

At a Glance

Despite the crisis, most employees are satisfied with their company's retirement program.

More employees with a DB plan are satisfied with their employer's retirement program than those with only a DC plan.

When it comes to retirement plan design, workers are attracted to guaranteed benefits, portable accounts and the freedom to make their own investment decisions.

Effect of the Economic Crisis on Employee Attitudes Toward Retirement

Part III: Retirement Plan Design Preferences

About the Survey

In February 2009, Watson Wyatt surveyed 2,232 active employees and 904 retirees of nongovernment organizations with 1,000 or more employees to gauge the effect of the economic crisis on Americans. This report focuses on employees' retirement plan design preferences and is the third and final installment of a research series on the survey findings. It is based on analysis conducted by Steven A. Nyce, director of Watson Wyatt's Research and Innovation Center.

Executive Summary

While the economic crisis has affected all retirement plan participants, it has highlighted the relative pros and cons of different plan designs. Defined contribution (DC) plan participants' account balances have declined significantly, while some defined benefit (DB) plan members have become concerned about the future of their benefits.

Despite recent events, most employees say they are satisfied with their company's retirement program. Those with a DB plan are more likely to be satisfied and cite their retirement plan as a key reason they stay with their employer than those with only a DC plan. Many workers are attracted to the security of DB plans, and nearly half indicate they would be willing to pay a higher amount out of their paycheck to ensure a guaranteed benefit in retirement. Employees, however, also want the portability of account-based plans, such as 401(k)s and hybrid pension plans, and the control over their investment decisions that DC plans provide.

Key Findings

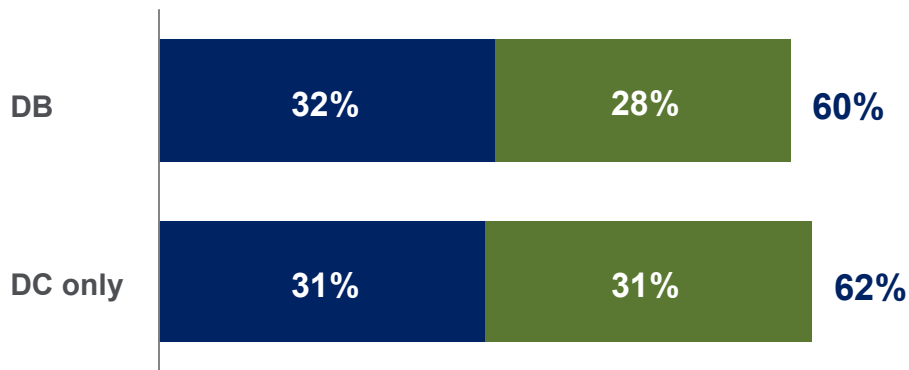
- About six in 10 employees say their company's retirement program is the primary way they save for retirement.
- More than half of the surveyed employees (54 percent) are satisfied with their company's retirement program. Only one-quarter (26 percent) view their current financial situation favorably.
- Sixty-two percent of employees with DB plans are satisfied with their retirement program compared with 51 percent of those with only DC plans.
- More than half of workers covered by a DB plan (52 percent) say their company's retirement program is a key reason they continue to work for their employer compared with one-third (33 percent) of those with only a DC plan. Workers with a DB plan are also more likely to want to stay with their employer until retirement (67 percent vs. 54 percent of those with only a DC plan).
- Almost half of workers (46 percent) would be willing to pay a higher amount out of their paycheck to ensure they have a guaranteed benefit in retirement, and two in five would be willing to pay more for access to health care benefits if they retire before they are eligible for Medicare.
- Sixty-one percent of workers under age 40 are concerned about their future DB plan benefits being reduced, and 42 percent are concerned that their future benefits will be eliminated as a result of the financial crisis.
- Strong preferences exist for portable retirement accounts and the freedom to make one's own investment decisions.

Members of both DB and DC plans rely heavily on employer-sponsored retirement programs.

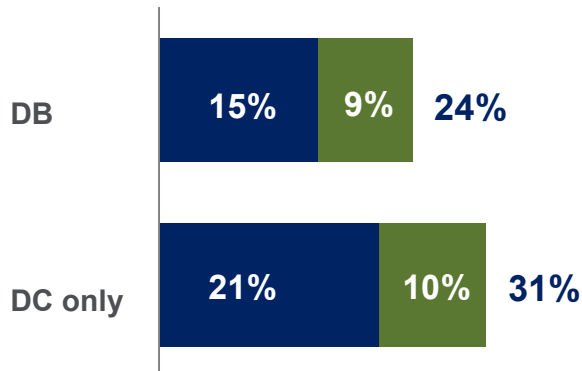
Figure 1 | The role of employer-sponsored retirement programs

About six in 10 employees say their company's retirement program is the primary way they save for retirement.

My company's retirement program is the primary way I save for retirement



I would not save for retirement if I didn't have a retirement plan at my work

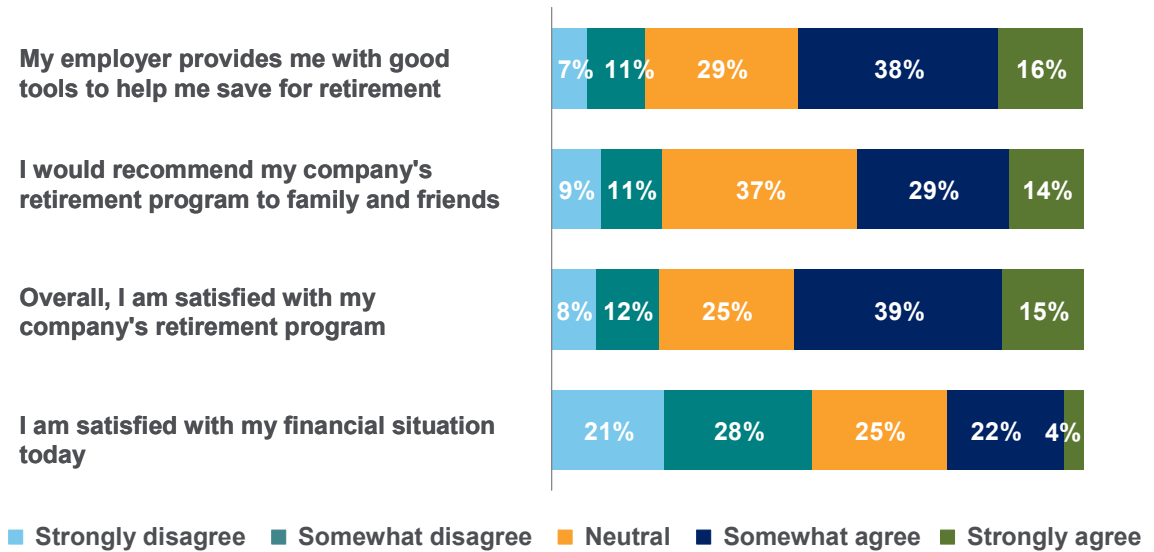


■ Somewhat agree ■ Strongly agree

Most employees view their overall retirement program favorably but are less satisfied with their financial situation.

Figure 2 | Employees' satisfaction with employer-sponsored retirement programs

More than half of the surveyed employees are satisfied with their company's retirement program and think their employer provides good tools to help them save for retirement. Only one-quarter view their current financial situation favorably.



Note: Due to rounding, percentages might not add up to 100 percent.

More employees with a DB plan are satisfied with their employer's retirement program than those with only a DC plan.

Figure 3 | Employees' satisfaction with employer-sponsored retirement programs by plan type

Sixty-two percent of workers with DB plans are satisfied with their retirement program compared with 51 percent of those with only DC plans.

	DB PLAN		DC ONLY	
	AGREE	STRONGLY AGREE	AGREE	STRONGLY AGREE
My employer provides me with good tools to help me save for retirement	36%	23%	39%	13%
I would recommend my company's retirement program to family and friends	29%	19%	29%	12%
Overall, I am satisfied with my company's retirement program	37%	25%	40%	11%
I am satisfied with my financial situation today	25%	4%	21%	4%

DB plans also have a greater impact on attraction and retention than DC plans.

Figure 4 | The role of retirement programs in attracting and retaining employees

More than half of workers covered by a DB plan (52 percent) say their company's retirement program is a key reason they continue to work for their employer, compared with one-third of those with only a DC plan. Workers with a DB plan are also more likely to want to stay with their employer until retirement (67 percent vs. 54 percent).

	DB PLAN		DC ONLY	
	AGREE	STRONGLY AGREE	AGREE	STRONGLY AGREE
My company's retirement plan was an important reason I decided to work for my current employer	22%	10%	15%	6%
My company's retirement plan is an important reason I will stay with my current employer	28%	24%	23%	10%
I would like to continue working for my current employer until I retire	26%	41%	26%	28%
I will probably leave my employer within the next two years	10%	6%	12%	9%

While DB plans have a greater effect on the retention of workers over age 40, there are a number of younger workers who are attracted to the security of a DB plan.

Figure 5 | The role of retirement programs in retaining employees by age group

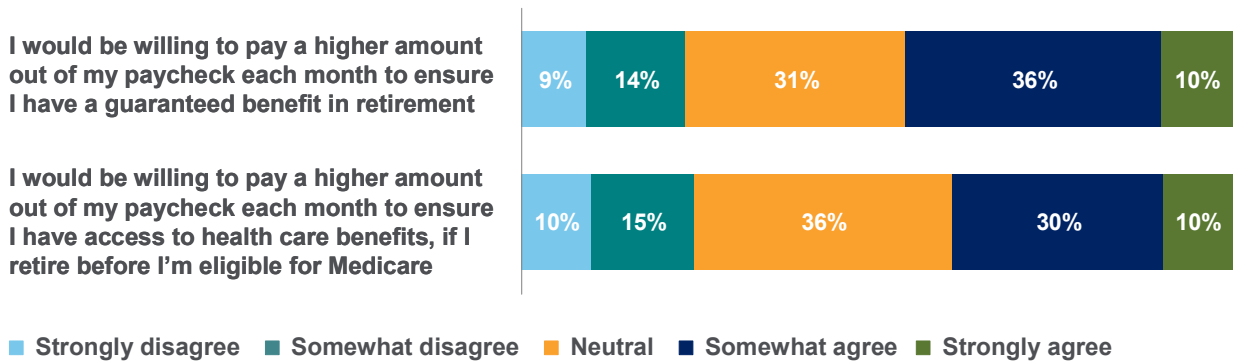
		My company's retirement plan is an important reason I will stay with my current employer		I would like to continue working for my current employer until I retire	
		AGREE	STRONGLY AGREE	AGREE	STRONGLY AGREE
DB PLAN	<40	19%	18%	29%	15%
DC ONLY	<40	22%	8%	22%	15%
DB PLAN	40s	35%	25%	26%	48%
DC ONLY	40s	23%	10%	29%	29%
DB PLAN	50+	29%	31%	21%	61%
DC ONLY	50+	23%	14%	29%	50%

Workers in their 40s covered by a DB plan are much more likely to stay with their current employer until retirement than those with only a DC plan (74 percent vs. 58 percent).

The economic crisis has left workers seeking greater security in their retirement plan designs. Many say they would be willing to pay a higher amount out of their paycheck to ensure a guaranteed benefit in retirement.

Figure 6 | Employees' willingness to pay more for guarantees

Employees are roughly twice as receptive to paying for guarantees than not. Almost half (46 percent) would be willing to pay a higher amount out of their paycheck to ensure they have a guaranteed benefit in retirement, and two in five would be willing to pay more for pre-65 retiree medical coverage.



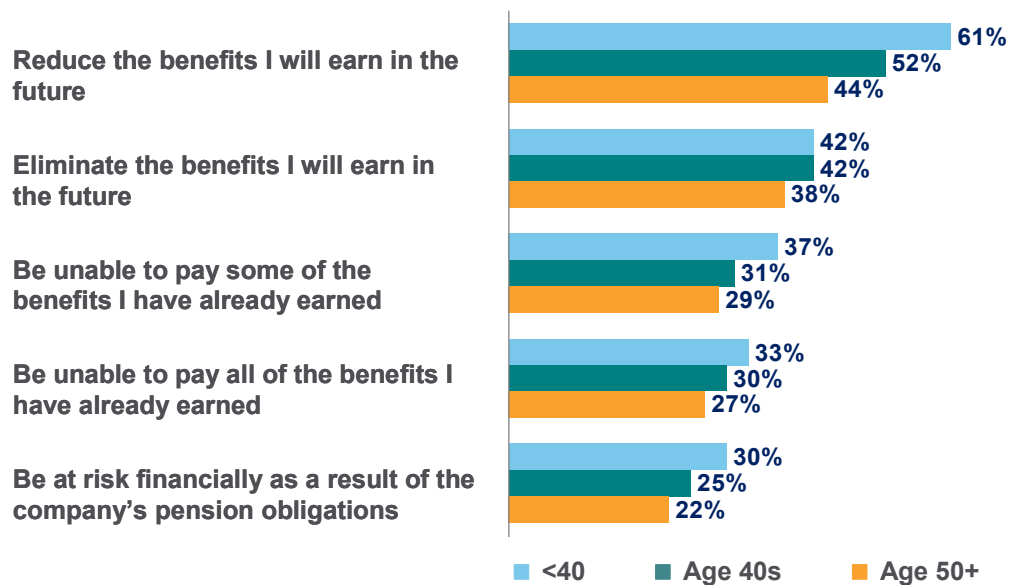
Note: Due to rounding, percentages might not add up to 100 percent.

The crisis has also caused some DB plan members, particularly younger workers, to be concerned about their future benefits being reduced. A number are also worried that their future benefits will be eliminated altogether or that their employer will be unable to pay them benefits they have already earned.

Figure 7 | Employees' DB plan concerns

Sixty-one percent of workers under age 40 are concerned about their future benefits being reduced, and 42 percent are concerned that their benefits will be eliminated as a result of the financial crisis.

Due to the financial crisis, I am concerned that my employer will:



Note: Percentages reflect employees with DB plans who somewhat or strongly agree with these statements.

Although workers are attracted to guaranteed benefits, many also want the freedom to make their own investment decisions and are willing to accept the associated investment risks for an opportunity to earn higher returns. Employees also prefer portable retirement accounts and annuitized payments throughout retirement instead of one lump sum payment at retirement.

Figure 8 | Employees' plan design preferences

OPTION A	PREFER A		NEUTRAL			PREFER B		OPTION B
	1	2	3	4	5	6	7	
Getting a guaranteed benefit amount, but no opportunity for higher returns and no chance of lower returns	11%	14%	18%	31%	15%	9%	3%	Getting no guaranteed benefit amount, but with an opportunity for higher returns or a chance of lower returns
Being able to take your account with you when you change jobs	32%	21%	10%	20%	6%	8%	4%	Having a benefit that you cannot take with you to another employer, but that will be larger in the end if you remain with the same company for many years
Having your benefits paid out as one lump sum payment when you retire	9%	6%	8%	26%	11%	21%	18%	Having your benefits distributed as guaranteed monthly payments over your retirement years for life
Having your employer make the investment decisions with no opportunity for higher returns and no chance of lower returns	2%	3%	5%	24%	16%	24%	26%	Having the freedom to make your own investment decisions with an opportunity for higher returns or the chance for lower returns
Getting a guaranteed rate of return on my savings and investments with no opportunity for higher returns and no chance of lower returns	5%	6%	8%	26%	22%	20%	14%	Getting the very best financial return available in the market on my savings and investments, with an opportunity for higher returns or the chance for lower returns

Note: Due to rounding, percentages might not add up to 100 percent.



Conclusion

The recent uncertainty in the economy and financial markets has reinforced the value of DB retirement plans. However, it has also raised some concerns about employers' future commitment to providing DB plans and their ability to fulfill their promises.

Today, employees are seeking both security and flexibility in their retirement plans. An effective retirement system recognizes that employees and employers have different needs and preferences and offers a range of solutions that help both groups meet their objectives. The time is ripe for employers to evaluate the effectiveness of their current plan designs and also to explore new retirement solutions that leverage the best features of DB and DC plans and effectively share risks and responsibilities between companies and their employees.

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