Aon Hewitt
Retirement and Investment

2015 Hot Topics in Retirement

Risk. Reinsurance. Human Resources.

Aon
Empower Results®

Table of Contents

Executive Summary 1

Financial Wellness and Overall Strategy 2

Defined Contribution Plan Actions 6

Defined Benefit Plan Actions 20

Respondent Demographics 24

Executive Summary

Thank you for your interest in this report, Aon Hewitt's ninth installment of an annual benchmarking report that examines the retirement focus areas of plan sponsors in the upcoming year. The content in this report is based on survey responses from nearly 250 employers representing 6 million employees.

Three themes emerged from this survey:

1. **There is wide accord among plan sponsors regarding expansion of their financial wellness focus.**
   - In 2015, 93% of companies are very or moderately likely to create or broaden their efforts on financial wellness topics in a manner that extends beyond retirement decisions.
   - Half of all companies believe the significance of financial wellness concepts has increased over the last two years.
2. **Employers will leverage their scale and size to improve the defined contribution plan for participants.**
   - Products, services, and tools that provide savings and investing assistance to participants continue to gain favor. By the end of the year, features such as online guidance, managed accounts, and phone access to financial planners or investment advisors are expected to be the norm, not the exception. The price for these services in the plan is less than what most individuals would pay on the retail market.
   - Thirty percent of plan sponsors have recently moved from mutual funds to institutional or separately managed accounts. Additionally, roughly two-thirds of all plan sponsors are very likely to review plan expenses and revenue sharing in 2015, and one-third are planning on changing funds in an effort to reduce costs.
3. **Defined benefit plan sponsors continue to voraciously monitor and eliminate risk from their plans.**
   - In the wake of some high-profile annuity purchase announcements, nearly 20% of respondents indicated their willingness to purchase annuities in 2015. Few sponsors reported they will impact their active employees by closing the plan or freezing benefits, but many employers reported that they are likely to initiate a lump-sum window for terminated vested employees in the plan.
   - Pension investment committees have been busy adjusting their plans' investments to better match their plans' liability characteristics. More than one-quarter of plans now have an established glide path that increases exposure to fixed income securities and other risk-hedging strategies as the funded status improves.

Financial Wellness and Overall Strategy

Focus on Financial Wellness

Nearly all employers (93%) indicated they are very likely (46%) or moderately likely (47%) to create or focus on the financial well-being of their employees in a manner that extends beyond retirement decisions. In addition, nearly half (49%) of all respondents indicated that the significance of financial wellness concepts has increased over the last two years.

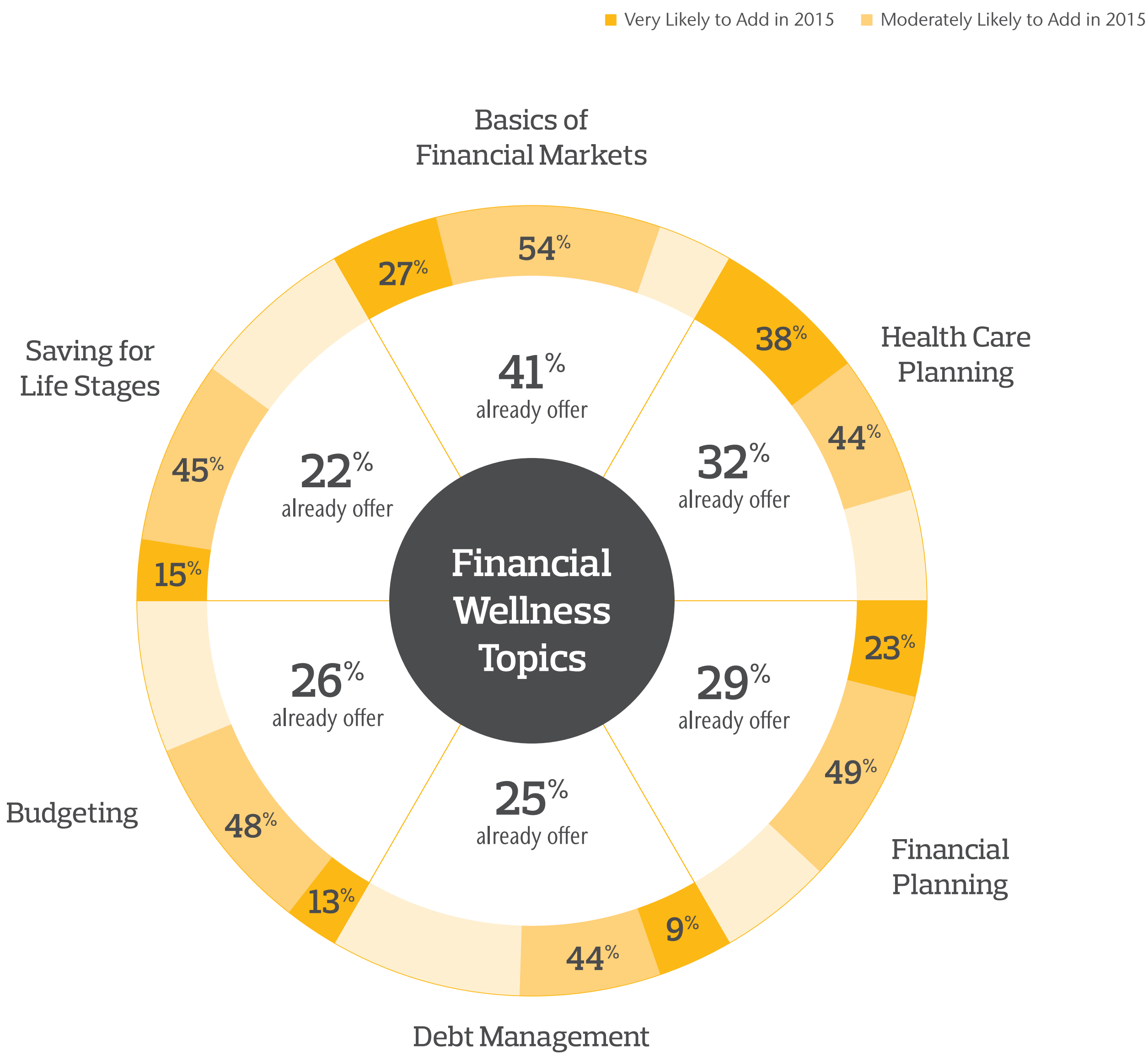
Focus Positive
Productivity 401(k)
Defined Contribution Planning
Retirement Morale
Employee Engagement
Satisfaction Well–Being
Return on Investment
Savings Financial Health
Balance

93%
are very or moderately likely to focus on financial wellness initiatives beyond retirement.

49%
believe financial wellness has become more significant in the last 2 years. Only 1% feel it is less important.

In contrast to the near-universal agreement on the importance of focusing on financial wellness, there is little consensus on the tools and services employers are already offering to assist employees. The most common feature currently offered is education on the simple investing and basics of financial markets. Many plan sponsors indicated that in 2015 they are likely to expand the services they offer.

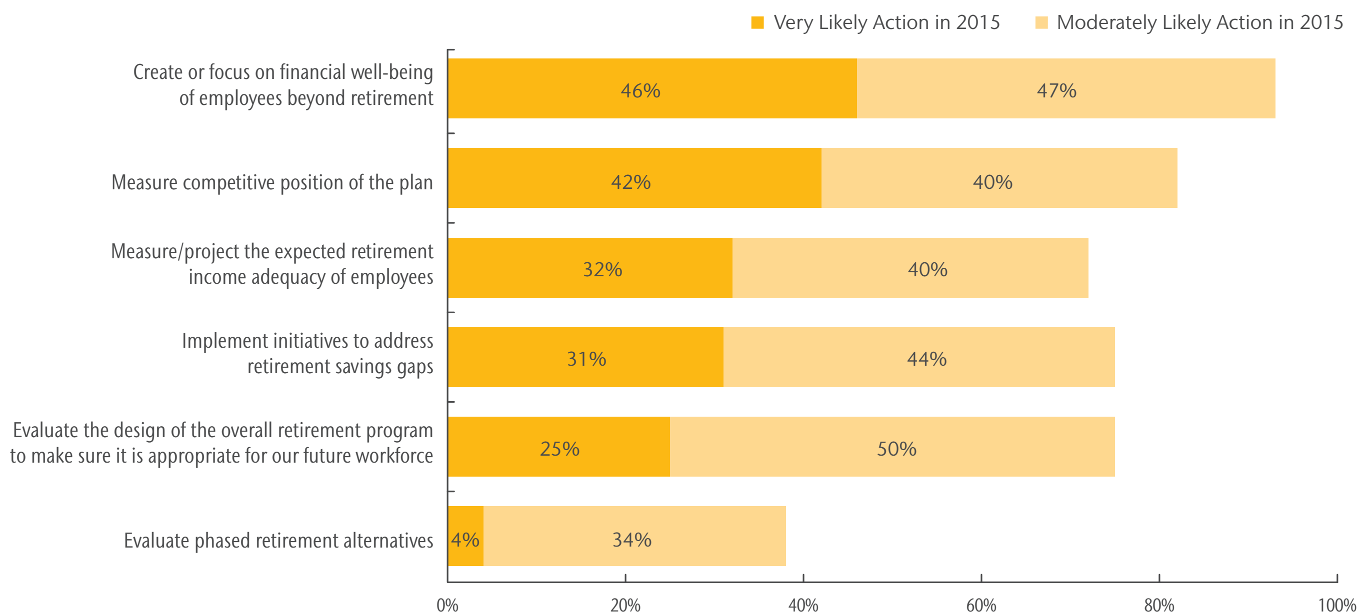
Tools, Services, and Campaigns for Financial Wellness



Likelihood numbers are among those who do not already offer.

Over the past several years, plan sponsors have reported that measuring the competitive position of the plan was the initiative most likely to be undertaken in the near future. While still important, it no longer occupies the top spot. Instead, focusing on financial wellness is now the initiative most likely to be undertaken in 2015, with just under half (46%) of respondents indicating they are very likely and almost all of the remaining half (47%) indicating they are moderately likely.

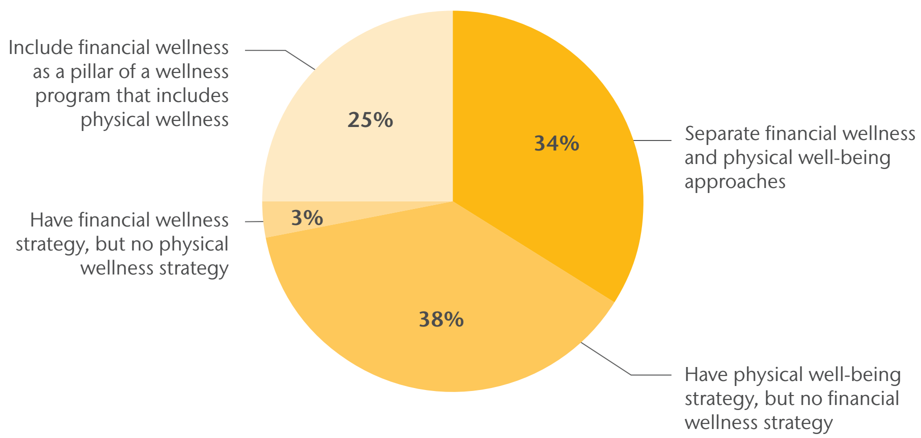
Retirement-Based Initiatives in 2015



Likelihood numbers are among those who do not already offer.

Roughly two-thirds (62%) of all respondents indicated that they have a financial wellness strategy, with a majority of plan sponsors having separate financial wellness and physical well-being approaches. One-quarter of all employers include financial wellness as a pillar of a broader wellness program that includes physical health.

Company Approaches to Financial Wellness and Physical Well-Being

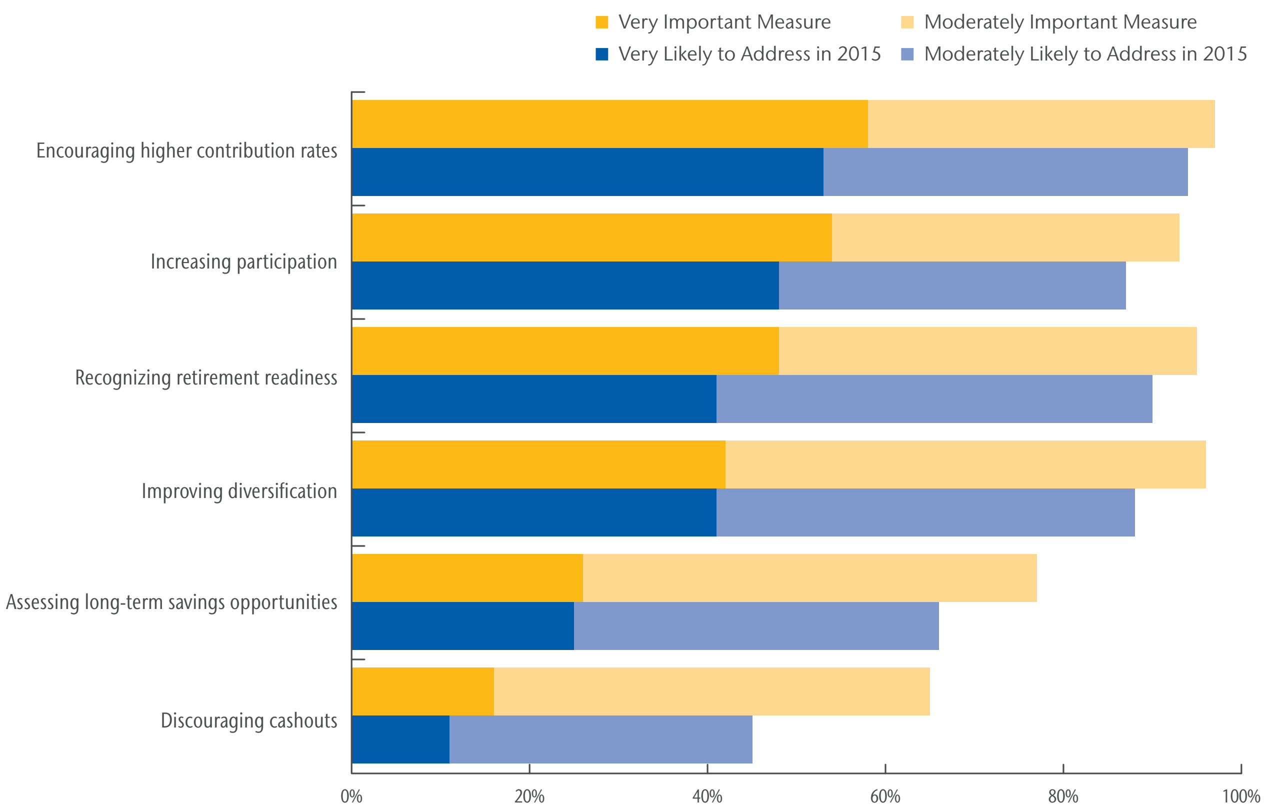


67%
are very or moderately likely to communicate the link between financial stress and health and well-being in 2015.

Defined Contribution Plan Actions

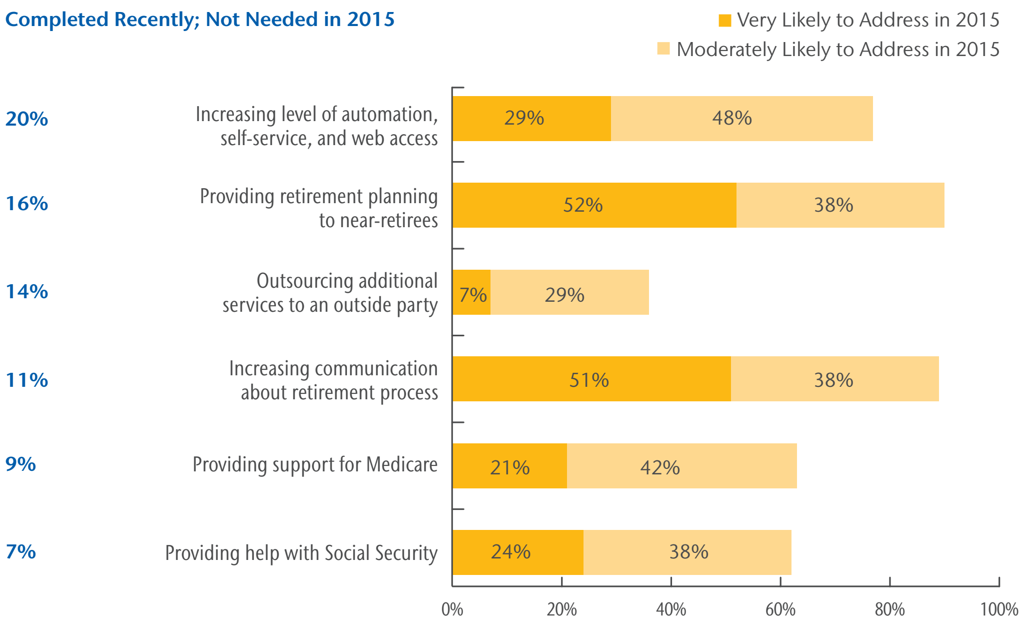
Plan sponsors are most likely to take action on the issues that are most important to them. As has been the case in prior years, increasing employee participation in the plan and saving at a robust rate are the top two issues plan sponsors feel they need to tackle.

Importance of Saving and Investing in the Defined Contribution Plan



On average, seven Americans reach age 65 every minute. This rate will continue for the next several years.[1] With this will come more retirements, and nearly three-quarters (72%) of plan sponsors believe they will experience an increase in the retirement-eligible population of their workforce over the next three years. In response, employers are ramping up their levels of communication and education to near-retirees to help them plan for the next phase of their life.

Retirement Actions Related to the Aging Workforce



72% believe they will experience an increase in retirement-eligibles over the next 3 years.

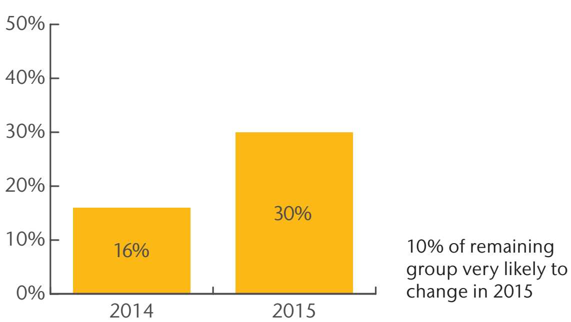
Likelihood numbers are among those who did not answer "Completed Recently; Not Needed in 2015."

1. See *US Population Projections: 2005-2050*, J. Passel and D. Cohn (2008)

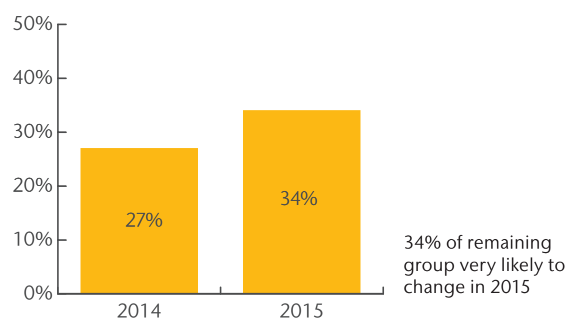
Defined Contribution Plan Investments

The investment committees of defined contribution plans have been active over the past year, and they show no signs of letting up in the year ahead. One of the more popular actions taken recently was moving from mutual funds to institutional funds or separately managed accounts. The percentage has doubled from Aon Hewitt's *2014 Hot Topics in Retirement* report (16% to 30%).

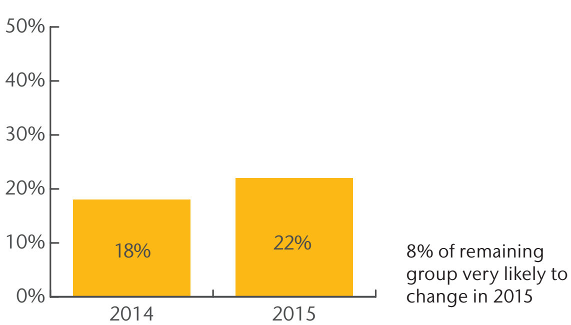
Move Mutual Funds to Institutional/Separately Managed Funds



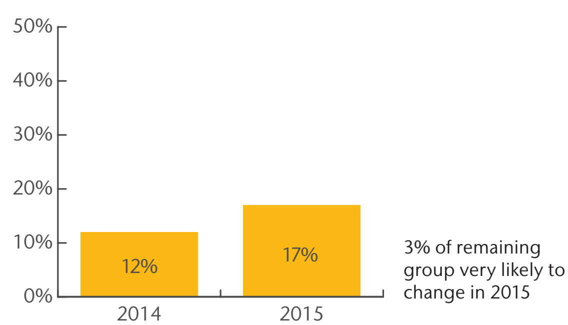
Change Fund Options to Reduce Costs



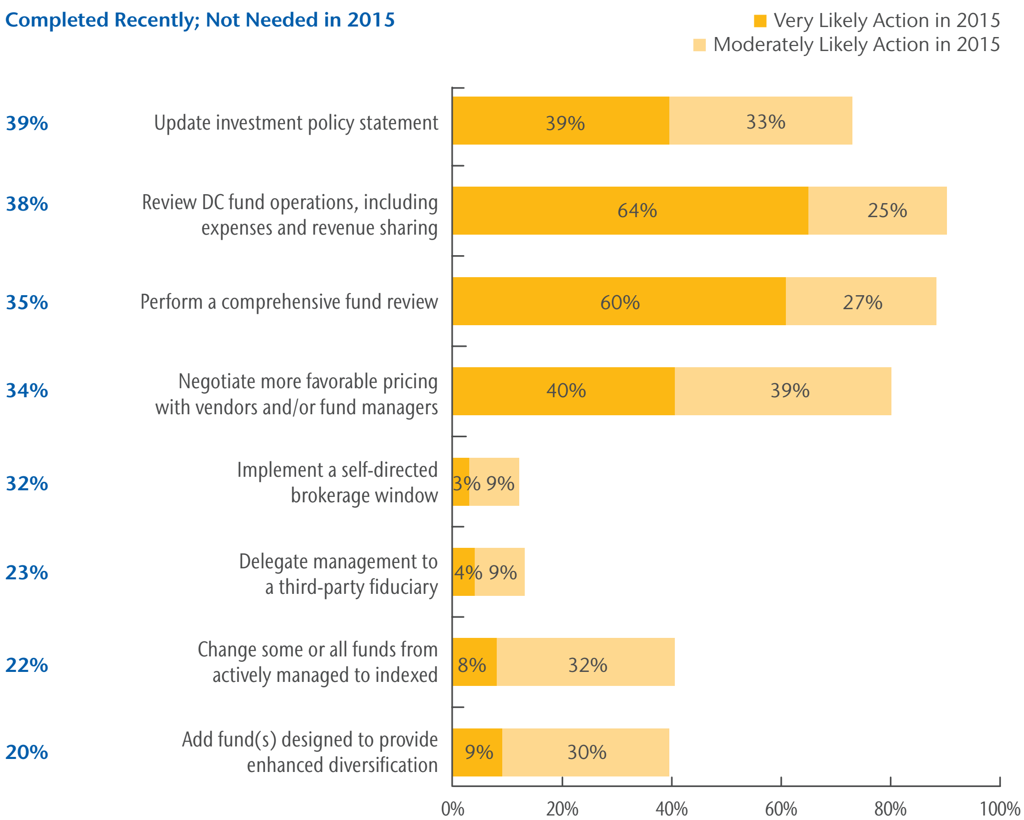
Add a Tier of Index Options



Move to Customized Solution for Target-Date Funds



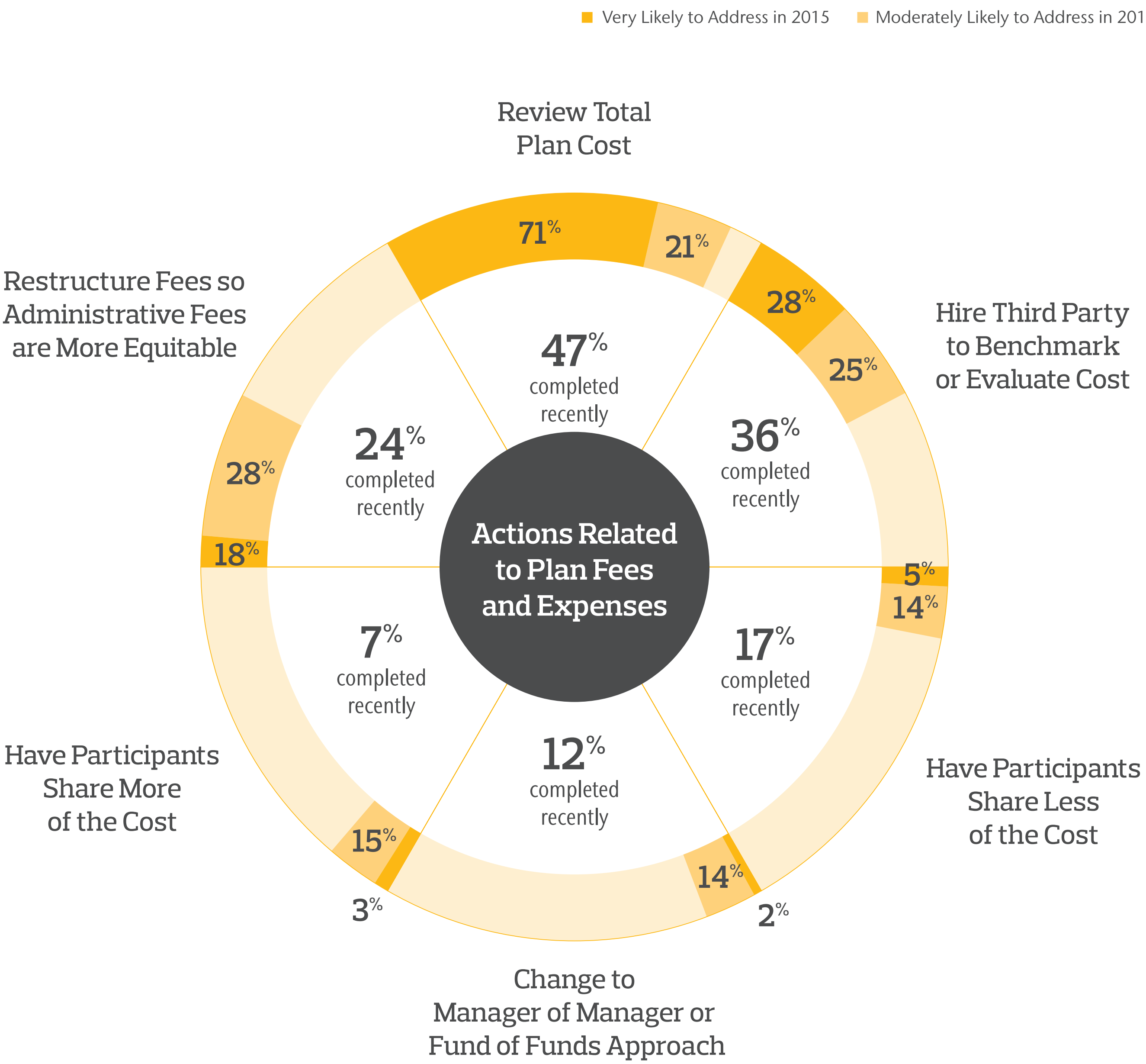
Defined Contribution Plan Investment Changes



Likelihood numbers are among those who did not answer "Completed Recently; Not Needed in 2015."

Employers are taking actions to minimize the fee and expense headwinds that threaten retirement plan accumulations. Nearly half (47%) of all plan sponsors have taken the first step of understanding by reviewing the total plan cost. Of the remaining half, more than 70% are very likely to do so in 2015. Almost one-quarter (24%) of plans have recently restructured their administrative fees so that they are assessed in a more equitable manner, such as through a consistent asset-based or revenue sharing model or a per-person charge to participants.

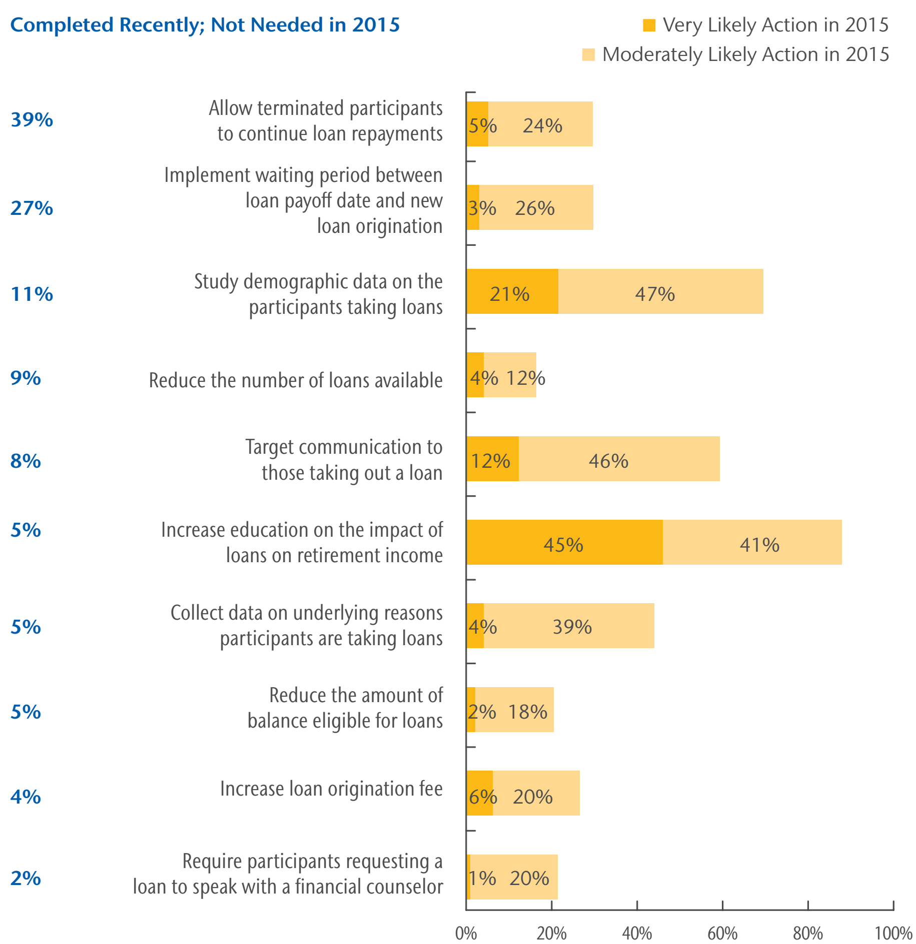
Actions Related to Plan Fees and Expenses



Likelihood numbers are among those who have not completed recently.

More than three-quarters (77%) of plan sponsors feel that minimizing leakage such as loans and withdrawals is very or moderately important. More than half (57%) are very or moderately likely to take some action in 2015, with the most popular avenue being educating individuals on how a loan impacts retirement income. Some employers are taking bolder actions such as reducing the number of loans available, implementing a waiting period between the loan payoff date and a new loan origination, or even eliminating loans altogether.

Actions to Minimize Leakage from the Plan



21%
of sponsors feel minimizing leakage is very important.

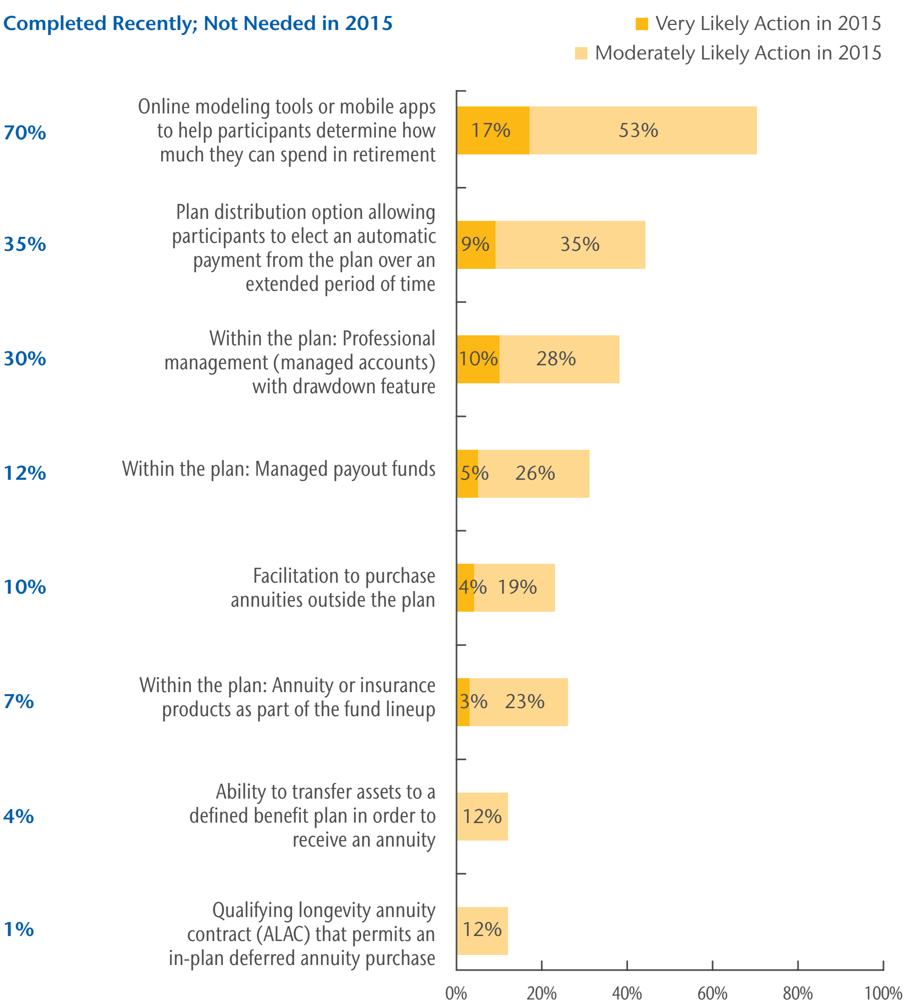
94%
are likely to keep loan provisions in the plan.

18%
are very likely to address leakage in 2015.

Likelihood numbers are among those who did not answer "Completed Recently; Not Needed in 2015."

As the workforce ages, there has been more discussion about converting savings plan accumulations to retirement spending and lifetime income. Approximately two-thirds (65%) of plan sponsors feel that encouraging lifetime income is very or moderately important. However, fewer than half (47%) are likely to address the issue in any manner in 2015, and only a handful plan on adding features and products within the plan.

Converting Savings to Lifetime Retirement Income



16%
of sponsors feel encouraging lifetime income is very important.

13%
are very likely to address lifetime income in 2015.

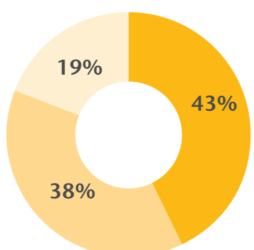
Likelihood numbers are among those who did not answer "Completed Recently; Not Needed in 2015."

Barriers to Adding In-Plan Income Solutions

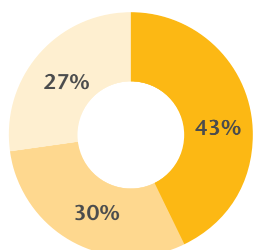
Most plan sponsors stated that they are reluctant to add in-plan features because they have fiduciary reservations or concerns about the operational and administrative procedures. Others are simply waiting for the market to evolve more. Few, however, believe that communication to participants will be a major hurdle and most have no concerns about the portability of the product.

Major Barrier | Minor Barrier | Not a Barrier

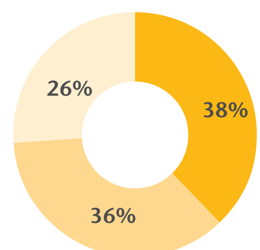
Operational or Administrative Concerns



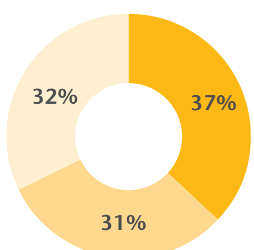
Waiting to See the Market Develop More



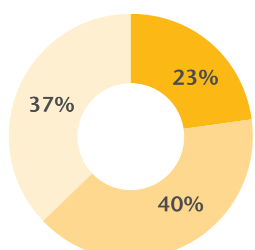
Fiduciary Concerns



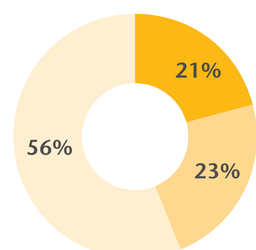
Participant Utilization Concerns



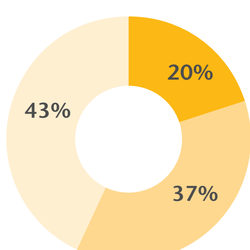
Cost Barriers



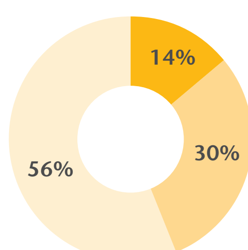
Preference for Participants Leaving the Plan at Termination



Difficulty with Participant Communication



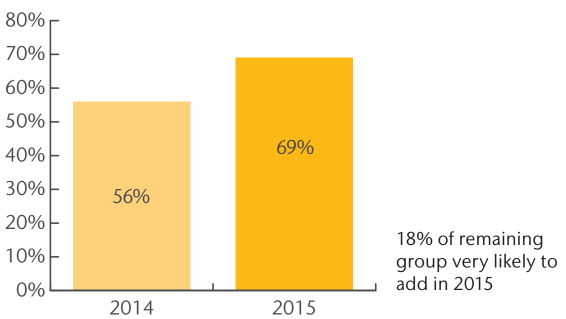
Portability Concerns



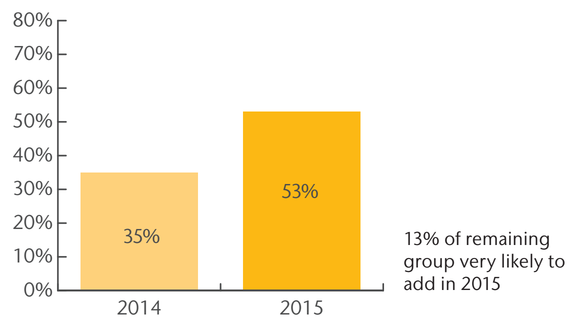
Growth of Savings and Investing Assistance

Plan sponsors continue to offer a wide range of features designed to help participants make better decisions about saving and investing. Target-date funds are nearly ubiquitous, but joining them are online investment guidance, phone access to financial planners, online investment advice, and managed accounts. While the prevalence of these features has increased recently, the momentum appears to be slowing down with relatively few of the remaining plan sponsors very likely to add them in 2015.

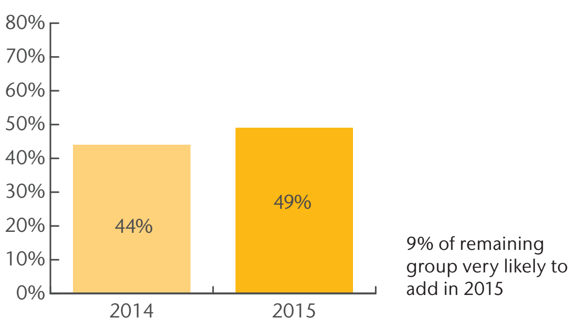
Online Investment Guidance



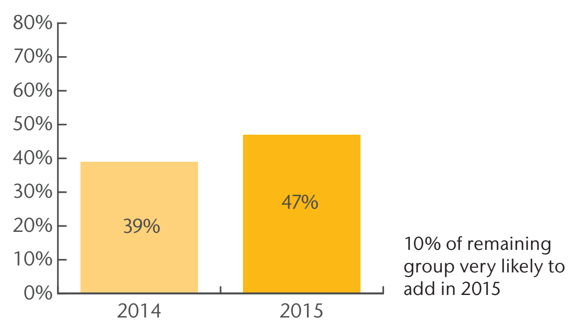
Phone Access to Financial Advisors



Online Third-Party Investment Advice

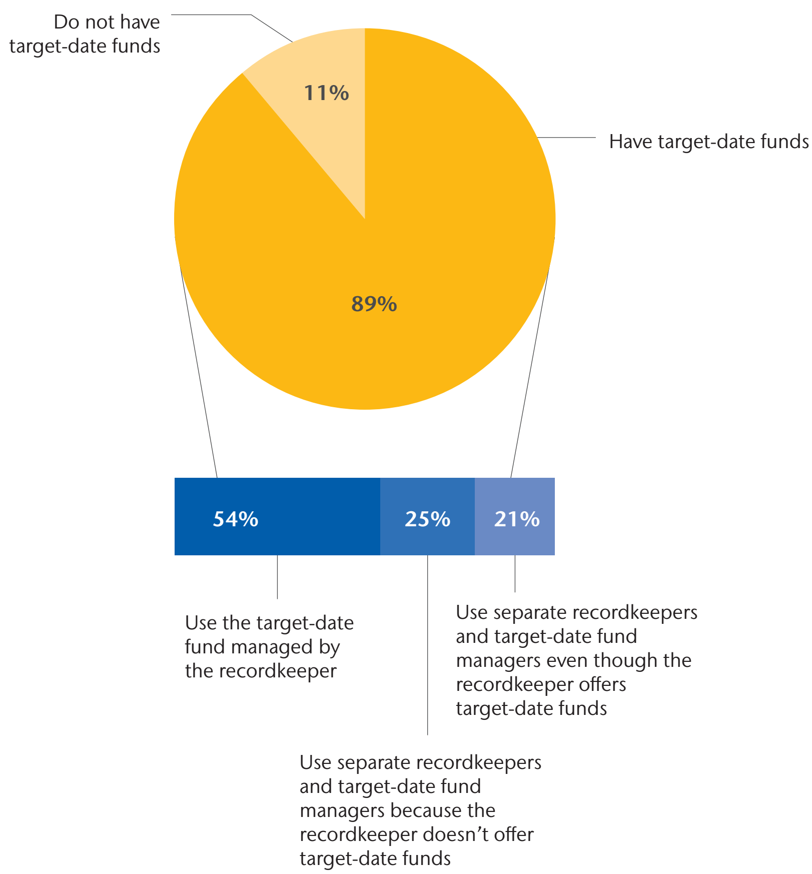


Managed Accounts



More than two out of three plans use the target-date fund provided by the recordkeeper when available. Just over one in 10 plan sponsors indicated they will make a change to the investment provider in 2015, with the majority of this group choosing to use fewer of the administrator's investment options.

Target-Date Funds



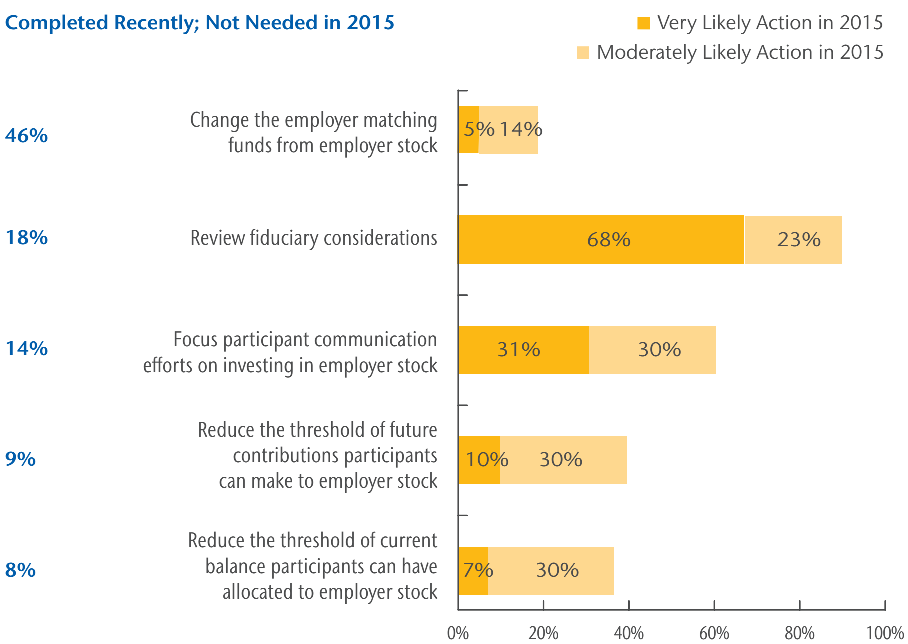
4%
plan to use more of the administrator's investment options.

7%
plan to use fewer of the administrator's investment options.

89%
intend to make no changes.

Employer stock in 401(k) plans made headlines in 2014 with the Supreme Court eliminating the presumption of prudence provision. Overall, 60% of the respondents to this survey who have publicly traded stock allow it as a stand-alone investment option in the defined contribution plan. Nearly all (91%) plan sponsors are very or moderately likely to review their fiduciary considerations of the investment option and 61% are very or moderately likely to focus their communications on specific considerations of investing in company stock. A small number of employers reported they are very likely to take more aggressive actions such as eliminating employer stock as an investment option or reducing the ceiling on the amount of employer stock that comprises the portfolio.

Employer Stock in Defined Contribution Plans



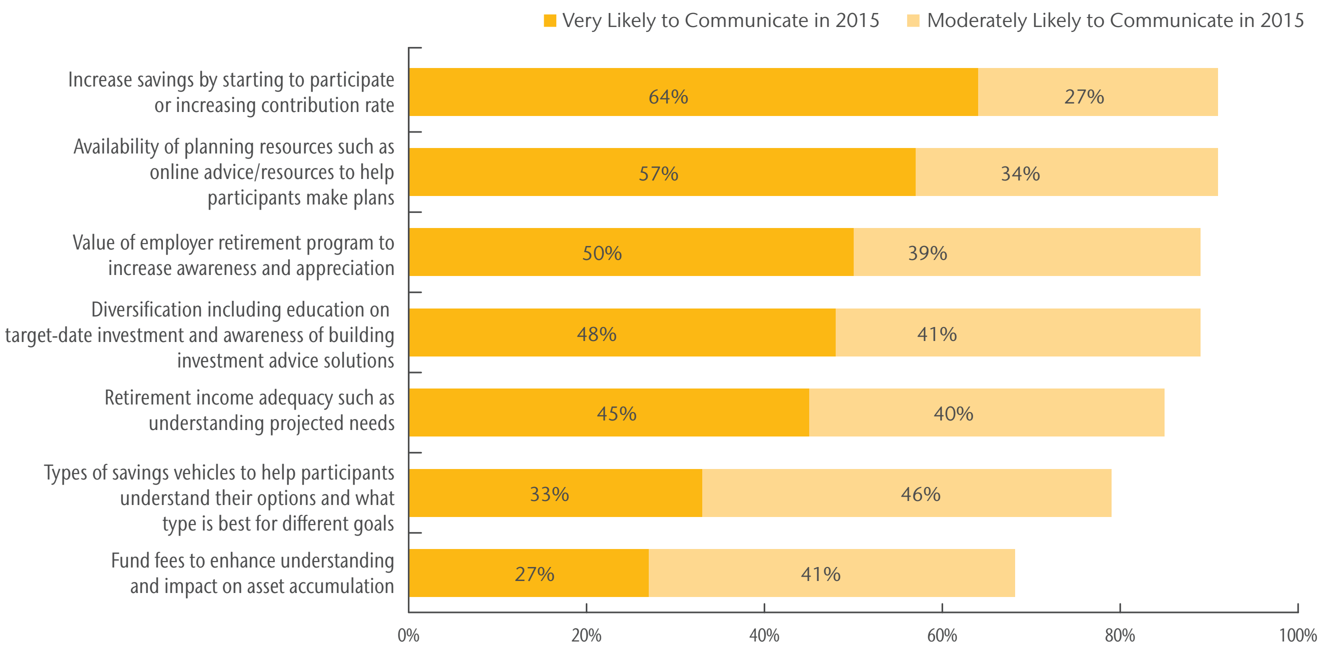
60% of employers with publicly traded stock allow participants to invest in employer stock in the plan.

16% of them are very or moderately likely to eliminate employer stock as an investment option in 2015.

Likelihood numbers are among those who did not answer "Completed Recently; Not Needed in 2015."

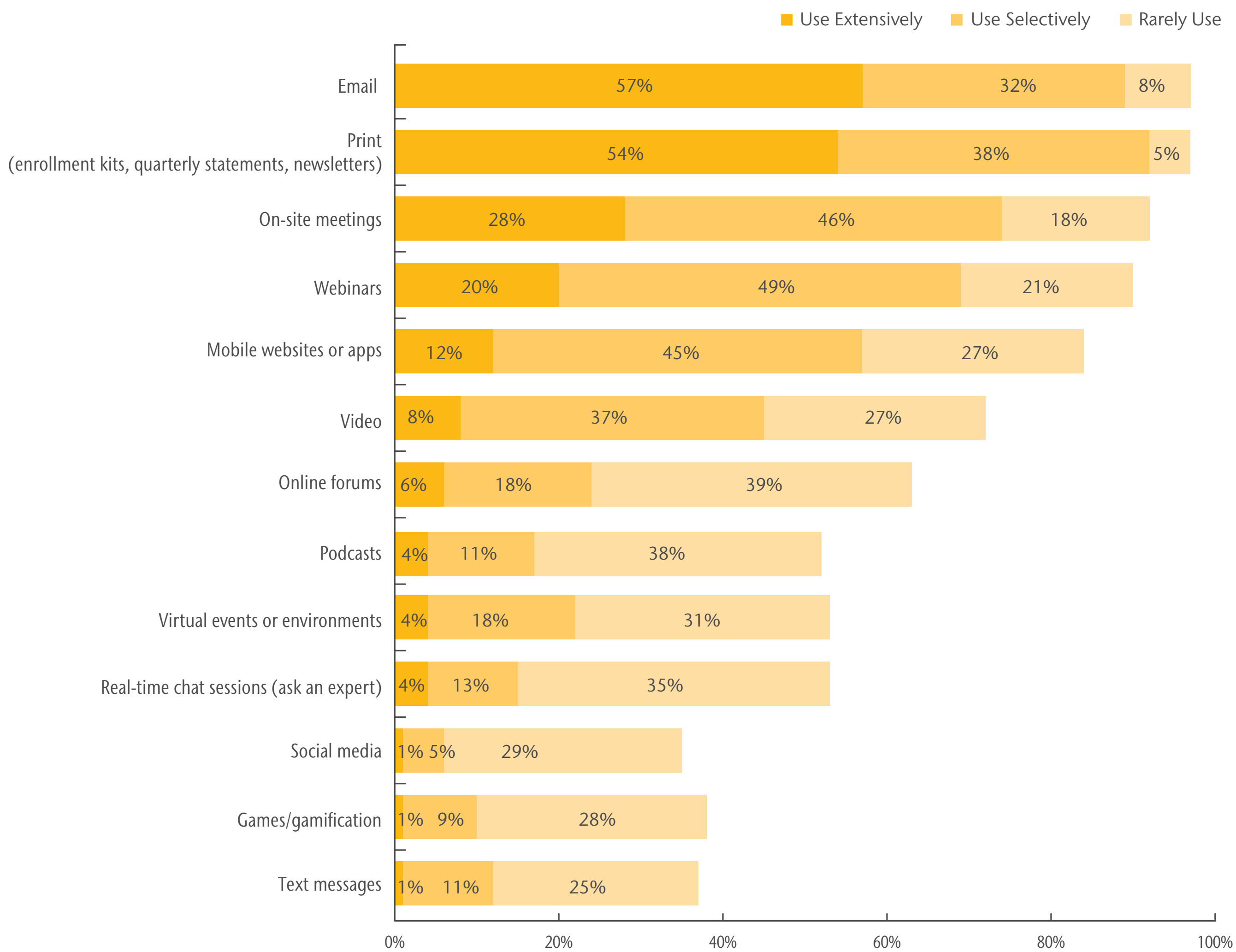
As in prior years, the most likely communication to eligible employees will be about the importance of participating and saving in the plan. At the same time, many plan sponsors are also very likely to promote the resources available in the plan and the value the employer system provides.

DC Plan Communication



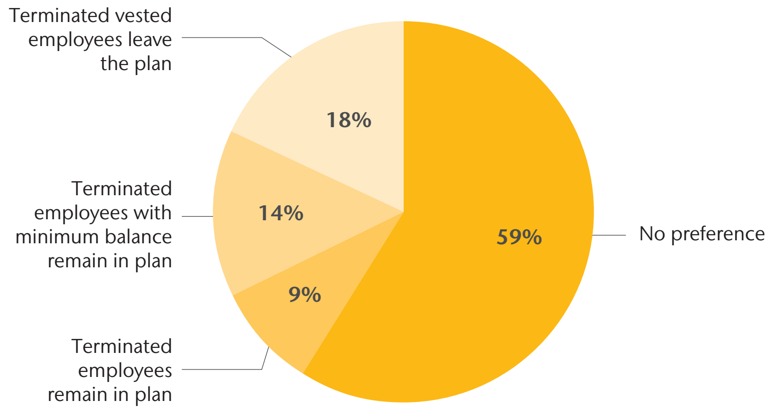
The methods for communication are becoming more varied as the population is becoming more heterogeneous. Print and email still dominate the channels, but onsite meetings and webinars are seeing growth. To appeal to the more tech-savvy workers, some employers are also turning to mobile websites and apps to get the message out.

Communication Channels



There is a growing trend among plan sponsors to have terminated employees keep their balances in the plan, particularly if the balance meets a certain minimum threshold. Nearly half of all employers are very or moderately concerned that some recordkeepers target terminated participants for IRA rollovers, and many of these sponsors have discussed their concerns with the administrator or imposed contractual obligations to limit the targeting.

Preference for Whether Terminated Vested Employees Stay in Plan



42%
of companies are very or moderately concerned that some recordkeepers target participants for IRA rollovers.

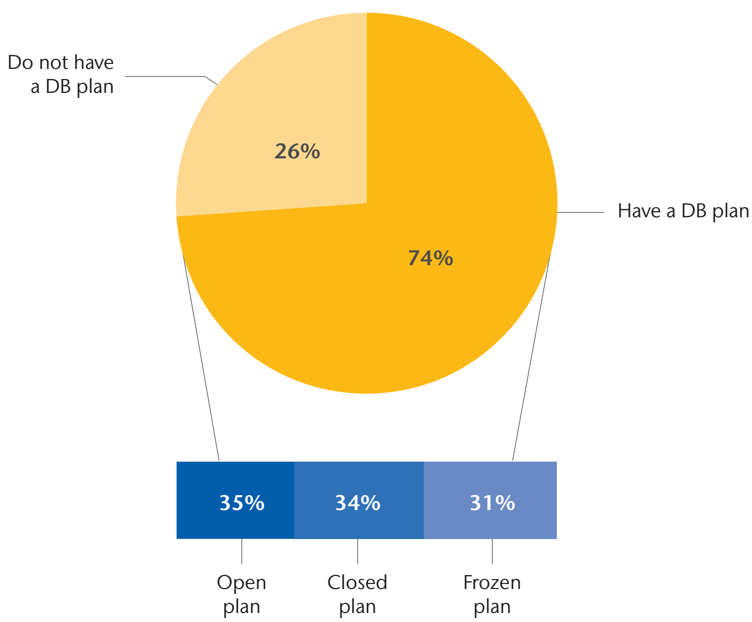
12% of them
have imposed contractual obligations to limit recordkeepers from targeting terminated employees for IRAs.

39% of them
have discussed expectations and concerns with recordkeepers.

Defined Benefit Plan Actions

Approximately three-quarters (74%) of respondents had a defined benefit plan covering at least part of their workforce. Among these, the population was fairly evenly split between those who have open plans, those who have closed plans, and those who have frozen plans.

Status of Defined Benefit Plans



14%
of open plans are very likely to close in 2015.

9%
of open and closed plans are very likely to freeze in 2015.

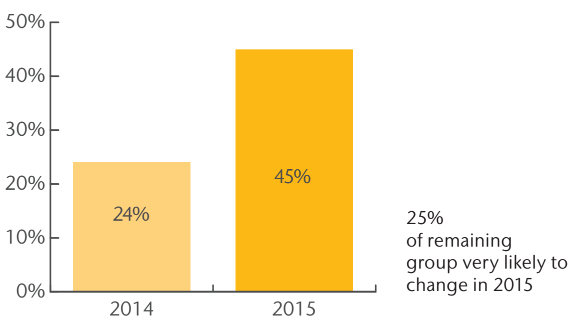
5%
of all DB plans are very likely to terminate in 2015.

8% of respondents will reduce benefits but continue to offer a defined benefit plan (3% very likely; 5% moderately likely).

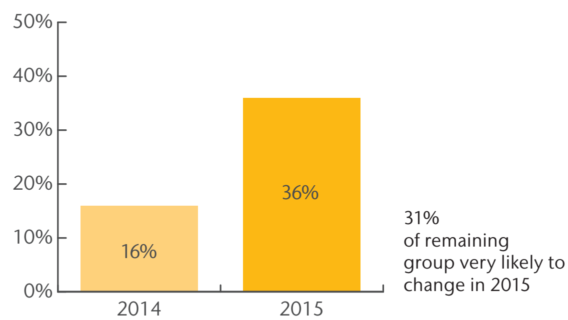
Changes to Defined Benefit Plan Assets

In 2015, most defined benefit plans will continue on their de-risking path and their actions will be concentrated on both asset and liability components. Nearly half (45%) of all plan sponsors have recently conducted an asset-liability study to determine how their funded status will change in different economic scenarios. More than one-quarter (26%) have methods in place to monitor the funded status of their plan on a daily basis. More than one-third (36%) of plans have adjusted their plan's investments to better match the plan's liabilities, and more than one-quarter have a so called "glide path" in place that will decrease the percentage of the portfolio dedicated to return-seeking assets as the funded status improves.

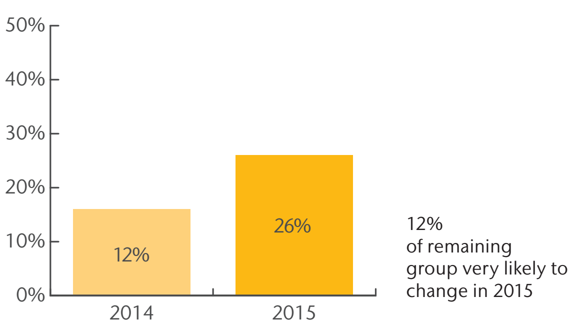
Conduct an Asset-Liability Study



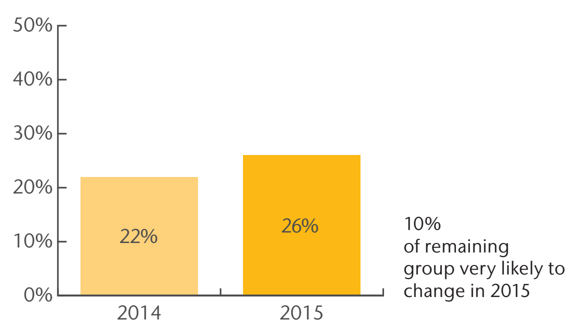
Adjust Plan Investments to Better Match the Plan's Liabilities



Monitor the Funded Status on a Daily Basis

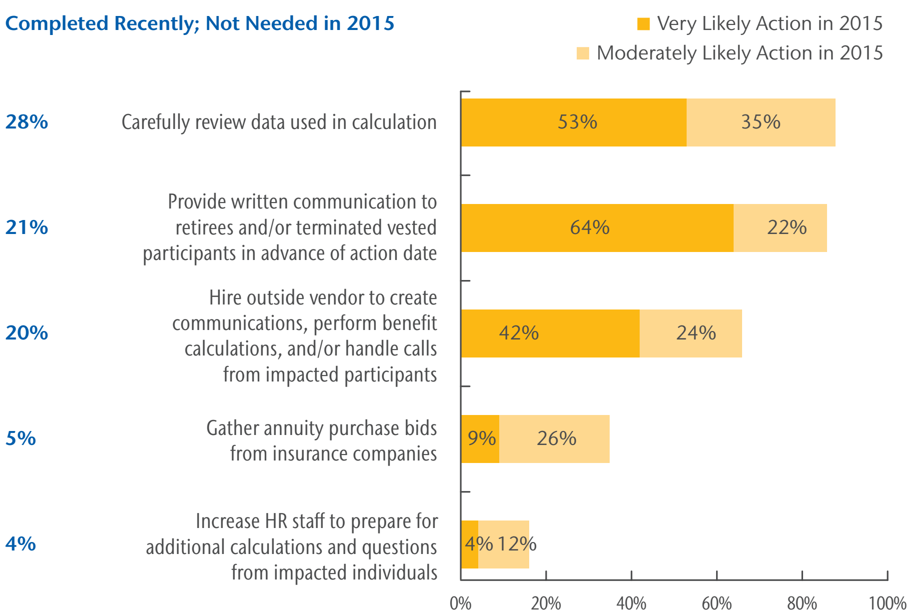


Move to a Glide Path



On the liability side, many plan sponsors are pulling levers that will decrease the plan's liability. Nearly half of all companies (47%) will initiate a lump-sum window in 2015 for terminated vested participants. More than one in five sponsors (21%) are very or moderately likely to explore purchasing annuities for some participants.

Lump-Sum Windows and Annuity Purchases



Likelihood numbers are among those who did not answer "Completed Recently; Not Needed in 2015."

44% of companies recently offered terminated vested participants the opportunity to receive a lump sum.

47% are very or moderately likely to implement a window in 2015.

21% are very or moderately likely to purchase annuities for some participants in 2015.

Mortality Tables and PBGC Premiums

With the increases to the Pension Benefit Guaranty Corporation (PBGC) premiums tripling over the next few years, 63% of plan sponsors are taking actions now to curb costs down the road. The most popular method by far is to reduce headcount through a settlement strategy, but almost one in five plans are planning on increasing cash contributions. Borrowing to fund the increases is very rare.

Mortality Study

37%

of companies have performed a mortality study since 2011, with 18% performing one in 2014.

10%

plan to perform a mortality study in 2015.

PBGC Premium Increase

19%

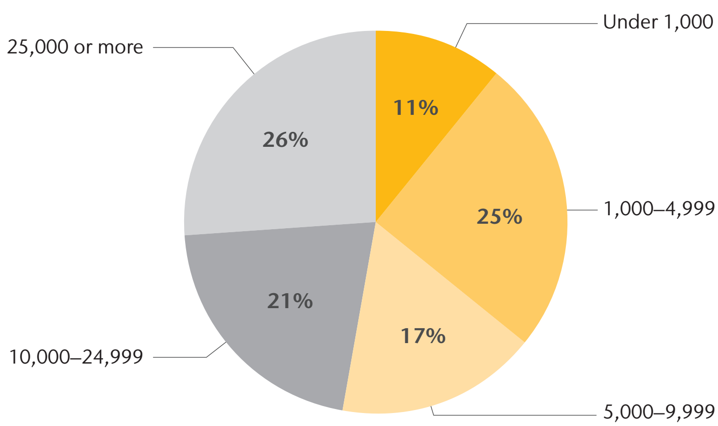
plan to increase cash contributions to reduce PBGC premiums.

44%

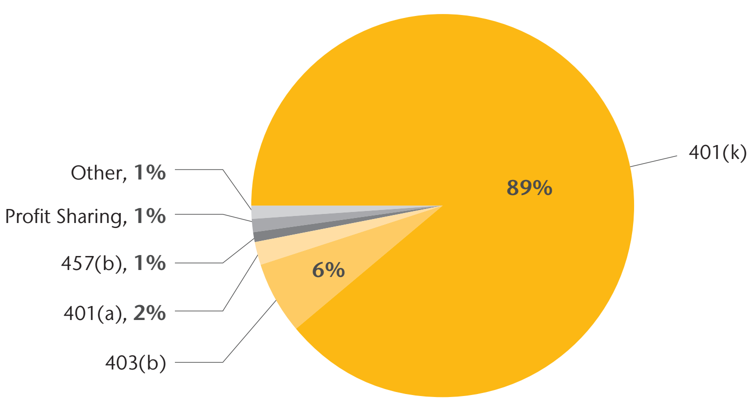
plan to reduce the number of participants through settlement strategies.

Respondent Demographics

By Size of Employee Base



Type of Plan Sponsor



248
total respondents with nearly 6 million employees

24,000
average number of employees

8,750
median number of employees

Contacts

Rob Austin, FSA, EA
Director of Retirement Research
+1.704.343.4100
rob.austin@aonhewitt.com

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

MacKenzie Lucas
Public Relations
+1.847.295.5000
mackenzie.lucas@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, please visit aonhewitt.com.

About Aon

Aon plc (NYSE:AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.