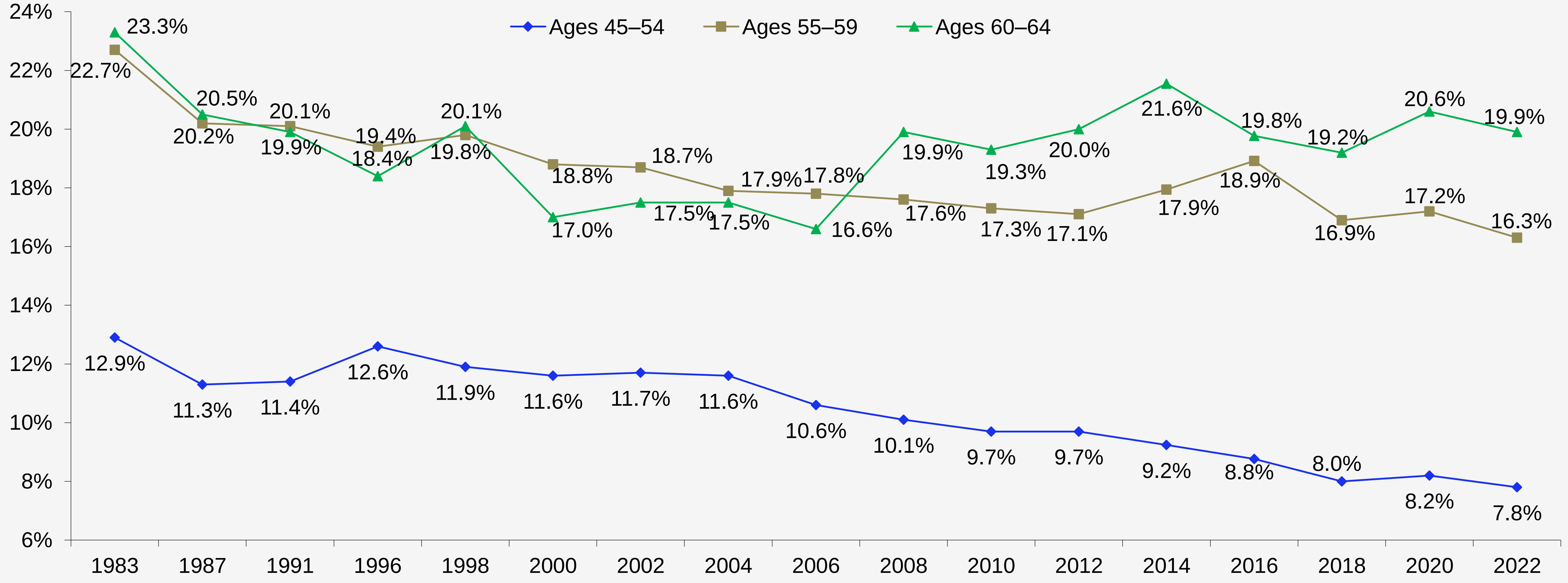
Percentage of Wage and Salary Workers (Ages 45–64) Who Had 25 or More Years of Tenure, by Age, 1983–2022

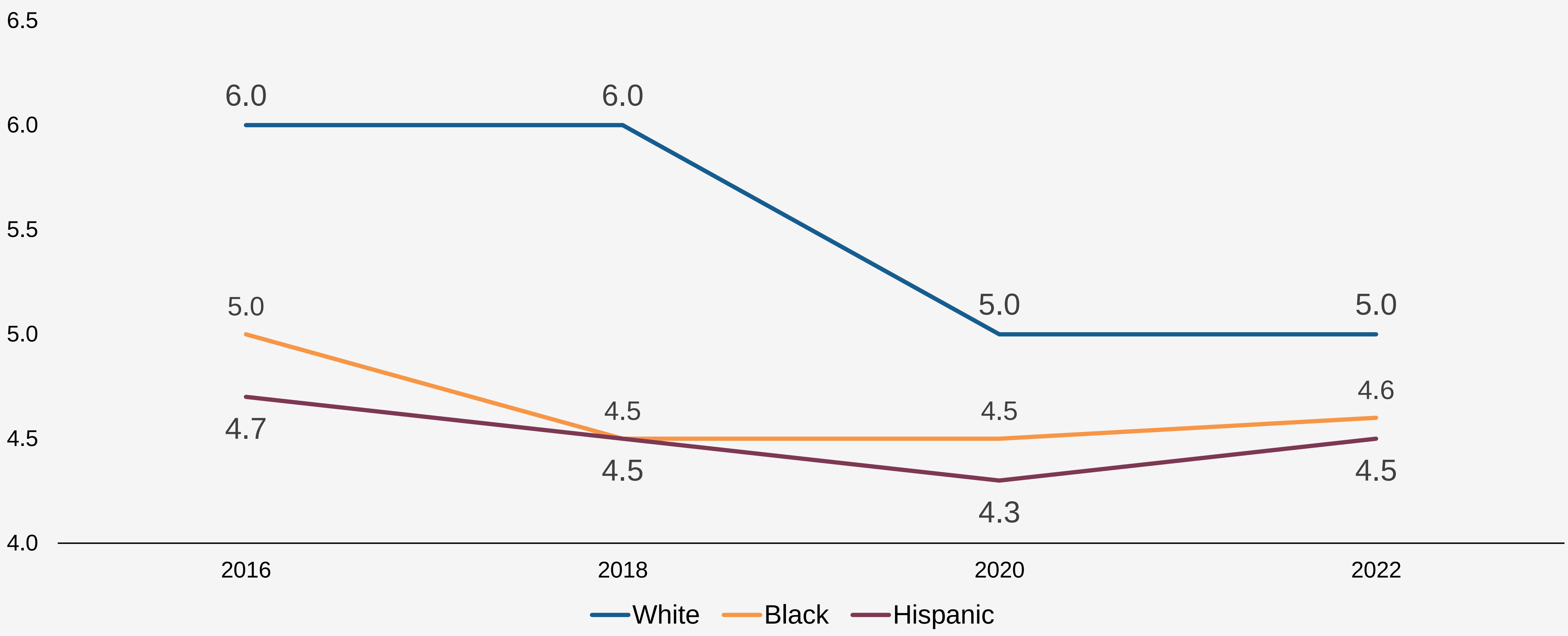


Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," and Employee Benefit Research Institute estimates from the January 2004, 2006, 2008, 2010, 2012, 2014, 2016, 2018, 2020, and 2022 Current Population Surveys.

Other Demographic Factors

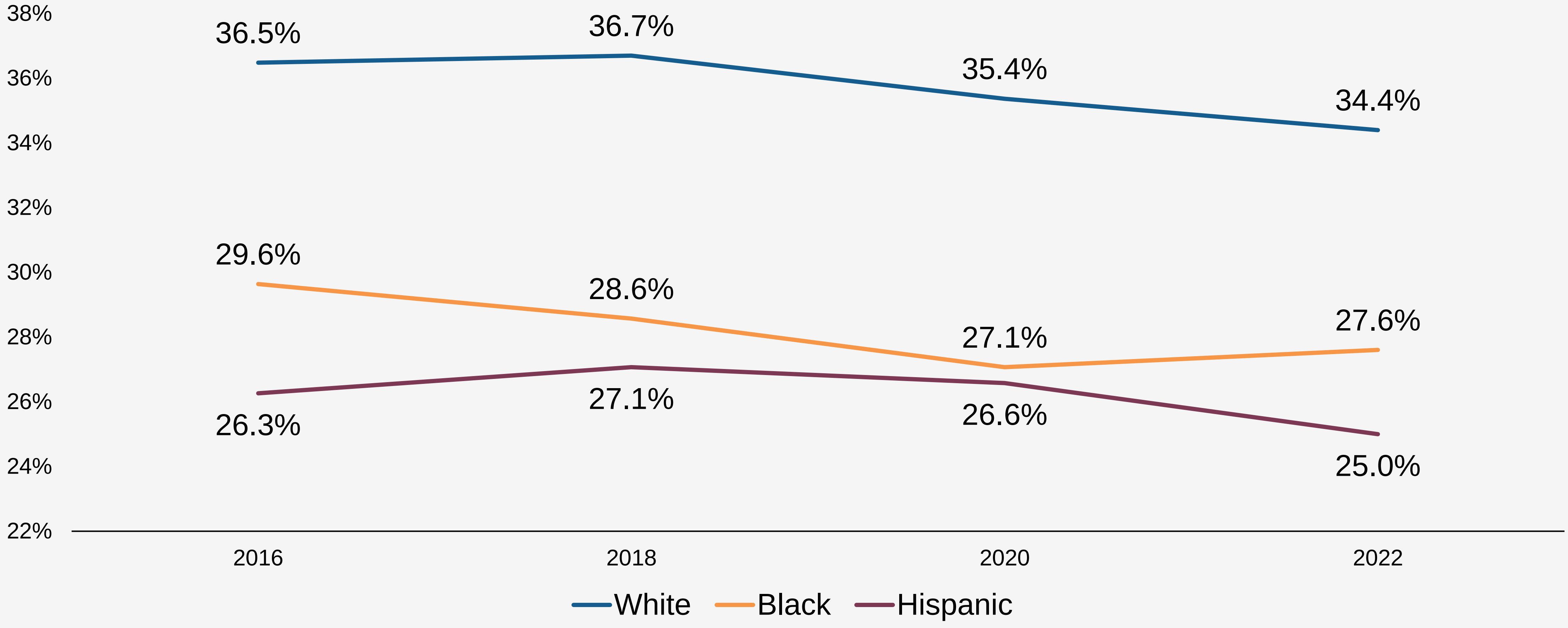
Race/Ethnicity
Defined-Contribution-Plan-Eligible Workers

Median Years of Tenure for Wage and Salary Workers (Ages 25 or Older), by Race/Ethnicity, 2016–2022



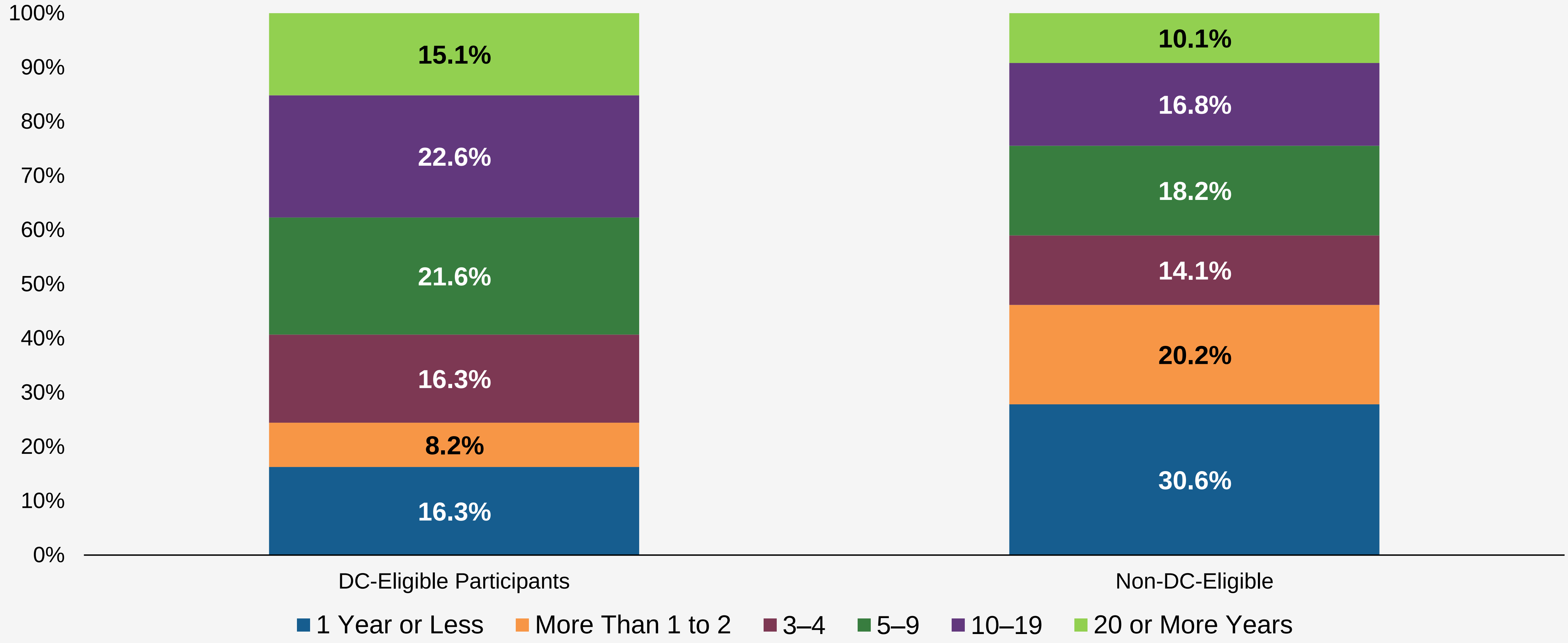
Source: Employee Benefit Research Institute estimates from the January 2016, 2018, 2020, and 2022 Current Population Surveys.

Percentage of Wage and Salary Workers Ages 25 or Older Who Had 10 or More Years of Tenure, by Race/Ethnicity, 2016–2022



Source: Employee Benefit Research Institute estimates from the January 2016, 2018, 2020, and 2022 Current Population Surveys.

Tenure Comparison of the DC-Eligible Workers Vs. Non-DC-Eligible Workers, 2019
(DC eligible workers have longer tenure on average, but 40 percent still have tenure less than 5 years.)



Source: Employee Benefit Research Institute estimates of the 2019 Survey of Consumer Finances. Only the working family heads who work for someone else are included in this analysis.

Takeaways

- Over the past 35 years, the median tenure of all wage and salary workers ages 25 or older has stayed at approximately five years.
- Since the pandemic, the share of workers with the lowest levels of tenure has grown, while the percentage with the highest levels of tenure has held steady.
- These tenure results indicate that, historically, most workers have changed jobs during their working careers, and all evidence suggests that they will continue to do so in the future.
- This persistence of job changing over working careers has several important implications — potentially reduced or no defined benefit plan payments due to vesting schedules, reduced defined contribution plan savings, and lump-sum distributions that can occur at job change, which could all result in lower retirement incomes.
- At the same time, the longest-tenured workers are in the position to best take advantage of employment-based retirement plans.

Tenure and Vesting: Past, Present and Future

March 22, 2023

U.S. Chamber of Commerce

Evolution of Coverage and Vesting

1970 – 26.3 million private-sector workers (45 percent of all private-sector workers) are covered by a pension plan.

Pre-ERISA Vesting: upon normal retirement (pension plans, IRS interpretation), triggering events (profit sharing plans) and upon plan termination or cessation of contributions.

Earliest age and associated service requirement for vesting in private pension plans, September 1, 1974

Vesting Provision	Participants (in thousands)	Percent of Participants
All	22,814	100
With vesting provisions	19,816	86
With immediate vesting	38	.2
Cliff vesting	15,924	69.8
Full vesting at any age, with:	8,819	38.7
Less than 10 years' service	487	2.1
10 to 14 years' service	5,445	23.9
15 to 19 years' service	2,040	8.9
20 or more years' service	847	3.7
Note: Since some plans provided both cliff and graduated forms of vesting, sums exceed totals		
Source: Defined Benefit Plans at the Dawn of ERISA		

Evolution of Coverage and Vesting

1974 –ERISA is enacted, and it establishes vesting rules as follows:

- full vesting after ten years;
- graded vesting, achieving full vesting after 15 years; and
- the rule of 45: at least 50 percent vesting when the employee’s age and service add to 45, increasing by 10 percent each succeeding year.

1978 – The Revenue Act of 1978 establishes Code Section 401(k).

1986 –The Tax Reform Act of 1986 changes the minimum vesting to either:

- Five-year cliff; or
- Graded, under which participants are 20 percent vested after three years, with an additional 20 percent each subsequent year.

1990 – 39.5 million private-sector workers (43 percent of all private-sector workers) are covered by a pension plan. 11.5 million private-sector workers are covered only by defined contribution plans.

Coverage data from [A Timeline of Evolution of the Evolution of Retirement in The United States]

Evolution of Coverage and Vesting

1999 – 40.1 million Americans in the private sector are covered by defined benefit plans and 60.4 million by defined contribution plans.

2001 – The Economic Growth and Tax Relief Reconciliation Act increases vesting on matching contributions by replacing the 5-year cliff or 7-year graded with a 3-year cliff or 6-year graded vesting;

2006 – 20% of all private sector workers are covered by defined benefit plans and 43% of all private sector workers are covered by defined contributions plans.

2006 – The Pension Protection Act of 2006 is enacted and required the same vesting for nonelective contributions as for matching contributions and required three year cliff vesting for hybrid (cash balance) plans.

Vesting Data Today

Employer Match	Other Employer Contributions
Immediate: 49% 1-year cliff: 2% 2-year cliff: 6% 3-year cliff: 10% 2-year graded:1% 3-year graded: 4% 4-year graded: 3% 5-year graded: 15% 6-year graded: 10% Other: <0.5%	Immediate: 40% 1-year cliff: 1% 2-year cliff: 3% 3-year cliff: 17% 2-year graded: .05% 3-year graded: 3% 4-year graded: 2% 5-year graded: 15% 6-year graded: 19% Other: 1%
Vanguard, How America Saves	

Rethinking Vesting

Policy

- No need for a policy change as plan design is moving to match the market on the DC side.

Why do you have a vesting schedule?

- Just because.
- Use of the forfeitures.
- Recruiting and retention
  - Is the match enough to make vesting matter for retention?
  - But is the match enough for recruiting without vesting?
  - What groups in your company is the vesting schedule negatively impacting?

Rethinking Vesting

Administration and understanding

- Easier administration
- Easier to understand (survey found 16% of employees found vesting confusing)
- Interplay with mandatory autoenrollment
    - More forfeitures in high turnover industries
    - Worth of the forfeitures

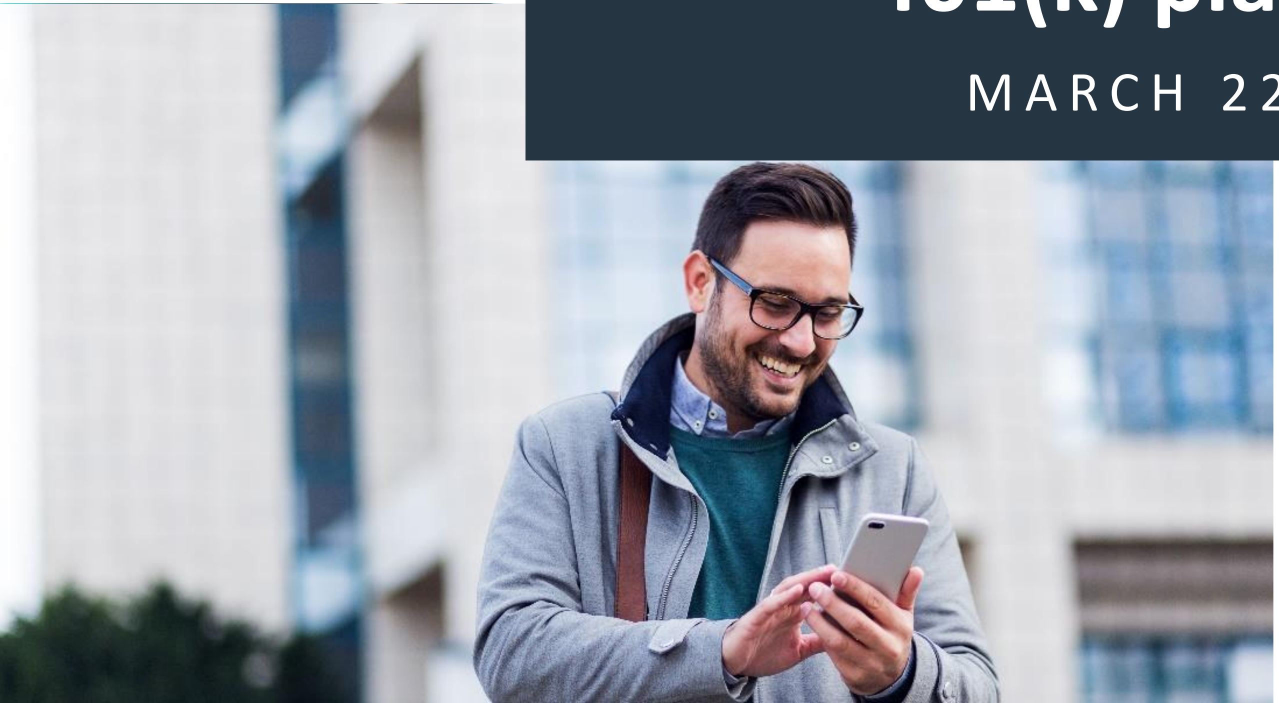
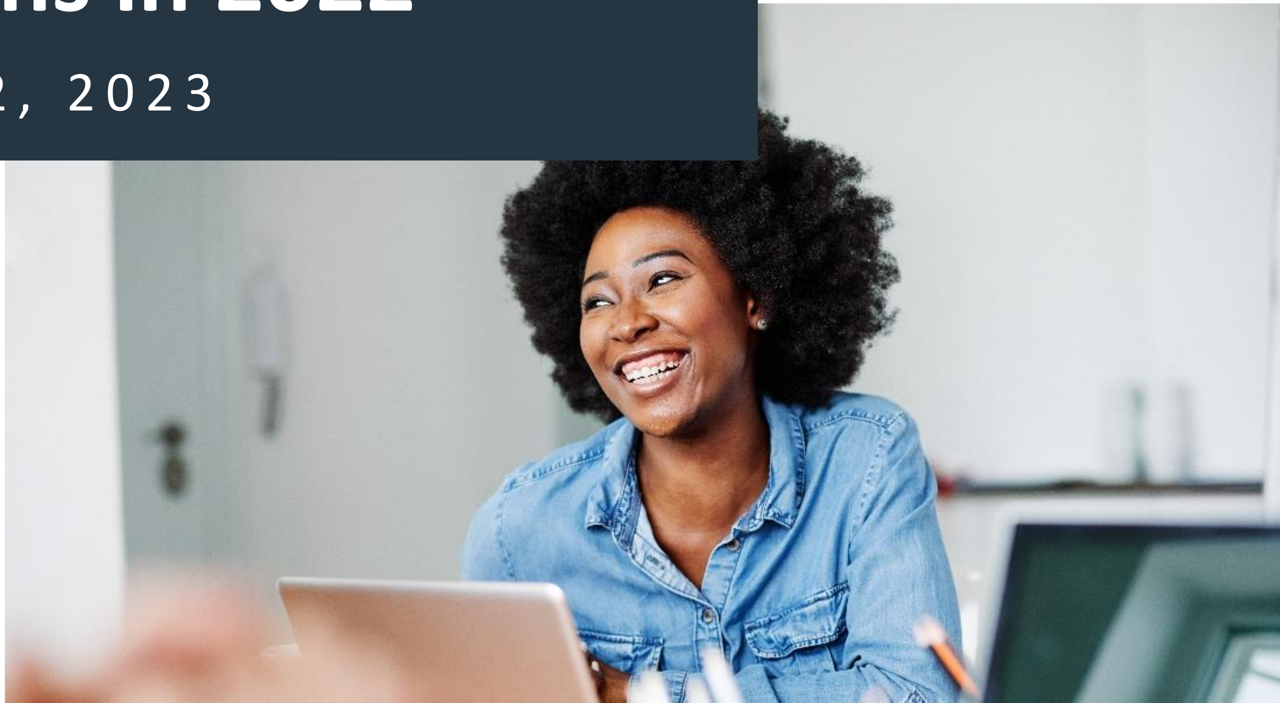
SECURE 2.0 Rothification of Employer Contributions

- Roth contributions must be non-forfeitable
- Vesting schedules will create a divide between pre-tax employer contributions and Roth employer contributions


WORKPLACE THOUGHT LEADERSHIP

Insights on full payouts from 401(k) plans in 2022

MARCH 22, 2023

Fidelity Investments Analysis – Participant Snapshot[1]

ANALYSIS BASED ON
more than 20 million participants across Fidelity's 401(k) platform,
examining behaviors across full year 2022.

PARTICIPANTS ON FIDELITY'S 401(k) PLATFORM (year-end)

Millennials: 8.4M participants
Gen X: 7.5M
Boomers: 3.9M (down from 2021)
Gen Z participants: 1.5M (up from 2021)

Overall **average age of participants is 44.6 years**,

while average tenure (on Fidelity's platform) is **8.5 years.**

Average tenure has **dropped from 9.7 years** at year-end 2017.

1 - Fidelity Investments Q4 401(k) data based on 24,500 corporate defined contribution plans and 22.0 million participants as of December 31, 2022. These figures include the advisor-sold market but exclude the tax-exempt market. Excluded from the behavioral statistics are non-qualified defined contribution plans and plans for Fidelity's own employees.

Fidelity INVESTMENTS

Full Payouts: Impacted by more than just balance and tenure?

The **average full payout (or "cash out") was just $11,000** in 2022, but there were almost **1.1M workers** who took a full payout when leaving their job.[1]

The "danger zone" seems to be among participants aged 30-39. Outside of employees with less than 1 year of tenure, the highest number of full payouts (nearly 70,000) occurred in this age range for worker with 5-10 years of tenure.[1]

Full payouts spike for this age group at just about every tenure level until you get to 15+ years – which suggests **life events may be playing a role in cash out behavior.**[1]

These groups may be **juggling multiple financial goals** (saving for a house, retirement, college) but also have **unprecedented levels of debt.** [2]

Aside from age and tenure, full payouts are also concerning among **traditionally underrepresented groups and workers with low balances.**

While cashing out affects employees of all groups, **women, Black and Latino/a employees, lower-income and young employees** are affected most.[3]

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2 - Federal Reserve Bank of New York, "Household Debt and Credit Report," Q4 2022.
3 - Fast leakage rates are composite results from Fidelity, Vanguard, & Aon Hewitt reports for the year in which a participant's status changes from active to inactive. Number of participants cashing out equals leakage rate times EBRI market segment by account balance as a percentage of all accounts. Fidelity analysis based on 1.1 million mandatory distributions processed in 2021.

Full Payouts: Addressing the financial challenges driving full payouts

- While education plays in an important role in helping curb cash outs, **employers may also want to examine programs that address the financial challenges** that drive this behavior.
- These include programs that **encourage workers to save for short-term expenses in addition to retirement,** as well as programs to streamline the retirement savings process when participants change employers.
- **Employees who have access to short term savings,** such as an emergency fund, when they need it **are more financially confident,** have higher financial wellness scores more likely to be "on track" for retirement.[3]
- In addition, **new automatic portability or "auto-portability" services, automatically transfer an employee's retirement account to their new employer's plan** (unless the participant elects otherwise for vested accounts with less than $7,000[4]) which can reduce the costs and burden of terminated participants and can help participants preserve savings and achieve financial wellness.

3 - Fidelity Investments Financial Wellness Money Check-up responses collected September 2021–September 2022.
4 - The maximum threshold increases to $7,000 for distributions after December 31, 2023.

Fidelity INVESTMENTS

Would reducing full payouts really have an impact on long-term savings?

- **Fidelity regularly tracks "continuous" participants** that have been in their employer's 401(k) plan for five, 10 or 15 years.
- While we only look at participants that have been in the same plan with the same employer to ensure consistency (same employer match, same fund line-up, etc.) – these groups provide **some great insight on the impact of taking a long-term approach to retirement savings.**
- As of year-end 2022, we had **802,000 participants** that had been in their plan **at least 15 years, 1.8M** that had been in their plan **at least 10 years** and **4.4M** who have been in their plan at least **5 years.**[1]

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Average long-term balances[1]

(as of the end of Q4 2022)

Endnotes

Information provided in and presentation of this document is for informational and educational purposes only.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

^ - Generations as defined by Pew Research: Baby Boomers are individuals born between 1946 – 1964, Gen X are individuals born between 1965-1980, Millennials include individuals born between 1981 – 1996 and Gen Z includes individuals born between 1997 – 2012.

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DISCUSSION

Upcoming Events

Wednesday, April 19 — EBRI PPAC Meeting (Members Only)

Friday, April 21 — EBRI RSRC Meeting (Members Only)

Tuesday, April 25 — Real Talk, Real Benefits of HSAs: A Close Look at the EBRI Health Savings Account Database webinar

May 11 — EBRI Policy Forum

Provide us your feedback!

Webinar Evaluation

Please visit ebri.org for more information or contact info@ebri.org

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