

Strategies for Containing Retirement Risk

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Hewitt

Themes: Affordability of Retirement

- **Changing Dynamics of Employer-Provided Retiree Medical Benefits:** *Highlights challenge of providing access to affordable health coverage and adequate retirement income.*
- *Do plan sponsors see this as their top issue?*

Yes. . .

Plan Sponsor Perspectives

- According to Hewitt's *2005 Financial Perspectives* survey, over 70% of financial executives believe that employees' ability to retire is connected to their organization's ability to manage its workforce effectively.
- Only 30% are confident their workers will retire with sufficient retirement assets.

...*And No*

Plan Sponsor Perspectives

- 65% said their top priority for the next two years will be to identify ways to control the growth in retirement costs.
- Of those offering retiree medical benefits, most (approximately 70%) said they plan to increase cost sharing with current and future retirees in the next two years.
 - More than half (53 percent) plan to reduce retiree benefits.

Themes: Redesign the Plan to Meet Retirement Needs

- **Future of Retirement Investing:** *It will be necessary to rethink the typical DC plan design to better equip participants in reaching retirement goals.*
- *Will plan sponsors have the appetite?*

Yes. . .

Plan Sponsor Perspectives

- According to Hewitt's *2005 Hot Topics In Retirement*, top 2005 priorities for plan sponsors are:
 - Increasing employee appreciation of plan—89%
 - Promoting concept of personal responsibility—85%
 - Increasing participation—80%
 - Use of automation commonly cited (automatic enrollment, contribution escalation, lifestyle funds)

Theme: 401(k) Plans Aren't Designed to Encourage Retirement Saving

- *Better Plans for the Better-Paid: 401(k) plan design is strongly motivated by a desire to satisfy higher-paid employees' demand for tax-advantaged compensation.*
- *Is retirement income adequacy really plan sponsors' focus?*

Plan Sponsor Perspectives

Well, it is one reason:

- According to Hewitt's *2005 Hot Topics in Retirement* survey, top reason for providing retirement programs:
 - *To provide a competitive total compensation package*
—82%
 - *To retain employees*—53%
 - *To attract employees*—45%
 - *To enable employees to achieve retirement income adequacy and transition out of the workforce*
—35%

Worker Perspectives

- *Even workers aren't pressuring employers much on this matter:*
 - According to EBRI's *2005 Retirement Confidence* survey, two thirds of workers are at least somewhat confident about having enough money for a comfortable retirement.
 - According to Hewitt's *2003 Employee Perspectives on Retirement Saving and Investing*, non-contributors are only marginally less confident than contributors.

Highly Paid Worker Perspectives

- If plans are geared for highly paid workers, what do such workers want?
 - Investment flexibility such as large arrays of funds and self-directed brokerage accounts
 - Share accounting for company stock
 - Quicken Download
 - Online investment advice to validate their choices
 - In other words, flexibility to build wealth – not necessarily retirement security.

Summary

- There are two contingents in the workforce:
 - Highly paid who are financially confident.
 - The average worker who needs significant help in saving for retirement.
- Employers are torn between meeting the near-term needs of their highly paid and their long-term responsibility to manage their workforce.