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Retirement

2014 Hot Topics in Retirement

Building a Strategic Focus

Aon Hewitt

Building a Strategic Focus

Aon Hewitt is pleased to provide you with our *2014 Hot Topics in Retirement* survey report, the eighth year of showcasing what retirement issues are top of mind for employers. In the fall of 2013, Aon Hewitt surveyed HR professionals throughout the U.S. to learn what's likely to occur in the coming year regarding the design, management and delivery of their retirement programs—spanning both defined contribution and defined benefit plans. Included in this report are responses from more than 400 employers representing nearly 10 million employees.

The strong financial markets of 2013 buoyed pension funding ratios and participants' defined contribution balances. As plan sponsors enter 2014 they are building on the successes of the prior year and placing an emphasis on fitting retirement programs into broader strategic goals for their organization. Specifically, this report finds that employers are focusing on how their retirement plans relate to the overall financial well-being of their employees. Employers are also developing and executing on action plans to monitor and decrease the risk of their defined benefit plans. We commend the plan sponsors on these efforts and look forward to seeing these goals unfold in the upcoming year and beyond.

Thank you for your interest in this research.

Sincerely,

Rob Austin
Director of Retirement Research

2014 Hot Topics in Retirement

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Survey Highlights

Retirement plans—whether defined benefit (DB) or defined contribution (DC) in nature—play a vital role in helping individuals accumulate money to spend in their golden years. Employers have historically had a number of goals for their plans: attracting and retaining employees while providing these individuals a vehicle to orderly exit the workforce.

In the fall of 2013, Aon Hewitt surveyed more than 400 companies to gauge their current and future retirement perspectives. We found that employers have two additional goals for their retirement plans:

1. Respondents gave a loud and clear message that retirement plans are part of a broader financial picture for participants, and **any goals for retirement plans must align with goals for overall financial well-being**.

2. Employers that sponsor defined benefit plans are looking for ways to **minimize volatility of accounting expense and contribution requirements for their pension plans**.

Together, these actions illustrate that employers have moved beyond the tactical viewpoint and instead are taking a far more strategic perspective by looking at how these plans fit into the greater goals of the organization. We applaud these plan sponsors' efforts and look forward to seeing these actions unfold and mature in 2014.

Focusing on Financial Wellness

Employers are stressing the concept of financial wellness and are offering their workers a bevy of tools, resources and communications to provide assistance. More than three-quarters of respondents are very or somewhat likely to introduce or expand their focus on the financial well-being of their employees in 2014. Specific channels include:

- **Offering and promoting services to help employees manage their day-to-day finances.** In the coming year, 25% of employers are very likely to provide some assistance to employees to help with budgeting and ensure that employees' paychecks cover expected expenditures while still leaving some money for savings.

- **Providing online modeling tools and mobile applications.** Nearly two-thirds of all plans (63%) have tools within their defined contribution plans that allow participants to model different savings and investing habits and vary their investment horizons. By better visualizing how current actions can impact their financial profiles later on, participants can more effectively decide how and where to allocate their money.

- **Reviewing and reducing investment fees.** The U.S. Department of Labor fee disclosure regulations have increased the transparency of the costs associated with investing in a defined contribution plan. One-third of plan sponsors are comprehensively reviewing their fund offerings with a sharp eye on the fees charged. More than 15% are changing from a mutual fund approach to a lineup of institutional or separately managed funds. Reducing investment fees directly and meaningfully helps participants increase their retirement savings.

- **Facilitating access to professionals.** Employers are providing access to experts and professionally designed tools that can recommend individual investment strategies based on a person's expected retirement date and other income sources. Close to half of all companies (44%) provide online third-party investment advisory services to individuals, more than one-third (35%) facilitate the interaction of participants with third-party advisors through the phone, and nearly one-quarter (23%) allow for face-to-face meetings with professional advisors.

De-Risking Pension Plans

Employers that sponsor defined benefit plans are focused on reducing the volatility and risk exposure of their plans. Even though the economic conditions underlying the funded status of their plans are in flux daily, employers seek to eliminate surprises when contribution requirements are set or when financial reporting is due. They are actively checking and mitigating their risk exposure on four fronts:

- **Understanding risks.** Twenty-four percent of plan sponsors have recently conducted an asset liability study to provide a picture of the plan under different economic conditions. Close to half of all remaining sponsors are very or somewhat likely to perform a study in the upcoming year.

- **Monitoring results.** One out of every eight plan sponsors has established a method by which it can monitor its plan's funded status daily. This percentage has doubled since last year, and another 25% of the remaining population indicated they are very or somewhat likely to add this feature in 2014.

- **Reducing liabilities.** Lump-sum prevalence continues to grow, particularly through a so-called "window" approach where participants can elect an option only during a pre-set time period. Twelve percent of employers with defined benefit plans recently liberalized their lump-sum option by focusing on terminated vested participants or retirees through a window approach. Of the remaining group, 14% are very likely to follow suit in the next 12 months.

- **Adjusting assets.** One out of every six employers with a defined benefit plan has adjusted the plan's investments to better match the plan's liability. By the end of 2014, the percentage of plan sponsors that are traditionally invested (high-equity exposure portfolios) will be roughly equal to the percentage that are on a preapproved glide path that increases exposure to fixed income and risk-hedging options as the funded status improves.

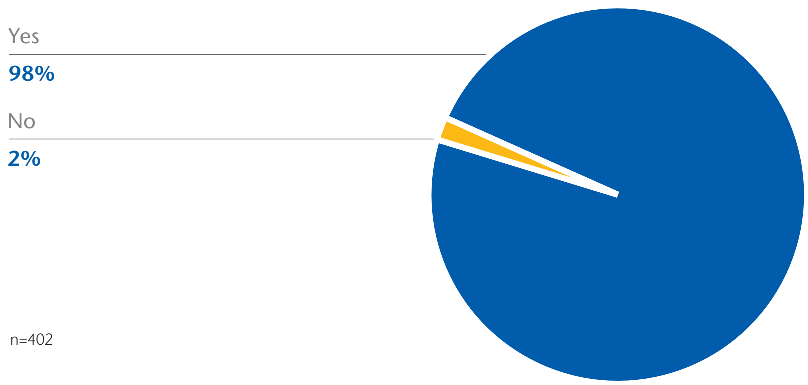
Overall Retirement Benefit Offerings

Retirement Plan Basics

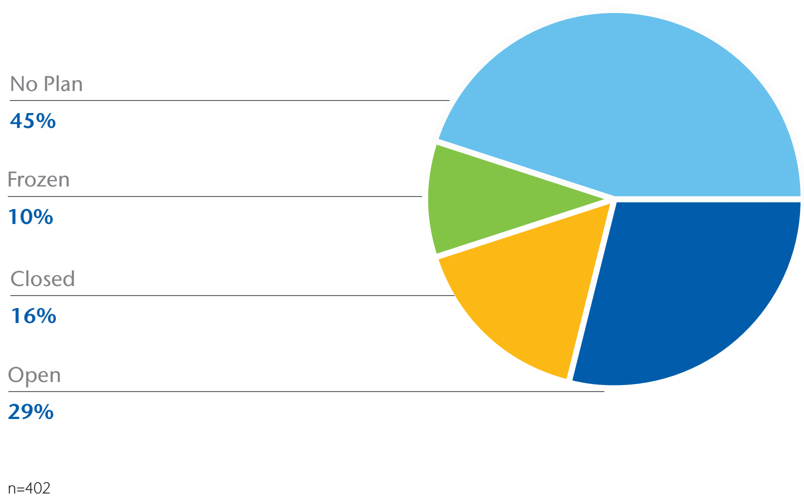
Nearly all employers (98%) allow individuals to participate in a defined contribution plan. Twenty-nine percent of employers provide their workforce with an ongoing, open defined benefit plan.

Types of Retirement Plans Offered to U.S. Salaried Employees

Defined Contribution Plans



Defined Benefit Plans



Retirement Confidence in Effectively Managing Retirement Program Issues and Risks

Many plan sponsors feel they can effectively manage the risks that are most important to them: meeting compliance requirements and protecting fiduciaries from unnecessary risk. Similarly, employers feel that measuring the competitive position of the plan is important and believe they have a good handle on how to manage it.

In contrast, employers feel far less confident in their ability to effectively manage retirement actions that rest on the shoulders of workers. Specifically, nearly half of plan sponsors place a high priority on items such as employees taking accountability for their own retirement success and employees retiring with sufficient assets, yet only 5% of employers feel very confident in their ability to effectively manage these risks.

Employers who sponsor both a defined benefit and defined contribution plan indicate they feel far more confident in their ability to manage risks in the pension plan than to manage behaviors in the defined contribution program. For example, plan sponsors have nearly identical priority rankings for managing interest rate risk in the defined benefit plan (57% ranked this as a high priority) and managing savings rates in the defined contribution plan (52% ranked this as high priority). However, nearly three-quarters of sponsors (73%) indicated that they have high confidence in their ability to effectively manage the former, but only about one-quarter (28%) have high confidence in their ability to effectively manage the latter.

Priority and Confidence Level of Employers in Effectively Managing Retirement Program Issues in 2014

Retirement Program Issue	Priority for 2014: High Priority 1	Medium Priority 2	Low Priority 3	Confidence Level: Very Confident 1	2	3	4	5	Not at All Confident 6
Meeting compliance requirements for the retirement plans your organization offers	60%	27%	13%	58%	31%	6%	2%	2%	1%
Protecting fiduciaries from unnecessary risk	50%	38%	12%	43%	42%	12%	1%	1%	1%
Employees understanding and using the employer-sponsored resources they have available	49%	43%	8%	5%	22%	38%	25%	8%	2%
Employees taking accountability for their own retirement success	46%	44%	10%	5%	19%	37%	23%	13%	3%
Employees retiring with sufficient financial assets	42%	48%	10%	5%	16%	31%	28%	14%	6%
Competitive position of the plan	34%	41%	25%	43%	39%	10%	5%	2%	1%
Your organization's aging workforce and the impact retirement could have on your business in the next 5 to 10 years	29%	47%	24%	8%	22%	37%	25%	6%	2%
Employees' ability to manage their retirement income to last for the rest of their lifetime	28%	53%	19%	3%	9%	28%	33%	20%	7%
Effectively meeting the retirement benefit needs of all ethnicities within your employee population	17%	43%	40%	24%	30%	27%	13%	5%	1%

n ranges from 296 to 331 n ranges from 348 to 378

Priority and Confidence Level of Employers in Effectively Managing Defined Benefit Plan Risks in 2014

Defined Benefit Plan Risk	Priority for 2014: High Priority 1	Medium Priority 2	Low Priority 3	Confidence Level: Very Confident 1	2	3	4	5	Not at All Confident 6
Investment risk	70%	23%	7%	37%	44%	17%	1%	1%	0%
Interest rate risk	57%	36%	7%	28%	45%	24%	2%	1%	0%
Compliance risk	50%	37%	13%	43%	44%	10%	3%	0%	0%
Fiduciary risk	47%	38%	15%	42%	43%	11%	3%	1%	0%
Diversification risk (risk that plan investments are too heavily tied to one particular investment/market)	39%	46%	15%	34%	47%	15%	2%	2%	0%
Litigation risk	31%	38%	31%	37%	41%	15%	5%	1%	1%
Plan design risk (aspects of the plan design, such as lump sums or final average pay provisions)	25%	42%	33%	33%	50%	14%	2%	1%	0%
Longevity risk (risk that participants may live longer than assumed)	21%	53%	26%	21%	42%	28%	9%	0%	0%
Demographic risk (changes in participant demographics such as retirement patterns)	20%	47%	33%	26%	40%	28%	5%	1%	0%

n ranges from 97 to 103 (Priority for 2014); n ranges from 161 to 163 (Confidence Level)

Priority and Confidence Level of Employers in Effectively Managing Defined Contribution Participant Behaviors in 2014

Participant Behavior	Priority for 2014: High Priority 1	Medium Priority 2	Low Priority 3	Confidence Level: Very Confident 1	2	3	4	5	Not at All Confident 6
Contribution rates (participants contributing enough to meet their future retirement needs)	52%	42%	6%	7%	21%	35%	18%	14%	5%
Participation (eligible employees actively saving in the plan)	51%	32%	17%	34%	31%	20%	7%	6%	2%
Retirement readiness (participants understanding the needed saving milestones and having plans in place to reach retirement savings goals)	45%	48%	7%	3%	11%	30%	30%	20%	6%
Diversification (participants investing in a diversified asset mix with "appropriate" risk)	39%	48%	13%	8%	24%	38%	18%	9%	3%
Leakage (employees avoiding taking loans and withdrawals from the plan)	16%	47%	37%	4%	15%	24%	28%	18%	11%
Distributions (terminated employees leaving assets in the plan, not cashing out their retirement savings)	7%	36%	57%	7%	22%	28%	22%	16%	5%

n ranges from 288 to 299

n ranges from 344 to 354

Retirement Plan Initiatives for 2014

While plan sponsors continue to be focused on traditional initiatives like measuring the competitive position of the plan and assessing whether or not the current program is the right design for their workforce, a large proportion of employers are concentrating on the overall financial wellness of their populations. Thirty percent of plan sponsors said they are very likely, and another 46% of them are somewhat likely, to create or expand the resources available to participants to examine financial wellness in a way that extends beyond just retirement decisions. Many of these companies plan to offer and/or promote services to help their employees manage their day-to-day finances—25% of respondents indicated they are very likely to do so, and another 36% stated they are somewhat likely.

Likely Initiatives for Retirement Plans in 2014

Initiative	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Measure the competitive position of the retirement program	33%	31%	21%	15%
Create or focus on financial well-being of employees (plan features, planning resources, communication, mobile apps or online tools) that expands beyond retirement decisions	30%	46%	18%	6%
Assess your current retirement program design	30%	23%	27%	20%
Offer and/or promote services to help employees manage their day-to-day finances	25%	36%	26%	13%
Implement initiatives to address retirement saving gaps within your employee population	17%	46%	24%	13%
Measure/project the expected retirement income adequacy of your employee population	17%	41%	30%	12%
Analyze the influence of your current and emerging demographics on retirement designs, behaviors, policies and practices	9%	35%	39%	17%
Implement initiatives to provide drawdown analysis and/or lifetime income solutions	7%	27%	43%	23%
Evaluate phased retirement alternatives	6%	20%	44%	30%
Collect data on employee preferences regarding the retirement program design and features	5%	23%	40%	32%
Evaluate delegating all plan management to a qualified third-party fiduciary	4%	11%	25%	60%
Look at differences in retirement behaviors and outcomes based on ethnicity and diversity characteristics of the population	3%	16%	45%	36%

n ranges from 361 to 369

Employers who offer only a defined contribution plan are particularly focused on financial wellness efforts. Within this group, 36% said they are very likely to focus on the financial well-being of their employees and 30% are very likely to offer services to help their workforce manage day-to-day expenses.

Defined Contribution Plan

Employers are continuing to provide online tools and mobile applications that model converting a participant's balance into a stream of income. Nearly two-thirds of sponsors (63%) already provide these tools and/or applications and, among those that do not, 14% are very likely to add the feature in 2014.

There is a host of other products and options that are available to participants as they near retirement and begin receiving payment. However, very few plan sponsors have adopted them and even fewer are likely to add them in the upcoming year. Currently, one out of five plans offers a professionally managed account with a drawdown feature, and only 8% are very likely to add this feature in 2014. Plan sponsors are uniquely positioned to help participants, given their access to tools at pricing levels individuals cannot attain on their own—but at this time, there does not appear to be clear pressure to add these features.

Likelihood of Adding Features in 2014

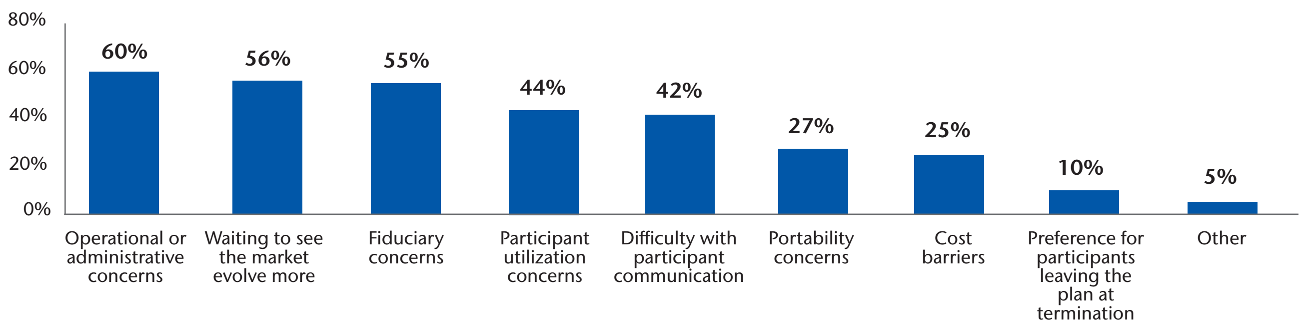
Already Offer	Feature	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
		If you do not currently offer, how likely are you to add the following features in the coming year?			
63%	Online modeling tools or mobile apps to help participants determine how much they can spend each year in retirement	14%	44%	31%	11%
20%	Within the plan: Professional management (managed accounts) with a drawdown feature (provider allocates participant assets for income and manages the annual amount paid from the plan)	8%	13%	47%	32%
38%	Plan distribution option allowing participants to elect an automatic payment from the plan over an extended period of time	6%	17%	45%	32%
14%	Within the plan: Managed payout funds (those with a specific annual target payout percentage with no guarantees)	2%	17%	41%	40%
8%	Within the plan: Annuity or insurance products as part of fund lineup (e.g., guaranteed minimum withdrawal benefits, minimum annuity payout, fixed annuities)	2%	11%	41%	46%
14%	Facilitation to purchase annuities *outside the plan* as an option for plan distributions	1%	10%	38%	51%
4%	Ability to transfer assets to a defined benefit plan in order to receive an annuity	1%	2%	21%	76%

n=392

n ranges from 97 to 308

Retirement income solutions are slow to gain traction. At the beginning of 2014, 8% of plan sponsors will offer an annuity or insurance product within the plan, and only 2% of those that will not offer them are very likely to introduce one in their plan in the next 12 months. As with prior years, the primary barriers to implementation include concerns about the operational, administrative and fiduciary duties. Plan sponsors are also willing to wait to see the market evolve more.

Barriers to Adding In-Plan Income Solutions



Multiple response, n=288

Consistent with the theme of integrating the defined contribution plan into an overall financial picture, plan sponsors are providing participants with access to tools and experts who can recommend custom investment strategies based on a person's time horizon, other income and specific goals. Close to half of all companies (44%) provide online third-party investment advisory services to individuals, more than one-third (35%) facilitate the interaction of participants with third-party advisors by phone, and nearly one-quarter (23%) allow for face-to-face meetings.

Features to Help Participants Make Investing/Saving Decisions

		If you do not currently offer, how likely are you to add the following features in the coming year?			
Already Offer	Feature	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
79%	Target-date/lifecycle funds (e.g., 2015, 2025, 2035)	20%	16%	32%	32%
56%	Online investment guidance (investment suggestions based on asset classes only)	14%	24%	39%	23%
44%	Online third-party investment advisory services (personalized advice on specific plan funds)	11%	14%	46%	29%
39%	Managed accounts	9%	15%	36%	40%
35%	Phone access to third-party financial planners or investment advisory services (personalized advice on specific plan investments—*excluding managed accounts*)	6%	15%	38%	41%
23%	In-person third-party financial planners or investment advisory services (individual sessions to provide personalized advice on specific plan investments)	5%	8%	39%	48%
27%	Target-risk/lifestyle funds (e.g., conservative, moderate, aggressive)	2%	7%	33%	58%

n=392

(n ranges from 31 to 245)

Some sponsors remain skeptical of adding outside advisory services to their plans, and most cite legal and fiduciary worries as their major concerns. Others feel that the usage by participants will not support the cost.

Barriers to Providing Outside Investment Advisory Services

Barrier	Major Concern	Somewhat Concerned	Not at All Concerned
Legal/fiduciary concerns	42%	41%	17%
Participant usage would not be high enough to justify the cost	37%	42%	21%
Services are too expensive	24%	56%	20%
Participants are not requesting this type of service	24%	38%	38%
Participants can seek advice on their own or use target-type portfolios	14%	42%	44%
Not sure how to evaluate investment advice providers	13%	48%	39%

n ranges from 271 to 275

Nearly all employers (89%) are very or somewhat likely to discuss increasing savings rates within the plan. A similar number of sponsors plan to stress the importance of proper diversification, including education about the target-date funds available within the plan, or plan to promote awareness of the investment advice offerings.

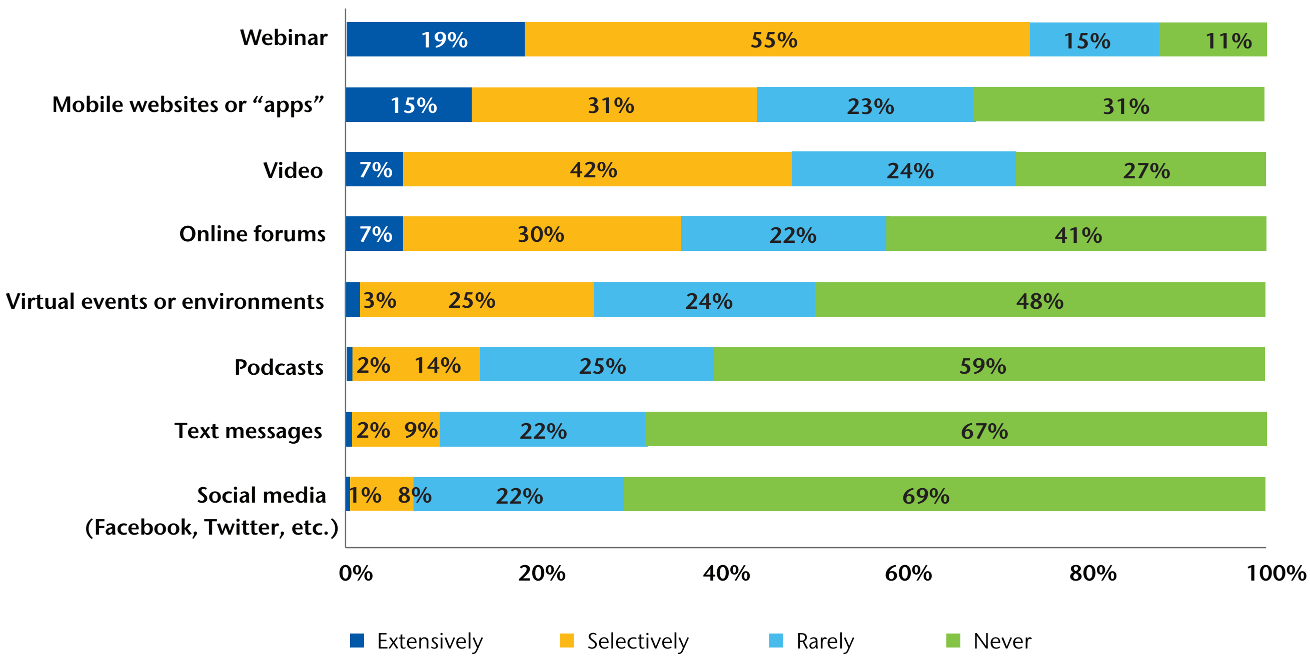
Likelihood of Communicating to DC Plan-Eligible Employees to Influence Retirement Savings

Topic	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Increase savings by starting to participate or increasing contribution rate	63%	26%	8%	3%
Diversification, including education on target-date investment and awareness building of investment advice solutions	54%	36%	9%	1%
Value of employer retirement program to increase awareness and appreciation	52%	36%	10%	2%
Availability of planning resources such as online advice/resources to help individuals make plans	51%	35%	10%	4%
Retirement income adequacy such as understanding projected needs, required milestones and deliberate plans	47%	37%	14%	2%
Fund fees to enhance understanding and impact on asset accumulation and ways to minimize fund fees at retirement	34%	33%	28%	5%
Rollover vs. cash-outs at termination or retirement	18%	27%	37%	18%

n ranges from 330 to 332

Plan sponsors continue to expand their communication channels so they can reach an increasingly mobile workforce with messages about the retirement plans. Webinars continue to be the most common avenue, with nearly 90% of all respondents using them in some fashion. Social media applications like Facebook and Twitter continue to gain acceptance. In 2014, more than three out of 10 employers will use social media.

Communication and Education Channels



n ranges from 191 to 225

Employers are scrutinizing their fund lineups and examining the fees associated with the investments. Recently, more than one-third of all organizations have comprehensively reviewed their fund operations, including expenses and revenue sharing, and the majority of companies who have not done so recently are very likely to do so in 2014.

As part of their cost-cutting efforts, plan sponsors have continued their migration to institutional funds such as collective trusts and separate accounts. Recently, 16% of respondents have migrated to institutional funds. Of those who have not, 15% are very or somewhat likely to do so in the next 12 months.

Likely Actions to Be Taken on Investment Fund Offerings in 2014

		Likely Action in 2014 (Among Those Who Have Not Completed Recently)			
Completed Recently	Actions Related to Funds	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
33%	Review DC fund operations, including expenses and revenue sharing	54%	31%	11%	4%
34%	Perform a comprehensive review of fund offerings	52%	28%	16%	4%
28%	Update investment policy statement	35%	29%	23%	13%
27%	Change/alter fund options to reduce the cost	18%	27%	31%	24%
16%	Move mutual funds to institutional/ separately managed funds	5%	10%	36%	49%
17%	Change some or all funds from actively managed to indexed	4%	13%	37%	46%
18%	Add a tier of index options (e.g., beyond large cap, adding an array of index funds across asset classes)	4%	10%	35%	51%
24%	Implement a self-directed brokerage window	4%	4%	18%	74%
18%	Add a fund designed for inflation protection	3%	13%	40%	44%
5%	Add an FDIC-insured investment option	1%	3%	20%	76%

n=392

n ranges from 192 to 259

It comes as no surprise that employers are reviewing target-date funds, since they represent a significant portion of many participants' portfolios. According to Aon Hewitt's *2013 Trends & Experience in Defined Contribution Plans*, target-date funds are offered by 86% of plan sponsors, and when available such premixed portfolios represent 21% of plan assets. This increase in popularity is striking, considering that in 2005 only 33% of plans even offered target-date funds. Today they represent the third largest asset class offered within defined contribution plans, as measured by assets.

Roughly one-quarter of respondents (24%) have recently reviewed their fund manager, with another 25% very likely to do so in the coming year.

While one out of every five plan sponsors has recently moved from a primarily active approach to a primarily passive one, the trend appears to be slowing. Only 10% of the other sponsors are very likely or somewhat likely to do so in 2014.

Likely Actions to Be Taken on Target-Date Funds in 2014

		Likely Action in 2014 (Among Those Who Have Not Completed Recently)			
Completed Recently	**Actions Related to Target-Date Funds**	**Very Likely**	**Somewhat Likely**	**Somewhat Unlikely**	**Very Unlikely**
24%	Perform a comprehensive review of the fund manager	25%	30%	27%	18%
21%	Perform a comprehensive review of the fund glide path	22%	32%	28%	18%
14%	Change the fund manager or seek replacement options	5%	10%	38%	47%
12%	Move to a customized solution for target-date funds (glide path and/or underlying investments)	2%	6%	33%	59%
20%	Move from a primarily active to a primarily passive target-date fund approach	1%	9%	39%	51%

n=392

n ranges from 194 to 238

Plan sponsors are continuing their concentration on plan expenses and fees in 2014. Recently, 31% of sponsors reviewed their total plan cost, and 61% of those who have not are very likely to do so in the next 12 months. Many of these companies will enlist the assistance of a third party to benchmark or evaluate costs, with 31% of sponsors very likely to do so and another 19% somewhat likely to hire outside assistance.

Likely Actions to Be Taken With Respect to Plan Expenses/Fees in 2014

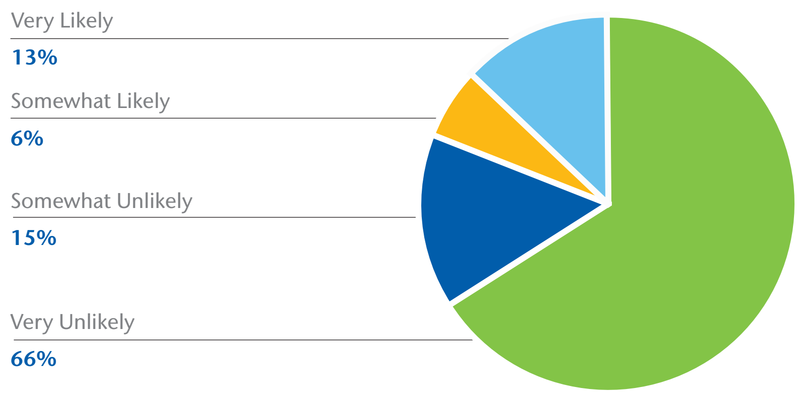
		Likely Action in 2014 (Among Those Who Have Not Completed Recently)			
Completed Recently	Actions Related to Expenses/Fees	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
31%	Review the plan's total plan cost (including fund fees, recordkeeping fees, trustee fees, etc.)	61%	31%	4%	4%
34%	Hire a third party to benchmark or evaluate costs	31%	19%	22%	28%
12%	Supplement required fee disclosure with additional participant communication or details	10%	21%	32%	37%
21%	Restructure fees in the plans so administrative fees are assessed to participants in a more equitable manner (e.g., consistent asset-based/ revenue sharing or per-person charge to participants)	6%	17%	28%	49%
7%	Have participants share more plan expenses	3%	8%	29%	60%

n=392

n ranges from 182 to 285

Some plan sponsors elect to have defined contribution administration and investment management through one partner. In 2014, 13% of plan sponsors are very likely to integrate these two components, with another 6% somewhat likely to do so.

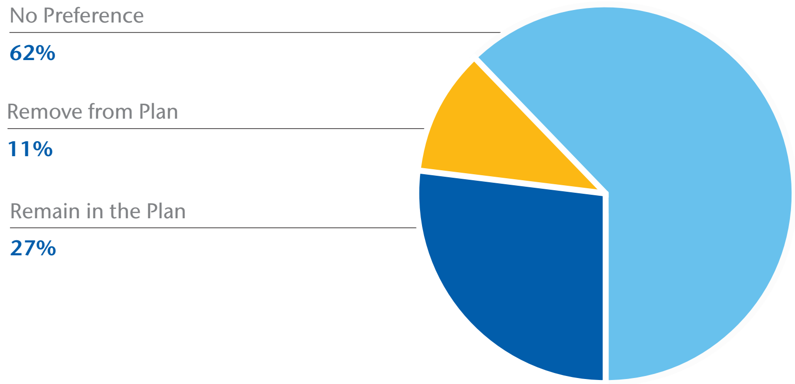
Likelihood of Integrating Defined Contribution Plan Administration/Investment Management



n=306

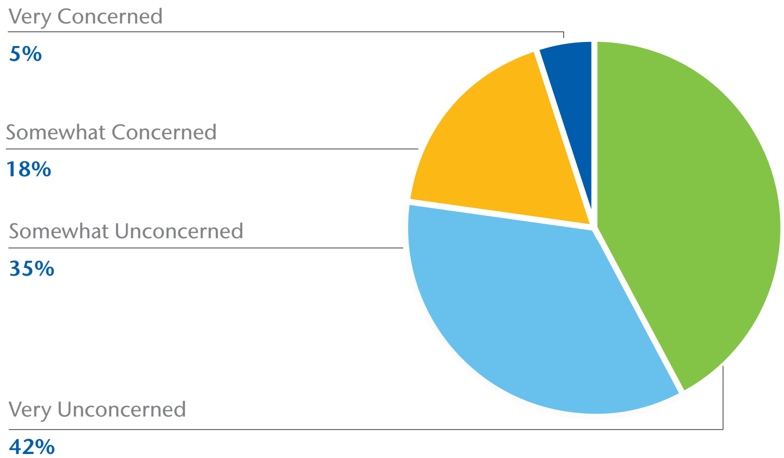
Most plan sponsors (62%) have no preference as to whether terminated employees leave their balances in the plan or take the money elsewhere. However, among those who have a preference, perspectives have shifted since last year. Now we find that 27% of employers prefer terminated individuals leave the money in the plan, compared to only 20% in 2013. At the same time, employers have increased their concern regarding asset managers working to steer participants out of the defined contribution plan and into retail IRAs when participants terminate employment. Together, these actions show that plan sponsors have a growing preference for retaining assets in the plan to increase the company's purchasing power, while providing participants a more cost-effective vehicle than retail IRAs.

Employer Preference: Terminated Employees Leaving Money in the Plan



n=311

Level of Concern in Capturing Retail IRAs When Participants Terminate Employment

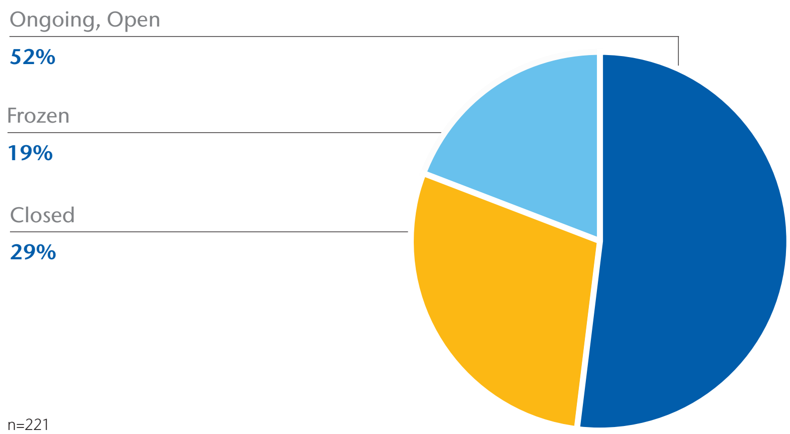


n=311

Defined Benefit Plan

Among the respondents that sponsor a defined benefit plan, slightly more than half are allowing new hires to participate in the plan. Twenty-nine percent of defined benefit plans are closed to new hires but some employers are allowing at least some existing participants to continue to accrue benefits. The remaining 19% of respondents have frozen the plan benefits for all participants. Because of the frozen and closed nature of nearly half of the plans, the focus for many plan sponsors has shifted from an attraction and retention tool to risk mitigation, and most of the primary actions we are seeing employers take in 2014 relate to pension risk.

Plan Status



Companies that changed to a hybrid formula (such as a cash balance formula) are far more likely to have their plan remain open. Traditional formulas, such as those that provide a percentage of final pay based on years of service, are more likely to cover only a fraction of an employer's workforce.

Defined Benefit Plan Status—Among Sponsors Offering

	Hybrid DB Plans	Traditional DB Plans	Total
Open plans	21%	31%	52%
Closed plans	5%	24%	29%
Frozen plans	5%	14%	19%
All plans	31%	69%	100%
n =	71	150	

The days of seeing large percentages of pension closures and freezes appear to be ending, but a small sector of the population still plans to take action. A handful of employers with open plans indicated they plan on freezing or closing their plan—but all told, roughly three-quarters of plan sponsors with open plans are intent on keeping them that way through 2014. Plan terminations appear unlikely in 2014. Consistent with last year, no sponsors indicated they are very likely to terminate the plan.

Likely Actions Defined Benefit Plan Sponsors Will Take in 2014

Action	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Nothing—continue with the current plan as is	73%	12%	6%	9%
Freeze benefit accruals for all or a portion of participants	13%	7%	17%	63%
Close participation and no longer allow new employees to enter the defined benefit plan	6%	6%	19%	69%
Reduce benefits but continue to offer a defined benefit plan to current and future employees	5%	2%	10%	83%
Terminate the plan (remove all employer liability through lump-sum payout to participants or third-party annuity purchase)	0%	6%	11%	83%
If you offer a traditional plan: Change to a hybrid plan (cash balance or pension equity)	0%	0%	0%	100%

n ranges from 12 to 128

Defined Benefit Plan Risk Confidence

Employers continue to aggressively monitor and mitigate risks in their defined benefit plans. Generally speaking, their actions fall into four categories: understanding the risks, monitoring the results, decreasing the liabilities and syncing the assets' movement to match liability changes.

As a first step, 24% of plan sponsors have conducted an asset liability study to understand the impact of different economic scenarios on their plan's funded status. One out of every eight plan sponsors has established a method by which it can monitor plan funding status on a daily basis. Both of these percentages have doubled since last year.

Plan sponsors looking to decrease their liabilities are often liberalizing the ability to take benefits as a one-time lump sum. Twelve percent of sponsors reported they have recently completed a window for terminated vested participants or retirees. Among the remaining group, 43% are very or somewhat likely to offer a window in 2014. Thirteen percent of employers have expanded the lump-sum option in the plan and now permanently offer it to participants.

Finally, recognizing that pension risk is not solely relegated to liability actions, many employers are also focusing on the asset side of the equation. Sixteen percent of respondents indicated that they have recently adjusted their investments to better match the plan liability, and of those who have not yet taken this action, another 23% are very likely to do so in the next 12 months.

Likely Actions Defined Benefit Plan Sponsors Will Take to Reduce/Better Manage Risk in 2014

Completed Recently	Actions Related to Managing Risk	Likely Action in 2014 (Among Those Who Have Not Completed Recently)			
		Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
13%	Adjust equity exposure and/or overall allocation of plan assets	29%	47%	12%	12%
16%	Adjust plan investments to better match the characteristics of the plan's liabilities (e.g., liability-driven investing, or LDI)	23%	39%	24%	14%
12%	Add or liberalize a temporary lump-sum option (a "window") for terminated vested participants and/or retirees by adding a window approach	14%	29%	21%	36%
24%	Conduct an asset liability study	12%	33%	29%	26%
12%	Monitor the funded status on a daily basis either by partnering with an outside organization or enhancing internal tools	10%	15%	29%	46%
13%	Expand an ongoing lump-sum option in the plan and open to terminated vested participants and/or retirees	6%	21%	32%	41%
3%	Purchase annuities for terminated vested participants or retirees	3%	5%	26%	66%
6%	Change to mark-to-market accounting (e.g., by eliminating gain/loss amortizations)	1%	5%	33%	61%
1%	Use a buy-in offering (e.g., entering an agreement to transfer risk to a third party such as an insurance provider)	0%	3%	21%	76%
2%	Transfer the plan (both assets and liabilities) to an outside party to reduce risk exposure	0%	3%	17%	80%

n=223

n ranges from 112 to 163

The success of a lump-sum window relies in large part on how well participants understand the options available and time frames involved, so plan sponsors ramp up their communication efforts when implementing a lump-sum offering. Nearly half of all organizations that are considering a window are very or somewhat likely to hire an outside consultant to create communications, perform benefit calculations and/or handle calls from participants. By hiring vendors outside the organization for assistance, sponsors are able to devote their time to other actions and strategies and not be caught under the influx of increased paperwork, participant communications and trustee requirements during the window.

Likely Actions to Prepare for Lump Sums and/or Annuity Purchases

		Likely Action in 2014 (Among Those Who Have Not Completed Recently)			
Completed Recently	Actions Related to Lump Sums and/or Annuity Purchases	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
2%	Provide written communication to retirees and/or terminated vested participants in advance of action date	39%	33%	11%	17%
4%	Carefully review individual data inputs for pension calculations	37%	34%	15%	14%
5%	Hire outside vendor to create communications, perform benefit calculations and/or handle calls from impacted participants	20%	28%	16%	36%
1%	Gather annuity purchase bids from insurance companies	3%	16%	21%	60%
1%	Increase HR staff to prepare for additional calculations and questions from impacted individuals	1%	13%	10%	76%

n=223

n ranges from 61 to 70

Organization's Current Investment Policy

From an investment perspective, defined benefit plan sponsors are increasingly moving away from a traditional static investment portfolio and instead are adopting glide paths that will decrease the equity exposure as funded status improves. At the beginning of 2014, 22% of sponsors will have a glide path policy, up from 18% last year. By the end of 2014, the number is expected to climb to 30% and challenge the traditional portfolio as the most common investment policy.

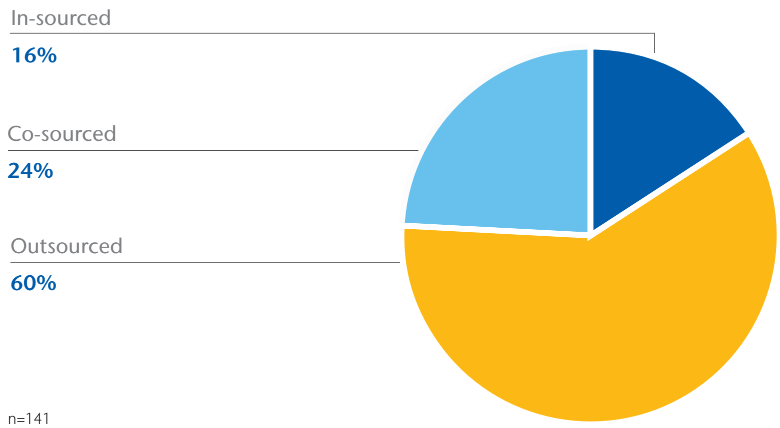
Likely Actions Defined Benefit Plan Sponsors Will Take in 2014

Investment Strategy	Current Investment Policy	Anticipated Investment Policy at End of 2014
Traditionally invested with 60% or more exposure to equity markets (static policy)	50%	33%
Pre-established and preapproved glide path with increasing exposure to fixed income securities and other risk hedging strategies	22%	30%
Less traditionally invested with 50% or more assets in bonds (static policy)	10%	9%
Duration extension or duration matching strategies by using long-duration bonds and/or interest rate swaps or futures	9%	19%
Seeking return by investing more than 20% to alternative investments to generate higher returns	6%	8%
Fully immunized bond portfolio	3%	1%
n =	88	90

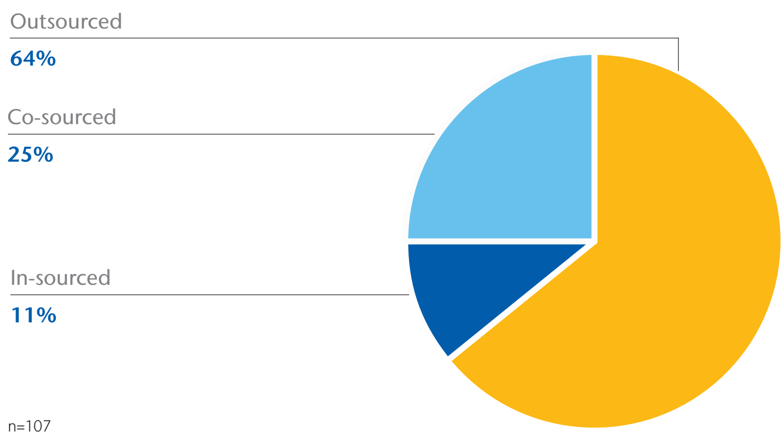
Pension Calculation Administration

The percentage of plan sponsors looking outside their organizations for administration assistance has slowly but steadily grown over the past years, and is showing no signs of letting up. Last year, the percentage of employers that outsourced their administration stood at 55%, and this year has risen to 60%. By the end of 2015, the percentage is expected to climb to 64%.

Organization's Current Pension Calculation Approach



Organization's Expected Pension Calculation Approach in Two Years



Managing an Increase in Retirement-Eligibles

While the baby boomer generation ages, plan sponsors are preparing for the anticipated increase in retirements. Nearly one-fifth of plan sponsors (19%) have increased the level of automation, self-service and/or web access to pension plan participants. Of those who have not recently taken this action, 50% of plan sponsors are either very or somewhat likely to do so in 2014. Other common anticipated approaches include increasing communication about the process to commence benefits, and providing retirement planning education to near-retirees.

Likely Actions to Manage an Increase in Number of Participants Eligible for Retirement

		Likely Action in 2014 (Among Those Who Have Not Completed Recently)			
Completed Recently	**Action**	**Very Likely**	**Somewhat Likely**	**Somewhat Unlikely**	**Very Unlikely**
8%	Provide retirement planning education to near-retirees	26%	34%	20%	20%
8%	Increase communication about the retirement process	22%	38%	19%	21%
6%	Nothing—we do not anticipate any demographic changes impacting our plan	21%	22%	27%	30%
6%	Nothing—we are well equipped to deal with the demographic changes	21%	27%	28%	24%
19%	Increase the level of automation, self-service and/or web access to pension plan participants	19%	31%	17%	33%
20%	Outsource additional services to an outside party	6%	15%	20%	59%

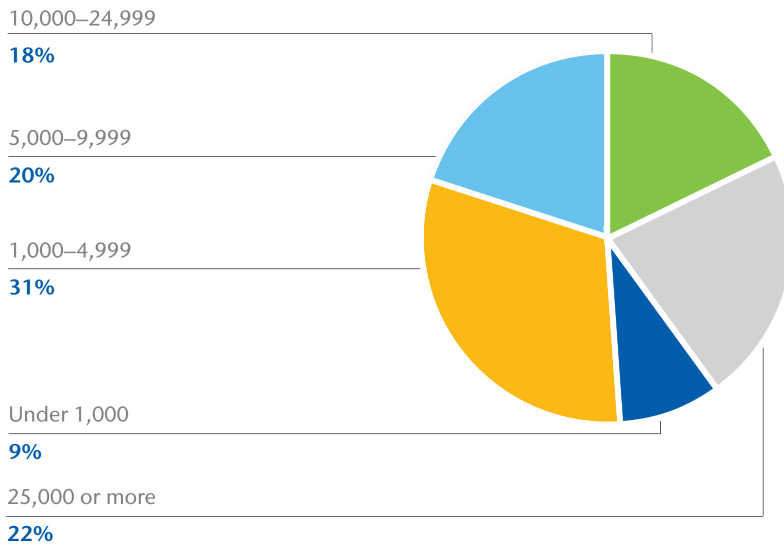
n=223

n ranges from 99 to 127

Participating Employer Information

The survey participants comprised 402 employers representing nearly 10 million employees. Forty percent of the survey respondents have 10,000 or more employees. The average number of U.S. employees is 24,151, and the median is 7,000.

Respondents by Size of Employee Base



n=402

Respondents by Industry

Industry	Percentage of Employers	Industry	Percentage of Employers
Aerospace and Defense	2%	Food, Beverage and Tobacco	8%
Associations, Foundations and Charitable Organizations	1%	Government	5%
Automobiles and Components	3%	Health Care: Equipment, Services and Pharmaceuticals	12%
Banks and Diversified Financials	8%	Information Technology	5%
Building Products, Construction and Machinery	5%	Insurance	9%
Chemicals	2%	Media	2%
Commercial and Professional Services	5%	Metals, Mining and Paper Products	5%
Consumer Durables and Apparel	2%	Retail	6%
Consumer Services and Products	3%	Telecommunications Services	2%
Education	2%	Transportation	4%
Energy	5%	Utilities	4%

n=402

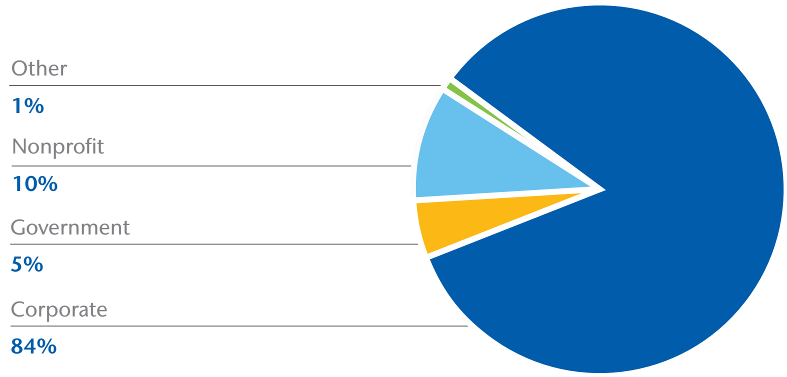
Total Assets—Among Sponsors Offering

	Defined Contribution Plan	Defined Benefit Plan
$0–$50,000,000	5%	6%
$50,000,001–$100,000,000	6%	5%
$100,000,001–$500,000,000	30%	28%
$500,000,001–$1,000,000,000	19%	16%
$1,000,000,001–$2,000,000,000	12%	15%
$2,000,000,001–$5,000,000,000	13%	11%
$5,000,000,001–$10,000,000,000	7%	7%
Greater than $10,000,000,001	8%	12%
n =	380	212

Type of Plans

	Plans Available	Plan Reported
401(k)	92%	90%
Profit sharing only	13%	1%
457(b)	11%	2%
401(a)	8%	2%
403(b)	9%	5%
Other	5%	0%
	Multiple response, n= 380	387

Type of Plan Sponsor



n=402

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