

2012 Hot Topics in Retirement

Waning Confidence and the Need for Continued Innovation

Survey Highlights



About This Survey

In October 2011, Aon Hewitt surveyed HR professionals throughout the U.S. to learn what is likely to occur with retirement programs in the coming year. The survey explored their focus and expected actions regarding the design, management, and delivery of their retirement programs—including defined contribution (DC), defined benefit (DB), and retiree medical plans as they relate to active, salaried U.S. employees.

This year's survey results show that employers are continuing to assess the most effective way to deliver retirement benefits to their employees and keep up with the evolving retirement landscape. Responses from more than 500 employers are included, covering over 12 million employees (the median number of employees is 5,800, while the average is over 24,000).

Note: Percentages in this report are rounded to the nearest whole number; therefore, totals may not equal exactly 100%. While the focus of the survey and samples have changed from year to year, there remain many areas where useful comparisons and trends over time can be examined.

Waning Confidence and the Need for Continued Innovation

In recent years, with the move from defined benefit to defined contribution plans, employee responsibility for retirement adequacy has grown. However savings behaviors remain suboptimal. As a result of this and other challenges, employer confidence in their ability to influence employee decisions and/or actions has eroded. Consequently, many plan sponsors are enhancing and refining their plan structures to better meet employer and employee retirement goals. Building on the success of automatic features, employers continue to learn, develop, and embrace a variety of innovative solutions.

Five Key Trends

Aon Hewitt received survey responses from more than 500 employers to determine their current and future retirement benefits strategy.

Five key trends emerged for retirement programs in 2012:

1. Employers' confidence in employees' ability to succeed has dropped. At the same time, employers are placing a greater emphasis on helping participants understand the programs and resources available to help them meet their goals.
2. Plan sponsors are trying to improve their employees' results, recognizing diversity in needs, particularly by offering tools and services such as investment advisory and income solutions.
3. Organizations are carefully reviewing funds and fees in defined contribution plans, and seeking external support to assist them in these efforts.
4. Defined benefit plan sponsors are focused on managing financial, compliance, and litigation risks.
5. Employers are decreasing retiree medical subsidies as well as expanding cost management efforts.

Enhanced Automation and Individualized Solutions Viewed as Key

As defined contribution plans now serve as the main retirement vehicle for many current and most future employees, automation is a proven solution to help employees get on the right path to retirement. However, if not implemented in the right way, the long-term costs to employees will be high. When considering plan design and automation tactics, plan sponsors' focus needs to expand to include overall retirement readiness. By addressing issues such as how to better include existing nonparticipants, how to incorporate stronger default elections, and how to provide better support of the decumulation phase, plan sponsors will greatly enhance the benefit derived from the plan—by both the employees and the employer.

Further, we cannot forget about the majority of employees in the defined contribution system who have not been subject to defaults—non-savers, those who opted out, or participants who entered the plan prior to automation. The concept of designing plans in a way that effectively balances simplicity with enough depth and diversity is critical to ensure broad employee success. Automatic enrollment and defaults address these challenges for the “average” employee. However, we know that individuals, especially as they near retirement, are increasingly heterogeneous and require more individualized solutions. While improvements have been made, enhancements and additional tools can help drive individual success.

Employers Taking a More Holistic View

Plan sponsors have the opportunity to leverage an increasing array of services and support to assist them in designing, managing, and communicating their retirement plans. A more holistic perspective is a necessity in reviewing retirement programs by looking at measures such as retirement income adequacy instead of just participation and savings levels. Through this expanded view, employers can better assess the value of the plan design and also communicate in a way that will resonate with employees.

Looking Ahead

The retirement system requires continuous examination and innovation to ensure secure retirements for Americans. Many plan sponsors have recently adjusted their defined benefit and/or defined contribution programs, but this is an ongoing process. Retirement program success necessitates the iterative process of identifying needs, implementing and embracing innovative solutions, and measuring outcomes—and then making logical adjustments as additional experience is accumulated.

The remainder of this summary reviews the key themes in each plan design area, followed by perspectives on the current state of the retirement marketplace.

Broad Retirement Picture: Increasing Focus on Employee Usage and Outcomes

Although employers have taken many steps to enhance and refine their retirement plans in recent years, there is a growing uneasiness about their employees' retirement readiness. In reaction to this, many employers are reprioritizing and taking steps to reassess plans and features in 2012.

Employer confidence at an all-time low:

4% of respondents are very confident their employees will retire with sufficient retirement assets, down from 30% in 2011

10% of plan sponsors feel very confident that their employees will take accountability for their own retirement success

18% of employers feel very confident that workers will be able to manage their income during retirement

Employers focused on plan usage, understanding, and outcomes:

60% of sponsors say they are placing a greater emphasis on helping employees understand the employer-sponsored resources available to them

52% of employers are focused on encouraging workers to take greater accountability for their own retirement success

44% of plan sponsors rate helping employees retire with sufficient assets as a top priority

Likely design initiatives:

36% of employers are very likely to assess their current retirement plan design

35% of plan sponsors are very likely to review the competitive position of the plan

32% of plan sponsors are very likely to focus on the financial well-being of employees

Defined Contribution Plans: Increasing Importance, Focus, and Innovation

For more than three-quarters of newly hired employees, the defined contribution plan is the vehicle available to help them save for retirement. Looking ahead, employers continue to enhance their plan features. In 2012, plan sponsors will continue to focus on automating the plan, expanding savings choices by adding Roth, and offering participants more resources like investment advisory services and retirement income solutions. Plan sponsors also are focused on fees, driven in part by new Department of Labor fee regulations.

Employers identified many priorities for managing their defined contribution plans, but also felt constrained about their ability to influence employee outcomes.

High priorities among plan sponsors to influence participant behavior and outcomes:

- 56%** driving participation rates
- 40%** increasing savings rates
- 36%** improving diversification of investments
- 32%** increasing retirement readiness

Employers continue to enhance plan features:

- 39%** of plans currently offer their employees a Roth savings option; 29% likely to add in 2012
- 55%** of employers automatically enroll employees; most of those (63%) do so at a savings level below the full company match
- 16%** of organizations now offer an in-plan retirement income solution; 22% likely to adopt in 2012

Plan sponsors are focused on risk and fund management. Recent activities include:

- 53%** hired a third party to monitor or review fund options
- 36%** have lowered costs by changing some or all funds from mutual funds to institutional funds

Defined Benefit Plans: Managing Risk

Employers' slow migration from pension plans toward defined contribution plans has persisted, in part because of the added risk that comes with pension plans. Plan sponsors with defined benefit plans are focusing on managing these financial, compliance, and litigation risks.

Pension plan sponsors continue to assess the appropriateness of their plan design, but a vast majority of employers plan to make no changes in the year ahead. Risk management remains a strong theme, with many strategies planned for 2012.

Plan sponsors' slow movement from defined benefit plans:

23% of employers provide an ongoing defined benefit plan with benefit accruals to new employees

59% of employers carry a pension liability

Plan design changes planned for 2012:

69% of pension plan sponsors are very likely to continue their current plan with no changes in 2012

14% of plan sponsors are likely to freeze accruals, and 18% are likely to close their plan to new entrants

Financially, plan sponsors have felt the burden of their pension plans:

86% of plans were underfunded as of January 1, 2011

42% of plans anticipate contributing more than the IRS required minimum contribution in 2012

Actions and risk management strategies plan sponsors are very likely to undertake during 2012:

67% to perform funding and accounting projections

32% to assess pension plan risks based on current strategies

31% to review funding strategy

23% to conduct asset liability study

Retiree Medical Plans: Reducing Costs and Managing Benefits

As we've seen in the past several years, retiree medical benefits continue to decline. Sixty-one percent of respondents provide some type of postretirement medical coverage to their current or future retirees. Many of these plans are now focused on providing benefits only to current retirees or currently active employees and not to future hires. While 85% of plans offer some subsidy to retirees and 98% provide access to retiree medical coverage, these numbers drop to 23% and 60%, respectively, for future hires.

Retiree medical benefits continue to decline and will cost retirees more:

23% offer subsidized uncapped or capped retiree medical coverage to new hires

78% currently offer retiree health care benefits are likely to increase retiree premiums

53% are likely to increase retiree plan design cost-sharing requirements

25% offer a Health Savings Account (HSA)-compatible High Deductible Health Plan (HDHP) to pre-65 retirees

About Aon Hewitt

Aon Hewitt is the global leader in human capital consulting and outsourcing solutions. The company partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance. Aon Hewitt designs, implements, communicates and administers a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies. With more than 29,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees. For more information on Aon Hewitt, please visit www.aonhewitt.com.

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