

2016 Hot Topics in Retirement and Financial Well-Being



Table of Contents

Executive Summary1

Overall Initiatives 2

Specific Defined Contribution Plan Initiatives and Actions 11

Beyond Retirement: Advancing the Financial Well-Being of Employees. . . 12

Specific Defined Benefit Plan Initiatives and Actions19

Communication Approaches..... 23

Respondent Demographics..... 24

About this survey

Aon Hewitt’s *Hot Topics in Retirement and Financial Well-Being* is an annual benchmarking report that examines the financial benefit focus areas for employers in the upcoming year. The 2016 version marks the 12th installment of the report and is based on survey responses from over 250 employers covering nearly 7 million workers. By looking at the trends shown in this report, employers can help benchmark their offerings against those of other companies and help craft their benefits offerings to better align with their overall objectives.

Executive Summary

Throughout the 12-year history of Aon Hewitt's *Hot Topics in Retirement and Financial Well-Being* reports, we have seen significant changes in the focus employers placed on financial benefits. A dozen years ago—before phrases like “too big to fail” and “great recession” entered our lexicon—we saw that employers were concentrating on increasing workers’ perception of their defined contribution plan’s value. Then, as the dust was settling from the upheaval of the financial crisis, employers focused on mitigating risk and assessing the appropriateness of their retirement plan designs.

Now, we are on the verge of a tipping point. Over the next 12 months, we expect to see a marked shift in how employers are helping workers gain a solid financial footing.

1. Employers are offering workers a bevy of tools and services to improve financial well-being.

- Over the last several years, there has been wide accord among employers on expanding financial well-being programs beyond retirement. This year is no exception. Nearly all employers (89%) indicated they are very or moderately likely to add tools, services, or communications to expand their financial well-being focus.
- Fifty-five percent of employers already offer help in at least one category that falls under the umbrella of financial well-being¹ and 38% have at least three categories covered. By the end of the year, these percentages are expected to grow to 77% and 52%, respectively.
- When asked why employers are focused on financial well-being, the top answer by far (85%) was that “It is the right thing to do.” The second most popular response was to help increase employee engagement (80%).

2. Employers are providing more assistance to near-retirees to help them navigate the retirement process.

- Seventy percent of employers believe they will experience an increase in retirements over the next three years.

- One out of every five of these employers has increased the level of automation, self-service, and/or web access to the retirement plans so workers can more easily start their retirement process. Of the remaining group, 77% indicate they are very or moderately likely to make enhancements in 2016.
- Employers are also planning to increase their communication efforts to workers regarding the retirement process. By the end of the year, it is likely that 89% of employers will have taken some step to reach out to near-retirees about the necessary steps in the retirement process.

3. Employers are casting a keen eye on ways to help workers preserve money earmarked for retirement income.

- More and more defined contribution plans are allowing individuals to receive their money through an automatic payment over an extended period of time (45% in 2016, up from 35% in 2015).
- These distribution options will be effective only if there is money in the plan at retirement, so employers are taking steps to minimize leakage from the plan. Seventy-seven percent feel very or somewhat concerned about loan usage and 61% are very or moderately likely to take some step in 2016 to help curtail leakage.
- Compared with recent years, there will be fewer lump-sum windows in defined benefit pension plans. Only about one out of 20 pension plan sponsors (6%) plans to offer a window in 2016.
- At the same time, we find that employers with defined benefit plans remain steadfast in their approach. Only 6% of employers with open pension plans are very likely to close in 2016 and among open and closed plans, only 5% are very likely to freeze pension accruals in 2016.

We applaud employers for evolving the landscape of the financial benefits available to workers, and thank you for your interest in our report.

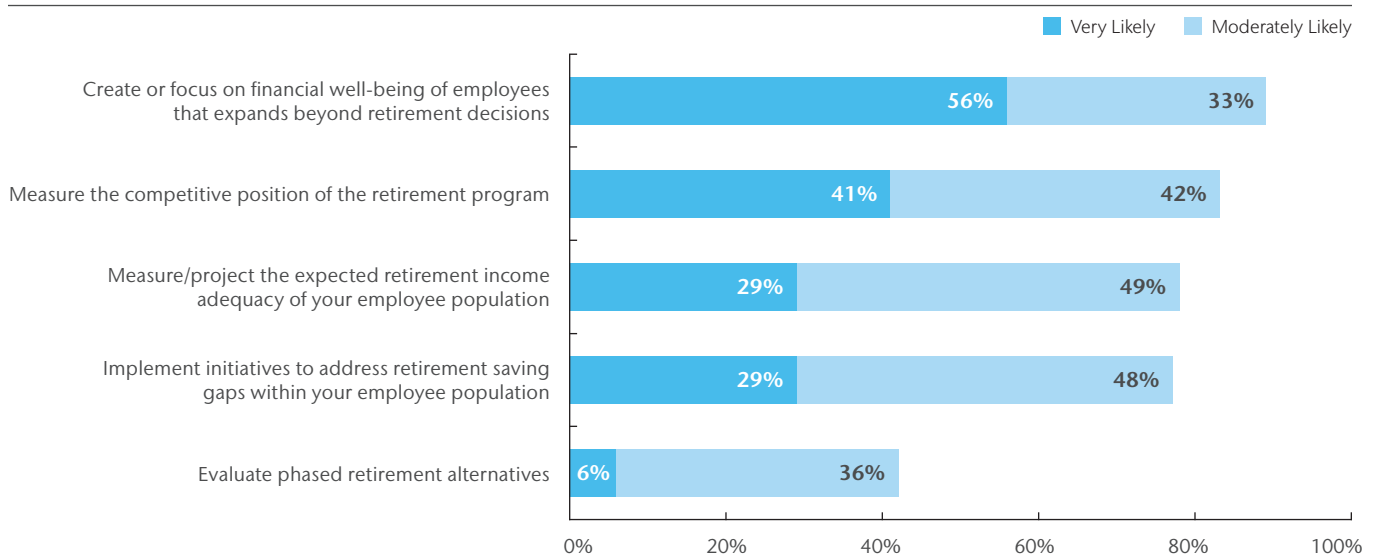
¹ We asked employers about seven different categories that fall under the umbrella of financial well-being: debt management, budgeting, simple investing, financial planning, health care education, savings prioritization, and assistance with saving for specific life stages like buying a home or paying for college.

Overall Initiatives

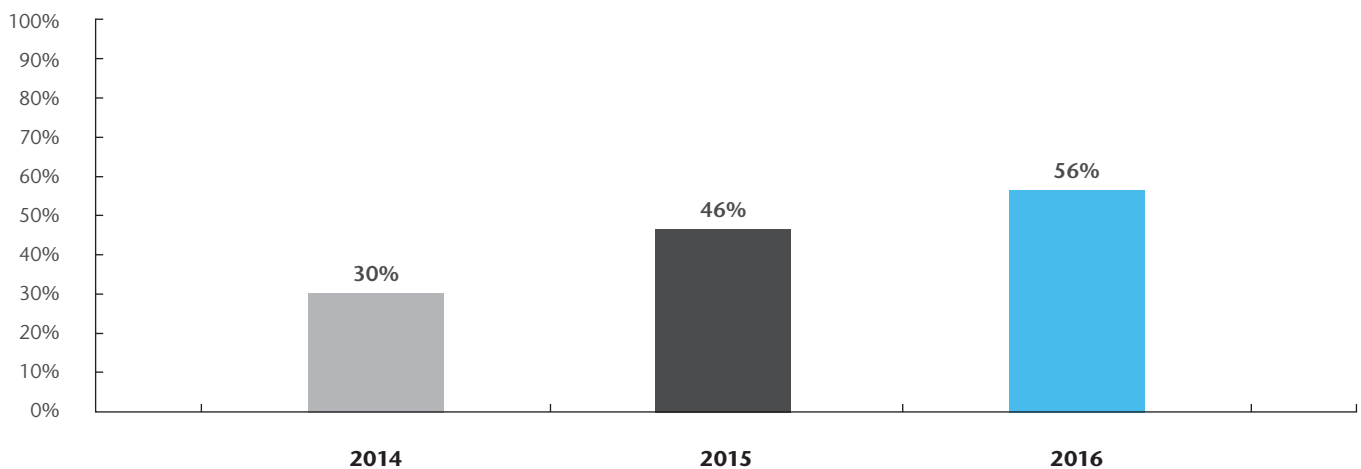
Employers are making great strides in expanding their financial wellness services, tools, and educational campaigns to workers. In 2016, 56% of employers indicated they are very likely to create or focus on the financial well-being of employees in ways that extend beyond retirement decisions. This number increased by 10 percentage points from 2015 and now places expanding financial well-being firmly in the top spot of employer initiatives in 2016.

▶ **56%** of employers indicated they are very likely to create or focus on the financial well-being of employees in ways that expand beyond retirement decisions in 2016.

How likely is your organization to address the following initiatives in 2016?



Very Likely to Focus on Financial Well-Being of Employees Beyond Retirement

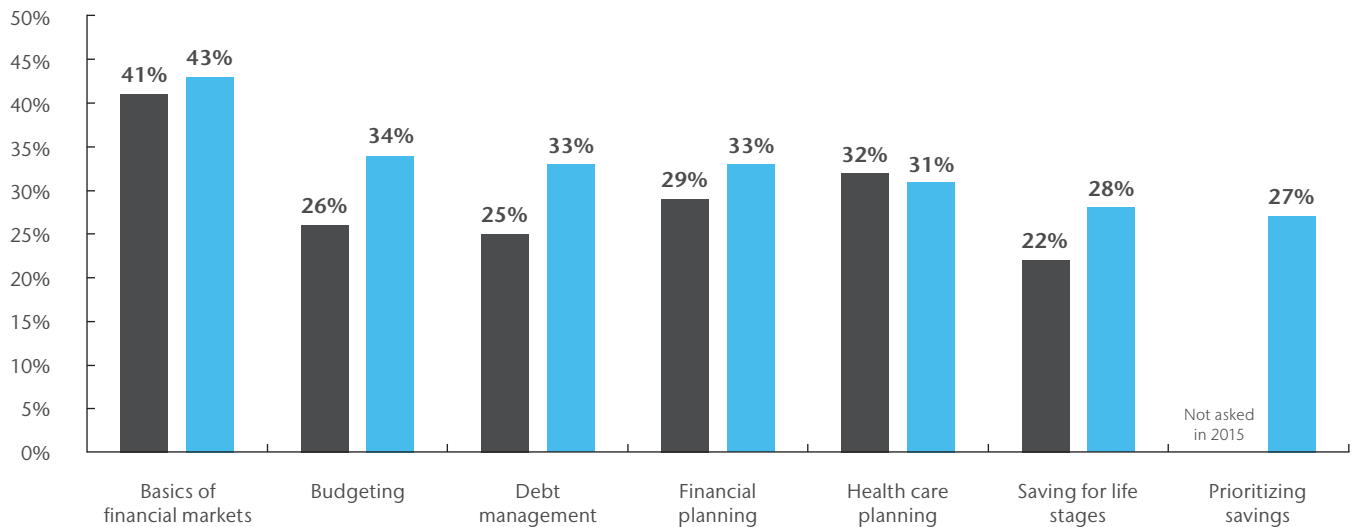




While there is wide accord on the desire to expand financial well-being initiatives, there is less unity in the choice of the actual tools and services offered to workers. In this survey, we asked employers about financial wellness programs on seven different fronts ranging from managing day-to-day finances to creating a broad financial plan encompassing topics such as taxation strategies and estate planning. Although nearly every area saw growth from 2015, no one area is offered by a majority of employers.

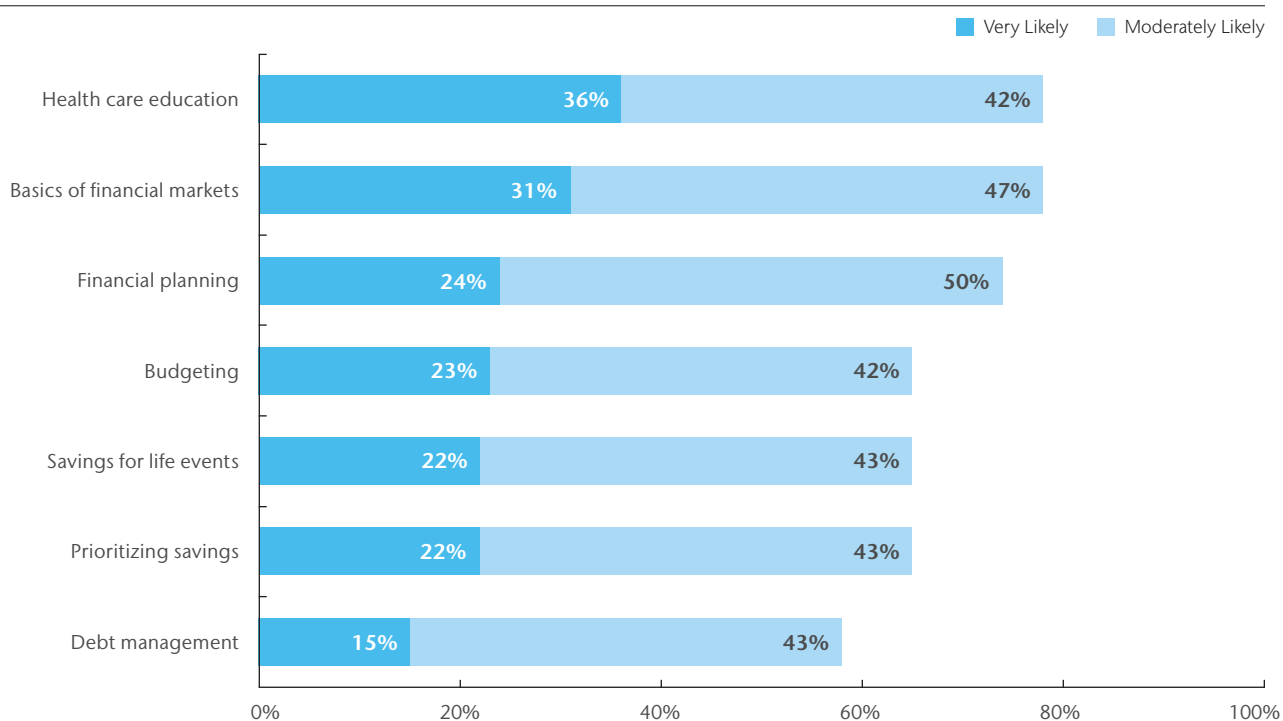
Financial Wellness Tools, Services, and Campaigns Offered to Employees

■ 2015 ■ 2016



Overall Initiatives

How likely is your organization to add the following financial well-being services, tools, or educational campaigns in 2016?

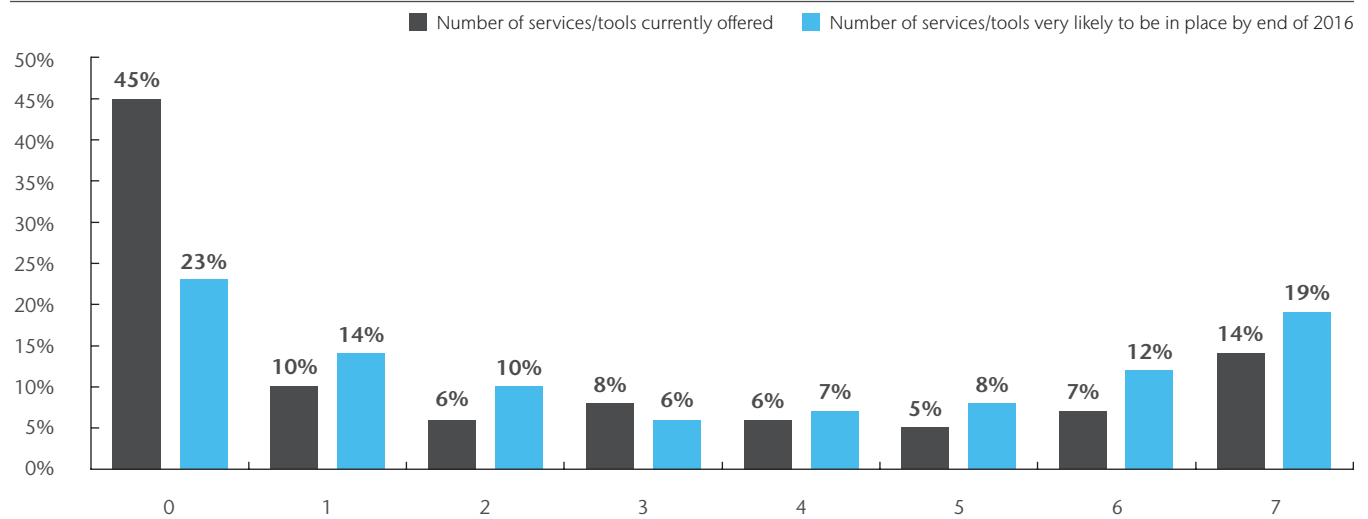


**Very likely and moderately likely values are among those who do not currently offer.*

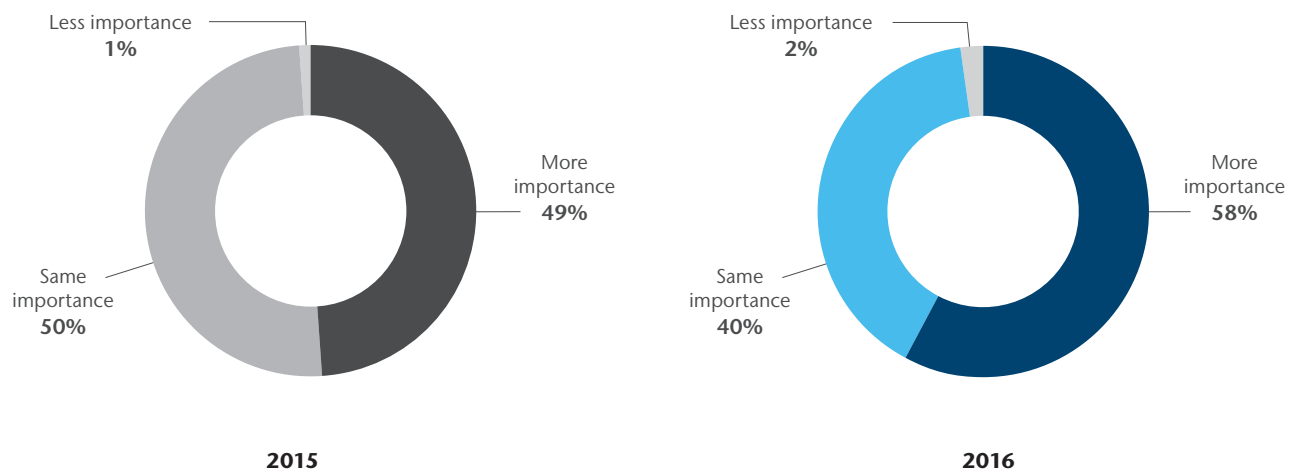
Plan sponsors also indicated that they are taking a multi-prong approach with their financial well-being services. Just as one size does not fit all, one program cannot be expected to cover the vast diversity of financial needs and wants. On average, employers are currently offering services on two topics, but there is a sizable cohort of employers that have a more expansive suite of financial wellness offerings. Thirty-eight percent of employers currently have at least three different facets covered. By the end of the year, 52% are very likely to have at least three.

38% of employers currently have at least three different financial wellness topics covered. By the end of the year, 52% are very likely to have at least three.

Number of Different Financial Wellness Topics Offered to Workers



The Significance of Financial Wellness in Organizations Over the Past 24 Months

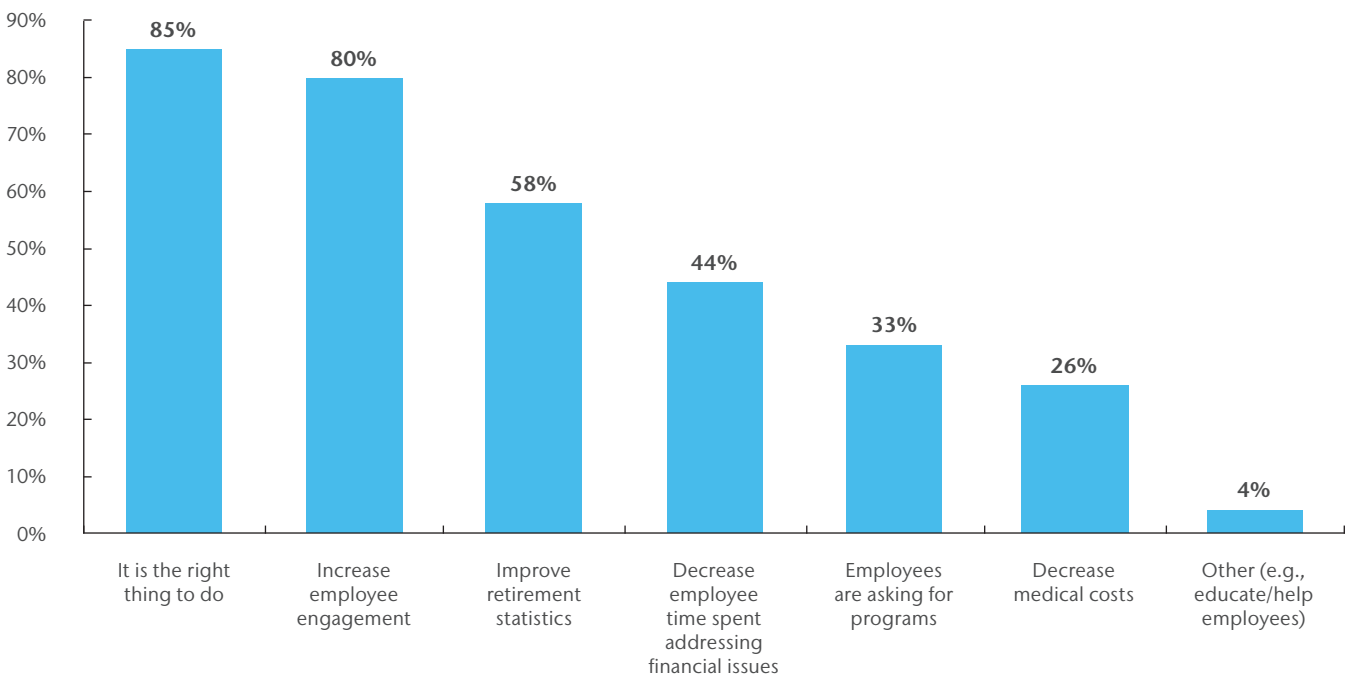


Overall Initiatives

Employers were forthright in their reasons behind creating and expanding their financial well-being programs. Overwhelmingly, 85% said it was the right thing to do. Eight out of 10 employers (80%) said it was to help improve employee engagement. Interestingly, only

one-quarter of employers said it was to decrease the costs of health care, disability programs, or workers’ compensation costs, despite the fact that 80% of employers said they were likely to communicate the link between financial well-being and health and wellness.

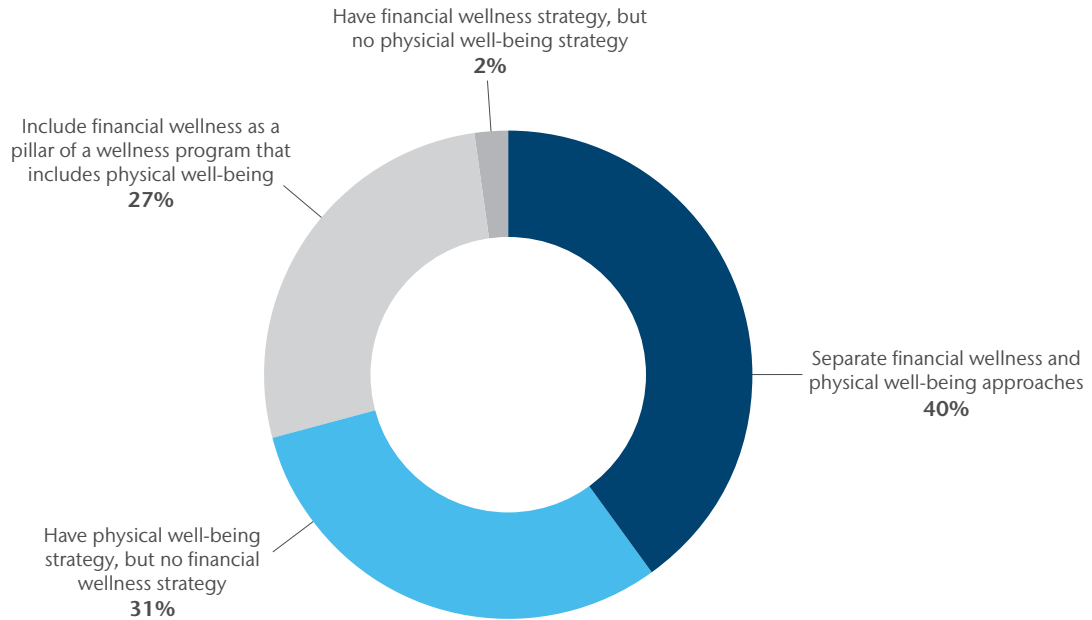
Reasons for Creating or Expanding Financial Wellness Programs



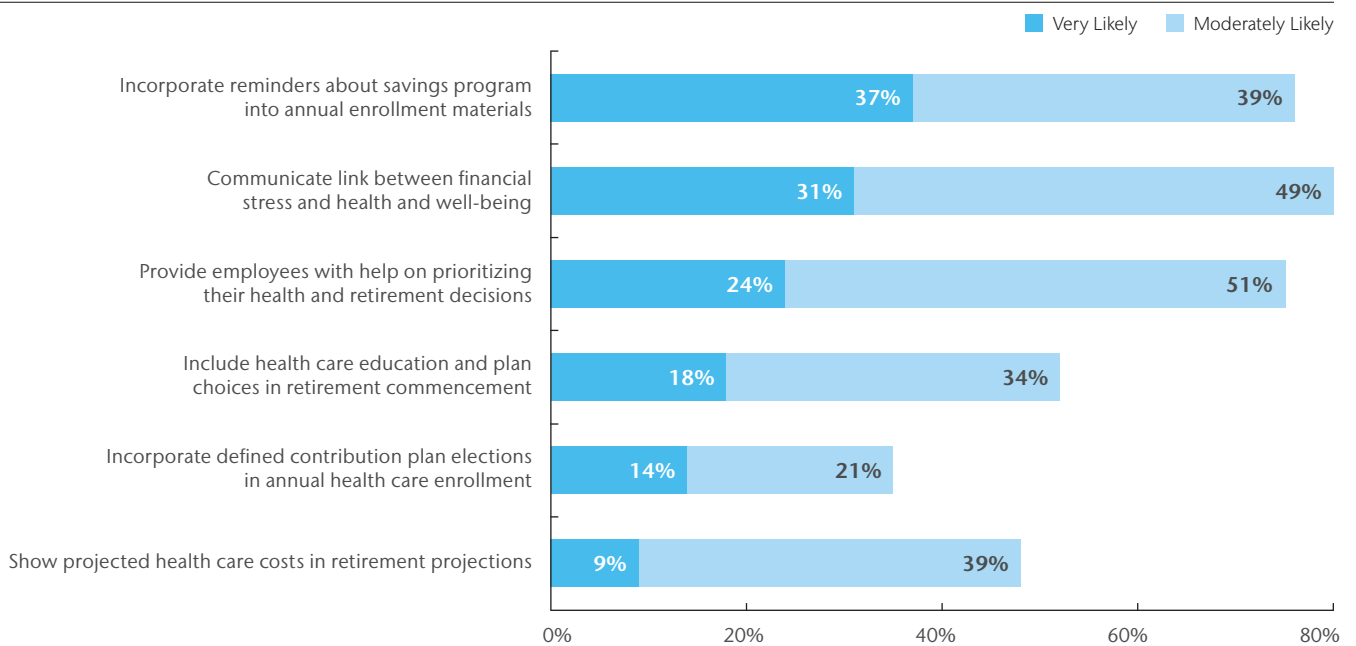
Eight out of 10 employers said creating and expanding their financial well-being programs was to help improve employee engagement.



Company Approaches to Financial Wellness and Physical Well-Being



Integrating Retirement Planning and Health Decisions

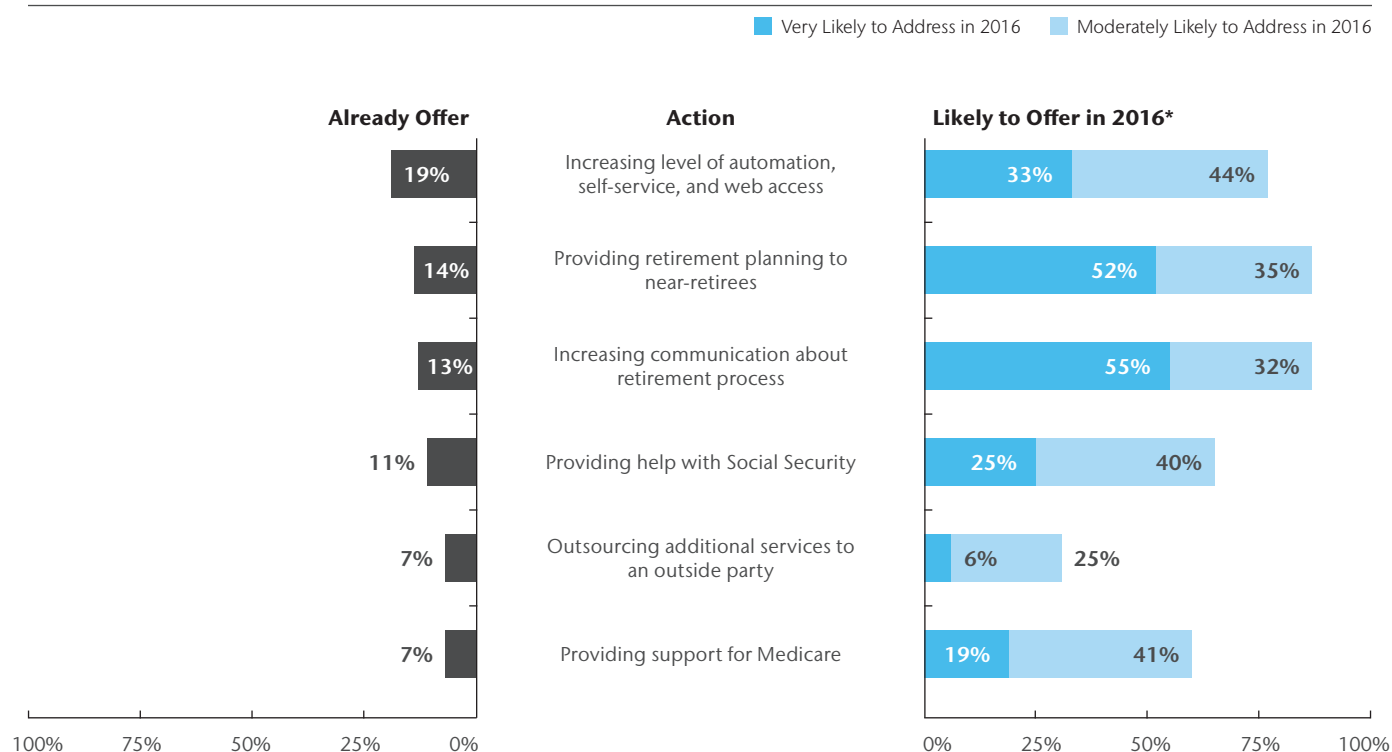


Overall Initiatives

We have known for some time that the Baby Boomer generation will retire over the next several years. With the youngest members of the Baby Boomers in their 50s, some plan sponsors are taking actions now to help deal with an increase in retirement-eligible participants in 2016.

70% of plan sponsors believe they will experience an increase in the retirement-eligible population of their workforce over the next 3 years.

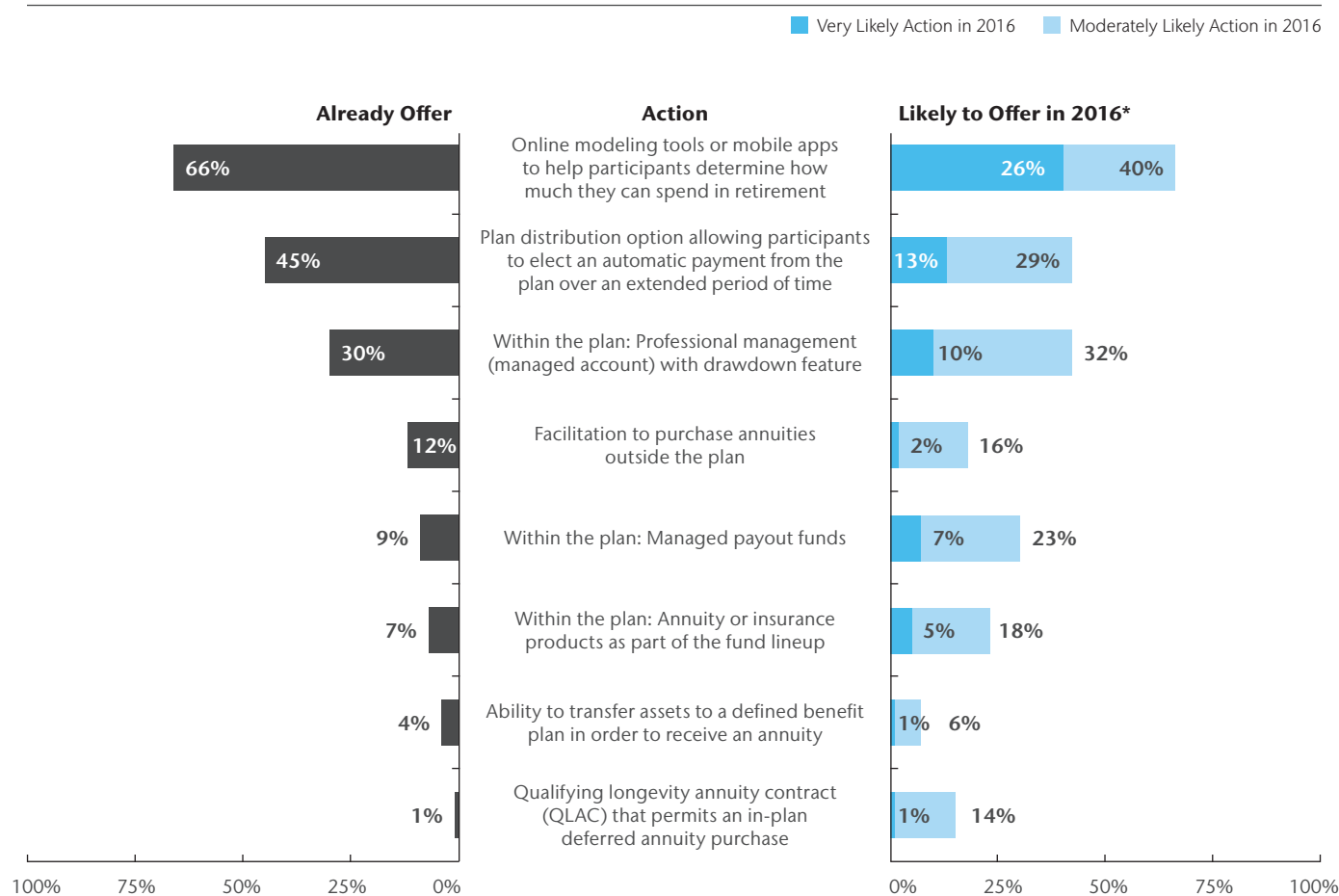
Retirement Actions Related to the Aging Workforce





As more individuals approach the decumulation phase in defined contribution plans, employers are turning their attention to ways participants can convert their savings plan balances into lifetime income. Most plan sponsors are apt to add modeling tools and payment options to the plan instead of annuity products. While there are other concerns about in-plan income solutions, the most common barrier cited was waiting for the market to evolve more.

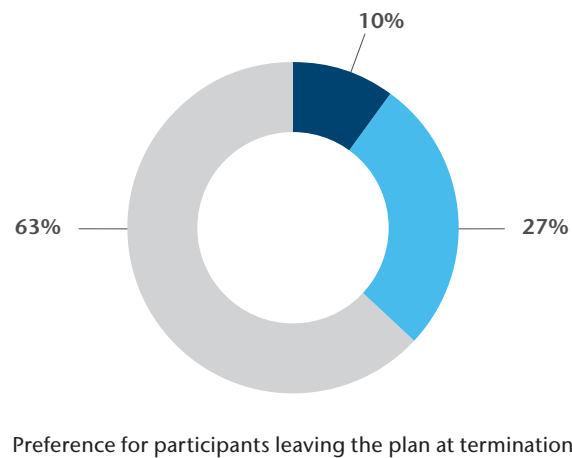
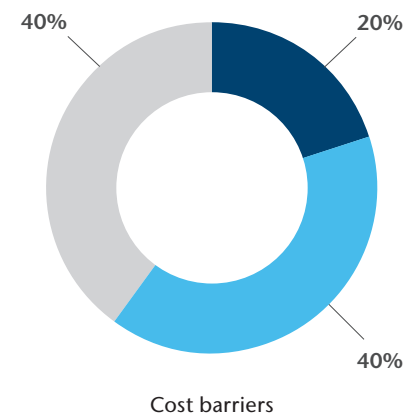
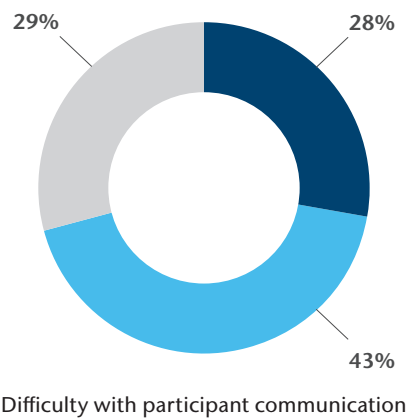
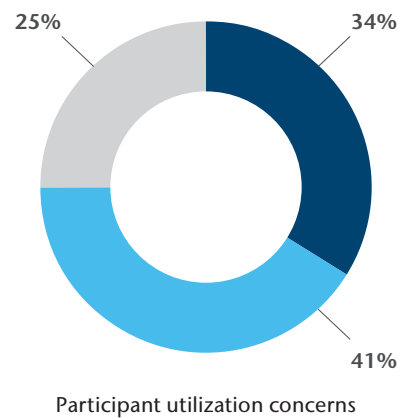
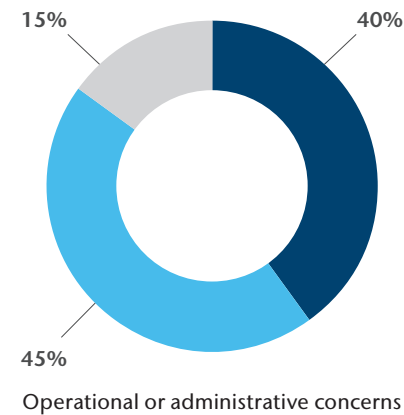
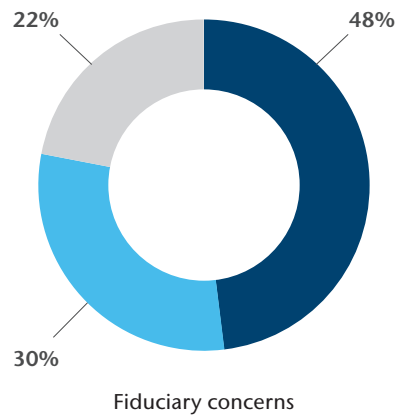
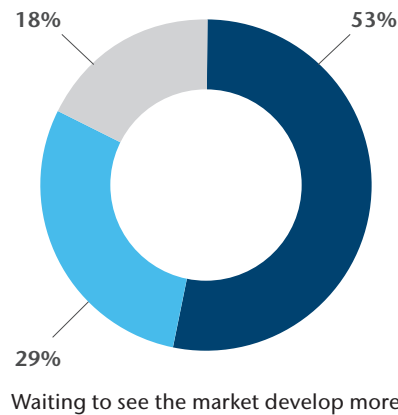
Converting Savings to Lifetime Retirement Income



Overall Initiatives

Barriers to Adding In-Plan Income Solutions

Major Barrier Minor Barrier Not a Barrier

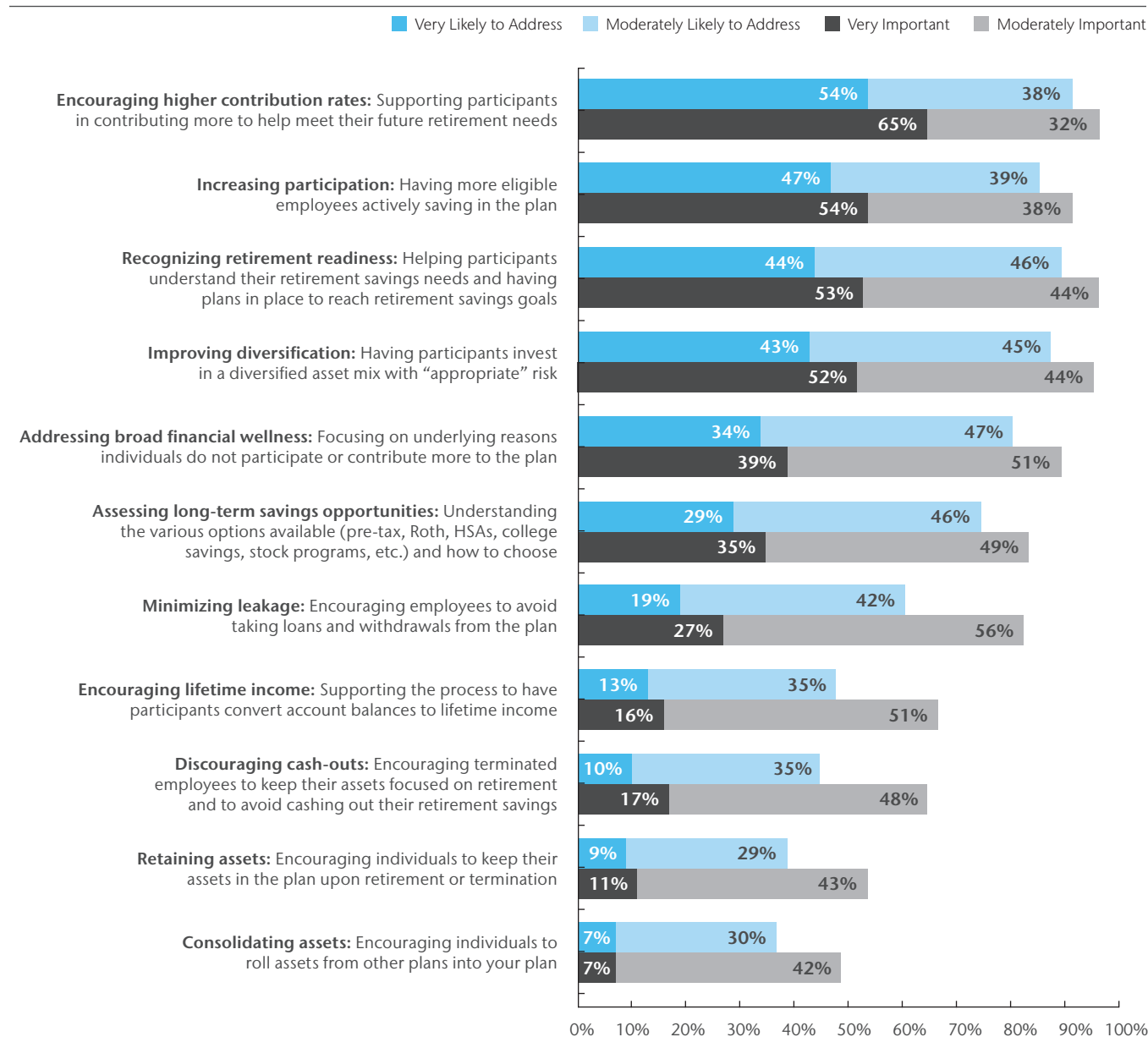


Specific Defined Contribution Plan Initiatives and Actions

With defined contribution (DC) plans now firmly entrenched as the primary retirement vehicle for the vast majority of Americans, employers are taking actions to enhance these plans. Actions dealing with increasing participation and

increasing savings rates are the most likely to be addressed by employers, but there is also a sizable number that will take action on the investment front—whether by adjusting the funds that are offered or the fees that are charged.

Importance of Saving and Investing in the Defined Contribution Plan



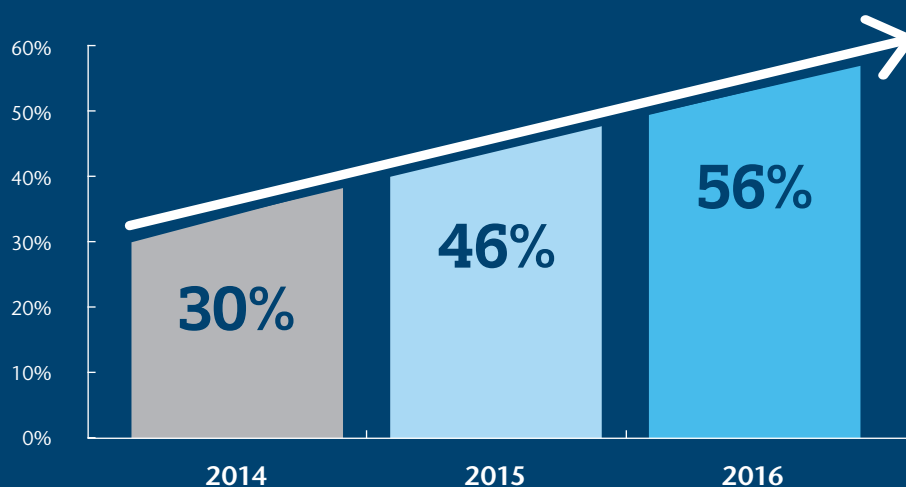
Beyond Retirement

Advancing the Financial Well-Being of Employees

▶ **Expanding financial well-being is the top employer initiative for 2016.**

56%

of employers are very likely to focus on financial well-being in 2016. Up from 46% in 2015 and 30% in 2014.



▶ Why?



85%

of employers think it's "the right thing to do".



80%

of employers want to improve employee engagement.



80%

of employers will likely communicate the link to employees.

How?

Tools & Services Offered to Employees to Expand Financial Well-Being



Health care education

Savings for life events



Basics of financial markets

Financial planning



Budgeting

Prioritizing savings

Debt management



89%

of employers are likely to add or expand the financial well-being tools and services offered to employees.

Top 3 Tools Offered at the Beginning of 2016



Basics of financial markets

43%



Budgeting

34%

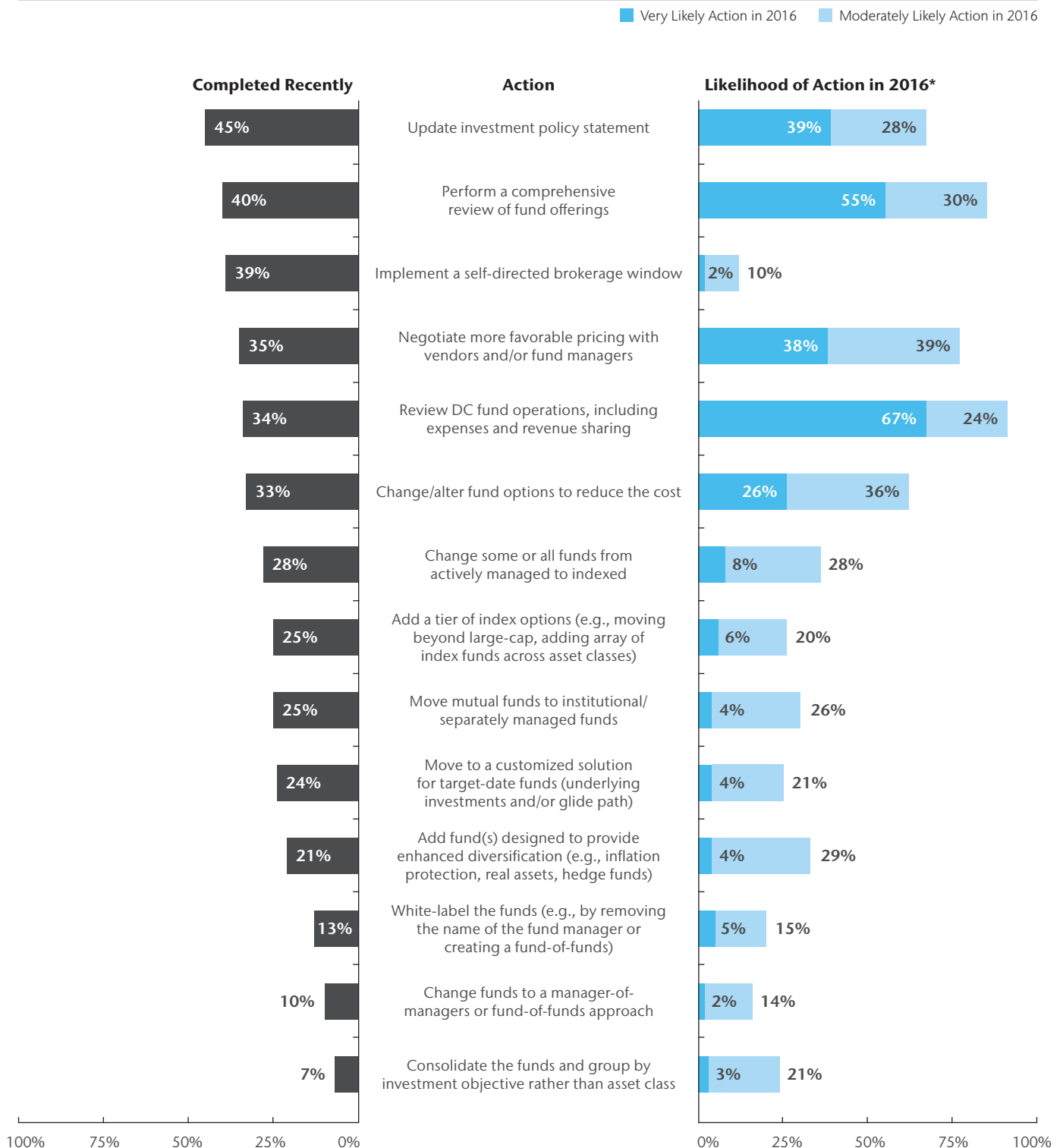


Debt management

33%

Specific Defined Contribution Plan Initiatives and Actions

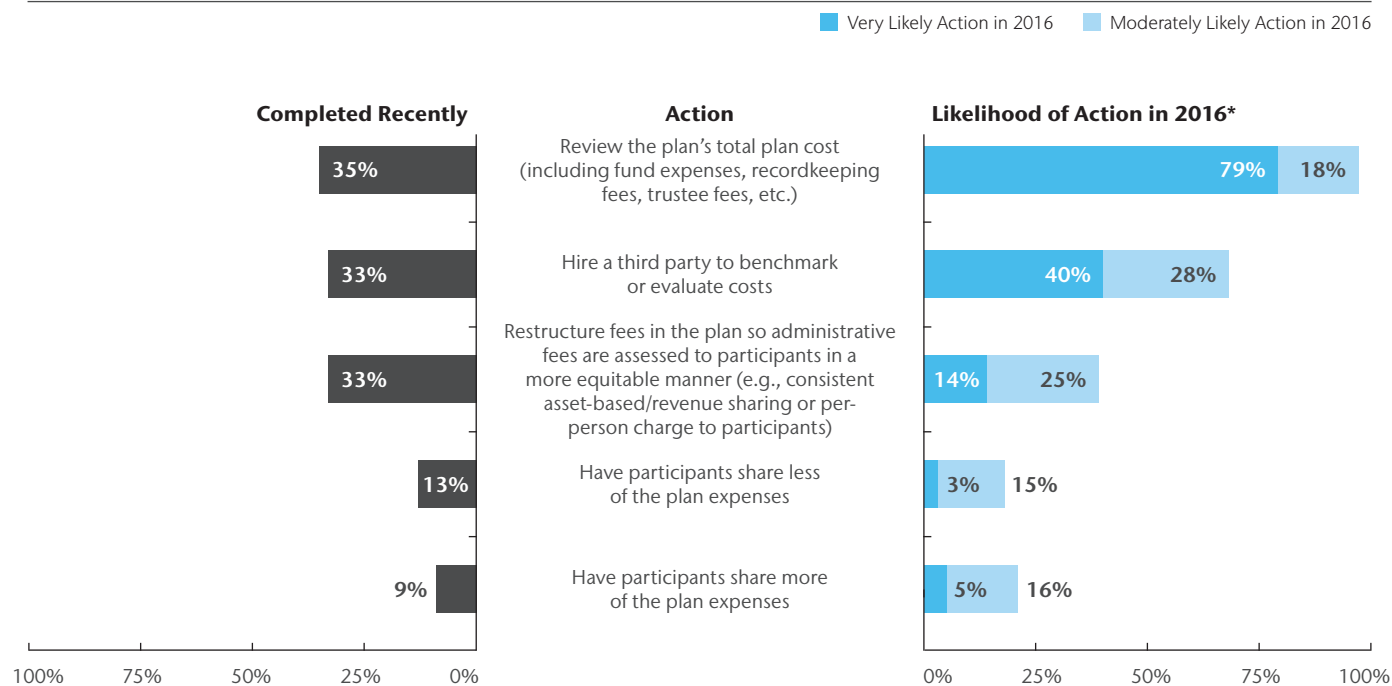
Defined Contribution Plan Investment Changes



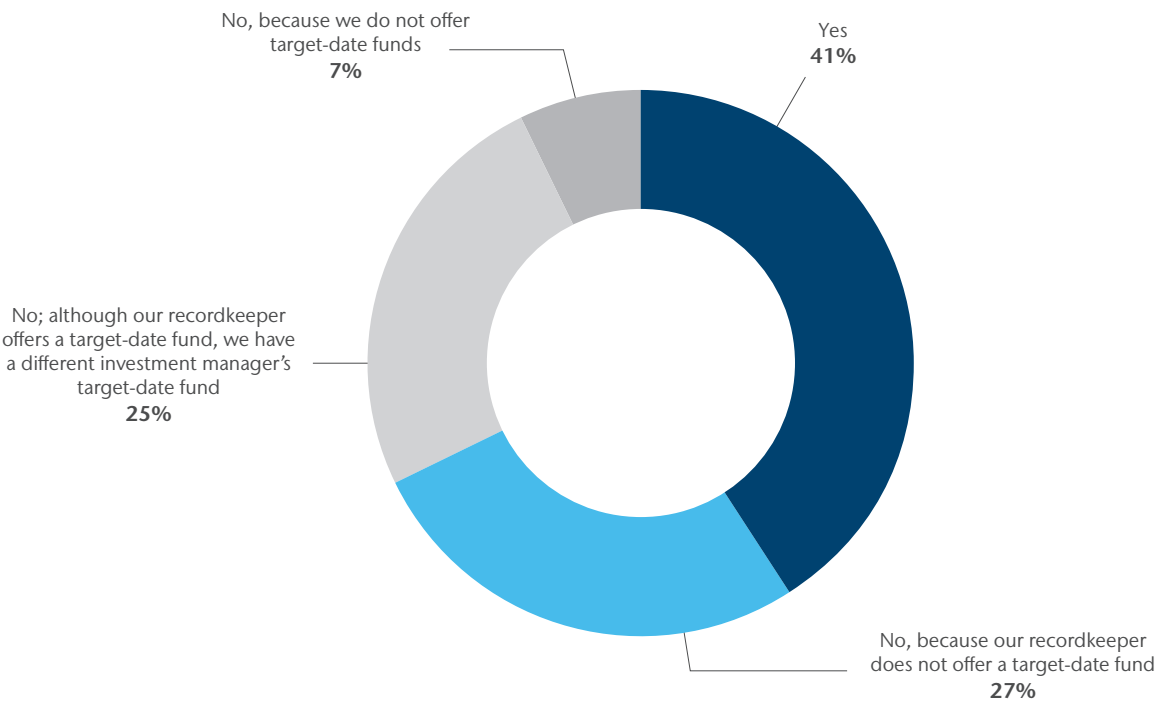
*Likelihood percentages based on those who have not completed recently

Specific Defined Contribution Plan Initiatives and Actions

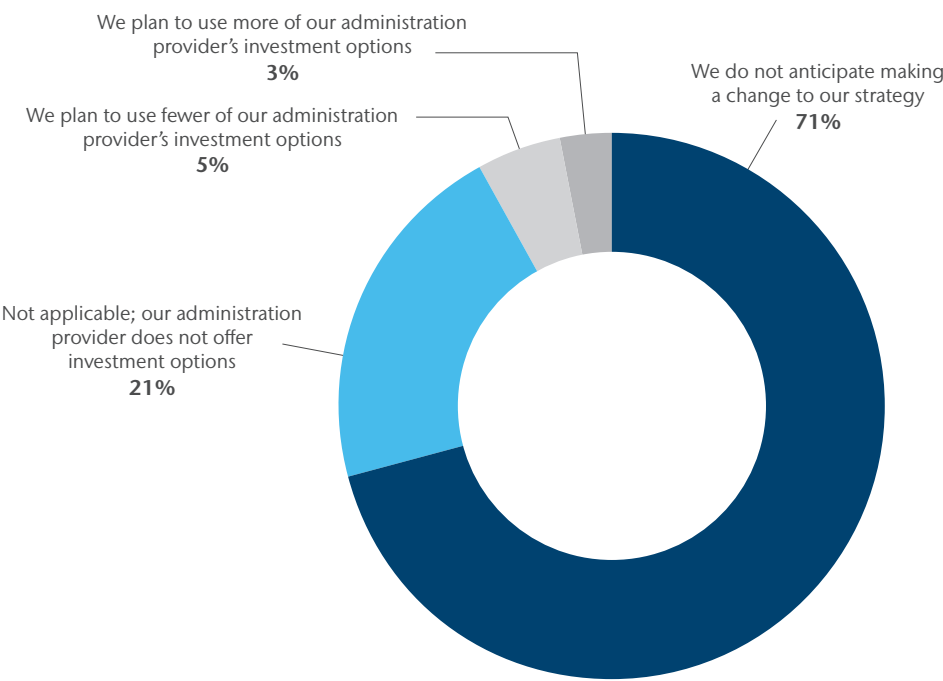
Actions Related to Plan Fees and Expenses



Target-Date Funds Offering



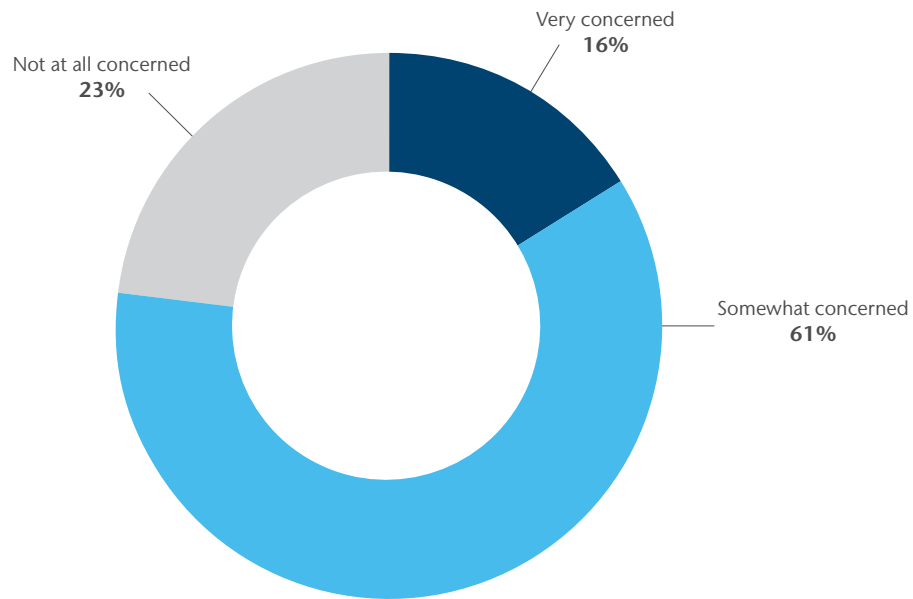
Changes Regarding the Bundling of Administrator and Investment Providers



Among employers that have a loan provision in their plan, over three-quarters (77%) said they are very or somewhat concerned about loan usage. Sixty-one percent of these employers said they are very or moderately likely to take at least some action to help curtail leakage in 2016. For some, the first step is to collect data and gain an understanding of the reasons workers are taking loans. Others are taking a bolder approach and changing plan provisions to limit the number of loans available or the amount of money that is loan-eligible.

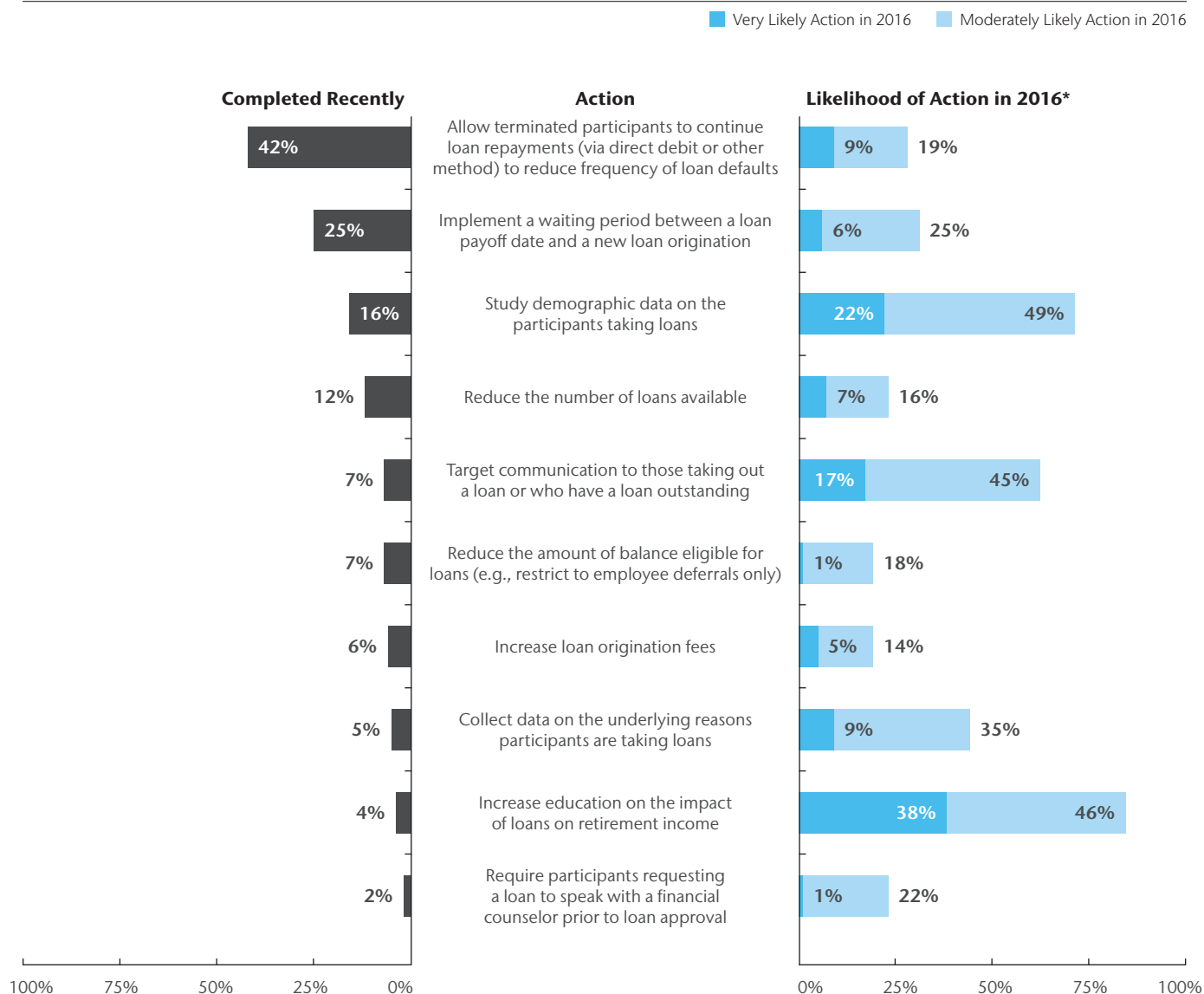
▶ **77%**
of employers said they are very or somewhat concerned about loan usage.

Employer Concern About Loan Usage



Specific Defined Contribution Plan Initiatives and Actions

Actions to Minimize Leakage from the Plan



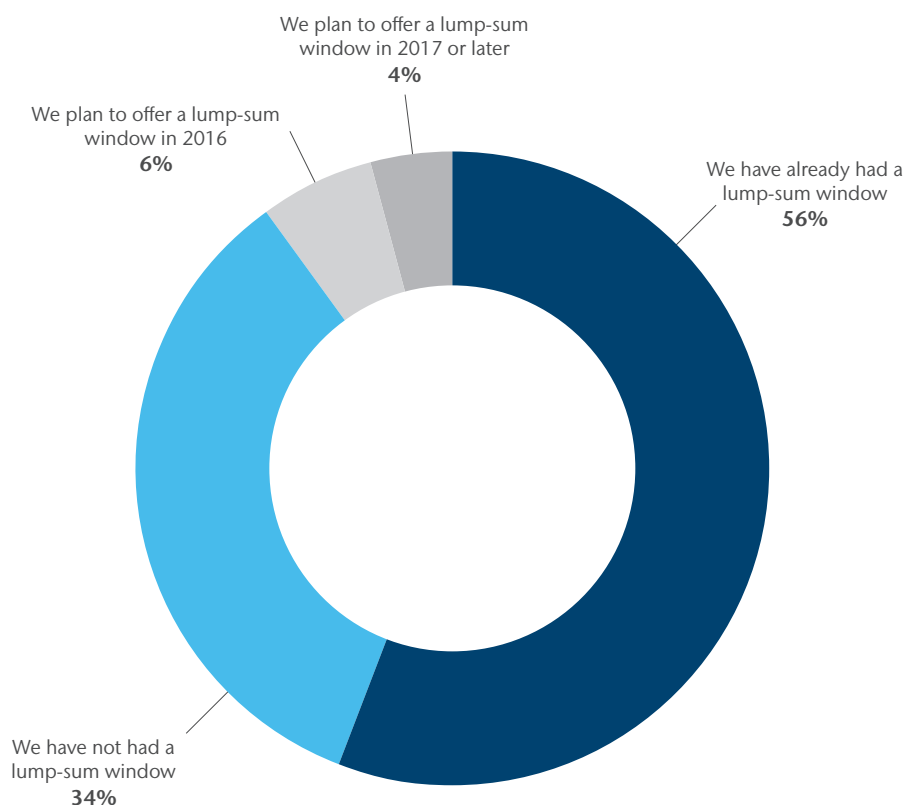
*Likelihood percentages based on those who have not completed recently

Specific Defined Benefit Plan Initiatives and Actions²

While defined benefit plan sponsors are continuing to actively monitor and eliminate risk from their plans, few plans expect to offer a lump-sum window in the upcoming years. The reality is that employers who were bullish on the idea have already

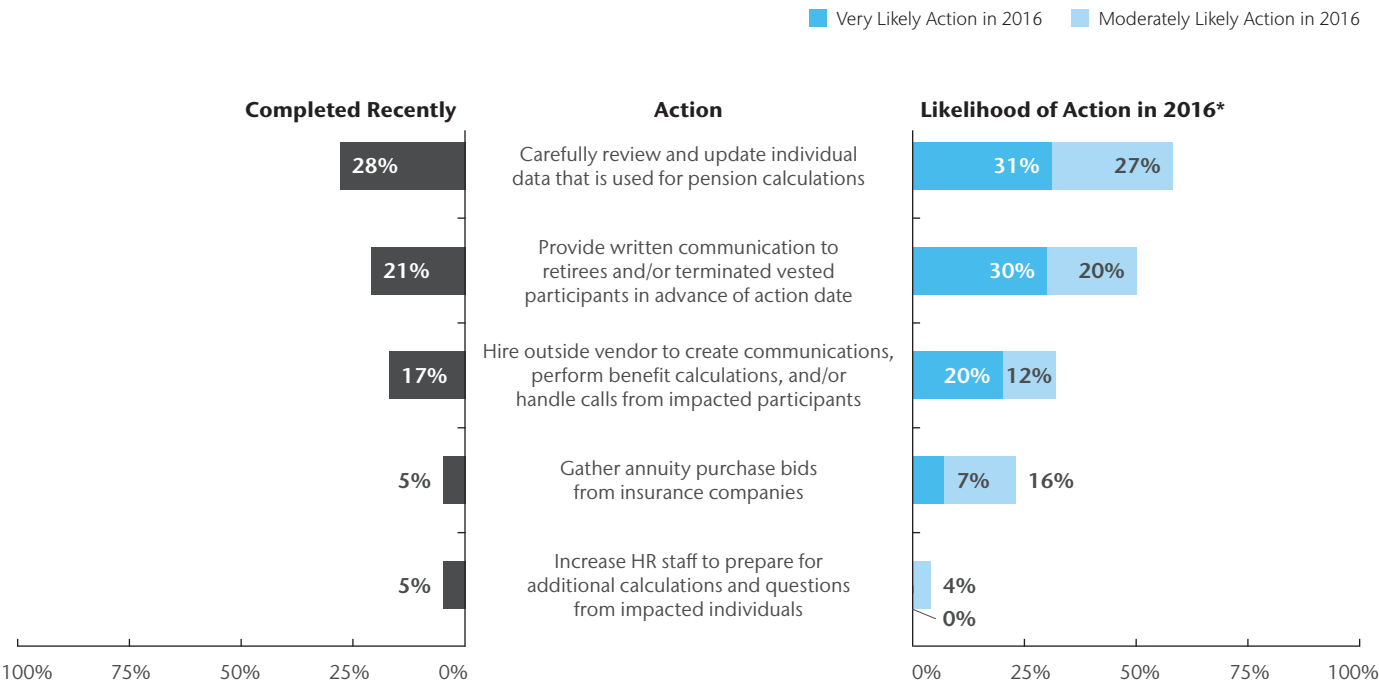
performed a window. Instead, plan sponsors are reducing risk by more closely aligning their liabilities to their investments. Very few plan sponsors indicated they are likely to adjust their defined benefit plan structure.

Lump-Sum Windows



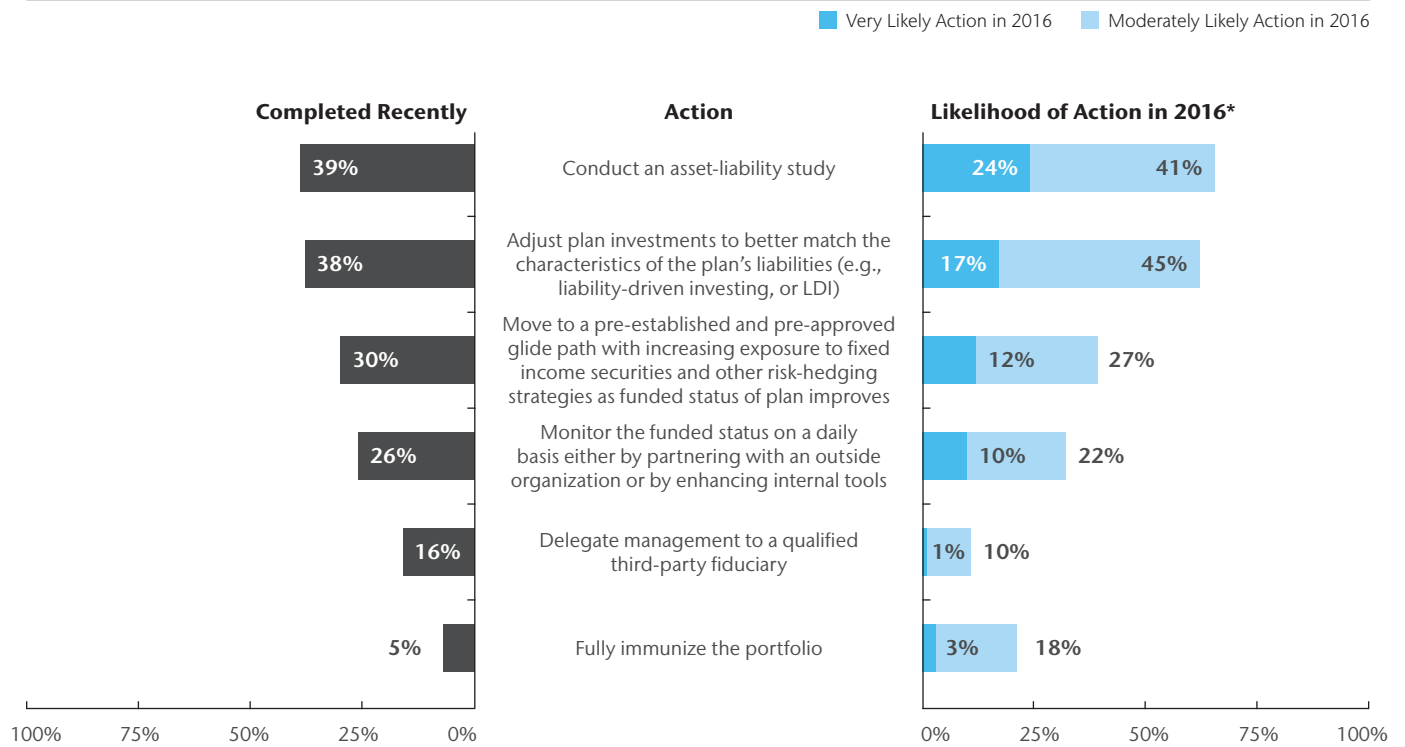
² Defined benefit plan sponsorship varied among the respondents. Twenty-two percent indicated that they have never offered a defined benefit pension plan, 26% have a frozen plan, 20% have a closed plan, and 32% have an open, ongoing pension plan.

Lump-Sum Windows and Annuity Purchases



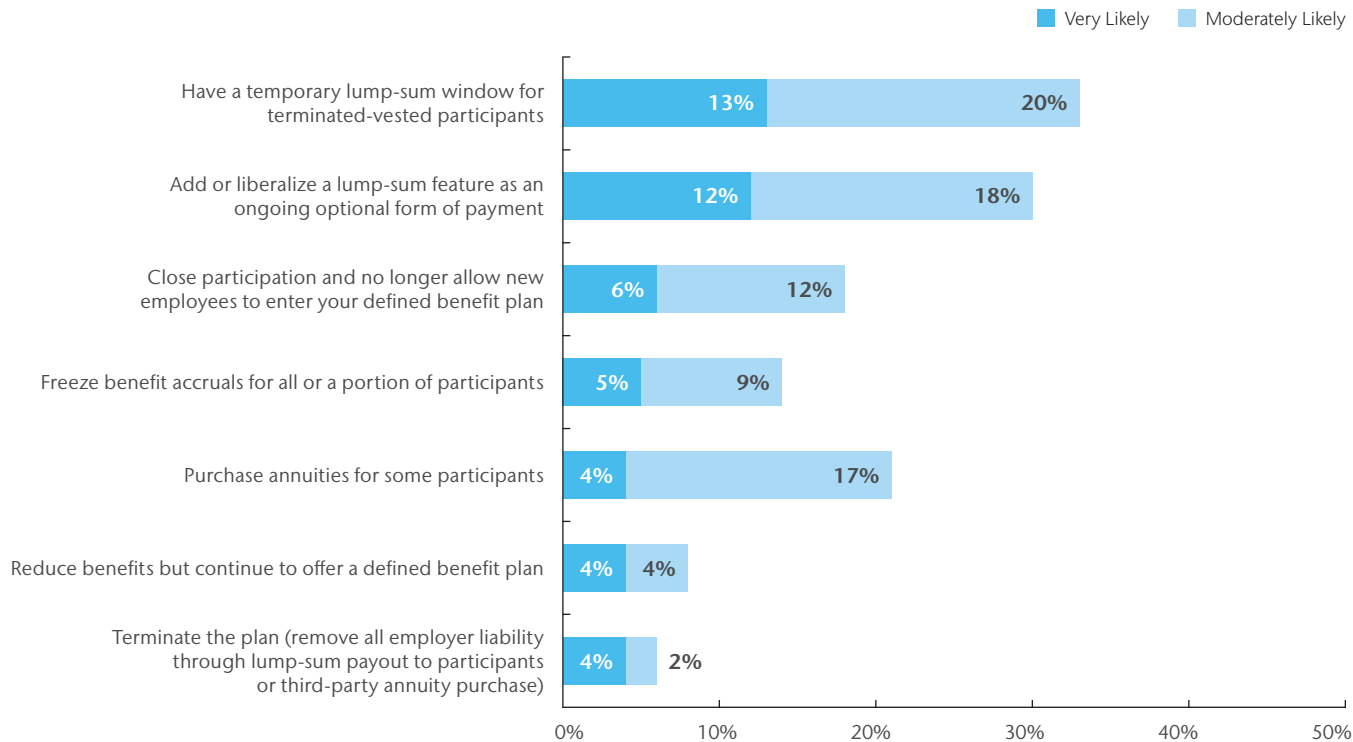
*Likelihood percentages based on those who have not completed recently

Changes to Defined Benefit Plan Assets

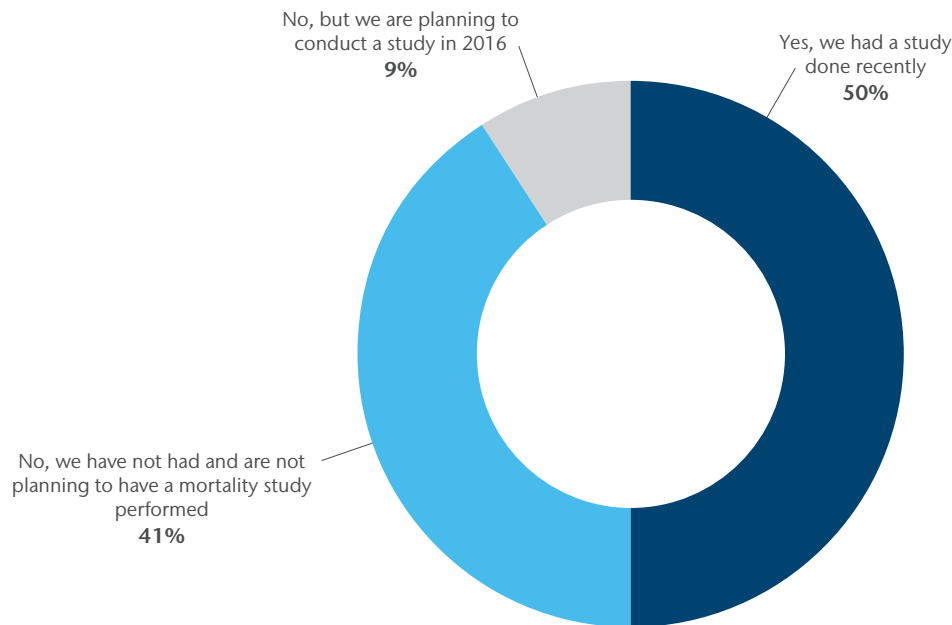


Specific Defined Benefit Plan Initiatives and Actions

Actions Likely to Be Taken on Defined Benefit Plans



Mortality Study

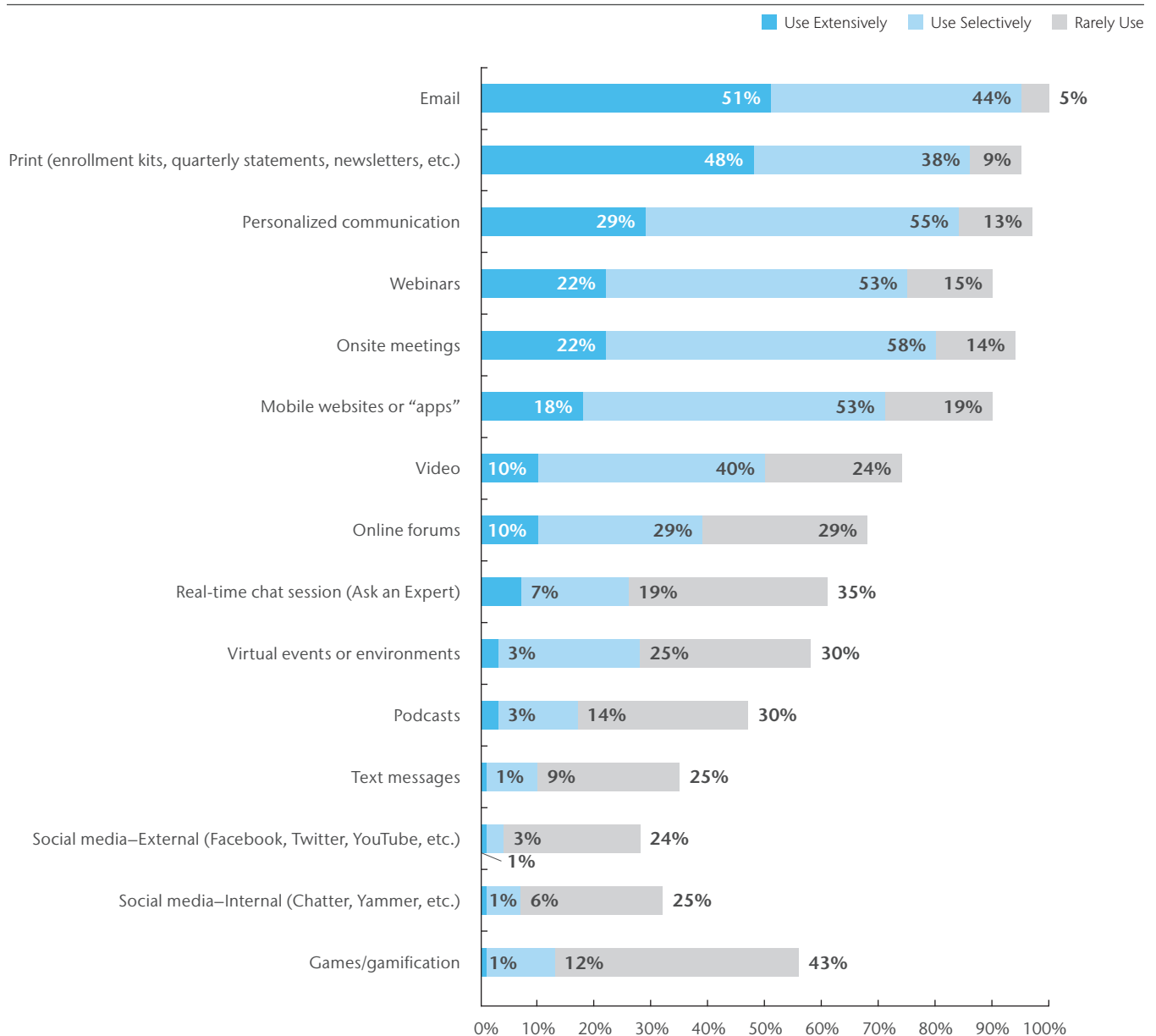


Communication Approaches

Perhaps nowhere has innovation over the past dozen years been more apparent than in the methods and styles of communications employers use to educate workers on retirement plans and financial well-being services. Back in 2005, email was just becoming the preferred method of communication. Now, it is ubiquitous. Social media like Facebook, Twitter, Chatter, and Yammer were unheard of even

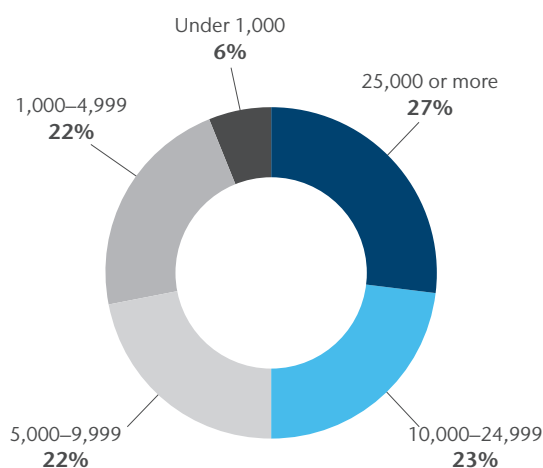
a few years ago, but now roughly one-third of employers use them to convey retirement plan messages. Overall, we find that plan sponsors are much more likely to use approaches that capture just-in-time content and personalized content. Channels such as onsite meetings, real-time chat sessions, and personalized communications have all seen growth over the past few years.

Integrating Retirement Planning and Health Decisions



Respondent Demographics

By Size of Employee Base

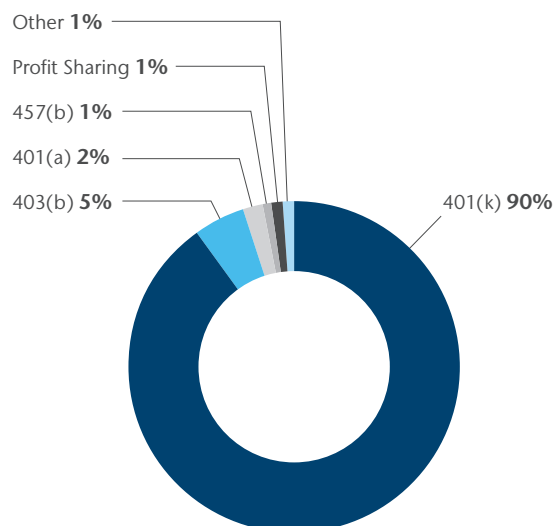


▶ **254**
total respondents with
nearly **7 million** employees

▶ **27,493**
average number of employees

▶ **9,790**
median number of employees

Type of Plan Sponsor



Contact Information

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

Media Relations

+1.847.295.5000

mackenzie.lucas@aonhewitt.com

About Aon Hewitt

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