

## SURVEY FINDINGS: Hot Topics in Retirement 2006

### **About This Survey**

The structure of the U.S. retirement system has been evolving. There has been greater emphasis on defined contributions programs, as some organizations reduce their commitment to defined benefit plans. How will this trend play out in 2006? What are employers planning to change in 2006, and what will remain the same? How will they adapt their communication and education efforts to their changing priorities? And what will the future hold for employees when it comes to their overall retirement benefits?

In October/November 2005, Hewitt Associates surveyed human resources professionals to learn their likely areas of focus and action over the next year regarding their defined contribution plans and defined benefit plans for their active salaried U.S. employees. Responses from 227 employers were received by the survey deadline.

Employer priorities reflect the growing importance of the defined contribution plan when it comes to overall retirement benefits. The majority of employers report that their likely areas of focus in 2006 are offering automatic features (such as automatic enrollment, rebalancing, and contribution escalation) and online third party investment advisory services.

The majority of employers participating in this survey and providing some form of defined benefit plan are likely to stay the course in 2006. Twenty-nine percent of respondents report that they are very or somewhat likely to close participation and no longer allow new employees to enter their defined benefit plan(s). One out of five respondents (20%) report they are very or somewhat likely to change aspects of the plan design. The majority of respondents are staying the course and not making changes to their defined benefit plans because their plans are valued and appreciated by employees, the plans are efficient vehicles for delivering retirement benefits, and the plans fit the needs of the workforce.

*Note: Percentages in this report are rounded to the nearest whole number. Therefore, totals may not equal exactly 100%.*

## Overview of Retirement Programs

All respondents participating in this survey provide their employees with a defined contribution plan. Almost two-thirds provide some form of defined benefit (traditional or hybrid) plan. The latter group includes almost four out of ten (38%) providing only a traditional defined benefit plan, 16% providing only a hybrid plan, and 11% providing both a traditional defined benefit plan and a hybrid plan.

### Types of Retirement Plans

	Percent of Employers
Defined contribution plan	100%
Defined benefit plan (traditional, hybrid, or both)	65%
<i>Traditional defined benefit plan only</i>	38%
<i>Hybrid defined benefit plan only</i>	16%
<i>Both traditional and hybrid plans</i>	11%

(n=227; multiple responses)

Survey respondents are most confident in their ability to effectively manage the competitive position of the plan. They are least confident in their ability to effectively manage employees' taking accountability for their future and employees' understanding of future retirement benefits. These findings show the impact of the changing retirement landscape on employees and their ability to prepare for their own future by assuming responsibility for funding their retirement through vehicles such as 401(k) plans.

### Confidence Level of Employers Effectively Managing Retirement Program Issues

	Not Confident at All 1	2	3	4	5	Very Confident 6
Competitive position of the plan (n=226)	0%	6%	15%	23%	34%	22%
Likelihood of employees retiring with sufficient retirement assets (n=227)	5%	18%	32%	29%	14%	3%
Ability to manage employees' departure from the workforce at the end of their careers (n=225)	3%	15%	38%	27%	15%	3%
Employee/retiree reactions to change, if applicable (n=219)	1%	20%	39%	30%	8%	2%
Employees' understanding of future retirement benefits (n=227)	4%	22%	34%	30%	8%	1%
Employees taking accountability for their own future (n=227)	5%	30%	35%	24%	5%	1%

## Defined Contribution Plans

### Likely Changes to Defined Contribution Plans in 2006

Employers were asked what areas they would focus on and what possible actions they would take with respect to their defined contribution plan in 2006. The areas/actions asked about in the survey, ranked from most to least likely, are:

- Automatic enrollment;
- Automatic rebalancing;
- Online third party investment advisory services;
- Contribution escalation;
- Roth 401(k) contributions;
- Managed accounts;
- Annuities as a form of payment option; and
- 401(k) disability insurance.

### Automatic Enrollment

About one-quarter of respondents (24%) said they already offer automatic enrollment. Of the remainder, 23% said they are very likely to offer automatic enrollment in 2006, and 25% said they are somewhat likely to do so.

#### Automatic Enrollment

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	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering automatic enrollment	23%	25%	23%	29%

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*(n=173)*

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When it comes to offering automatic enrollment, employers appear to be taking great encouragement from some recent developments in the regulatory and legal environment. A March 17, 2004, general information letter issued by the Internal Revenue Service (IRS) offered clarification on the appropriate default contribution rate that may be used in conjunction with automatic enrollment. In addition, there is currently pending legislation that, if passed, would provide fiduciary protection with respect to automatic enrollment.

Among the one-quarter of employers (24%) that already offer automatic enrollment as a plan feature, the most common likely changes cited regarding the way that automatic enrollment will be offered in 2006 were: changing the default investment fund from a stable value or money market fund to a balanced or asset allocation fund and implementing automatic contribution escalation.

**Likely Changes to Automatic Enrollment in 2006**

	<b>Percent of Employers</b>
No change planned	64%
Change default investment fund from stable value or money market fund to balanced or asset allocation fund	17%
Implement automatic contribution escalation	17%
Increase default contribution rate	6%
Change default investment fund from balanced or asset allocation fund to stable value or money market fund	4%
Apply automatic enrollment to broader population of employees	4%
Decrease default contribution rate	0%
Sweep existing employees into the plan through automatic enrollment	0%
Eliminate automatic enrollment	0%

*(n=53; multiple responses given)*

Among the employers that are somewhat or very *unlikely* to offer automatic enrollment in 2006, almost half (48%) cited the reason as simply being that they are not interested in offering it. The second most common reason cited was the need for the Department of Labor to provide guidelines on the appropriate default investment option to retain 404(c) status in order for them to consider offering automatic enrollment.

### **Requirements Needed to Offer Automatic Enrollment**

	<b>Percent of Employers</b>
Nothing—not interested in automatic enrollment at this time	48%
The Department of Labor must provide guidelines on the appropriate default investment option to retain 404(c) status	36%
A determination that ERISA preemption applies so that automatic enrollment supersedes state wage laws related to automatic enrollment processes	33%
There must be safe harbor for satisfying ADP/ACP nondiscrimination requirements for plans with automatic enrollment	30%
Participants must be able to unwind contributions (collect contributions from the plan) within a reasonable timeframe after automatic enrollment	19%
Other (e.g., executive approval; change eligibility requirements)	11%

*(n=91; multiple responses given)*

### **Automatic Rebalancing**

Over one-quarter of respondents (27%) said that they already offer automatic rebalancing. Of the remainder, one in five (20%) said they are very likely to offer automatic rebalancing in 2006 and 24% said they are somewhat likely to do so. Automatic rebalancing gives employees the ability to have their investment mix rebalanced periodically to a target mix of investments that they select.

### **Automatic Rebalancing**

	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering automatic rebalancing (the ability for employees to have their investment mix rebalanced periodically to a target mix of investments that they select)	20%	24%	28%	27%

*(n=165)*

Automatic rebalancing tends to appeal to more investment-savvy 401(k) participants, who view it as a convenience feature. For employers, the addition of automatic rebalancing can be seen as a way of enhancing the plan to appeal to a group of 401(k) investors that may be particularly vocal about their plan preferences.

**Online Third Party Investment Advisory Services**

Another area of employer focus in 2006 is likely to be offering online third party investment advisory services to plan participants. Twenty-five percent of respondents said they already offer such services. Of the remainder, 16% said they are very likely to offer online third party investment advisory services in 2006, and 28% said they are somewhat likely to do so.

**Online Third Party Investment Advisory Services**

	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering online third party investment advisory services	16%	28%	28%	28%

*(n=170)*

Online investment advisory services continue to appeal to employers who are seeking a cost-effective, scalable means of providing investment support to plan participants.

**Automatic Contribution Escalation**

Seventeen percent of respondents report that they already offer automatic contribution escalation. Thirteen percent of the remainder said they are very likely to offer automatic contribution escalation to their employees in 2006, and 18% said they are somewhat likely to do so. Automatic contribution escalation allows employees the ability to have their contributions automatically increased over time and can be provided as a default option with automatic enrollment.

**Automatic Contribution Escalation**

	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering automatic contribution escalation (the ability for employees to have their contributions automatically increased over time)	13%	18%	24%	28%

*(n=188)*

Employers are increasingly finding it appealing to combine automatic contribution escalation with automatic enrollment. In that way, if participants who are automatically enrolled fail to increase their contributions beyond the level they were defaulted to, over time they can automatically reach a much more robust savings level. Thirty-nine percent of respondents said that they were very or somewhat likely to offer both automatic contribution escalation and automatic enrollment in 2006.

### **Roth 401(k) Account**

Thirteen percent of respondents also said they were very likely to add a Roth 401(k) account to their defined contribution plan in 2006, and 21% said they are somewhat likely to do so.

### **Roth 401(k) Account**

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	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering Roth 401(k) contributions	13%	21%	22%	44%

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*(n=223)*

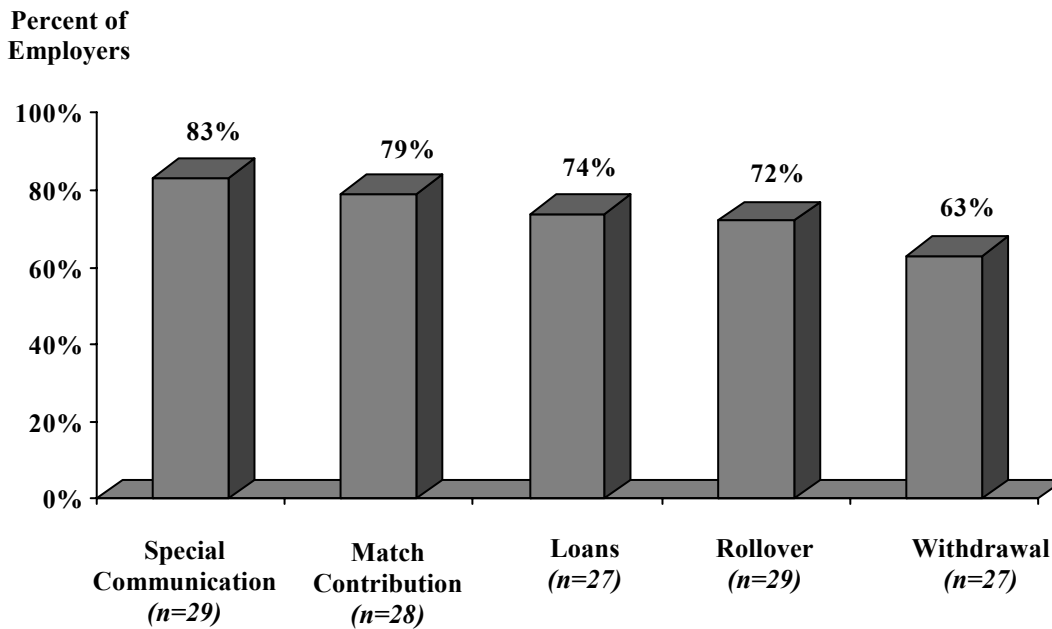
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Employers who offer the Roth 401(k) typically do so to appeal to participants who a) expect their tax rates in retirement to be higher than their current tax rates, b) are not sure what to expect in terms of taxes in retirement, but would like to diversify their retirement tax situation so that they have some tax-free earnings in retirement, c) would like to maximize their contributions to their 401(k) (e.g., if you put \$15,000 in a pre-tax 401(k), all things being equal, you'll get \$15,000 minus applicable taxes in retirement; in the Roth 401(k), if you put \$15,000 in, all things being equal, you get \$15,000 in retirement, tax-free).

Investment-savvy participants are most likely to understand the appeal of the Roth 401(k). As such, employers who are early adopters of this feature tend to have more investment-savvy and vocal populations.

Among the employers that are very likely to offer a Roth 401(k) contribution to their employees in 2006, most (83%) plan to have special communication around the Roth 401(k) feature. However, the Roth 401(k) contributions will not necessarily sport all of the features of before-tax contributions. One in five employers do not plan to match Roth 401(k) contributions. Over one-quarter (26%) will not permit loans to be taken against the Roth 401(k) contributions, and more than one-third (37%) will not permit withdrawals. In contrast, 92% of respondents state that they match before-tax employee contributions, according to our *Survey Findings: Trends and Experience in 401(k) Plans 2005*. And 95% of employers permit loans, 94% permit hardship withdrawals, and 98% permit before-tax rollovers into their current plans.

### Roth 401(k) Contributions and Plan Features Permitted



Among employers that are very or somewhat *unlikely* to offer Roth 401(k), more than half (53%) cite administrative complexity as the reason. This was closely followed by the need for further clarification of the Roth 401(k) guidelines (49%), concerns about lack of utilization (49%), and complexity of communication (49%). Employers also commonly cite worries that the Roth 401(k) might confuse eligible employees (45%).

### **Requirements Needed to Offer Roth 401(k) Account**

	<b>Percent of Employers</b>
The administrative complexity of offering the Roth 401(k) must be reduced	53%
There must be further clarification of the Roth 401(k) guidelines	49%
It must be clear that general Roth 401(k) usage will be significant enough to justify adding it to the plan	49%
The complexity of communicating the Roth 401(k) must be reduced	48%
It must be proven that the Roth 401(k) will not confuse eligible employees	45%
This provision must be made permanent, and not sunset in 2010 along with the rest of EGTRRA	39%
Employees must ask for it	18%
Nothing—not interested in offering the Roth 401(k) at this time	24%

*(n=148; multiple responses given)*

### **Managed Accounts**

Thirteen percent of respondents report that they already offer managed accounts. Of the remainder, 9% said they are very likely to offer managed accounts to plan participants in 2006, and 17% said they are somewhat likely to do so. Managed accounts allow participants the ability to delegate the overall management of their 401(k) account to an outside investment professional and generally are paid for as a fee applied directly to the participant's account based on the size of the assets under management.

### **Managed Accounts**

	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering managed accounts (the ability for employees to delegate overall management of their 401(k) account to an outside investment professional)	9%	17%	30%	44%

*(n=197)*

### **Annuities**

Eighteen percent of respondents said they already offer annuities as a form of payment option in their defined contribution plan. Of the remainder, just six percent said they are very likely to add this feature in 2006, and 13% said they are somewhat likely to do so.

#### **Annuities as a Form of Payment Option**

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	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering annuities as a form of payment option	6%	13%	23%	59%

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*(n=186)*

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### **401(k) Disability Insurance**

Four percent of respondents offer 401(k) disability insurance to plan participants. Of the remainder, just 2% said they are very likely to offer 401(k) disability insurance in 2006, and 8% said they are somewhat likely to do so. 401(k) disability insurance allows the employee the ability to have their ongoing contributions and their employer's contributions insured in the event of a disability.

#### **401(k) Disability Insurance**

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	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
Offering 401(k) disability insurance (the ability for employees to have their contributions and their employer's contributions insured in the event of a disability)	2%	8%	25%	66%

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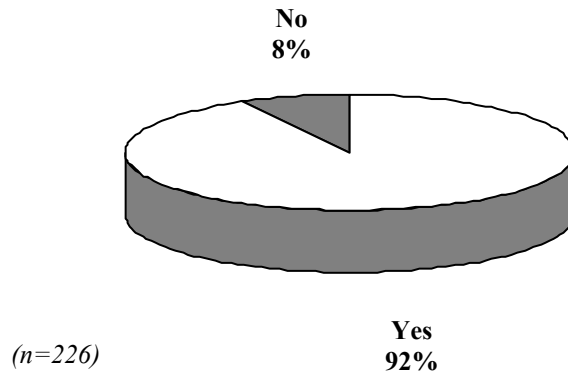
*(n=223)*

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### Employer Matching Contributions

Among respondents that participated in this survey the majority currently match employee contributions to their defined contribution plans.

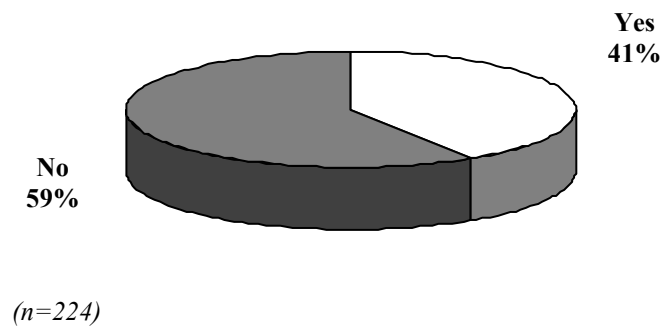
#### Does the Current Plan Structure Match Employee Contribution?



### Nonmatching Employer Contributions

Four out of ten survey respondents offer a nonmatching employer contribution in their defined contribution plan.

#### Does the Current Plan Structure Offer a Nonmatching Employer Contribution?



### Changes to Contribution Structure in 2006

Over three-quarters of employers that participated in this survey do not plan to make any change to their company match contribution structure in 2006. Only 1% stated that they plan to reduce or eliminate the company match. In contrast, 8% plan to add or increase the company match.

### Changes to Contribution Structure in 2006

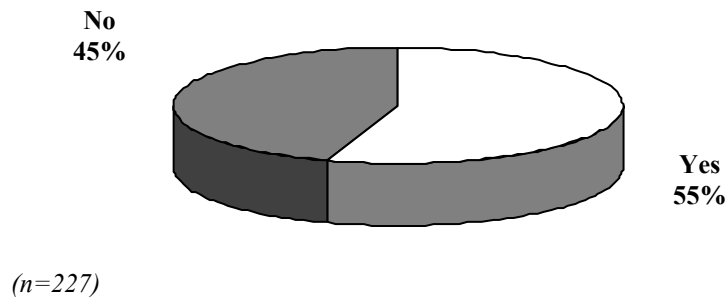
	Percent of Employers
No change to company match is planned	79%
No change to company nonmatching contribution is planned	37%
Add/increase the company match	8%
Adopt ADP/ACP safe harbor design	4%
Add/increase company nonmatching contribution	4%
Change company contribution structure, while keeping overall company contribution even	4%
Reduce/eliminate the company nonmatching contribution	2%
Reduce/eliminate the company match	1%

*(n=227; multiple responses given)*

### Employer Stock Fund as an Investment Option

Fifty-five percent of employers that participated in this survey offer an employer stock fund as an investment option in their defined contribution plan.

### Employer Stock Fund as an Investment Option



A small percentage of respondents who offer employer stock said that they intend to eliminate employer stock as a plan investment option in 2006 or freeze the employer stock fund so that no new contributions can be made to it. Thirteen percent plan to limit employees' investment in employer stock. Most commonly, respondents intend to educate participants on the risks of over-concentration in the employer stock fund (69%).

### **Likely Actions to Employer Stock Fund in 2006**

	<b>Percent of Employers</b>
Educate participants on the risks of over-concentration in employer stock	69%
Limit employees' investment in employer stock	13%
Hire a third party as a fiduciary of the employer stock fund	10%
Remove those designated as investment insiders from the investment committee to protect against claims of conflicts of interest	8%
Freeze the employer stock fund so that no new contributions can be made to it (but not immediately eliminate it)	5%
Eliminate the employer stock fund as an investment option	3%
Other (e.g., allow diversification)	9%

*(n=88; multiple responses given)*

### Likely Defined Contribution Plan Communication in 2006

Employers are very or somewhat likely to offer various types of plan communication in 2006. Most commonly: general understanding and appreciation of the plan, diversification, and plan participation.

### Likely Defined Contribution Plan Communication in 2006

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
General understanding and appreciation of the plan ( <i>n</i> =225)	62%	34%	3%	0%
Diversification ( <i>n</i> =225)	68%	25%	4%	3%
Plan participation ( <i>n</i> =224)	71%	21%	3%	5%
Contribution levels ( <i>n</i> =223)	58%	30%	7%	5%
Retirement income adequacy ( <i>n</i> =225)	43%	41%	12%	4%
Rolling over versus cashing out of the plan upon termination ( <i>n</i> =222)	31%	33%	26%	10%
Loan-taking ( <i>n</i> =220)	18%	28%	37%	17%
Withdrawals ( <i>n</i> =220)	16%	29%	39%	16%

The way that employers approach communication will depend on the outcomes they hope to achieve. Some outcomes (like diversification or plan participation) might lead to an immediate action on the part of the employees. These types of communication can best be implemented through communication that is relevant to the employee's situation and suggested actions are simple to take.

Other communication outcomes (like general understanding and appreciation) are best approached with a communication plan designed to promote the plan and increase its visibility. Still other types of communication are best done "just-in-time," relaying messages at the time they become relevant. For example, a message about rolling over plan balances versus cashing out is most likely to be heard when the employee has a decision to make.

### Likely Actions to Investment Fund Offerings in 2006

In 2006, many respondents plan to enhance their plan investment options. Employers are very or somewhat likely to find ways to reduce costs of funds offered (49%) and to replace certain funds, but keep the number of the fund offerings the same (43%).

### Likely Actions to Investment Fund Offerings in 2006

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Find ways to reduce costs of funds offered ( <i>n</i> =213)	14%	35%	22%	30%
Replace certain funds, but keep the overall number the same ( <i>n</i> =212)	13%	30%	21%	36%
Increase the number of funds offered in the plan ( <i>n</i> =217)	14%	13%	26%	47%
Place transfer restrictions on certain funds ( <i>n</i> =211)	13%	13%	30%	44%
Change some or all funds from actively managed to index funds ( <i>n</i> =211)	2%	9%	37%	53%
Implement a self-directed brokerage account ( <i>n</i> =203)	7%	2%	14%	76%
Reduce the number of funds offered in the plan ( <i>n</i> =214)	4%	4%	20%	72%

Among employers that are somewhat or very likely to increase the number of funds offered in their defined contribution plans, most were focusing on either adding core investment funds or premixed portfolios. Very few cited noncore funds such as REIT funds, exchange traded funds, or hedge funds.

### Likely Funds Added in 2006

	Percent of Employers
Core investment fund (large stock, small stock, money market, etc.)	71%
Premixed portfolios (including lifecycle, lifestyle, or target maturity funds)	20%
REIT fund	6%
Exchange traded fund	4%
Commodity fund	2%
Hedge fund	2%
Other specialty sector fund	2%
Other (e.g., index funds, high yield bonds)	10%

*(n=51; multiple responses given)*

Among employers that are somewhat or very likely to place transfer restrictions on certain funds, nearly six out of ten are placing restrictions on international/emerging market funds (59%). However, a significant number also cited other types of funds, ranging from mid-capitalization/small capitalization (35%) to bond (28%) to large capitalization equity (28%) and employer stock (24%).

### **Types of Funds Being Restricted in 2006**

	<b>Percent of Employers</b>
International/emerging markets	59%
Mid-capitalization/small capitalization	35%
Bond funds	28%
Large capitalization/equity	28%
Employer stock	24%
Sector funds	18%
Other (e.g., all funds)	16%

*(n=51; multiple responses given)*

Among the reasons cited for implementing transfer restrictions, three-quarters of employers report doing so to curb participant transfer activity as deemed by the fund manager.

### **Reasons Transfer Restrictions Implemented**

	<b>Percent of Employers</b>
To curb participant activity (as deemed by the fund manager)	75%
To adhere to fund prospectus	47%
To curb participant activity (as deemed excessive by the plan sponsor)	35%

*(n=55; multiple responses given)*

## Defined Benefit Plans (Including Traditional Defined Benefit Plans and Hybrid Plans)

### Likely Changes to Defined Benefit Plans in 2006

This section of the survey shows findings from respondents that provide any form of defined benefit plan (traditional, hybrid, or both). Subsequent pages present the findings for those providing all defined benefit plans, traditional defined benefit plans, and hybrid defined benefit plans.

While the majority of employers participating in this survey and providing some form of defined benefit plan are likely to stay the course in 2006, almost three out of ten (29%) report that they are very or somewhat likely to close participation and no longer allow new employees to enter their defined benefit plan(s). One out of five respondents (20%) report they are very or somewhat likely to change aspects of the plan design.

The majority of respondents are staying the course and not making changes to their defined benefit plans because their plans are valued and appreciated by employees, are efficient vehicles for delivering retirement benefits, and fit workforce needs.

### Likely Changes to All Defined Benefit Plans in 2006

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Nothing, continue with current plan as is ( <i>n</i> =151)	60%	12%	6%	22%
Close participation: no longer allow new employees to enter your defined benefit plan ( <i>n</i> =152)	15%	14%	14%	56%
Change aspects of the plan design, but continue to offer the current plan ( <i>n</i> =149)	5%	15%	21%	59%
Freeze accruals; cease benefit accruals for all or a portion of participants ( <i>n</i> =157)	6%	10%	15%	69%
Change traditional defined benefit plan to a hybrid plan (cash balance or pension equity) ( <i>n</i> =91)	2%	9%	21%	68%
Change hybrid plan to a traditional defined benefit plan ( <i>n</i> =54)	0%	2%	11%	87%
Terminate the plan ( <i>n</i> =151)	0%	1%	4%	95%

The table below shows the likely actions of employers that provide traditional defined benefit plans and employers that provide hybrid plans. While the majority of employers participating in this survey and providing a traditional defined benefit plan are likely to stay the course in 2006, almost one-third (32%) report that they are very or somewhat likely to close participation and no longer allow new employees to enter their defined benefit plan. Nearly one-quarter of employers report likely changes to the plan design.

Employers participating in this survey and providing a hybrid (cash balance or pension equity) defined benefit plan are likely to stay the course in 2006 as well. Over one-quarter report that they are likely to close participation and no longer allow new employee to enter their defined benefit plan.

### **Likely Changes to Defined Benefit Plans in 2006, by Type of Plan**

	<b>Very Likely</b>	<b>Somewhat Likely</b>	<b>Somewhat Unlikely</b>	<b>Very Unlikely</b>
<b>Traditional Defined Benefit Plans</b>				
Nothing, continue with current plan as is ( <i>n</i> =96)	58%	10%	7%	24%
Close participation: no longer allow new employees to enter your defined benefit plan ( <i>n</i> =96)	18%	14%	19%	50%
Change aspects of the plan design, but continue to offer a traditional defined benefit plan (e.g., final average pay, career average pay) ( <i>n</i> =95)	6%	17%	16%	61%
Freeze accruals: cease benefit accruals for all or a portion of participants ( <i>n</i> =96)	6%	10%	17%	67%
Change to a hybrid plan (cash balance or pension equity) ( <i>n</i> =91)	2%	9%	21%	68%
Terminate the plan ( <i>n</i> =99)	0%	0%	7%	93%
<b>Hybrid Cash Balance or Pension Equity Plans</b>				
Nothing, continue with current plan as is ( <i>n</i> =55)	64%	15%	4%	18%
Close participation: no longer allow new employees to enter your defined benefit plan ( <i>n</i> =56)	11%	16%	7%	66%
Freeze accruals: cease benefit accruals for all or a portion of participants ( <i>n</i> =56)	5%	11%	13%	71%
Change aspects of the plan design, but continue to offer a hybrid plan ( <i>n</i> =54)	2%	13%	30%	56%
Terminate the plan ( <i>n</i> =56)	2%	4%	4%	91%
Change to a traditional defined benefit plan (e.g., final average pay, career average) ( <i>n</i> =54)	0%	2%	11%	87%

Respondents that are very or somewhat likely to make changes plan to communicate the changes to employees through broad-based written communications, targeted communication to appropriate groups, and existing communication channels.

### **Types of Communications**

	<b>Percent of Employers</b>		
	<b>All Defined Benefit Plans</b>	<b>Traditional Defined Benefit Plans</b>	<b>Hybrid Plans</b>
Broad-based written communication on the plan changes	80%	77%	86%
Targeted communication to appropriate groups	58%	57%	64%
Existing communication channels	54%	55%	64%
Seminars led by HR professionals	52%	50%	55%
Online modeling tools to help calculate differences	39%	39%	46%
Training managers to communicate changes	21%	21%	23%
Other (e.g., employee meetings; educational sessions)	9%	7%	9%
<i>(multiple responses given)</i>	<i>(n=56)</i>	<i>(n=44)</i>	<i>(n=22)</i>

Regardless of what type of a defined benefit plan survey respondents provide, the majority cite cost (volatility and amount) as the top reasons for closing participation, freezing accruals, or terminating the plan(s).

**Top 3 Reasons For Closing Participation,  
Freezing Accruals, or Terminating Defined Benefit Plan(s)  
Among All Defined Benefit Plans, Traditional Defined Benefit Plans, and Hybrid Plans**

	Ranked in Top 3		
	All Defined Benefit Plans	Traditional Defined Benefit Plans	Hybrid Plans
Cost (volatility)	82%	85%	79%
Cost (amount)	64%	67%	68%
Not sufficiently valued or appreciated by employees	31%	33%	32%
Impact of pending funding rule changes	27%	27%	21%
Workforce mobility and decreasing appropriateness of defined benefit approach	20%	24%	11%
Uncertainty over legal status of hybrid plans	18%	n/a	37%
Uncertainty over possible accounting rule changes or increase in PBGC premiums	16%	15%	11%
Pension is no longer necessary for a competitive benefits package	15%	12%	16%
Administrative (regulatory complexity)	11%	6%	16%
Combining programs among merged organizations or different business groups	9%	12%	5%
Other (e.g., long-term obligations)	7%	33%	5%
	(n=45)	(n=28)	(n=25)

Among respondents that are very or somewhat likely to make some type of change to their defined benefit plan, 29% report that no transition is provided for employees in the current plan(s) because employees will begin to receive future benefit accruals under the new plan, with prior accrued benefits protected under ERISA.

### Approaches to Transitioning Benefits

	Percent of Employers		
	All Defined Benefit Plans	Traditional Defined Benefit Plans	Hybrid Plans
No transition provided for employees in the current plans. Employees simply begin to receive future benefit accruals under the new plan, with prior accrued benefits protected under ERISA	29%	32%	35%
Offer choice between current and new plan(s) for some affected employees	21%	21%	24%
Grandfather future accruals at full value for some affected employees	21%	18%	18%
Allow current plan(s) to “sunset” such that current plan accruals are scheduled to cease at some predefined future date, for all employees	18%	18%	24%
Grandfather future accruals at full value for all affected employees	18%	18%	12%
Offer choice between current and new plan(s) for all affected employees	16%	0%	6%
Allow current plan(s) to “sunset” such that current plan accruals are scheduled to cease at some predefined future date, for some employees	8%	7%	18%
Grandfather future accruals at partial value for all affected employees	3%	0%	0%
Grandfather future accruals at partial value for some affected employees	3%	18%	0%
Offer choice between new and reduced version of current plan(s) for all affected employees	0%	0%	0%
Offer choice between new and reduced version of current plan(s) for some affected employees	0%	0%	0%
<i>(multiple responses given)</i>	<i>(n=38)</i>	<i>(n=28)</i>	<i>(n=17)</i>

Among respondents that are very or somewhat *unlikely* to make changes to their defined benefit plan(s) in 2006, the primary reason they are staying the course is because the plan is valued and appreciated by employees (26%), and one-quarter report that the plan is an efficient vehicle for delivering retirement benefits.

**Primary Reason Defined Benefit Employers  
Are Not Making Changes in 2006**

	Percent of Employers		
	All Defined Benefit Plans	Traditional Defined Benefit Plans	Hybrid Plans
Plan is valued and appreciated by employees	26%	30%	12%
Plan is an efficient vehicle for delivering retirement benefits	25%	19%	35%
No need to change (e.g., fits company culture)	17%	5%	7%
Fits workforce needs	16%	16%	21%
Uncertainty over legal status of hybrid plans	5%	3%	7%
Already made changes	5%	19%	16%
Other (e.g., costs, compliance)	6%	8%	2%
	(n=94)	(n=67)	(n=43)

If proposed pension funding rules that will accelerate defined benefit plan funding are finalized in the next year or two, over half of employers that offer defined benefit plan(s) will do nothing and continue to offer their current plan.

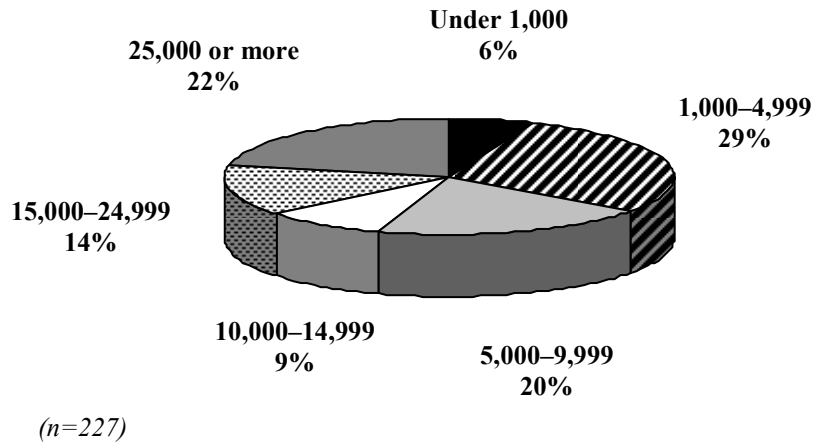
**Likely Actions Defined Benefit Plan(s) Employers  
Will Take if Proposed Pension Funding Rules Are Finalized in the Next Year or Two**

	Percent of Employers		
	All Defined Benefit Plans	Traditional Defined Benefit Plans	Hybrid Plans
Nothing, continue to offer current defined benefit plan	51%	51%	48%
Terminate or freeze defined benefit plan and increase benefits provided under some form of defined contribution plan (e.g., 401(k), profit sharing)	17%	10%	25%
Amend defined benefit plan to exclude new employees from participation and provide benefits to new employees under a defined contribution plan	15%	19%	10%
Amend defined benefit plan and switch to a hybrid plan and provide benefits to all employees under the revised defined benefit program	4%	5%	n/a
Terminate or freeze your defined benefit plan and provide no replacement	1%	1%	0%
Other (e.g., to be determined)	12%	14%	17%
	<i>(n=144)</i>	<i>(n=88)</i>	<i>(n=60)</i>

## Participating Employer Information

### Number of U.S. Employees

Almost one-half of survey respondents have 10,000 or more employees. The median number of U.S. employees is 8,500 and the average is 20,908.



## Company Stock

Nearly three-quarters of survey respondents have publicly-traded stock.

### Company Stock Publicly Traded

	Percent of Employers
Yes	73%
No	27%

(n=227)

## Industry

	Percent of Employers		Percent of Employers
Aerospace/defense	0%	Energy/utilities	8%
Agriculture	0%	Entertainment/comm./publishing	2%
Automotive/transport manufacturing	2%	Financial services	6%
Banking	5%	Food	4%
Beverages	2%	Government	0%
Business services	2%	Health care	6%
Charitable organizations	0%	Industrial manufacturing	5%
Chemicals	4%	Insurance	7%
Computer hardware	1%	Leisure	1%
Computer services	1%	Media	2%
Construction	1%	Metals/mining	1%
Consumer products manufacturing	7%	Pharmaceuticals	0%
Consumer services	1%	Retail (includes wholesale & distribution)	9%
Diversified manufacturing	9%	Telecom equipment	0%
Diversified nonmanufacturing	2%	Telecom services	1%
Electronics/electrical	1%	Transportation services	2%
		Other	8%

(n=227)

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