

Hot Topics in Retirement 2009



About Hewitt Associates

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About This Survey

Employers continue to grapple with the most effective way to deliver retirement benefits to their employees and keep up with the transformation of the retirement landscape. The legislative and regulatory environment is evolving rapidly with new guidance providing direction on the Pension Protection Act of 2006 (PPA), the U.S. Department of Labor's (DOL) final rules on qualified default investment alternatives (QDIAs), and proposed rules and inquiries around fee disclosures. Risk management is a consideration across the delivery of retirement benefits. Unlike ever before, plan sponsors are focusing on risk, including financial, fiduciary, and workforce perspectives. The choices employers make in response to these changes can have a significant impact on company financials, employee engagement and satisfaction, effective workforce management, employee retirement income security, the ability to attract and recruit new workers, and even workforce productivity.

In November/December 2008, Hewitt Associates surveyed human resources professionals to learn their likely areas of focus and action over the next year regarding the design, management, and delivery of their defined contribution (DC), defined benefit (DB), and retiree medical plans for their active, salaried U.S. employees. Responses from 146 employers provide a preview of the changes likely to take place in the retirement landscape over the next year. Plan sponsors can use this information to gather context and perspective as they address the challenges posed by today's unique environment.

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 instrument and survey samples has changed from year to year, there are still a number of areas where useful comparisons and trends across time can be examined.*

Survey Highlights

Across All Plans

2009 is expected to be a busy year for retirement plans, as many employers are planning action. There has been significant response and focus by plan sponsors in light of the recent market volatility, continued legislation, increased litigation, and higher employer costs—all amid a challenging economic environment. Across all retirement programs, the most commonly cited initiatives planned are measuring the competitive position of the program and the appropriateness of the plan design. The issues ranked as the highest priorities for plan sponsors include employees' understanding of future retirement benefits, employees taking accountability of their own future, the competitive position of the plan, and employees retiring with sufficient retirement assets. These priorities continue to reflect the shift in the responsibility and risk of retirement income from the employer to the employee, and the increasing involvement by employers in efforts to ensure employees take the appropriate steps to meet their retirement needs.

Additionally, there is a continued significant focus among plan sponsors on actions meant to manage aspects of risk.

Key Findings: Across All Plans

- 36% of respondents are very likely to measure the competitiveness of their program.
- 35% of respondents are very likely to assess their retirement plan design.
- 55% of respondents rank employees' understanding of retirement benefits as a high priority, closely followed by employees taking accountability for retirement at 52%.

Defined Contribution Plans

While automatic features remain a plan design priority, the adoption has reached a plateau and is expected to grow at a slower rate. Automatic rebalancing emerged as a higher priority for 2009, likely in reaction to the market volatility. In general, automation continues to be a larger focus among plan sponsors with either a closed or frozen defined benefit plan, perhaps being utilized as a tool to offset the impact of a shift away from pension benefits. Roth 401(k) adoption continues to climb at a steady pace.

Key Findings: Defined Contribution Plans

- 51% of respondents already offer automatic enrollment to new employees, with 10% of the remainder very likely to implement it this year.
- 29% of respondents already offer Roth 401(k) accounts, with 12% of the remaining respondents very likely to implement in 2009.
- 58% of respondents are very likely to review DC fund operations, including fund expenses and revenue sharing, with 26% planning to update investment policy statements.
- 59% are very likely to review fund offerings.

With respect to plan management, sponsors are focusing efforts on reducing their exposure to risk by increasing communication around investments and fees, benchmarking administration and procedures to best practices, and reviewing the plan governance structure.

Just over half of respondents now offer automatic enrollment. While more plans intend to adopt automatic enrollment throughout 2009, its adoption rate is slower than in the past. Many employers that currently offer

automatic enrollment continue to enhance how it is offered, including which employees are covered by the feature and how they are defaulted. Contribution escalation is now offered by 53% of plans, and automatic rebalancing is offered by nearly half of plans.

While not yet as prevalent as automatic features, plan sponsors are continuing to embrace the Roth 401(k). Currently, 29% of plans offer the Roth feature, up significantly from 19% just one year ago. Twelve percent

of plan sponsors not currently offering it report they are very likely to implement the Roth 401(k) feature in 2009. While employers have many competing priorities, the Roth feature will continue to grow. For those sponsors that have not yet added it, the lack of evidence of significant employee usage is reported as the primary obstacle.

Employee communication is also a priority for 2009, as many employers believe it is critical to reach employees during this uncertain time. The vast majority of respondents report that they will address topics including weathering the markets through proper diversification and being invested for the long term. Online and Internet messaging will be popular ways of communicating with employees.

While employer matching contributions have gained attention amid several high profile suspension announcements, the majority of companies in this survey reported no planned changes to their match structure. To date, only 2% of surveyed employers have reduced or suspended their employer matching contributions, and in 2009 5% are likely to do so.

Many employers indicated that managing risk is a priority for 2009. The most prevalent risk management activity for defined contribution plans reported is the review of fund operations and offerings, including expenses and revenue sharing. Other actions include increasing participant communication around investments and fees, reviewing the governance structure of the plans, hiring a third party to monitor investment options, hiring an expert to evaluate total plan expenses, and benchmarking plan administration procedures. Defined contribution sponsors are starting to manage their plans with the same rigor and attention as pension plan sponsors.

Defined Benefit Plans

The pace of freezes and closures in defined benefit plan design has slowed, but pension sponsors continue to assess the appropriateness of their plan design. Some respondents of ongoing plans are likely to close or freeze their pension plans during 2009, with the vast majority of plan sponsors planning to make no changes to plan design in the next year. Sponsors are continuing to focus on ways to manage their plans' financial and other risks more effectively.

The actions most likely to be taken during 2009 with respect to managing risk in pension plans include performing funding and accounting projections, reviewing funding strategy, assessing the overall risks the plan is running based on current strategies, and conducting an asset-liability study. Other notable, but less prevalent, actions include adjusting equity exposure and adjusting asset allocation to better match liabilities. These results reinforce the highest priority risk areas for plan sponsors: investment risk, interest rate risk, compliance risk, and diversification risk.

Key Findings: Defined Benefit Plans

- 68% of pension plan sponsors are very likely to continue their current plan with no change in 2009.
- 3% of plan sponsors are very likely to close their plan.
- 70% of respondents with a pension plan are very likely to perform funding and accounting projections, and 43% are very likely to review funding strategy.
- 36% of respondents are very likely to assess the risks that the pension plan is running based on current strategies.

Key Findings: Retiree Medical Plans

- 10% of respondents are very likely to adopt different benefit options and programs (e.g., Medicare Advantage).
- 12% of respondents are very likely to reduce benefits/subsidy for future retirees.

Retiree Medical Plans

Nearly three-quarters of respondents provide some type of retiree medical plans to their employees. Among those, 80% offer subsidized retiree medical to current retirees, while 48% offer it to future retirees. Ten percent of respondents that provide retiree medical are very likely to adopt different benefit options and programs in 2009.

Conclusions

2009 will be a year of significant focus on retirement plans and competing priorities for employers. Defined contribution plan automation will continue to grow and how it is implemented will continue to be enhanced to achieve better outcomes for employees. Reaching employees through communication channels and helping them make better decisions through tools such as advice and managed accounts will be a higher priority to cope with the recent market events.

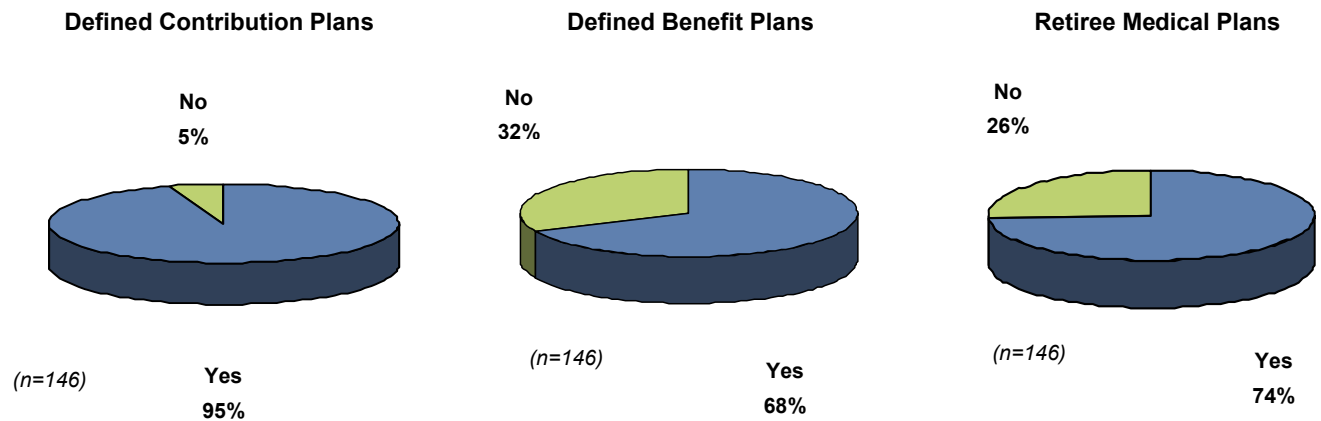
Instead of accelerating the shift away from pension toward defined contribution plans, plan sponsors are investigating alternative methods to better manage the plans they offer today, ensuring they are receiving the most value from their dollars spent, and mitigating the risks that are created by offering these programs.

Across the board, plan sponsors are addressing risk, including financial risk, compliance risk, and litigation risk. Based on the results of this year's survey, employers are spending increased time and resources on these efforts, with an expected result of increased retirement savings for employees, improved plan governance, and greater financial security for both employers and employees.

Survey Findings: Overview of Retirement Plans

Ninety-five percent of respondents participating in this survey provide their employees with a defined contribution plan, while two-thirds of respondents provide some form of defined benefit (traditional or hybrid) plan, whether active or frozen. Nearly three-quarters of respondents provide their employees with retiree medical plans.

Retirement Plans



Among the 68% of employers that offer a defined benefit plan to their employees, 74% provide a traditional plan and the remaining 26% provide a hybrid plan. Both types of plans were categorized into one of three statuses:

- Ongoing plans, sponsored by 44% of respondents with a defined benefit plan, allow new hires to participate in the plan.
- Closed plans, comprising 36% of respondents' pension plans, allow some or all eligible employees to accrue benefit service, but new hires are not eligible to participate in the plans.
- Frozen plans accrue no benefit service for any employees. Twenty percent of respondents with a defined benefit plan sponsor a frozen plan.

Defined Benefit Plan Status

	Percent of Employers		
	All DB Plans	Traditional DB Plans	Hybrid DB Plans
Ongoing plan	44%	39%	55%
Closed plan	36%	41%	24%
Frozen plan	20%	20%	21%
	(n=99)	(n=61)	(n=38)

Survey respondents are most confident in their ability to effectively manage employees taking accountability for their own future, although somewhat less confident than one year ago. Employee accountability also was given the highest priority by respondents.

Employers remain least confident in their ability to effectively manage appropriate policies and procedures designed to influence the patterns of employee departures from the workforce (e.g., phased retirement, early retirement subsidies) and their ability to manage the impact of diversity and inclusion on retirement benefit effectiveness. That being said, about half of respondents view these topics as medium to high priority, indicating potential focus in the future.

Confidence Level of Employers Effectively Managing Retirement Program Issues and Priority of Each Issue

	Not Confident at All							Very Confident		
	1	2	3	4	5	6	High Priority 3	Medium Priority 2	Low Priority 1	
Employees taking accountability for their own future (<i>n</i> =130)	1%	1%	9%	15%	38%	36%	52%	42%	6%	
Employees' understanding of future retirement benefits (<i>n</i> =130)	0%	1%	11%	17%	36%	35%	55%	38%	7%	
Competitive position of the plan (<i>n</i> =128)	1%	2%	3%	18%	44%	32%	46%	46%	8%	
Employees retiring with sufficient retirement assets (<i>n</i> =131)	1%	1%	12%	21%	37%	29%	39%	50%	11%	
The aging of the workforce and the impact retirements could have on our business in the next 5 to 10 years (<i>n</i> =126)	2%	15%	10%	26%	25%	21%	24%	46%	30%	
Employee/retiree reactions to change, if applicable (<i>n</i> =117)	1%	2%	19%	35%	25%	18%	30%	48%	22%	
The influence of employee diversity and inclusion on retirement benefit effectiveness (<i>n</i> =126)	6%	14%	23%	21%	22%	14%	10%	43%	47%	
Appropriate policies and procedures designed to influence the patterns of employee departures from the workforce (e.g., phased retirement, early retirement subsidies) (<i>n</i> =118)	5%	15%	20%	32%	21%	7%	11%	45%	44%	

In terms of retirement initiatives employers are likely to undertake in 2009, seven out of ten employers state they are very or somewhat likely to measure the competitive position of their retirement programs. Assessing the appropriateness of their current retirement program design is another initiative that is likely to be undertaken by 58% of employers, while 47% plan to analyze the influence of their current and emerging demographics on retirement designs, policies, and practices (focusing on diversity and inclusion). Further, 44% of plan sponsors intend to project employee retirement income adequacy, likely an increasing concern given the recent market events.

These results indicate significant focus on retirement programs in 2009 and are highly consistent with last year's results, evidence that the retirement environment continues to rapidly evolve and requires significant resources.

Likely Initiatives for Retirement Plans in 2009

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Measure the competitive position of the retirement program (<i>n</i> =142)	36%	35%	23%	6%
Assess the appropriateness of your current retirement program design (<i>n</i> =144)	35%	30%	19%	16%
Evaluate phased retirement alternatives (<i>n</i> =144)	15%	31%	29%	25%
Analyze the influence of your current and emerging demographics on retirement designs, policies, and practices (focusing on diversity and inclusion) (<i>n</i> =144)	10%	35%	38%	17%
Measure/project the expected income adequacy of your employee population (<i>n</i> =144)	16%	28%	37%	19%
Collect data on employee preferences regarding the retirement program (<i>n</i> =144)	8%	18%	42%	32%

Defined Contribution Plans

Likely Changes to Defined Contribution Plans in 2009

Employers were asked which areas they would focus on and what possible actions they would take with respect to their defined contribution plan in 2009. The areas/actions asked about in the survey, ranked by those that they are very likely to adopt (among those not currently offering), are:

1. Automatic rebalancing;
2. Roth 401(k);
3. Automatic enrollment;
4. Contribution escalation; and
5. Retirement income solutions/annuities.

Automatic enrollment and contribution escalation were ranked as the top two areas of focus in 2008, while in this year's survey, automatic rebalancing and Roth 401(k) rank as the top two areas of employer focus, followed by automatic enrollment and contribution escalation.

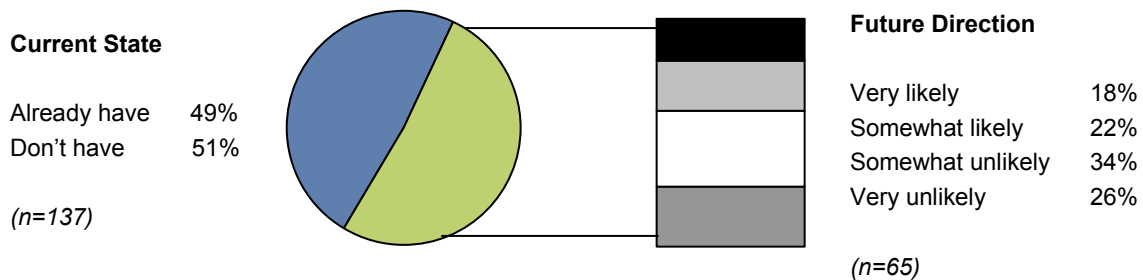
Respondents with either a closed or frozen defined benefit plan continue to be significantly more likely to adopt automated features than respondents with an ongoing pension plan or no pension plan. For example, 65% of closed pension plan respondents and 60% of frozen pension plan respondents offer automatic enrollment for new hires, versus 42% of respondents with an ongoing pension plan. Automation often appears to be a tool used to help offset the impact of a decrease in defined benefit plan value.

Automatic Rebalancing

Nearly half of employers said they currently offer automatic rebalancing. Of the remainder, 40% said they are very or somewhat likely to offer automatic rebalancing in 2009.

The need for automatic rebalancing has been established in defined contribution plans, and is more important than ever with the recent market losses and significant volatility. Hewitt's research report, *How Well Are Employees Saving and Investing in 401(k) Plans*, shows that on average only one in five participants make any type of fund transfer in a typical year. Therefore, automatic rebalancing is a useful tool to help participants stay on track and maintain their target allocations.

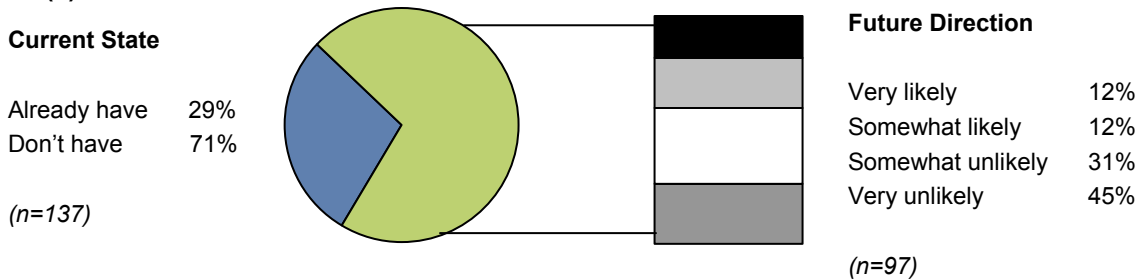
Automatic Rebalancing



Roth 401(k)

The Roth 401(k) gained significant momentum, with 29% of respondents reporting that they already offer the feature, up from 19% in 2008 and 12% in 2007. Of those plan sponsors that do not yet offer the Roth 401(k), 24% said they are very or somewhat likely to add the feature in 2009. Although some barriers still remain, many employers note that adding the Roth feature is a question of “when” not “if.”

Roth 401(k)



Among the companies that are very or somewhat *unlikely* to add a Roth 401(k) account, 57% said that it must be clear that employees would use the Roth 401(k) before adding one. Forty-six percent of the employers cited administrative complexity and/or cost of offering a Roth 401(k) as barriers. As more data emerges that demonstrates measurable employee utilization, and complexities related to the Roth are effectively reduced, it is likely interest in Roth accounts will continue to increase.

Requirement Needed to Offer Roth 401(k)

- 57% It must be clear that general Roth 401(k) usage will be significant enough to justify adding it to the plan
- 46% The administrative complexity and/or cost of offering a Roth 401(k) must be reduced
- 36% There must be access to better tools and resources to effectively manage the complexity of Roth 401(k) communication
- 33% Employees must ask for it
- 31% It becomes common practice
- 24% Nothing—not interested in offering a Roth 401(k) at this time

(n=72; multiple responses)

Automatic Enrollment

With encouragement from the PPA, automatic enrollment was one of the hottest retirement trends in the past few years. However, it appears that the growth in automatic enrollment was lower than expected in 2008, and is likely to grow at a slower rate in 2009.

Over half of employers (51%) have already adopted automatic enrollment (up from 44% in 2008, 36% in 2007, and 24% in 2006). Of the remaining employers that do not currently use automatic enrollment, 25% said that they are very or somewhat likely to offer automatic enrollment for new hires in 2009. This is a significant decline from 2008, when more than twice as many employers indicated they planned to adopt automatic enrollment in the coming year (57%).

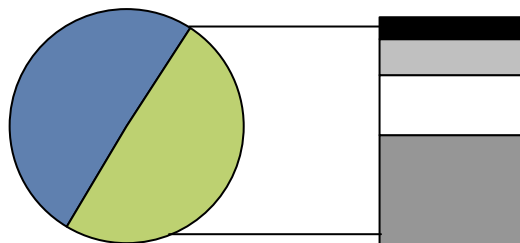
The idea of also defaulting existing nonparticipants has garnered significant interest, as more employers acknowledge the large impact the structure could have on employee savings. However, its popularity remains low with only 23% of plans (22% in 2008). Further, among plans with automatic enrollment, only 15% noted they plan to apply automatic enrollment to existing nonparticipants in 2009.

Automatic Enrollment

Current State

Already have 51%
Don't have 49%

(n=137)



Future Direction for New Hires

Very likely 10%
Somewhat likely 15%
Somewhat unlikely 27%
Very unlikely 48%

(n=67)

Trends to increase the effectiveness of automatic enrollment emerged as the top priorities for 2009 among plans that currently offer the feature. Thirty-nine percent of employers plan to add automatic contribution escalation as a default with automatic enrollment. Additionally, nearly one-third of plans (31%) intend to increase the default contribution rate, up from 9% in 2008. Continuing the migration we saw in 2008, 31% of plans are changing the default investment fund to a QDIA in 2009.

Although the economy is certainly a factor for most employers, none of the respondents to this survey are planning to eliminate automatic enrollment in 2009. However, the economy could affect the likelihood of new adoption, as well as the application of a back sweep to existing nonparticipants.

Likely Changes to Automatic Enrollment in 2009

- 39% Add contribution escalation as default under automatic enrollment
- 31% Change default investment fund to a qualified default investment alternative (QDIA) and comply with QDIA notice and other requirements to benefit from fiduciary protection for default investment
- 31% Increase default contribution rate
- 23% Apply automatic enrollment to additional classifications of employees (e.g., union employees or additional business units)
- 15% Implement a withdrawal option for participants who are automatically enrolled and would like to withdraw their contributions within 90 days
- 15% Apply automatic enrollment to existing nonparticipants (i.e., back sweep)
- 8% Change default investment fund from stable value to a balanced or premixed/lifecycle fund but not with the intention of benefiting from the QDIA fiduciary relief
- 0% Default employees to stable value then move to a QDIA within 120 days
- 0% Decrease default contribution rate
- 0% Eliminate automatic enrollment

(n=13; multiple responses)

Among the employers that are *unlikely* to offer automatic enrollment in 2009, 55% of respondents cited the increased cost of the employer match as a primary barrier. This is consistent, although more significant than in previous years. The next most common reason (cited by 37% of respondents) was the concern about employee reaction to having deductions automatically taken from their paycheck. Clearly, there are a number of reasons why automatic enrollment is not viewed as an appropriate solution for all plans.

Barriers to Adding Automatic Enrollment in 2009

- 55% Cost of match
- 37% Concern about employee reaction to having deductions automatically taken from their paycheck
- 31% Preference for active enrollment within the plan
- 24% Cost/burden of administering an increased number of small balances
- 16% Internal focus on other priorities
- 10% Concern over fiduciary exposure
- 7% No need to implement; participation already high
- 1% Cost of implementing changes
- 27% Other (e.g., concern about ADP results; high turnover)

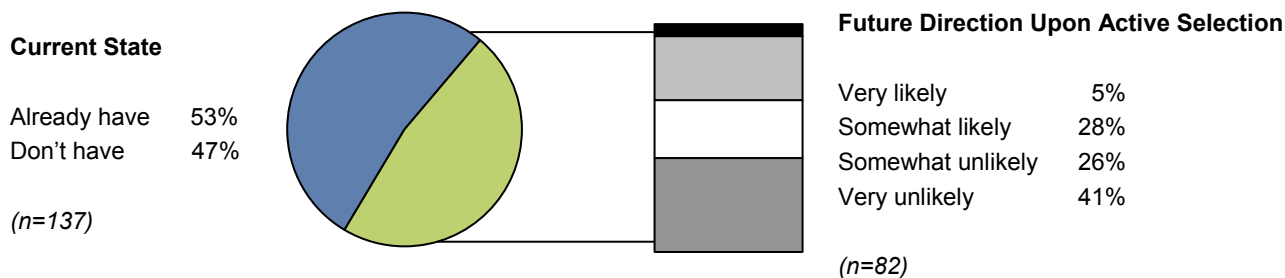
(n=70; multiple responses)

Contribution Escalation

Fifty-three percent of respondents currently have some form of contribution escalation in their defined contribution plans, up from 44% in 2008. Among this group, three out of ten indicated that they already offer contribution escalation as a part of automatic enrollment, while 15% offer it as part of a simplified enrollment process. Forty percent of employers offer it only upon active selection. Among employers that do not currently have contribution escalation as a plan feature, one-third said they are very or somewhat likely to offer contribution escalation in 2009.

Increasing savings rates steadily can have a significant impact on employee savings and the ability of employees to accumulate sufficient retirement assets. It appeals to employees, and also improves actual deferral percentage (ADP) testing results, potentially allowing highly compensated employees to save more money.

Contribution Escalation



Retirement Income Solutions/Annuities

Eight percent of respondents already promote or facilitate the use of annuities outside the plan as a rollover option for plan distributions in their defined contribution plan. As the focus on managing retirement income has increased, 27% of employers reported that they are likely to add a solution during 2009.

Only 4% of plans currently offer some sort of retirement income solution, including annuities or individual insurance products, *within* the plan to current participants. While these features have received significant recent attention in the marketplace, few employers report that they are likely to add them during 2009. The marketplace is evolving, and these types of products can be quite complex for employers to evaluate and implement, and certainly also are challenging to communicate to participants.

Retirement Income Solutions/Annuities

Already Offer		How Likely to Offer in 2009 Among Those Plans That Do Not Currently Offer			
		Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
8%	Facilitation of annuities outside the plan as rollover options for plan distributions (n=126)	5%	22%	32%	40%
4% (n=137)	Annuities or individual insurance products within the plan (e.g., variable annuity features, preservation of principal, minimum annuity payout, other) (n=132)	2%	11%	36%	50%

Among the employers that are *unlikely* to offer retirement income solutions/annuities in 2009, 46% of respondents said they are not implementing these products because it is too early in the development phase and they are waiting to see how the industry develops. The next most common reason, cited by 42% of respondents, was they are simply not interested in offering at this time.

Barriers to Adding Retirement Solutions

- 46% It is too early in the product development phase, waiting to see how the industry develops
- 42% No barriers: not interested in offering at this time
- 32% Concern over fiduciary exposure
- 24% Participant communication hurdles
- 20% Employee usage would not be adequate to justify addition
- 18% Difficulty in selecting the appropriate insurance provider
- 13% Cost to implement and administer is too significant
- 13% Apprehension related to operational difficulties
- 10% We view our retirement plan as an accumulation vehicle, not a retirement income vehicle
- 4% Other (e.g., already offer annuities with DB plan)

(n=112; multiple responses)

Features to Help With Investment Selection

Current Offerings

Many employers currently offer services and tools to reach employees and help them make investment and savings decisions. Forty-seven percent of respondents currently offer in-person financial education seminars or classes, and 38% utilize webcasts to reach employees. Fifty-five percent offer online investment guidance, 38% provide online advice, and 30% offer phone access to advisory services. Currently, 20% of plans offer managed accounts, which allow employees to delegate the overall management of their accounts to an outside professional.

In terms of diversified investment options, many plans offer target date and/or target risk funds that help to simplify participants' investment decision making. Over three-quarters of employers (77%) offer target date portfolios, up from 66% in 2008. Only 40% provide target risk options, down marginally from the previous year.

Offerings in 2009

Among plans that do not currently provide financial education seminars or classes, 65% of respondents are very or somewhat likely to offer web-casts on these topics and 60% plan to offer in-person seminars or classes in 2009. Online investment guidance and advice are projected to grow substantially during 2009, with 39% of respondents planning to adopt guidance and 43% adding advice. Finally, 19% noted they were very or somewhat likely to offer managed accounts.

Among those not currently offering target date portfolios, over half of respondents are very or somewhat likely to offer them in 2009. Target risk funds are clearly not a priority for 2009 with very few plans inclined to add them.

Features to Help With Investment Selection Offerings in 2009

Already Offer		How Likely to Offer in 2009 Among Those Plans That Do Not Currently Offer			
		Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
	Financial education seminars or classes				
38%	— Webcasts (<i>n</i> =84)	23%	42%	19%	17%
47%	— In-person (<i>n</i> =69)	26%	34%	20%	20%
77%	Target date funds (e.g., 2010, 2020, 2030) (<i>n</i> =32)	37%	16%	28%	19%
38%	Online third-party investment advisory services (personalized advice on specific investments or broader financial topics) (<i>n</i> =85)	11%	32%	32%	25%
29%	Estimates of postretirement needs, including retiree medical as part of or separately from other initiatives (<i>n</i> =95)	8%	34%	34%	24%
30%	Phone access to third-party investment advisory services—individual sessions with an advisor (personalized advice on specific investments or broader financial topics) (<i>n</i> =92)	9%	31%	35%	24%
55%	Online investment guidance (investment suggestions based on asset classes only) (<i>n</i> =61)	23%	16%	28%	33%
21%	In-person third-party investment advisory services (individual sessions to provide personalized advice on specific investments or broader financial topics) (<i>n</i> =107)	9%	13%	41%	37%
20%	Managed accounts (the ability for employees to delegate overall management of their 401(k) accounts to an outside investment professional) (<i>n</i> =109)	7%	12%	39%	42%
40%	Target risk funds (e.g., conservative, moderate) (<i>n</i> =82)	0%	8%	22%	70%

(Already offer column *n*= ranges from 131–136)

Contribution Structure

Employer matching contributions have certainly gained attention as several employers reported the need to suspend or reduce their matching contributions in the current environment. However, the majority of companies are not planning to change the company contribution to the defined contribution plans. Among survey respondents, only 5% with a match and 2% with a nonmatching company contribution are planning to reduce or eliminate the company contribution in 2009.

Likely Changes to Contribution Structure in 2009

- 78% No change to company match is planned
- 43% No change to company nonmatching contribution is planned
- 6% Add/increase the company match
- 5% Adopt the ADP/ACP safe harbor design for a plan that does not have automatic enrollment (pre-PPA provisions)
- 5% Reduce/eliminate the company match
- 4% Add/increase company nonmatching contribution
- 2% Adopt the ADP/ACP safe harbor design for a plan with automatic enrollment
- 2% Reduce/eliminate the company nonmatching contribution

(n=134; multiple responses)

Employer Stock Fund

Sixty-one percent of respondents that participated in this year's survey offer an employer stock fund as an investment option in their defined contribution plans. Among these employers, 71% do not have any operational changes planned for the employer stock and/or to reduce fiduciary risk. A significant number, 12% of respondents, report that they will no longer match employee contributions in employer stock. Additionally, 6% will limit employee investment into the stock fund as a way to reduce exposure.

Likely Actions in 2009 to the Employer Stock Fund as an Investment Option

- 71% An employer stock fund is available, but no changes are planned
- 12% Allow company match to be directed based on employee election rather than defaulting to company stock
- 6% Limit employees' investment in employer stock (to a maximum percentage threshold)
- 4% Eliminate it as an investment option
- 4% Freeze the employer stock fund so that no new contributions can be made to it (but not immediately eliminate it)
- 4% Hire a third party as a fiduciary of the employer stock fund
- 0% Remove those designated as investment insiders from the investment committee to protect against claims of conflicts of interest
- 14% Other (e.g., already limit employees' contributions)

(n=51; multiple responses)

Communication Initiatives in 2009

Many employers continue to use communication as an important tool to help employee with elections and behaviors in their 401(k) plans. Communication initiatives on many topics are likely, including topics such as diversification, plan participation, contribution levels, and retirement income adequacy.

Employers are less likely to communicate specifically about the behaviors of loan-taking, in-service withdrawals, and rolling over versus cashing out of the plan upon distribution. This is consistent with prior survey findings.

Likely Defined Contribution Communication Initiatives in 2009

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Diversification/fund usage (<i>n</i> =129)	47%	40%	8%	5%
General understanding and appreciation of the plan (<i>n</i> =126)	40%	38%	13%	9%
Financial education (<i>n</i> =126)	32%	44%	13%	11%
Plan participation (<i>n</i> =131)	49%	24%	17%	10%
Contribution levels (<i>n</i> =129)	41%	28%	22%	9%
Retirement income adequacy (<i>n</i> =128)	23%	45%	21%	11%
Retirement considerations and the retirement process (<i>n</i> =125)	32%	44%	13%	11%
Plan and/or fund expenses (<i>n</i> =121)	26%	27%	34%	13%
401(k) decision making within a broader financial or total benefits context (<i>n</i> =125)	19%	34%	31%	15%
Loan-taking or in-service withdrawals (<i>n</i> =123)	17%	17%	37%	29%
Rolling over versus cashing out of the plan upon distribution (<i>n</i> =121)	13%	17%	41%	29%

In reaction to the recent investment market and economic downturn, many employers are reaching out to employees through communication. In particular, the vast majority of employers are communicating messages around market volatility and diversification as well as investing for the long term.

Actions to Address 2008 Market Volatility

- 91% Weathering the markets through proper diversification
- 87% Staying the course and investing for the long term
- 50% Benefits of rebalancing on a regular basis
- 48% Increasing awareness of available plan features (guidance, third-party financial advisors, managed accounts, pre-diversified funds, auto-rebalancing)
- 38% Importance of maximizing savings to achieve future retirement goals
- 35% Investment committee and fund oversight process
- 23% Negative effects of taking a loan and/or in-service withdrawal
- 19% Fund specific updates related to holdings, etc.
- 4% Other (e.g., benefit presentations, workshops)

(n=133; multiple responses)

In terms of how plan sponsors are pushing these messages out, online and Internet tools are popular and effective ways to reach employees. Three-quarters of respondents are utilizing their intranet site, 60% are using e-mail blasts, and 49% are using webinars. In addition, popular non-online-based vehicles include targeted mailings and in-person seminars, which will be used by 69% and 53% of employers, respectively.

Likely Communication and Education Vehicles Used in 2009

- 75% Articles posted to intranet or benefits site
- 69% Targeted mailings to home
- 60% E-mail blasts
- 60% Online modeling tools
- 53% In-person educational seminars
- 49% Webinars
- 48% Features in internal newsletters
- 26% Financial planning sessions with independent third-party advisors
- 8% Educational video series
- 6% Train-the-trainer sessions for benefits staff
- 5% Podcasts
- 8% Other (e.g., updates on Web site, quarterly statement inserts)

(n=134; multiple responses)

Investment Fund Offerings

In 2009, the majority of respondents expect to review defined contribution fund operations, including fund expenses and revenue sharing. Furthermore, over one-quarter of employers plan to change/alter their fund options to reduce overall fund costs, many noting a move to institutional vehicles (nonmutual funds). The recent scrutiny of the marketplace by regulators and litigators has significantly increased employer focus on operations and costs in recent years.

Most employers intend to perform a comprehensive review of fund offerings. In general, respondents that offer only a defined contribution plan are more likely to be taking action with respect to fund offerings than sponsors that also have a pension plan. It is possible that the continued focus on pension plans is distracting from the focus on defined contribution fund offerings.

Likely Actions to Investment Fund Offerings in 2009

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Review DC fund operations, including fund expenses and revenue sharing (<i>n</i> =128)	58%	23%	10%	9%
Perform a comprehensive review of fund offerings (<i>n</i> =130)	59%	20%	11%	10%
Update investment policy statement (<i>n</i> =129)	26%	30%	28%	16%
Analyze fund options' securities lending procedures (<i>n</i> =127)	17%	28%	34%	21%
Replace higher cost/retail mutual funds with lower cost/institutional funds (including separate accounts or collective trusts) (<i>n</i> =125)	11%	20%	36%	33%
Change/alter fund options to reduce costs of the funds (<i>n</i> =128)	7%	23%	36%	34%
Add target date/target risk funds (<i>n</i> =115)	20%	8%	19%	52%
Increase the number of funds offered in the plan (core funds only excluding target date or target risk funds) (<i>n</i> =126)	9%	18%	37%	37%
Add a Treasury Money Market fund (in reaction to the volatility of the 2008 markets) (<i>n</i> =123)	8%	11%	27%	54%
Change some or all funds from actively managed to index funds (<i>n</i> =126)	3%	14%	36%	48%
Switch from target risk to target date funds (<i>n</i> =117)	16%	4%	20%	64%
Implement a self-directed brokerage account (<i>n</i> =118)	4%	4%	14%	78%
Reduce the number of funds offered in the plan (<i>n</i> =126)	2%	2%	37%	58%

Managing Risk

In 2009, respondents were asked their likely actions in managing the risk in their defined contribution plans. Given the current environment, it is not surprising that plan sponsors are taking significant action to mitigate risk posed by their programs.

Seven out of ten employers are very or somewhat likely to increase the amount of participant communication surrounding the investments and overall fund fees in their defined contribution plans. Two-thirds of respondents are likely to review their plan governance structure (committee structure, fiduciary ownership, processes, and procedures). Over half plan to benchmark plan administration and procedures to best practices, and about half plan to conduct a compliance review. Additionally, employers are more likely to hire a third party to assist them in managing the plan, with 39% indicating they will hire a party to review the funds and the same number looking for assistance on reviewing plan fees.

Likely Actions in 2009 to Manage Risk in Defined Contribution Plan

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Increase the amount of participant communication surrounding the investments and overall plan and fund fees (<i>n=123</i>)	25%	48%	16%	11%
Benchmark plan administration and procedures to best practices (<i>n=118</i>)	28%	36%	25%	12%
Review plan governance structure (i.e., review committee structure, fiduciary ownership, processes, and procedures) (<i>n=125</i>)	27%	31%	27%	14%
Perform a compliance review (including third-party reviews) (<i>n=121</i>)	22%	22%	38%	18%
Increase frequency or intensity of review of total plan cost (<i>n=117</i>)	12%	21%	41%	26%
Hire a third party to monitor or review investment options (<i>n=111</i>)	25%	14%	32%	29%
Hire a third party to benchmark total plan expenses (<i>n=111</i>)	25%	14%	32%	29%
Perform more robust projections of employer contributions and the impact of behavioral changes (<i>n=86</i>)	8%	27%	33%	33%
Increase frequency and/or intensity of fund option monitoring (<i>n=117</i>)	12%	21%	41%	26%
Outsource fiduciary responsibility to a third party (<i>n=117</i>)	3%	6%	26%	66%

Defined Benefit Plans

This section of the survey shows findings from respondents that provide any form of defined benefit plan (traditional or hybrid, ongoing or closed). Depending on the questions, results may be shown for a subset of these respondents, as indicated.

Likely Changes to Defined Benefit Plans in 2009

Nearly, seven out of ten employers participating in the survey that provide an ongoing defined benefit plan are very likely to stay the course in 2009. This result is consistent with 2008. Only 3% say they are very likely to close or freeze their plan in 2009. This suggests the trend of moving away from defined benefit plans continues to slow. Additionally, 10% report they are very likely to change aspects of the plan design, but will continue to offer a defined benefit plan to current and future employees.

Likely Changes to Ongoing Defined Benefit Plans in 2009

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
No changes; continue with current plan as is (<i>n</i> =37)	68%	14%	5%	14%
Change aspects of the plan design, but continue to offer a defined benefit plan to current and future employees (<i>n</i> =39)	10%	8%	18%	64%
Change traditional defined benefit plan to a hybrid plan (cash balance or pension equity) (<i>n</i> =29)	7%	7%	7%	79%
Close participation; no longer allow new employees to enter the defined benefit plan (<i>n</i> =40)	3%	15%	20%	62%
Freeze accruals; cease benefit accruals for all or a portion of participants (<i>n</i> =38)	0%	5%	16%	79%
Terminate the plan; fully fund and remove all company liability through lump sum payout to participants or third party annuity purchase (<i>n</i> =39)	0%	0%	3%	97%
Change to other plan design ("Fair Value," "Stable Value," "Retirement Shares," or other pension design) (<i>n</i> =37)	0%	0%	8%	92%

Respondents that are likely to make changes to their defined benefit plans overwhelmingly responded that they will communicate the changes to employees through broad-based written communications. In addition, employers are expected to target communication to appropriate groups and provide information to employees through seminars/workshops.

Types of Communications

	Percent of Employers Likely to Make Changes			
	All Defined Benefit Plans	Ongoing Defined Benefit Plans	Closed Defined Benefit	Frozen Defined Benefit
Broad-based written communication on the plan changes	94%	100%	100%	67%
Targeted communication to appropriate groups	69%	71%	67%	67%
Seminars, workshops	42%	43%	50%	33%
Personalized statements to show impact of changes	69%	43%	83%	100%
Online modeling tools to show impact of changes	38%	43%	50%	0%
<i>(multiple responses)</i>	<i>(n=16)</i>	<i>(n=7)</i>	<i>(n=6)</i>	<i>(n=3)</i>

Among respondents that are *unlikely* to make changes to their ongoing defined benefit plans in 2009, the primary reason, reported by 18%, is the belief that their plans fit their workforce needs and/or preferences. Additionally, 17% are staying the course because they believe their plans are efficient vehicles for the delivery of retirement benefits. Among the closed/frozen plans, no change is needed because the plans are already closed/frozen.

Primary Reason Defined Benefit Employers Are Not Making Changes in 2009

	Percent of Employers
We may evaluate the plan at a later day, but have other priorities for 2009	26%
Fits workforce needs and/or preferences	18%
Plan is an efficient vehicle for delivering retirement benefits	17%
Plan is already frozen; no need to change	14%
Plan is necessary to remain competitive	11%
Previously made changes to plan	9%
Plan is over funded and costs little to nothing; no reason to change	3%
PPA and recent court ruling validate hybrid plan designs	0%
Other (e.g., currently reviewing)	2%
<i>(n=65)</i>	

Similar to the defined contribution responses, pension plan sponsors are focusing on risk management strategies. Respondents are likely to perform funding and accounting projections, review funding strategy, adjust asset allocation, and assess risks that the pension plan is running based on current strategies in 2009. The likelihood of all of these initiatives has increased since last year's results. In addition, almost two-thirds of respondents are likely to conduct an asset-liability study in the next year.

Less likely areas of focus include transferring the plan (both assets and liabilities) to an outside party to reduce risk of exposure and transferring excess pension assets into a health benefits account.

Likely Actions Defined Benefit Plan Sponsors Will Take in 2009 for All Defined Benefit Plans

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Perform funding and accounting projections (<i>n=90</i>)	70%	22%	4%	3%
Review funding strategy (<i>n=88</i>)	43%	42%	8%	7%
Assess the risks (financial and nonfinancial) that the pension plan is running based on current strategies (<i>n=89</i>)	36%	43%	12%	9%
Conduct an asset-liability study (<i>n=88</i>)	24%	41%	24%	11%
Adjust equity exposure and/or overall asset allocation (<i>n=88</i>)	10%	52%	25%	13%
Adjust plan investments to better match the characteristics of the plan's liabilities (e.g., Liability-Driven Investing or LDI) (<i>n=88</i>)	13%	40%	36%	11%
Allow in-service distributions as early as age 62, as permitted by PPA (<i>n=88</i>)	3%	11%	30%	56%
Add or liberalize a lump-sum option (<i>n=87</i>)	2%	3%	23%	73%
Purchase annuities for retirees (<i>n=89</i>)	1%	3%	21%	74%
Transfer excess pension assets into a health benefits account under Code section 420 (<i>n=89</i>)	0%	2%	9%	89%
Transfer the plan (both assets and liabilities) to an outside party to reduce risk exposure (<i>n=88</i>)	0%	1%	11%	88%

The highest priority risks also tend to be the risks that respondents are most confident they are managing effectively. Signs of needed action are apparent with respect to addressing investment risk, compliance risk, and interest rate risk, which are high priorities for respondents that are very confident they are effectively managing those risks.

Confidence Level of Employers Effectively Managing Risks in Defined Benefit Plans and Priorities for 2009

	Not Confident at All 1	2	3	4	5	Very Confident 6	High Priority 3	Medium Priority 2	Low Priority 1
Diversification risk (risk that plan investments are too heavily tied to one particular investment/market) (n=80)	1%	0%	3%	10%	24%	63%	64%	30%	6%
Compliance risk (n=80)	1%	1%	0%	8%	31%	59%	56%	37%	7%
Fiduciary risk (n=81)	1%	0%	3%	10%	28%	58%	53%	44%	3%
Investment risk (n=81)	1%	0%	1%	5%	37%	56%	87%	12%	1%
Plan design risk (aspects of the plan design, such as lump sums or final average pay provisions) (n=78)	1%	4%	9%	15%	17%	54%	26%	47%	27%
Interest rate risk (n=78)	1%	3%	1%	13%	32%	50%	58%	38%	4%
Litigation risk (n=81)	1%	2%	5%	20%	27%	44%	29%	52%	19%
Demographic risk (changes in participant demographics, such as retirement patterns) (n=78)	1%	2%	8%	26%	28%	35%	21%	42%	38%
Longevity risk (risk that employees may live longer than assumed) (n=78)	1%	6%	9%	31%	21%	32%	20%	40%	40%

Retiree Medical Plans

Eight out of ten respondents offer postretirement medical coverage to their current or future retirees. Among the respondents that offer coverage, 81% provide subsidized retiree medical coverage to some current retirees, while 54% provide subsidized retiree medical to some future retirees. Note that respondents answered the retiree medical questions based on the segment of their retiree populations with the largest number of retirees.

Type of Retiree Medical Coverage Offered

	Current Retirees	Future Retirees
Subsidized retiree medical	80%	48%
Access only to retiree medical	18%	35%
Some funding, but no access to employer-provided retiree medical plan	2%	4%
No retiree medical	0%	13%
	(n=93)	(n=96)

In 2009, respondents are likely to focus on adopting different benefit options and programs, reducing benefits/subsidy for future retirees, and decreasing reliance on the 28% Medicare Retiree Drug Subsidy. The majority of respondents are very or somewhat *unlikely* to reduce or eliminate benefit eligibility or subsidy for current retirees or adopt an account-based program.

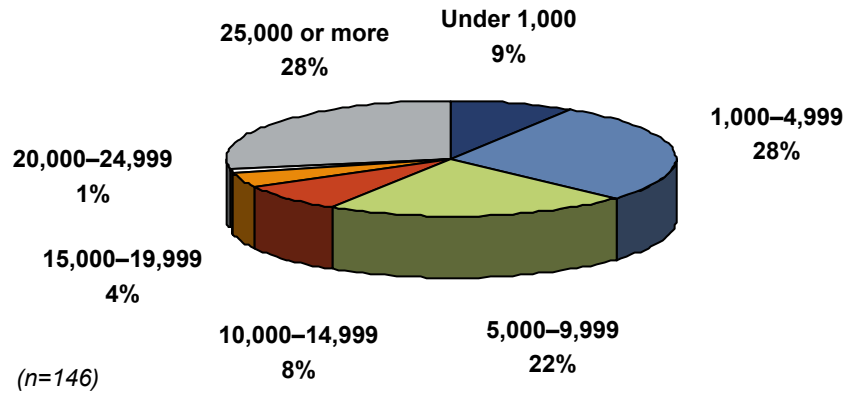
Likely Changes to Retiree Medical Programs in 2009

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely
Reduce benefits/subsidy for future retirees (n=75)	12%	21%	20%	47%
Adopt different benefit options and programs (e.g., Medicare Advantage) (n=79)	10%	17%	29%	44%
Reduce benefits/subsidy for current retirees (n=86)	7%	12%	17%	64%
Reduce or eliminate benefit eligibility for future retirees (n=79)	6%	9%	27%	58%
Decrease reliance on 28% Retiree Drug Subsidy (n=90)	9%	6%	27%	58%
Adopt account-based retiree medical program (n=81)	7%	5%	20%	68%
Reduce or eliminate benefit eligibility for current retirees (n=88)	2%	1%	13%	84%

Participating Employer Information

Number of U.S. Employees

Nearly four out of ten survey respondents have 10,000 or more employees. The median number of U.S. employees is 6,573 and the average is 20,952.



Company Stock

Fifty-four percent of survey respondents have publicly-traded stock.

Company Stock Publicly Traded

	Percent of Employers
Yes	54%
No	46%

(n=146)

Industry

	Percent of Employers		Percent of Employers
Aerospace/Defense	3%	Energy/Utilities	8%
Agriculture	1%	Entertainment/Communication/Publishing	1%
Associations/Foundations	1%	Environmental Services/Equipment	0%
Automotive/Transport Manufacturing	1%	Financial Services	7%
Banking	3%	Food	1%
Beverages	1%	Government	1%
Business Services	2%	Health Care	11%
Charitable Organizations	1%	Industrial Manufacturing	2%
Chemicals	2%	Insurance	10%
Computer Hardware	1%	Leisure	0%
Computer Services	1%	Media	1%
Conglomerate	0%	Member Organizations	0%
Construction	1%	Metals/Mining	1%
Consumer Products Manufacturing	3%	Pharmaceuticals	1%
Consumer Services	0%	Retail (includes wholesale & distribution)	11%
Diversified Manufacturing	8%	Telecom Equipment	0%
Diversified Nonmanufacturing	1%	Telecom Services	1%
Education	2%	Transportation Services	1%
Electronics/Electrical	2%	Other: hospitality, R&D, medical devices	9%

(n=146)

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