

KEEPING CURRENT WITH RETIREMENT PLANS

2015

Companies continue to use retirement plans as a strategic component to differentiate total rewards packages. Retirement programs remain highly prevalent despite a highly competitive and volatile economic environment, stiffer qualified plan funding requirements, and scrutiny on all elements of executive pay. With one in three companies changing their broad-based and/or executive retirement plans in the last three years, it is important for companies to monitor changes in peer group and industry practice to ensure consistency with market trends.

When re-designing or harmonizing retirement plans, it is also important to ensure that retirement programs:

- Align with current business and risk tolerance needs
- Meet internal and external stakeholder expectations
- Complement the total rewards, talent management, and succession planning strategy

In this publication, observations about changes in the broad-based and executive retirement landscape over the past five years are provided. The percentage of publicly-traded companies providing employer-paid retirement benefits has not dramatically changed – **three-fourths continue to provide benefits to executives beyond the qualified plans.**

However, we have seen a reduction in employer-provided benefit levels and a change in the types of plans provided (see Exhibits 1 & 2). **There continues to be a notable shift from defined benefit (DB) plans to defined contribution (DC) plans for new hire employees.**

The prevalence of qualified and nonqualified DB plans has decreased more than 40% over the last five years. Although it took a few more years to see a shift, employers are moving executives to the same DC structure as broad-based employees. Today, only about 5% of employers without an active (open to new hires) qualified DB plan provide an active nonqualified DB plan for executives.

A LOOK AT THE
CHANGING LANDSCAPE
FOR QUALIFIED AND
NONQUALIFIED PLANS



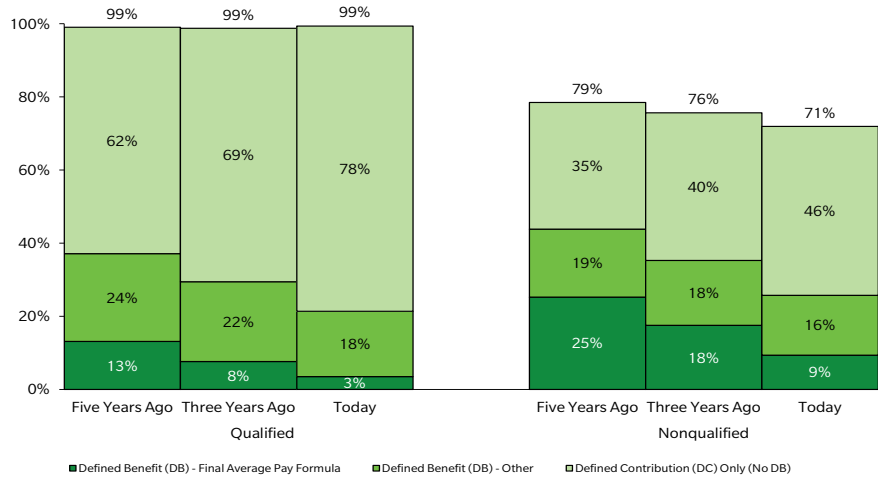
THE MERCER SOLUTION

Mercer's Executive Benefits Group (EBG) is a national consulting practice with 20+ members.

For more than 30 years, EBG has provided consulting services focused on the benchmarking, design, financing, administration, and regulatory compliance of executive benefit plans.

EBG consults with more than 500 clients annually in all areas of executive benefits.

Exhibit 1:
Prevalence of defined benefit vs. defined contribution employer-paid retirement plans open to new hires

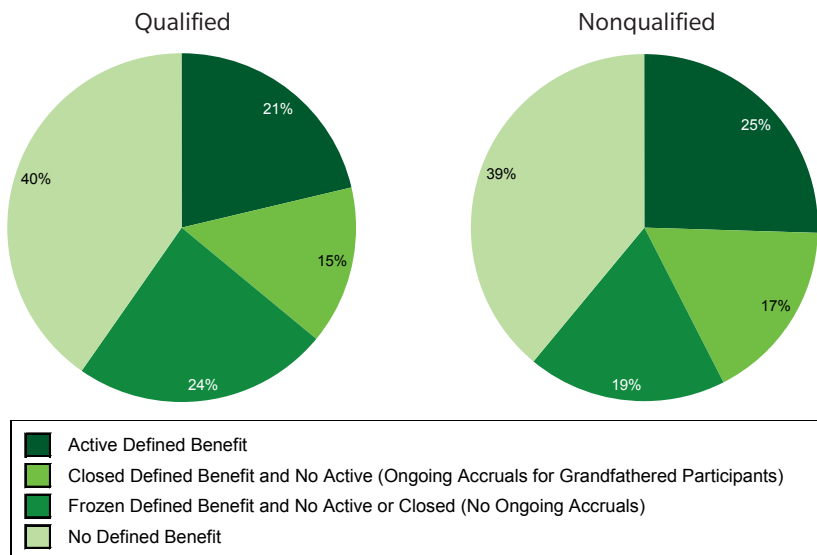


Source: Fortune 500 companies from Mercer's Executive and Broad-based Employee Retirement Tool (EBERT)

While DB plans are declining in prevalence, many companies grandfathered a portion of the population, allowing some employees to continue accruing benefits. Therefore, it's important to consider the dichotomy of the employee population. Employees that participate in grandfathered plans will often compare more favorably to current market practice than new hire employees.

Exhibit 2 shows that less than one-half of companies have ongoing DB accruals for some portion of the population through a combination of active and/or closed plans (36% for qualified plans and 42% for nonqualified plans).

Exhibit 2: Prevalence of active, closed, and frozen defined benefit plans



Source: Fortune 500 companies from Mercer's Executive and Broad-based Employee Retirement Tool (EBERT)

HOW CAN MERCER HELP?

Mercer's Executive and Broad-based Employee Retirement Tool (EBeRT) contains detailed qualified and nonqualified plan data for more than 1,100 US for-profit companies.

Industry	Revenue in Billions					Total
	< \$0.5	\$0.5 - \$1	\$1 - \$5	\$5 - \$20	\$20+	
Finance and Insurance	30	20	65	42	23	180
Manufacturing	28	43	149	110	52	382
Retail and Wholesale Trade	4	11	40	56	26	137
Services	13	12	59	38	5	127
Utilities	7	5	32	31	5	80
Other	17	23	81	66	25	212
Total	99	114	426	343	136	1,118

WHAT MAKES EBERT UNIQUE?

- Data is "real-time," which is critical in this rapidly changing retirement landscape.
- It includes an array of retirement plan provisions (eligibility, pay definition, benefit formula, vesting, early/late retirement provisions, benefit forms, etc.).
- It includes aggregate benefit levels for all plans provided by the employer to salaried employees which can be customized to represent your population.
- It includes information and benefit levels on active, closed, and frozen plans that can be used to compare various employee populations.
- The quality of data and the ability to customize cannot be obtained from static published surveys.
- Since data is from public sources, information can be provided on a named company basis.
- Data can be summarized for specific peer groups, a specific industry, and/or scoped on revenue size.

EBERT data may be used to benchmark qualified and nonqualified retirement plans, compare various plan design alternatives, or assess total rewards for broad-based employees and/or executives.

Retirement benefits continue to be a strategic component in the attraction, retention, and succession planning of employees. Companies should be aware of the overall rewards positioning against peer companies and industry practice as well as the strategic use of retirement benefits to help meet evolving business needs. Understanding market trends and the role of retirement benefits in the total compensation picture are key elements to executing an effective total rewards and talent management strategy.

To Learn More:

For more information about Mercer's solution to understanding and valuing broad-based and executive retirement benefits within the context of total rewards, please contact any member of the Executive Benefits Group.

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