Retirement Trends

More saving...more advice...that's the power of The Home Depot's new financial wellness programs for the "mobile" workforce

August 15, 2013
Think Tank Webinar Series  www.aon.com/ah_thinktank

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Today’s Speakers

- Brant Suddath  Director Benefits, The Home Depot
- Tracy Witter, FSA, EA  Partner, Aon Hewitt
- Hall Kesmodel, CFP®  Retirement Solution Executive, Aon Hewitt
Aon Hewitt surveyed 428 employers, representing 11 million employees, to examine current and future retirement benefit strategy.
The Paradigm Shift to Defined Contribution

Employers want...

an efficient, effective benefit plan that attracts talent and supports talent transition from work into retirement while

- Managing cost
- Eliminating or reducing risks
- Addressing compliance

As a result...

the retirement landscape has dramatically shifted to one that is built on employee accountability

Shift to Defined Contribution Plans

Defined contribution plans are now the primary source of retirement income at a vast majority of large companies.

Source: Aon Hewitt survey Trends & Experience in Defined Contribution Plans 2011
Employers who are very confident:

- Employees will take accountability for their retirement success: 10% (down from 38%)
- Employees will retire with sufficient assets: 4% (down from 30%)

Source: Aon Hewitt’s Hot Topics in Retirement 2012 and Hot Topics in Retirement 2011
What does it mean to be “on track” for retirement?

Average employee needs to accumulate 11 times pay by age 65 to maintain preretirement standard of living throughout retirement (after Social Security)

Source: The Real Deal—2012 Retirement Income Adequacy at Large Companies
Getting to 11x...without changing the employer contribution

- Expected DC Resources: 7.6
- Increase Investment Efficiency: 1.6
- Increase Savings: 2.2
- Projected Financial Needs (Age 65): 11.4
Employers are responding by…reviewing their DC plan costs

95% of all employers plan to review plan’s total plan cost.

Source: Aon Hewitt 2013 Hot Topics in Retirement
Investment fees account for the vast majority of 401(k) plan costs...

...but these fees are almost always expressed in percentages not dollars.

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting</td>
<td>0.03%</td>
<td>$85,000</td>
</tr>
<tr>
<td>Administration</td>
<td>0.10%</td>
<td>$315,000</td>
</tr>
<tr>
<td>Trustee</td>
<td>0.02%</td>
<td>$50,000</td>
</tr>
<tr>
<td>Investments</td>
<td>0.60%</td>
<td>$1,900,000</td>
</tr>
<tr>
<td>Total Fees</td>
<td>0.75%</td>
<td>$2,350,000</td>
</tr>
</tbody>
</table>
Reducing investment costs increases the impact of your match

Utilization by Vehicle Type

Entire 401(k) Market

- Retail Funds: 71%
- Collective Trusts: 17%
- Separate Accounts: 12%

Aon Hewitt’s Clients

- Retail Funds: 47%
- Collective Trusts: 33%
- Separate Accounts: 20%

Value of Institutional Funds

Reducing investment fees by **25 basis points** has the same value as... …increasing the company contribution **0.5% of pay** for over an employee’s career
Barriers to utilizing lower cost investments

- Have not considered using institutional funds: 55%
- Prefer mutual funds: 32%
- Savings is not compelling enough: 20%
- Plan is not large enough: 11%
- Participants have requested mutual funds: 8%
- Do not have the flexibility with our current administrator: 5%

Source: Aon Hewitt 2011 Trends and Experience in Defined Contribution Survey
Getting to 11x…without changing the employer contribution

- Expected DC Resources: 7.6
- Increase Investment Efficiency: 1.6
- Increase Savings: 2.2
- Projected Financial Needs (Age 65): 11.4
How much saving does it take to reach 11x?

**Total Annual Contribution**

Percent of pay: Employee plus Employer

- Start Age 25: 15%
- Start Age 30: 19%
- Start Age 35: 24%

Range:
- Employee: 12% to 18%
- Employee plus Employer: 15% to 22%
- Employee plus Employer: 20% to 27%
Somewhat good news….fewer are leaving match dollars on the table

However, younger and lower-paid workers are less likely to be at or above the match level, and are more likely to stay at plan defaults.

Source: Aon Hewitt Universe Benchmarks
Loans defaults and cash-outs remain a primary concern

- **69%** of participants with outstanding loans default at termination
- **43%** of all participants cash-out after termination
- Decision-making greatly influenced by plan balance, age, and gender

Source: Aon Hewitt 2013 Universe Benchmarks and Aon Hewitt 2013 Hot Topics in Retirement
DC Efficiency Score…the “ROI” on your employer contributions

\[(\text{Employer } $ + \text{ Employee } $ – \text{Leakage}) \times (1 + \text{ROR}/2)\]

**Employer $**
- Employer Matching Contributions
- Non-Elective Contributions

**Employee $**
- Before-Tax (BT) Contributions
- After-Tax (AT) and Roth Deferrals, if available
- Loan Repayments

**Leakage**
- Withdrawals
- Loans
- Cashouts for Participants Under 55

**ROR**
- Median Rate of Return Earned by Active Participants
### DC Efficiency Score...the “ROI” on your employer contributions

<table>
<thead>
<tr>
<th>Employer Contribution</th>
<th>BT Employee</th>
<th>AT/Roth Employee</th>
<th>Loan Repayment</th>
<th>Non Hardship</th>
<th>Loan</th>
<th>Cashouts for &lt; 55</th>
<th>ROR</th>
</tr>
</thead>
<tbody>
<tr>
<td>371.8</td>
<td>434.0</td>
<td>26.7</td>
<td>100.3</td>
<td>3.6</td>
<td>127.9</td>
<td>333.6</td>
<td>12.95%</td>
</tr>
</tbody>
</table>

\[
\text{Employer} \times (1 + \frac{\text{ROR}}{2}) = 566.3 \quad \text{and} \quad (\text{Employer} + \text{Employee} - \text{Leakage}) \times (1 + \frac{\text{ROR}}{2}) = 465.1
\]

\[
(371.8 + 566.3 - 465.1) \times (1.0647) = 371.8 
\]

\[
= 1.35
\]

For every dollar the Employer contributed in the year, there is roughly $1.35 in the plan at the end of the year.
But 401(k) savings is only part of the picture…

<table>
<thead>
<tr>
<th>Getting started</th>
<th>Mid career</th>
<th>Pre-retirement</th>
<th>Retired</th>
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<tbody>
<tr>
<td>Daily finances</td>
<td>Daily finances</td>
<td>Daily finances</td>
<td>Income planning</td>
</tr>
<tr>
<td>- Debt and cash flow mgmt.</td>
<td>401(k)</td>
<td>401(k)</td>
<td>Retirement asset</td>
</tr>
<tr>
<td>- Mortgage and foreclosure</td>
<td>Health plans</td>
<td>Investing</td>
<td>optimization</td>
</tr>
<tr>
<td>- Major purchase</td>
<td>Investing</td>
<td>Retirement planning</td>
<td>- Social Security</td>
</tr>
<tr>
<td>- Tax, estate, insurance planning</td>
<td>- Diversification</td>
<td>- Catch-up provision</td>
<td>- Medicare</td>
</tr>
<tr>
<td>401(k)</td>
<td>401(k)</td>
<td>- Retirement horizon</td>
<td>Life events</td>
</tr>
<tr>
<td>Health plans</td>
<td>Health plans</td>
<td>Life events</td>
<td></td>
</tr>
<tr>
<td>- Flex benefits</td>
<td>Investing</td>
<td>- Saving for college</td>
<td></td>
</tr>
<tr>
<td>- HSAs</td>
<td>- Diversification</td>
<td>- Beneficiary counseling</td>
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<tr>
<td></td>
<td>- Company stock</td>
<td>- Birth/adoption</td>
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</tr>
<tr>
<td></td>
<td>- Brokerage window</td>
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<tr>
<td></td>
<td>Life events</td>
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Employers are responding by...focusing on holistic financial well-being

- **80%** likely to use enhanced communications, resources, mobile apps, and online tools to help employees focus on their financial well-being

### 2013 Initiatives vs. Likelihood of Action

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Very Likely</th>
<th>Somewhat Likely</th>
<th>Somewhat Unlikely</th>
<th>Very Unlikely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measure/project expected retirement income adequacy</td>
<td>19%</td>
<td>42%</td>
<td>30%</td>
<td>9%</td>
</tr>
<tr>
<td>Implement initiatives to address retirement saving gaps</td>
<td>22%</td>
<td>42%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>Assess your current retirement program’s design</td>
<td>37%</td>
<td>29%</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>Measure competitive position of retirement program</td>
<td>37%</td>
<td>37%</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>Focus on employees’ financial well-being</td>
<td>37%</td>
<td>43%</td>
<td>16%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Aon Hewitt 2013 Hot Topics in Retirement
Path to Transformation

ENABLERS: Research | Technology | Help | Access to Data

- Spouse
- Participant
- Family

Go Deeper
- Retirement
- Lifetime Income
- Family

Go Broader
- Other Long-term Savings
- Debt and Credit
- Health Impact on Retirement Income

Expand Reach
- Participant

Go Deeper
- Retirement Savings
- Financial Literacy
- Access to Data
Help People…Improve Their Financial Future

Create the Foundation

- Analyze the workforce
- Define tools and resources
- Create a brand/theme

Motivate Action

- Use multiple channels
- Promote what you have
- Target specific actions
Engaging Workers Through Mobile Technology

Mobile Site Trends

☑️ Over 200 Clients on mobile site
☑️ 4,615,779 mobile visits in 2012
☑️ More than 190 different devices

![Graph showing 436% increase in mobile traffic](image-url)
The “ROI” on Financial Wellness

Financial Wellness
A comprehensive approach to educating employees about the major financial decisions in their lives and solutions to help them attain and maintain financial security.

Satisfaction with Benefits
Productivity and Happiness
Workforce Planning
More saving...more advice...that's the power of The Home Depot's new financial wellness programs for the "mobile" workforce
The Home Depot

The Beginning
- Opened first three stores in June 1979 in Atlanta, GA
- Pioneer of warehouse style home improvement
- Publicly traded since Sept. 22, 1981

Who We Are Today
- The world’s largest home improvement retailer
- More than 2,200 stores in the U.S., Canada, Mexico, and China
- More than 300,000 associates
Key Facts and Figures

- 2012 Sales—$74.8 Billion
- Total Square Footage—over 235 Million
- Transactions—over 1.3 Billion
- The Home Depot is the 5th largest retailer in the world
- Fortune 500 ranking—No. 34 in 2013
- Fastest growing retailer to reach $70 billion in sales
The Home Depot’s Commitment:
Helping associates save for a successful retirement through the FutureBuilder 401(k) plan

Challenges
- Getting associates’ attention and having them take action
- Difficult to reach population
  - Many part-time associates
  - Younger and less focused on retirement
  - Largely “on the go” (not a desk job)
- 300,000 associates across over 2,200 retail stores and other locations in the U.S.
## Constructing a Better Retirement

<table>
<thead>
<tr>
<th>Targeted communication</th>
<th>▪ Clear messages to associates (a) not saving enough or (b) making investment mistakes based on their time horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make saving easier</td>
<td>▪ Quick Enrollment™ gets more associates into the plan while maintaining active (rather than default) participation</td>
</tr>
<tr>
<td>Mobile access</td>
<td>▪ Address access issues by offering easy-to-obtain, up-to-date benefits information via mobile devices</td>
</tr>
<tr>
<td>Streamline process</td>
<td>▪ Make benefits user-friendly by consolidating websites and providing a direct access from the web and intranet</td>
</tr>
<tr>
<td>Bilingual approach</td>
<td>▪ Recognize diverse audiences by offering English and Spanish language <em>including convenient web chat</em></td>
</tr>
<tr>
<td>Institutional funds</td>
<td>▪ Enhance value with institutional funds (lower fees/higher returns) including a diversified set of target date funds</td>
</tr>
</tbody>
</table>
Targeted Communication Campaigns

Quick Enrollment

You are missing out on Company match money.

Enrolling in The Home Depot FutureBuilder Plan is now easier than ever. Simply check “Yes” below, and sign and return this form.

- You will have 5% of your eligible pay invested in your FutureBuilder 401(k) Plan.
- The Home Depot will contribute an additional 3.5% of your eligible pay (Company match) to your FutureBuilder 401(k) Plan.*
- Your contribution rate will increase 1% each January until you reach a rate of 10%.
- Your contributions will be invested in the BlackRock LifePath® Fund based on your age, assuming a retirement age of 65.

Respond by April 29, 2013!

☐ Yes! Enroll me in The Home Depot FutureBuilder 401(k) Plan today.

- By making this election, I authorize the contribution of 5% of my eligible pay on a before-tax basis,** starting within two to three pay periods. I elect to have my contribution increase 1% each January until I reach a contribution rate of 10%. I also elect to have my contributions invested in the BlackRock LifePath Fund.

- I acknowledge that I can change my elections*** at any time or simply obtain information about my investments by logging into Your Benefits Resources™ from www.livetheorangelife.com or by calling 1-800-555-4954.

Signature: __________________________
Date: __________________________

*Subject to eligibility and vesting requirements.
**Subject to IRS limits.
***Including my contribution rate, contribution escalation and target rate, and/or investment elections.

Rollover to FutureBuilder

ROLLOVER MONTH:

ROLL OVER YOUR PRIOR 401(K) PLAN BALANCE IN JULY.

YOU COULD WIN ONE OF FIVE $200 CASH PRIZES!


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¿No hablas o lees inglés? Por favor llame a el Beneficios Choice Center (Centro de Opciones de Beneficios) al 1-800-555-4954 y diga “Estados Unidos” para hablar con un representante en español.
Web Portal Focused on Health and Financial Wellness

Financial Engines

Are you planning for your financial future? Get professional investment advice to meet your personal goals and manage your FutureBuilder 401(k). Watch a video under September 2012 Video Board.

Do you have a health success story?
Submit your story and learn about others who are living a healthy orange life.
Statements with Financial Education – Beyond the 401(k)
Engaging the “Mobile” Workforce with Actionable Advice
Significant Results

67% Match-eligible associates participating in the 401(k) plan

23,495 Associates who use online advice or managed accounts

49% Associates who get professional help — online advice, managed accounts, or target date funds (77,668 associates)

5,494 Number of unique mobile advice users per month—and growing!
Questions
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