Consulting | Outsourcing
Retirement

2014 Hot Topics in Retirement

Building a Strategic Focus

Survey Highlights

AON Hewitt

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.

Contact Information

Rob Austin, FSA, EA
Director of Retirement Research
Aon Hewitt
+1.704.347.0100
rob.austin@aonhewitt.com

Amy Atchison
Research Consultant
Aon Hewitt
+1.847.295.5000
amy.atchison@aonhewitt.com

About Aon Hewitt

Aon Hewitt empowers organizations and individuals to secure a better future through innovative talent, retirement and health solutions. We advise, design and execute a wide range of solutions that enable clients to cultivate talent to drive organizational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability and wellness. Aon Hewitt is the global leader in human resource solutions, with over 30,000 professionals in 90 countries serving more than 20,000 clients worldwide. For more information on Aon Hewitt, please visit www.aonhewitt.com.