



Employee Retirement Readiness – Measuring, Tracking and Improving in a DC World

Midwest Pension Conference

September 19, 2013

Today's discussion

It is getting harder for employees to determine if they have the resources to retire

This is having a more direct impact on employers' ability to manage their business

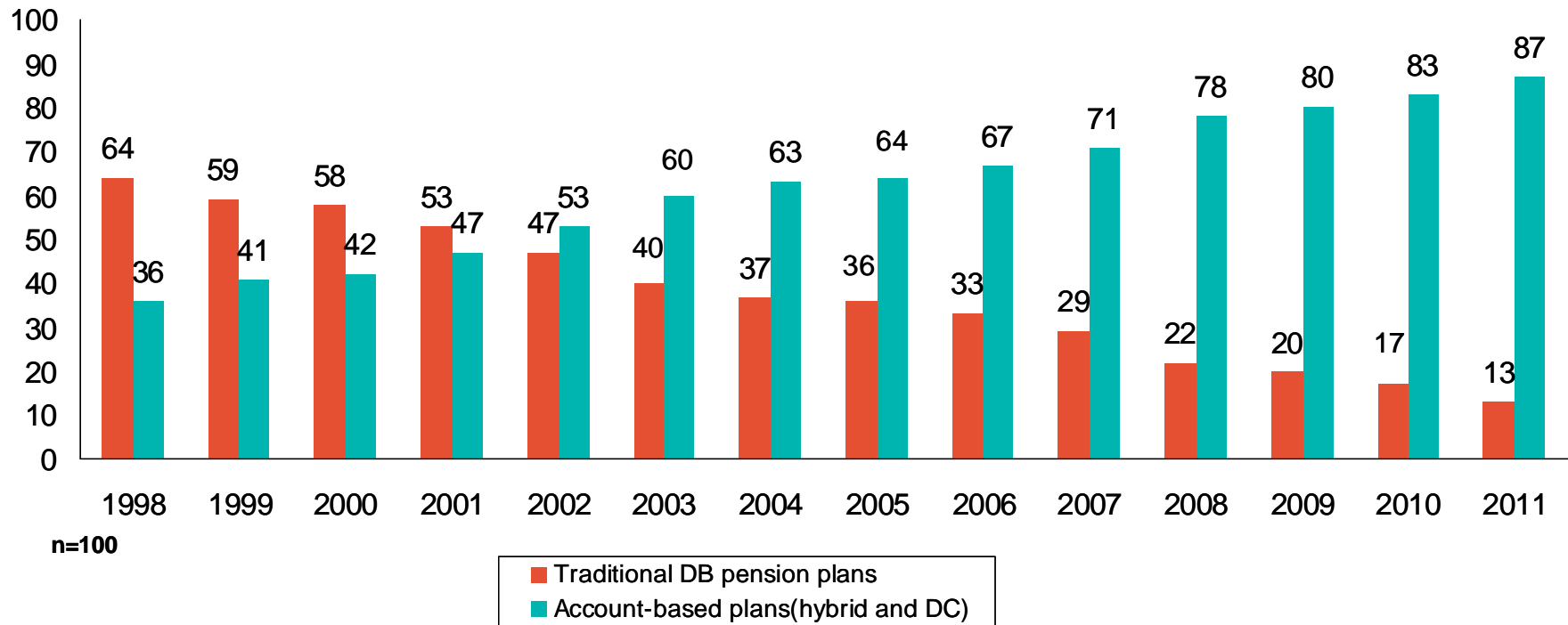
Employers feel the need to get their arms around retirement readiness

They also have a vested interest in helping their employees prepare

Four case studies...

Most retirement benefits are lump sums

Fortune 100 Retirement Plan Prevalence — Traditional DB Pensions versus Account Based Plans (For Newly Hired Employees)



Cost of health care coverage in retirement is high – and not well understood

	Annual Total Premiums		Retiree Premium Share	
	Retiree-Only	Family	Retiree-Only	Family
Retirees under age 65	\$8,031	\$19,275	51%	53%
Retirees age 65 and older	\$4,507	\$11,000	46%	48%

- Retirees pay a considerably larger share of costs than active employees
- Total premiums for single-only coverage is about \$3,000 higher for retirees than for active employees

Source: 2011 Towers Watson/NBGH Employer Survey on Purchasing Value in Health Care

Employees - and employers - face uncertainty in preparing for retirement

74% of companies state that providing an adequate retirement benefit at a reasonable age is the primary goal of their defined contribution program*

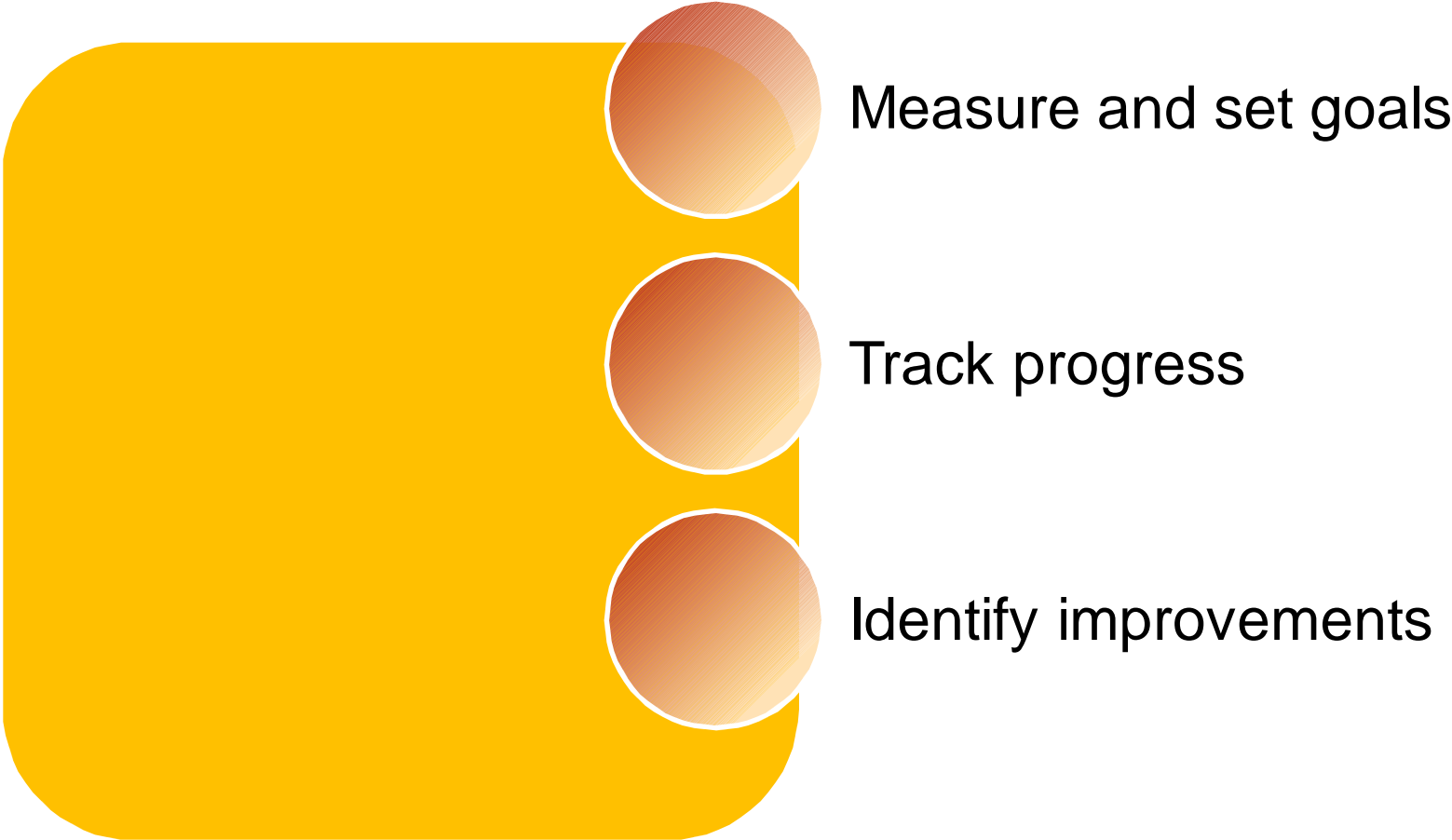
48% of companies expect older workers to delay retirement*

21% believe that employees make informed decisions about retirement savings*

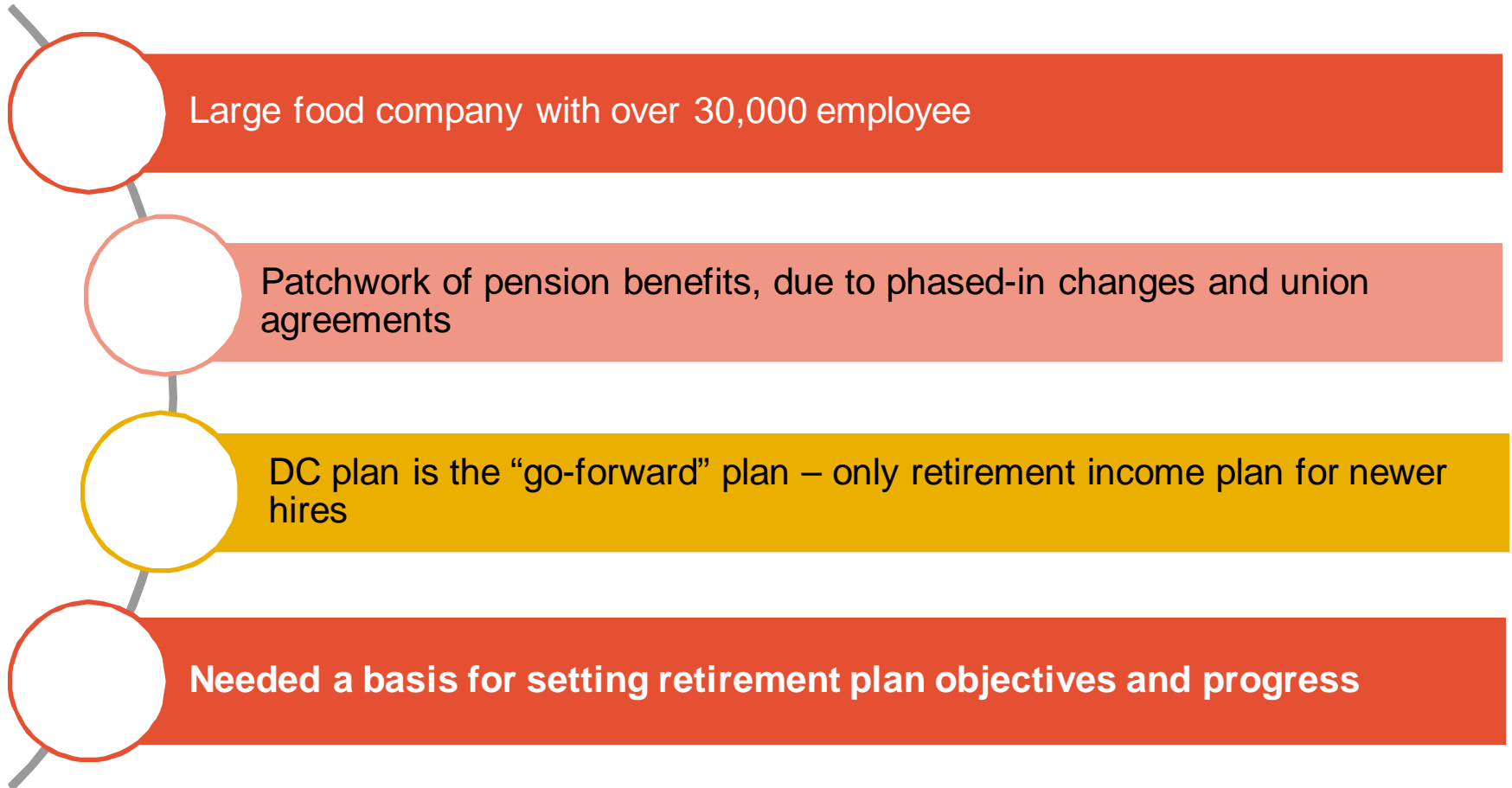
42% of employees believe that they have enough retirement resources to last 25 years**

*Towers Watson 2012 U.S. Defined Contribution Survey; ** Towers Watson Retirement Attitudes Survey, 2011.

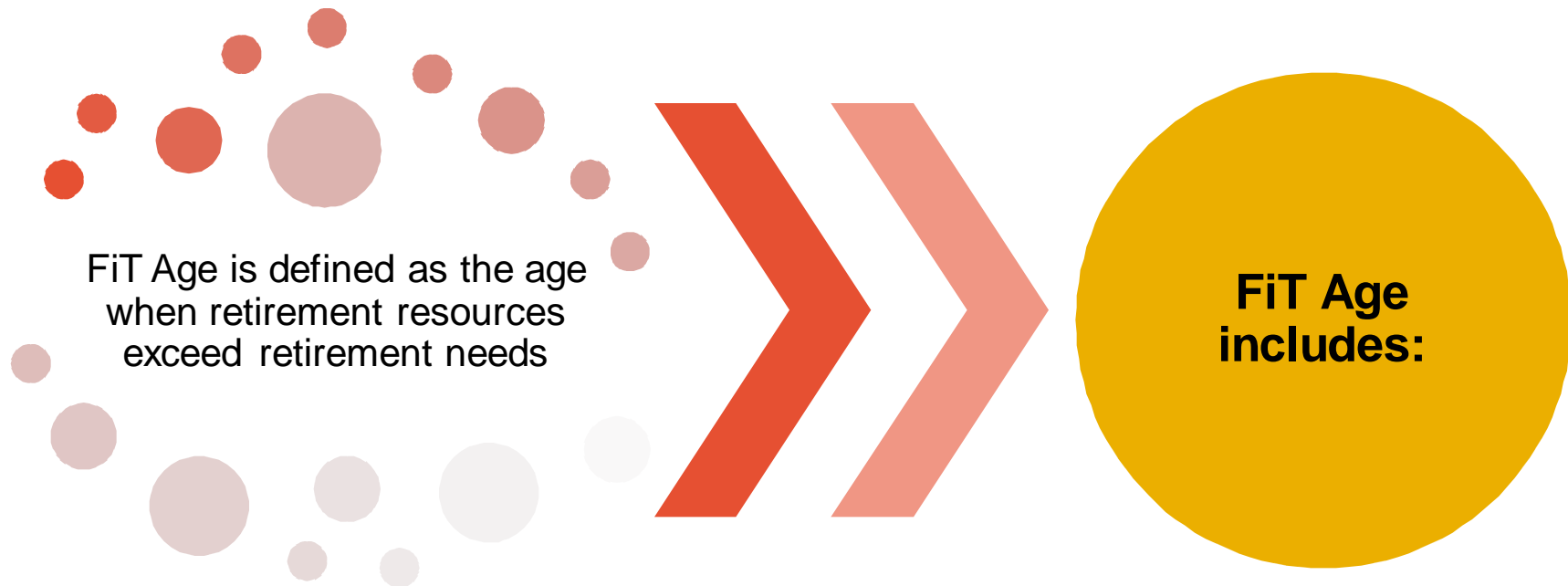
Retirement readiness



Case study – Measuring



A benchmark to measure retirement readiness



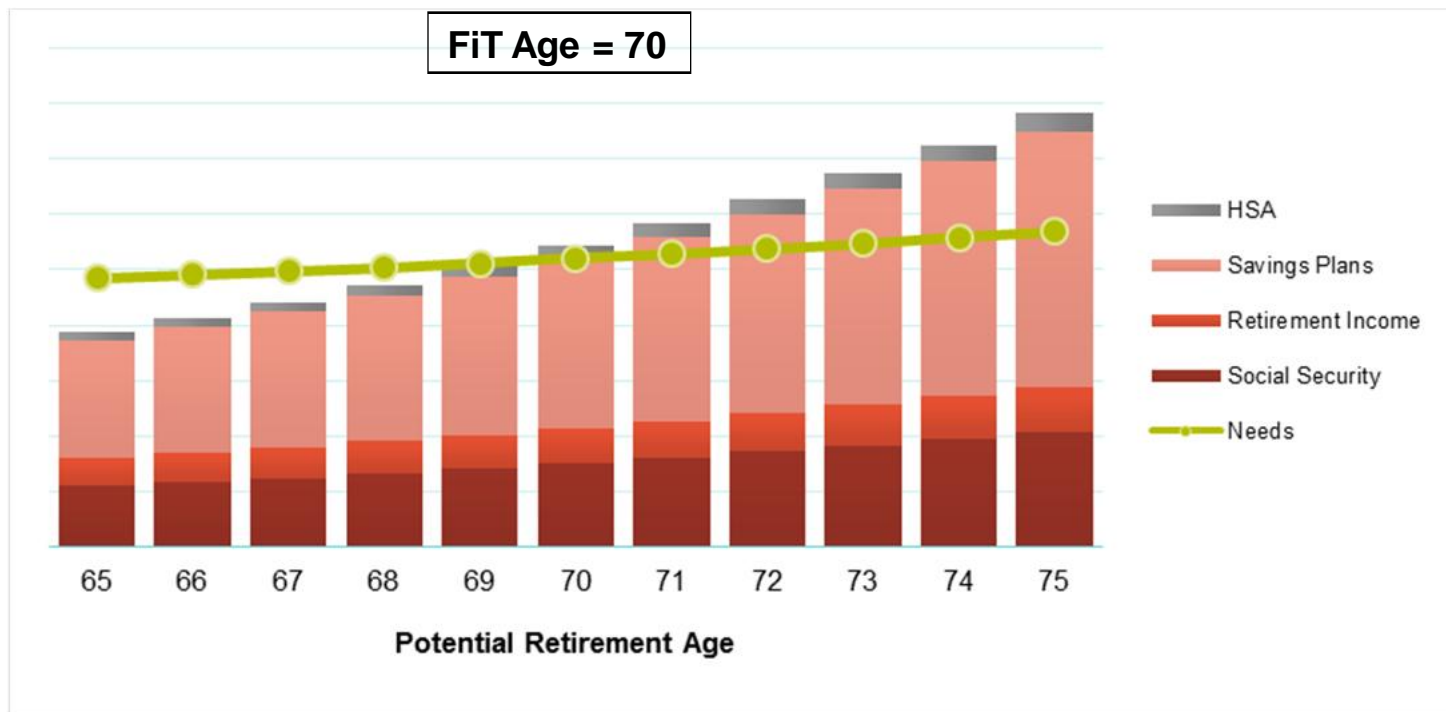
FiT Age is defined as the age when retirement resources exceed retirement needs

FiT Age includes:

- Retirement resources include all benefits: 401(k), pension, medical, Social Security
- Retirement needs are net take home pay increased for medical premiums

FiT Age illustrated

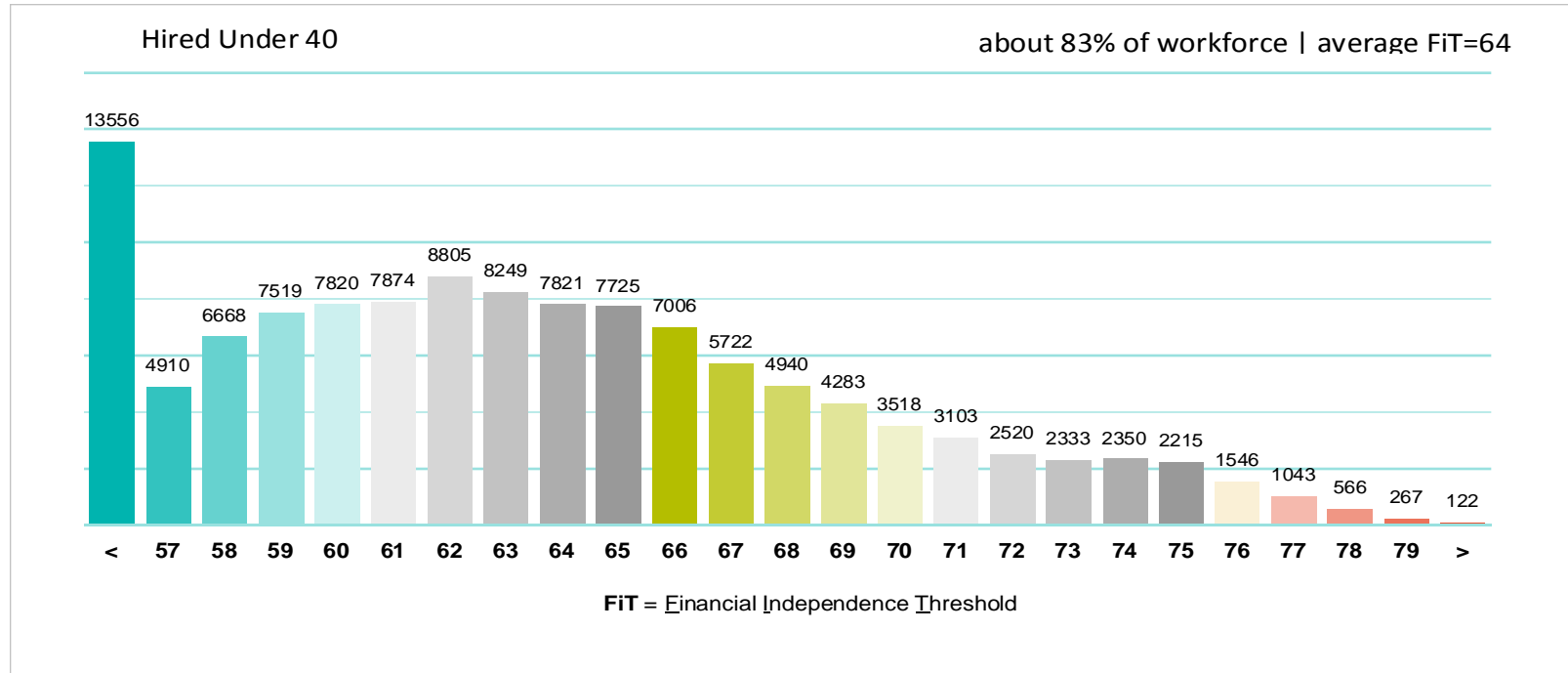
When the retirement resources *bar* exceeds the retirement needs *line* you have reached your **Financial Independence Target** age



- All benefits – 401(k), pension, medical, Social Security
- Individual tax calculations
- Active and retiree health care costs

Retirement readiness assessment

Total workforce

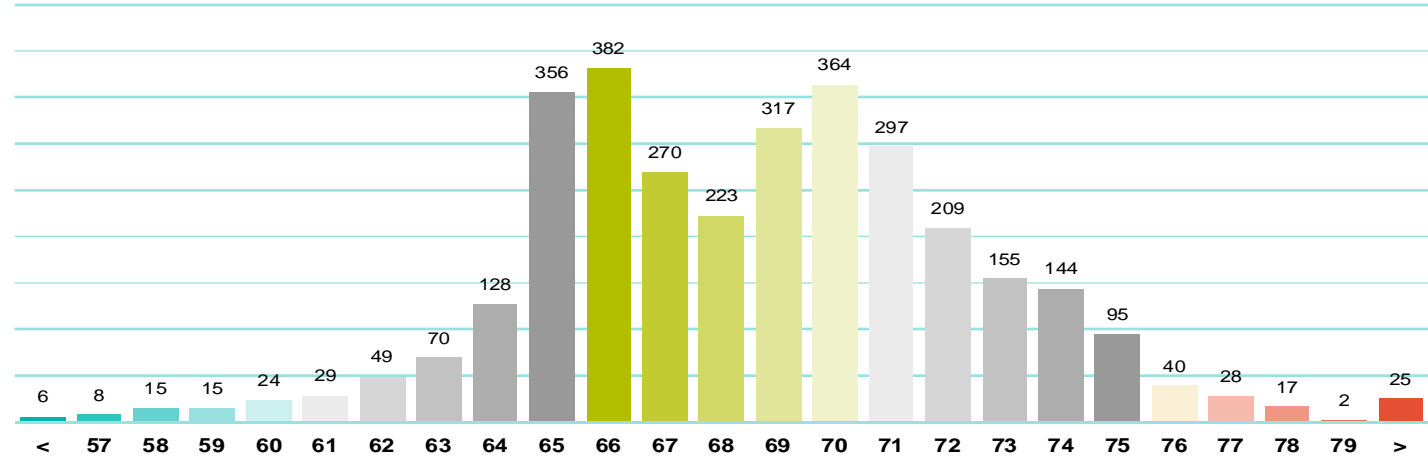


- 15% of career employees have FiT Ages above age 70, reasons include:
 - 60% of them do not currently save
 - many of those who are saving started saving late in their careers

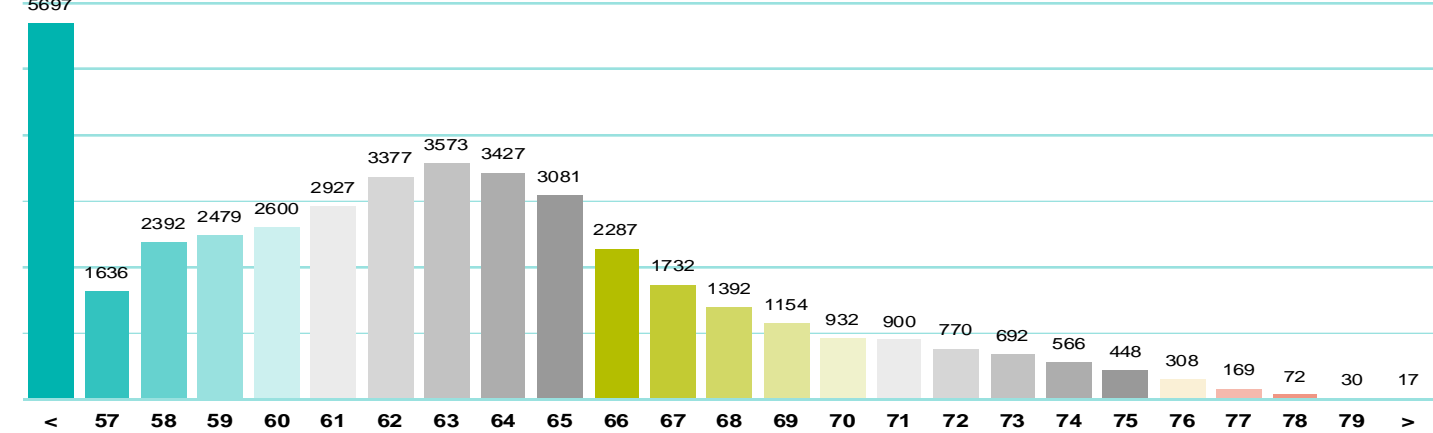
Retirement readiness assessment

Variation by benefit structure

Hired Under 40, Salaried, DC Only about 2% of workforce | average FiT=69

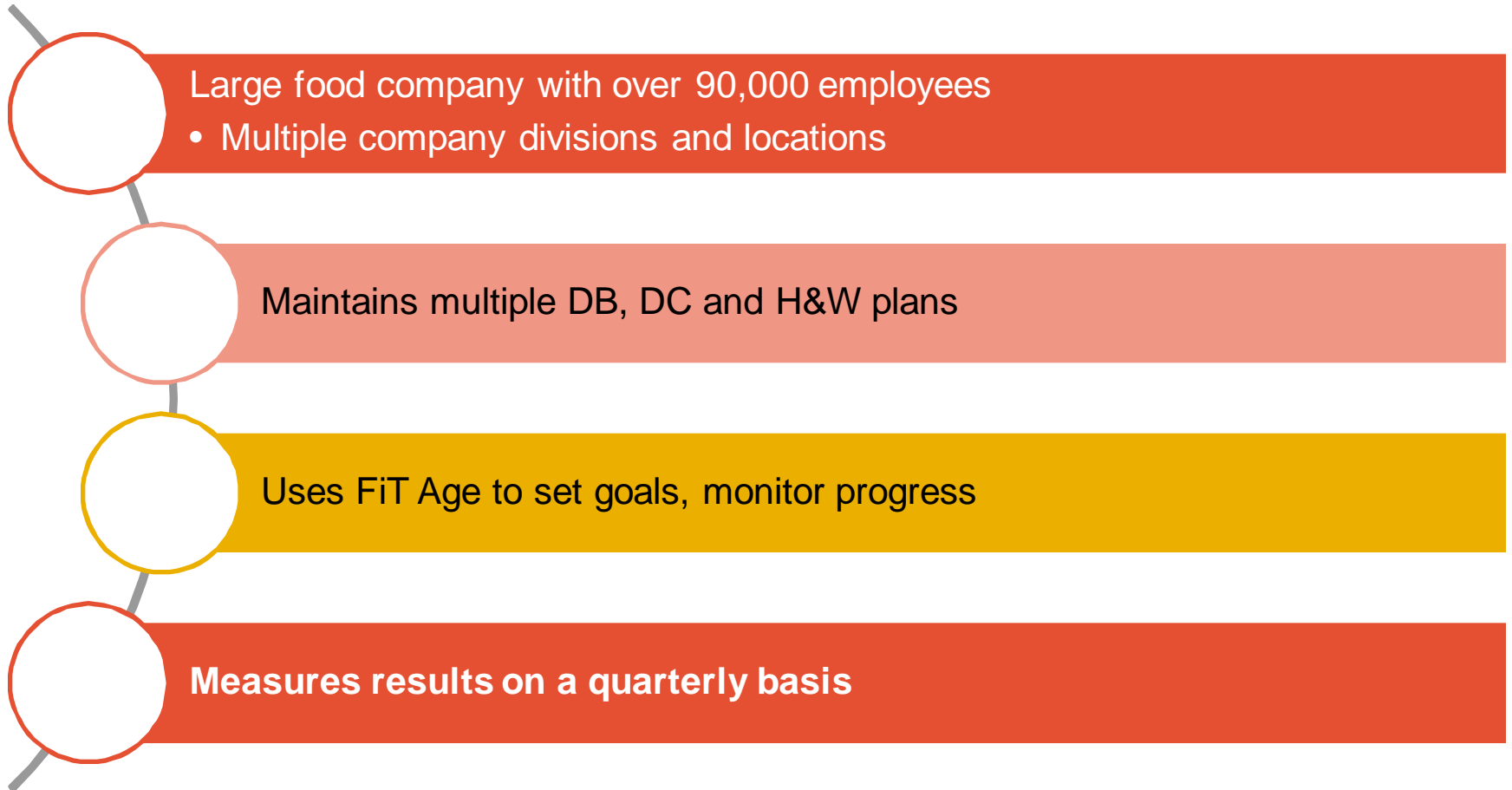


Hired Under 40, Salaried, DB, No Retiree Medical about 29% of workforce | average FiT=63

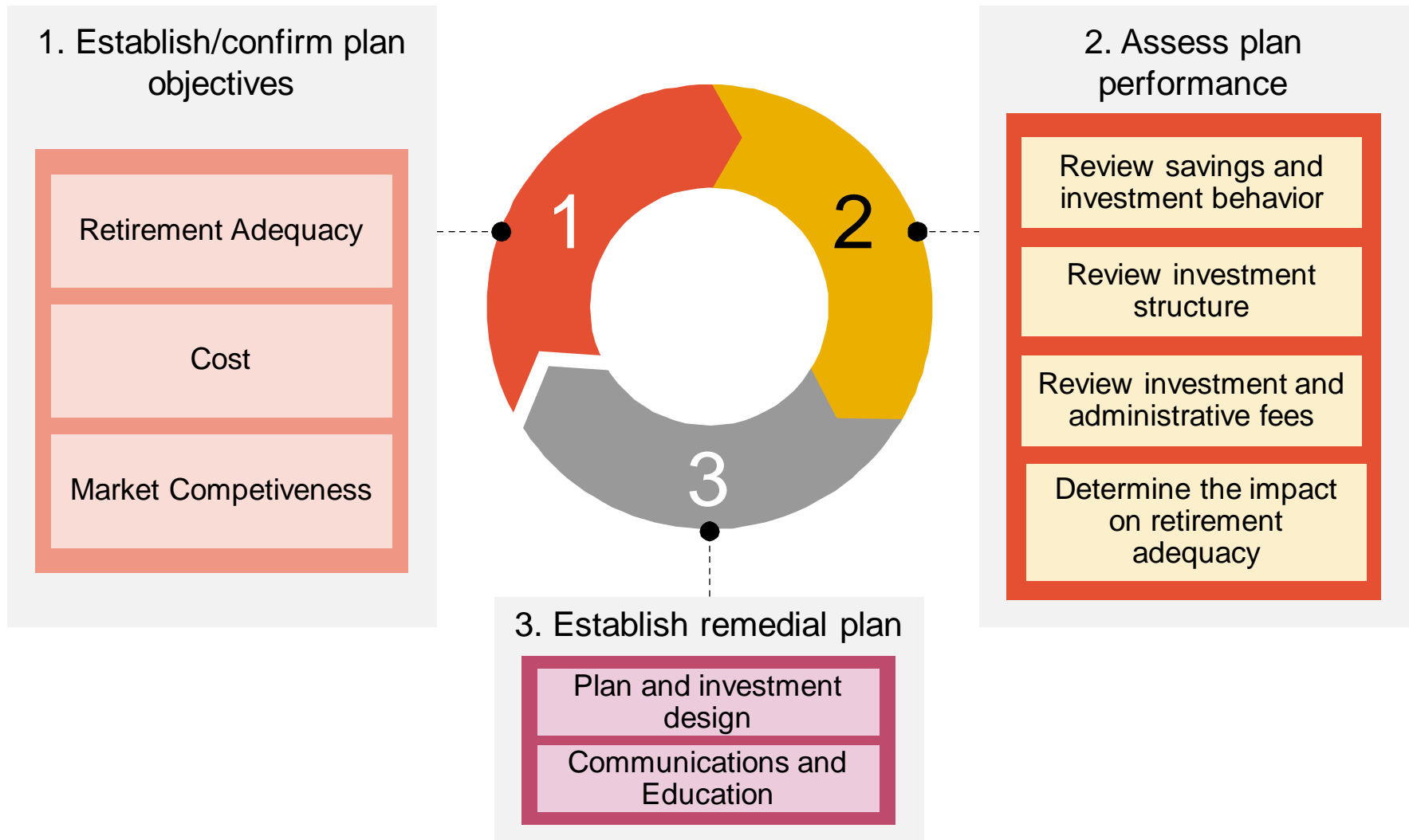


FiT = Financial Independence Threshold

Case study – Tracking



Benefit delivery – measuring effectiveness



Track retirement readiness

Goals and results

		2012 Goal	2015 Goal				
FiTAge <ul style="list-style-type: none"> FiTAge for salaried employees is 70 FiTAge for hourly employees is 71 	<p>FIT = Financial Independence Threshold</p>	69	66				
Overall Participation <ul style="list-style-type: none"> Participation slightly above peer group Salaried employees (87%), hourly employees (75%) 	<table border="1"> <tr> <td>Peer Group</td> <td>76%</td> </tr> <tr> <td>Plan</td> <td>78%</td> </tr> </table>	Peer Group	76%	Plan	78%	80% total 90% salaried 77% hourly	85% total 95% salaried 80% hourly
Peer Group	76%						
Plan	78%						
Deferral Rate <ul style="list-style-type: none"> Overall plan deferral rate is 6.4%, above the peer group Deferral rates of 10% will improve FiTAge by 3 years 	<table border="1"> <tr> <td>Peer Group</td> <td>6.0</td> </tr> <tr> <td>Plan</td> <td>6.4</td> </tr> </table>	Peer Group	6.0	Plan	6.4	6.5%	9.0% total
Peer Group	6.0						
Plan	6.4						
Plan Investments <ul style="list-style-type: none"> Company stock is the largest fund holding in the plan 27% of assets in target date funds 	<table border="1"> <tr> <td>30%</td> <td>27%</td> <td>18%</td> <td>25%</td> </tr> </table>	30%	27%	18%	25%	30% company stock 27% TDFs	15% company stock 35% TDFs
30%	27%	18%	25%				

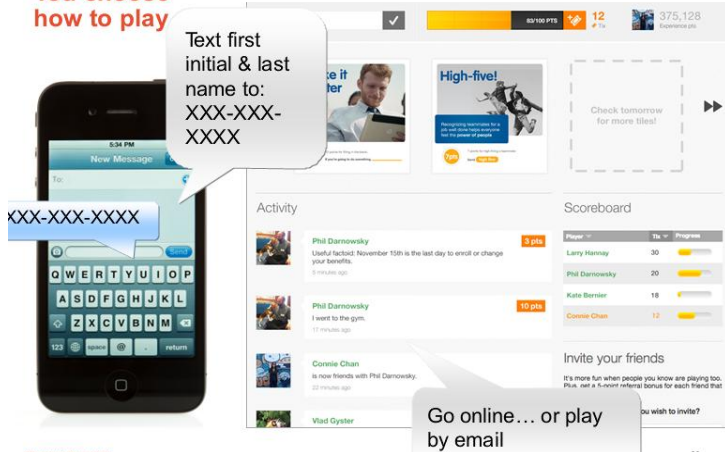
Creative retirement communications approaches

Don't **tell me...show me**

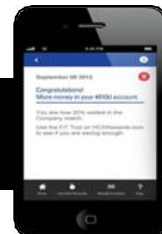


Don't teach me, **entertain me**

You choose how to play

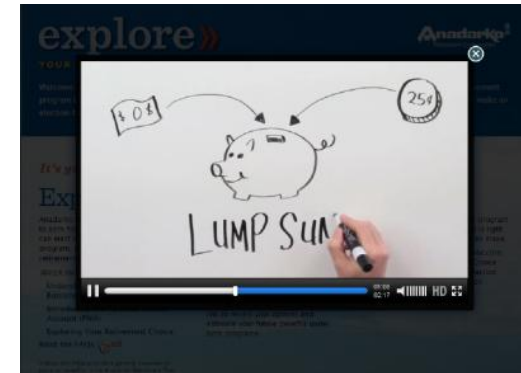


Make it **easy** for me to **do something**



Opportunities to sustain engagement

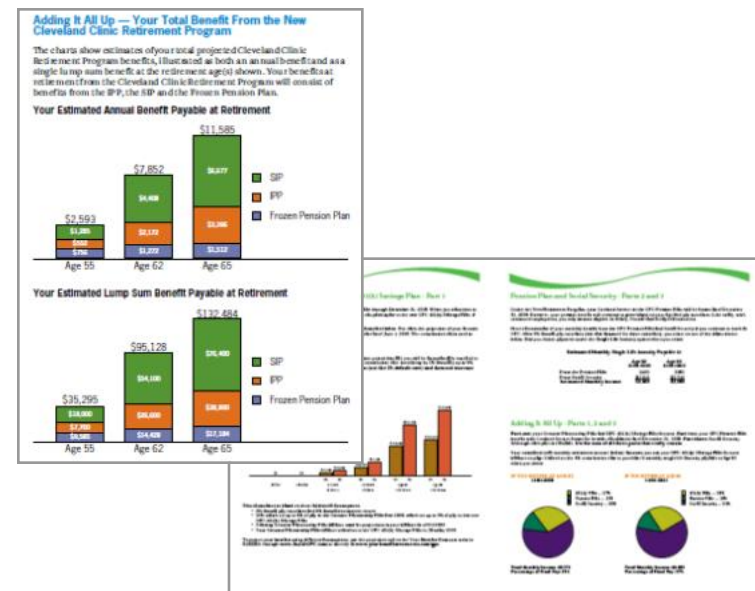
- Provide bite-sized educational nuggets
- Leverage consumer approaches
- Address what's on their minds
- Show the long-term impact
- Make it personal
- Make it compelling
- Keep it simple



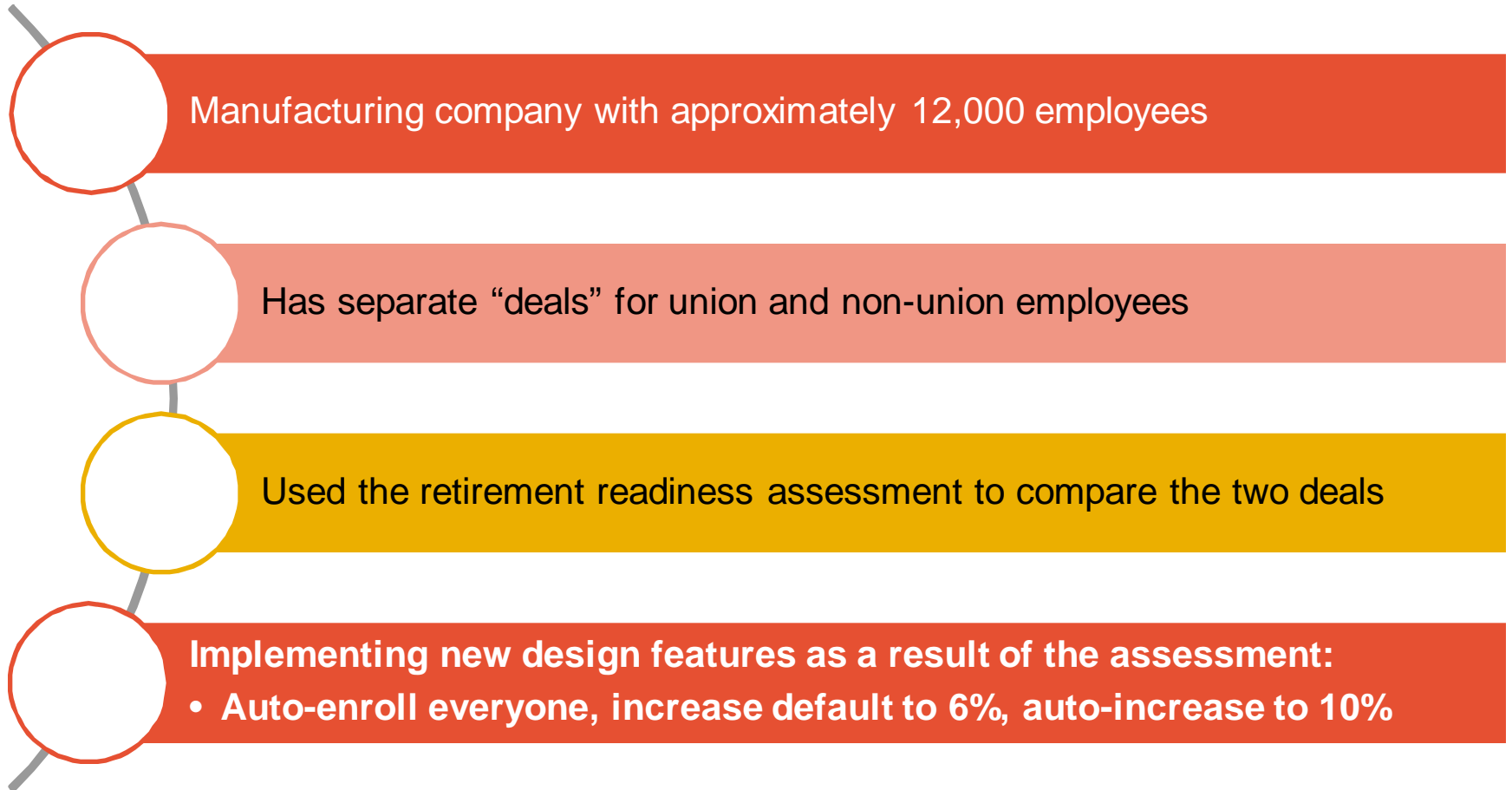
Whiteboard videos



Interactive media



Case study – Improving through design



“What if” scenario - overall results

Average FiT Age Based on Expected Investment Returns	25 th Percentile (Poor Scenario)	50 th Percentile (Average Scenario)	75 th Percentile (Good Scenario)
Current	➔ 73	➔ 70	➔ 67
Assumes all DC plan participants defer at least 10%	➔ 71	➔ 68	➔ 65













Results

1. Approximately 2,200 participants would be projected to retire on or before age 65 (average scenario)
2. Approximately 6,000 participants would be projected to retire on or after age 70 (average scenario)

Recommendations

1. Participants on average defer 8% to the DC plans. However, consider auto-enrolling all employees with an auto-increase feature that would require an opt-out, as this will improve the FiT by 2 years.

“What if” scenario - results for union employees

Average FiT Age Based on Expected Investment Returns	25 th Percentile (Poor Scenario)	50 th Percentile (Average Scenario)	75 th Percentile (Good Scenario)
Union	 70	 68	 66
Union assuming all DC plan participants defer at least 10%	 67	 65	 63
Union W RetMed	 68	 66	 65
Union W RetMed assuming all DC plan participants defer at least 10%	 66	 64	 62

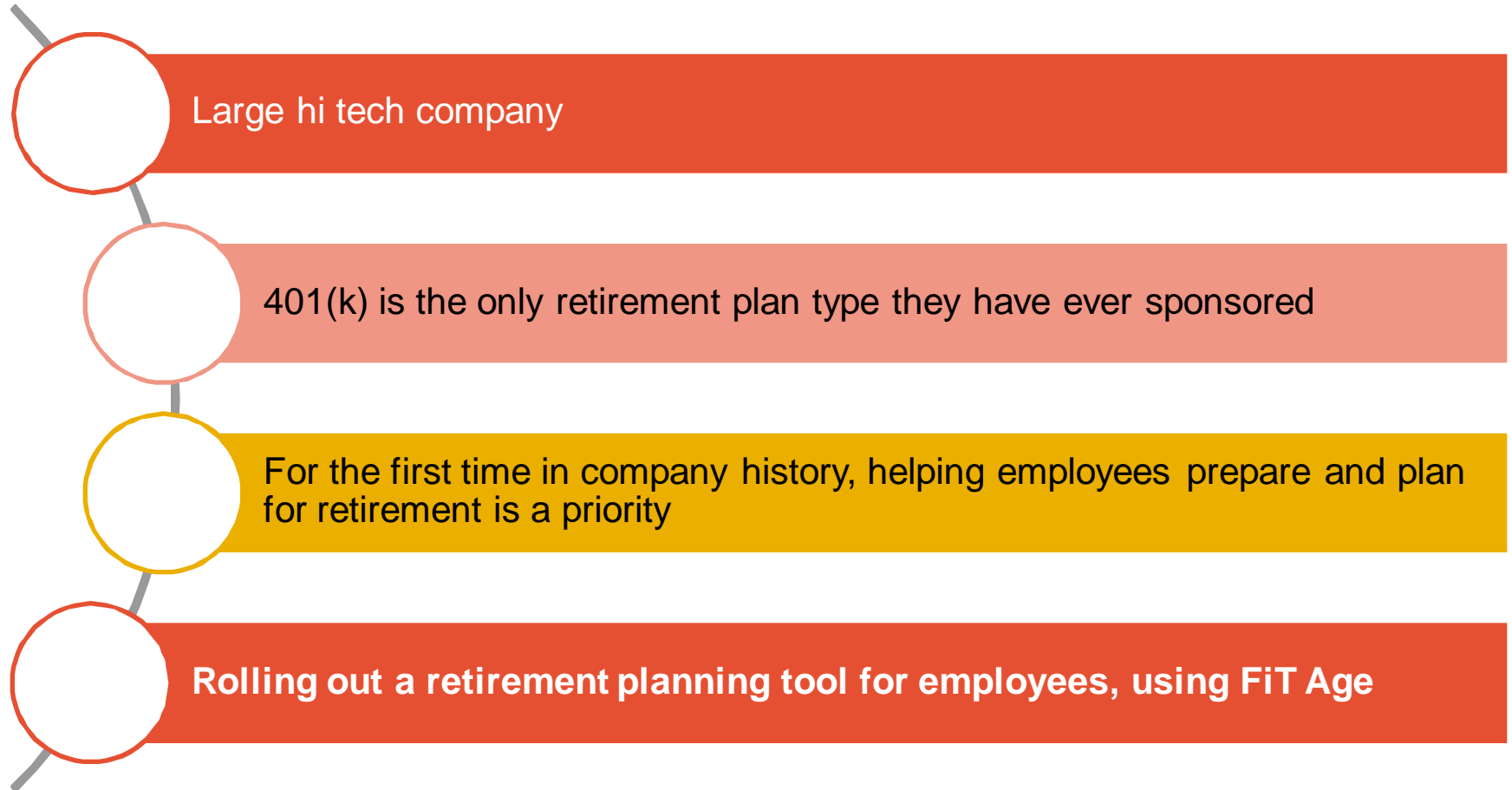
Results

1. The FiT for those with Retiree Medical is 66 while those without this benefit have a FiT of 69 (average scenario)
2. Approximately 1,100 Union participants would be projected to retire on or after age 70 (average scenario)
3. Approximately 630 participants with Retiree Medical would be projected to retire on or after age 70 (average scenario)

Recommendations

1. Participants on average defer 6.2% to the DC plans. Of the 3,000 participants there are 400 non-savers and 550 who defer less than 5% (330 will eventually get there with auto-increases). Consider auto-enrolling all employees with an auto-increase feature that would require an opt-out, as this will improve the FiT by 3 years.

Case study – Improving through education



http://localhost:42000/Pages/Save.aspx myFiTage WEALTH SAVINGS

myFiTage my Data Learn Health Savings Wealth Savings Invest Spend my Plan FAQs & Glossary | Logout jason.gladden@towersperin.com

wealth savings

the right amount — in the right places

Your 401(k) savings are an important retirement resource

new elections current elections

your FIT Age was **70**

but your FIT Age could be ?

	current elections	new elections
Regular 401(k) savings rate	10%	10%
Roth 401(k) savings rate	0%	0%
After-tax 401(k) savings rate	0%	0%
Auto-escalate percentage	0%	0%
Company match	6,000	6,000

here's a tip to help you save

Boost your savings — It's easier than you think

myFiTage can help you save smarter today to build your retirement resources.

Take advantage of these savings tips that may help you lower your FIT Age.

- Don't pass up free money — If your [401\(k\) contributions](#) aren't getting the full company match, you're missing out on free money. Increase your [401\(k\) deferrals](#) to see the difference free money could make.

Show me!

A quick tour about wealth savings.

Coming Soon!

Retirement readiness

