



Retirement and Benefits – Past, Present and Future

A presentation to the Alexander Hamilton Awards

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External pressures “squeezing” the retirement system

Business Pressures

- Increasing benefit costs
- Cost volatility
- Shareholder pressure

Employee Pressures

- Career patterns changing
- DB plans not appreciated
- Change in expectations

Environmental Pressures

- Economic uncertainty
- Industry dynamics
- Demographic shifts
- Legal challenges
- Pension reform
- Health care reform

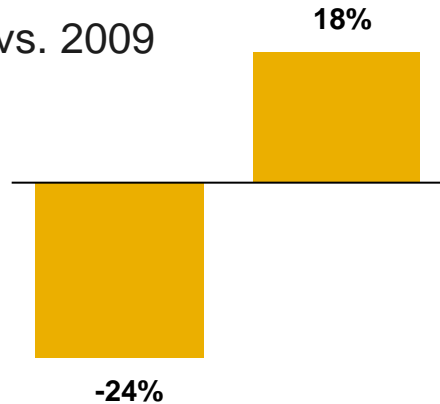
Trends

- Shift from retirement Income to wealth accumulation
- Greater emphasis on risk management
- Elimination of early retirement subsidies
- Curtailment of traditional retiree medical plans
- General “downward” trend of size of plan

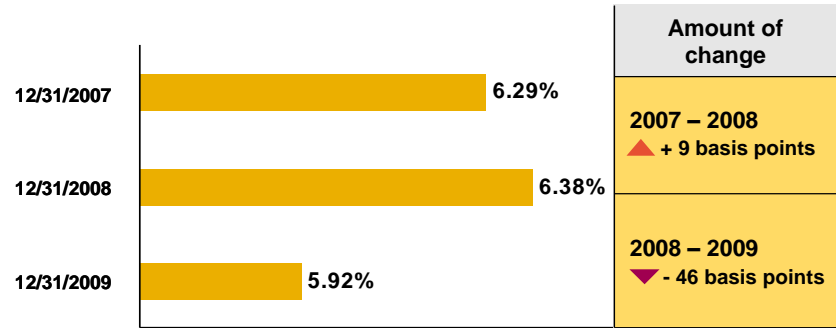
Capital market volatility has created a wide range of funded status levels, with many plans still poorly funded

Average investment returns on plan investments for top 100 pensions

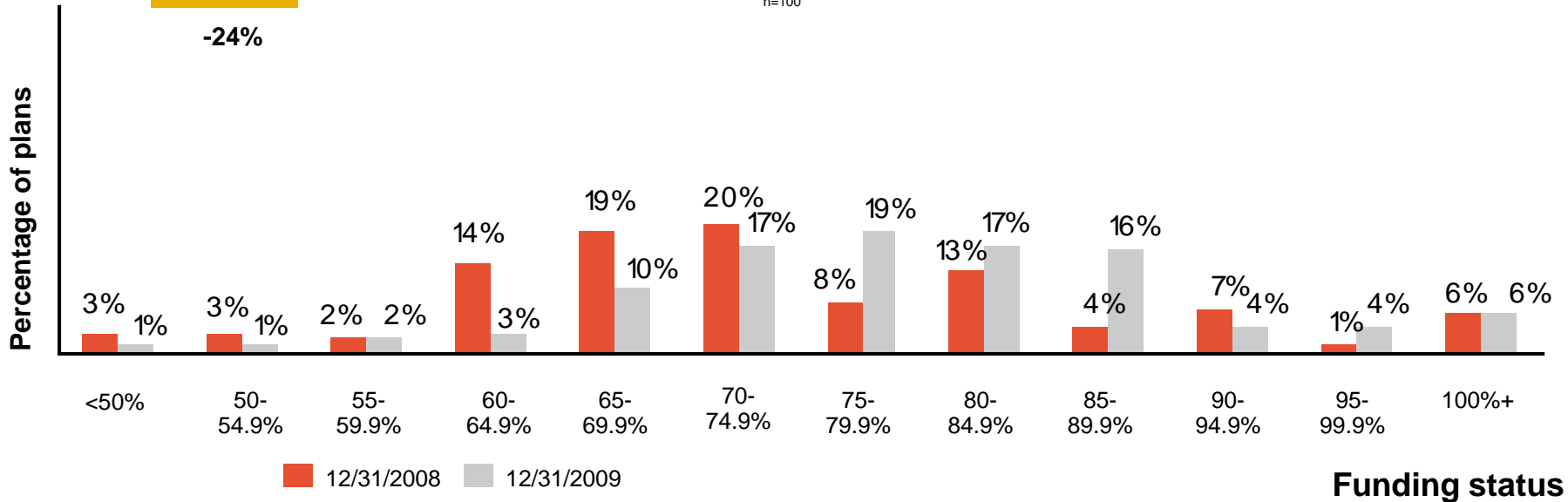
2008 vs. 2009



Average discount rate for top 100 pensions

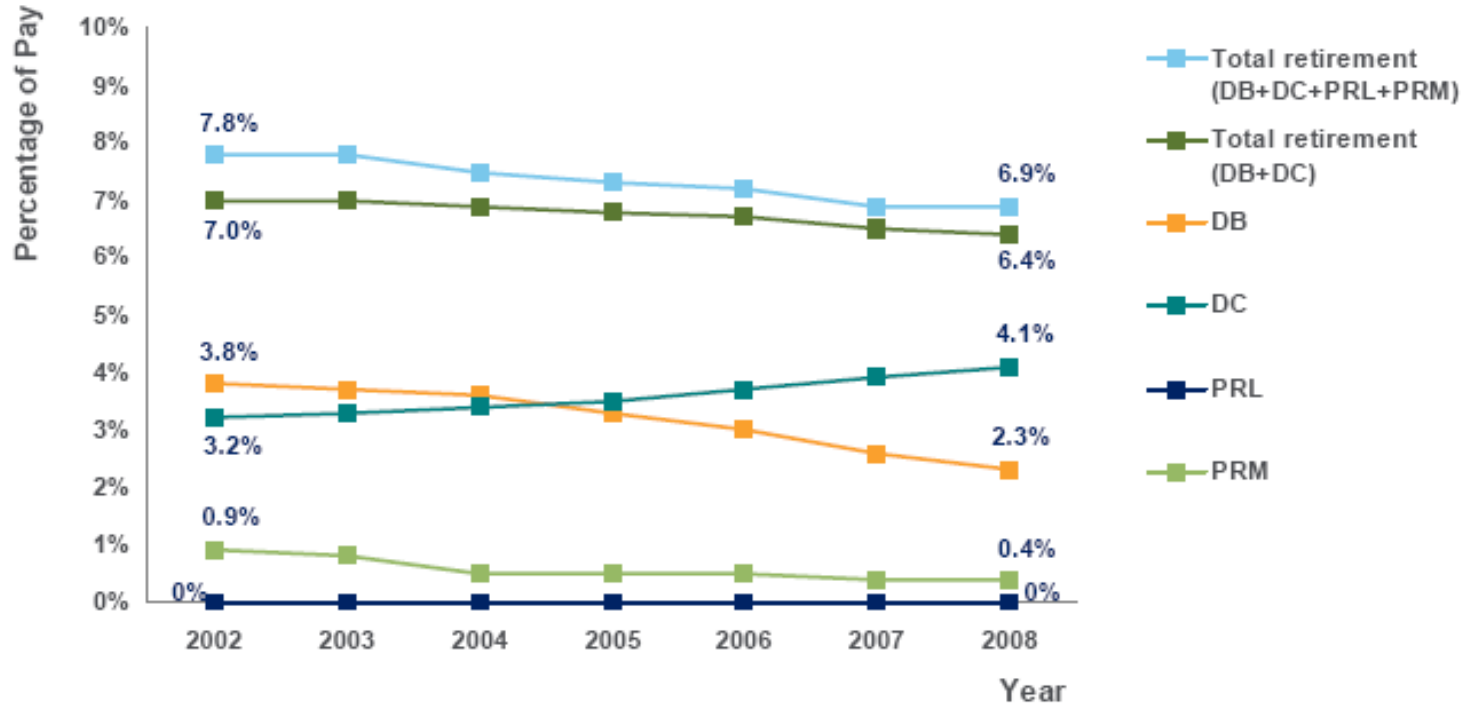


Amount of change	
2007 – 2008	+ 9 basis points
2008 – 2009	- 46 basis points



Declining employer-provided retirement plan benefit values

- The average employer funding towards retirement has fallen significantly during the last decade
- Towers Watson data on 183 companies shows a 12% decline in retirement funding relative to payroll since 2002

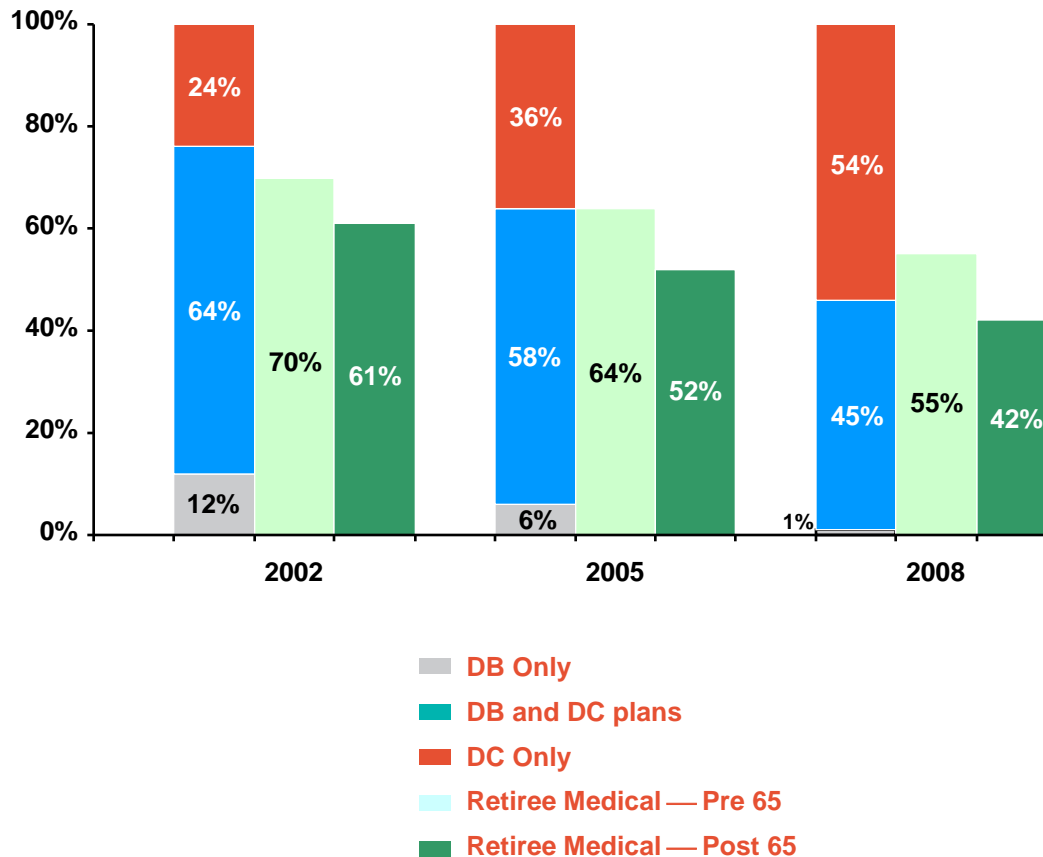


n=183

Note: PRL represents postretirement life insurance plans and PRM represents postretirement medical plans.

Responsibility for retirement increasingly shifted to employees

% of Companies

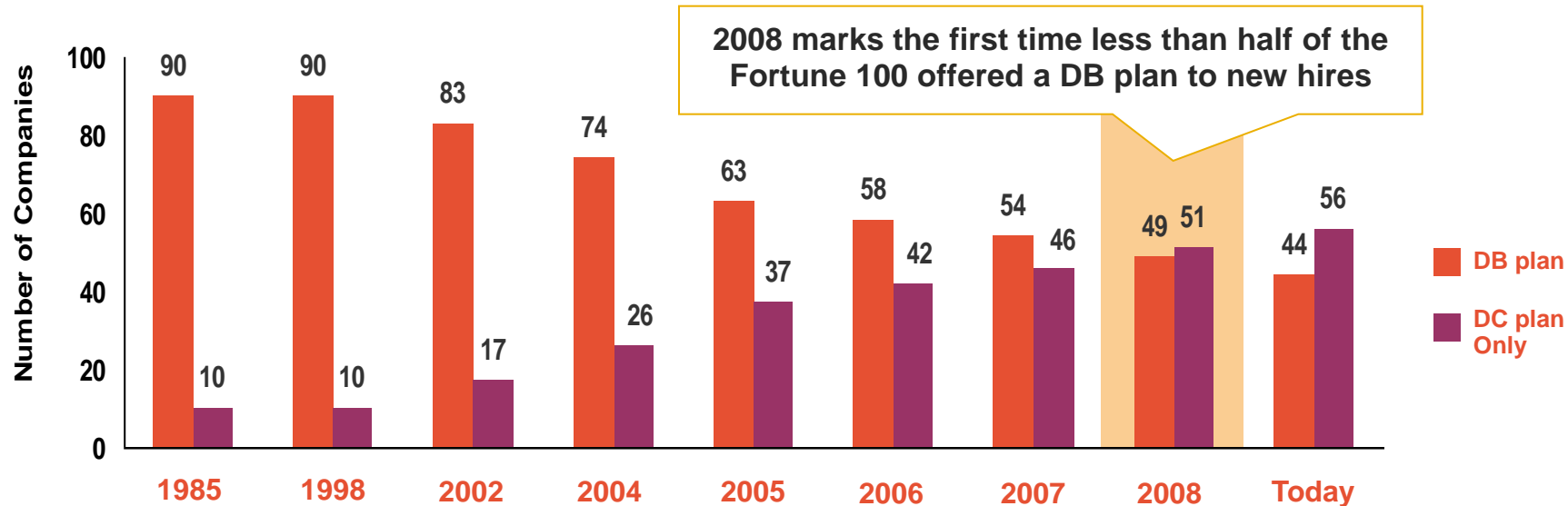


- 40% of companies moved from DB to DC as the primary retirement vehicle in just six years
- Many of the remaining DB plans have been redesigned to shift more risk to employees
- The reduction in prevalence of retiree medical plans is accompanied by reduced benefits in plans that remain
- Savings options and access for retiree medical are replacing plan sponsorship
- Health care reform may alter the role employers play in post-retirement health benefits

Source: EBIC Broad-Based Database.

Fortune 100 retirement plan prevalence

For newly hired salaried employees



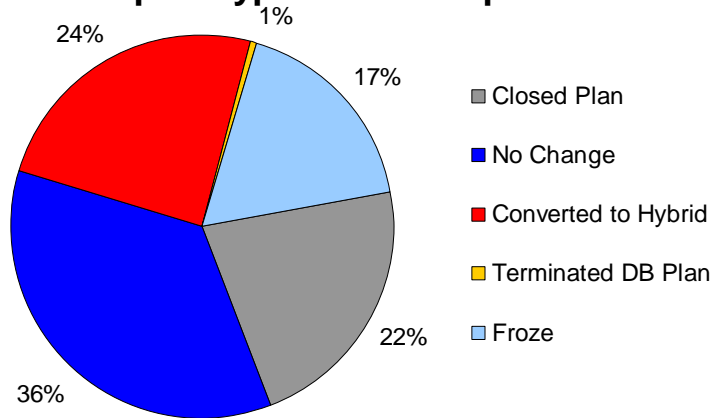
Total DB Pension Plans	90	90	83	74	63	58	54	49	44
Traditional DB Plan	89	67	49	40	34	30	28	24	20
Hybrid Plan	1	23	34	34	29	28	26	25	24*
DC Plan Only	10	10	17	26	37	42	46	51	56

Note: For most years, data is based on the following year's Fortune list. For example, 2007 data is based on the 2008 list. The today column reflects data through January 25, 2010 (based on the 2009 Fortune list) and includes future announcements for plan changes in 2009 and 2010.

*88% of hybrid plans are cash balance plans.

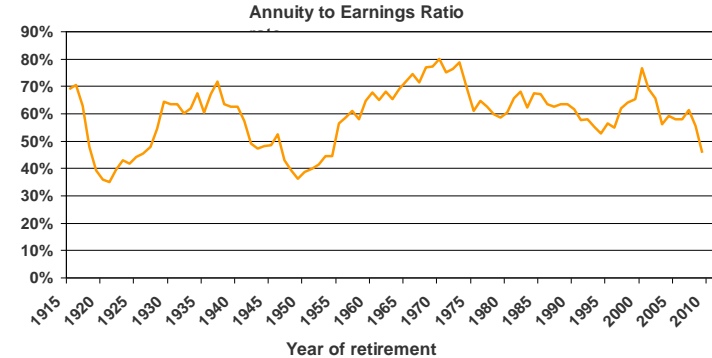
Evolving retirement plan marketplace

Major shift in plan types over the past 10 Years



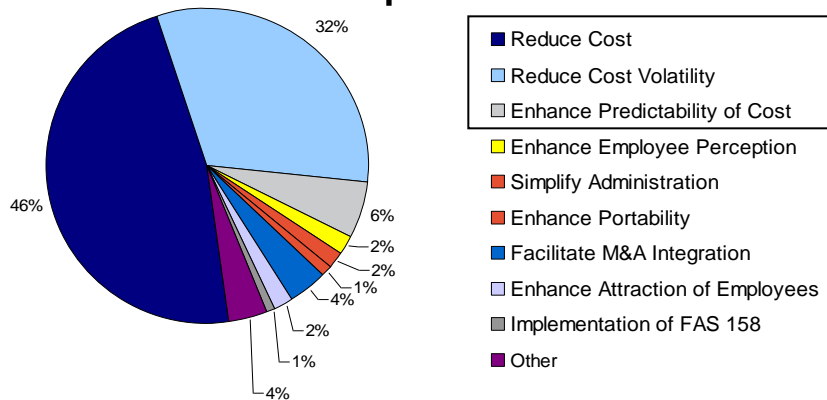
Source: Towers Watson Retirement Plan Design: *Past, Present and Future*

Variations in benefit delivery from DC plans



Assumptions: 40-year working career, contributions of 6% of pay, 2% real wage growth, assets allocated 60% in equities / 40% in bonds, annual investment expenses of 30 basis points, annuity is based on long-term bond rate at retirement with 15% load and current mortality rates.

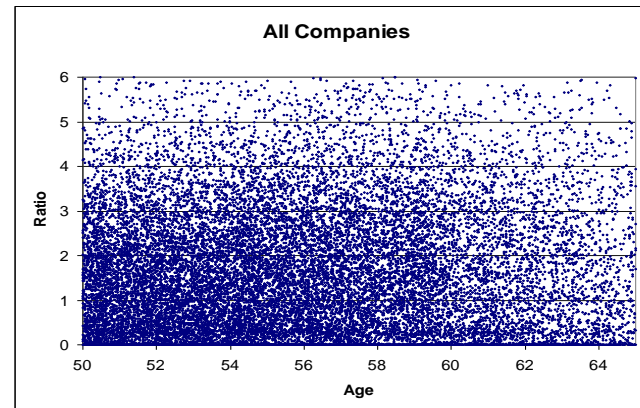
Cost volatility drove decisions to freeze/close plans



Source: Towers Watson Retirement Plan Design: *Past, Present and Future*

401(k) plans are insufficient

Ratio of 401(k) Balances to Annual Pay for Workers
Age 50 - 64 With 20+ Years of Service With Current Firm



8.3% of participants had no balance

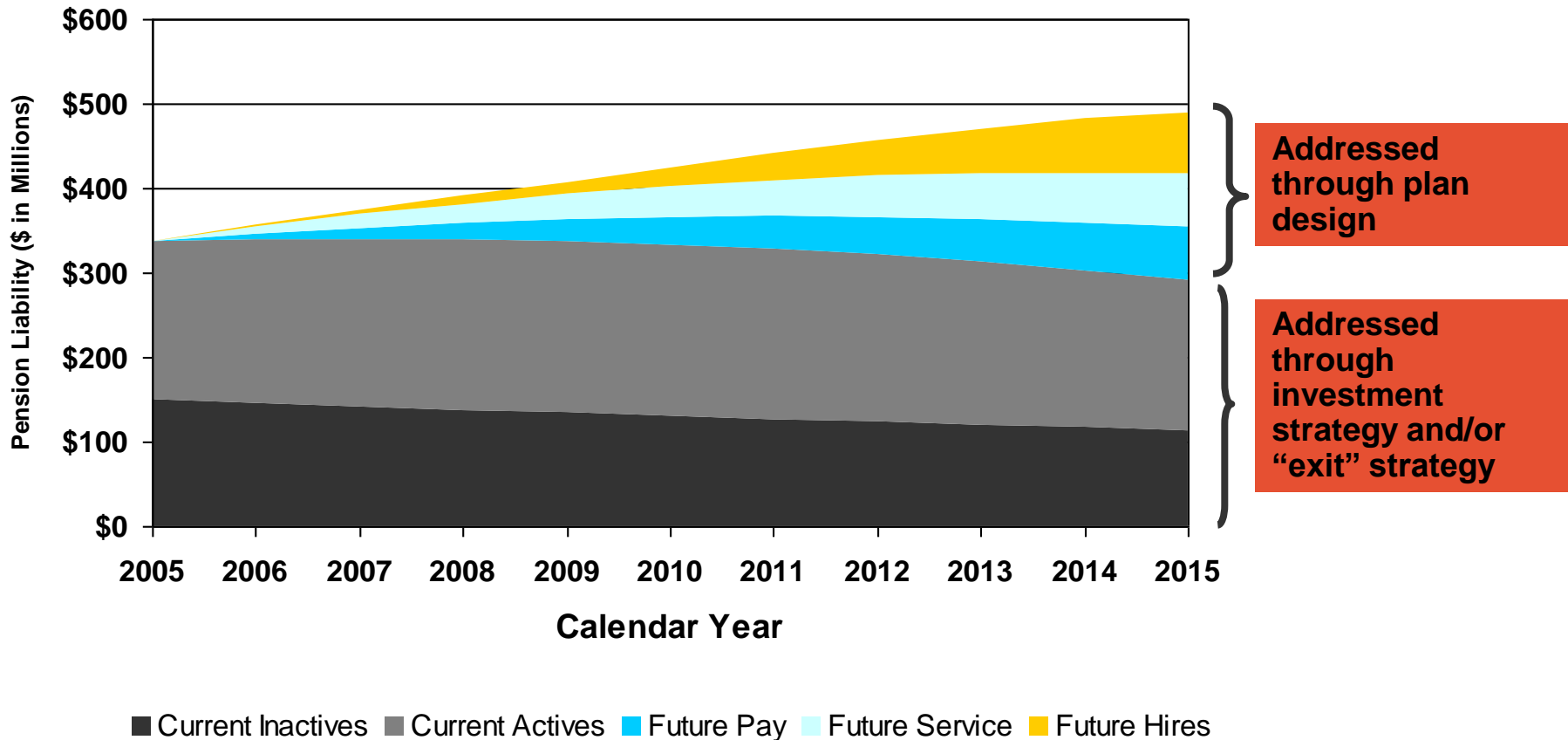
25.8% of participants had less than 50% of current pay

39.3% of participants had less than 100% of current pay

Availability of a DB pension had virtually no effect on savings levels

Source: Towers Watson *Pension Aspirations and Realizations*

Can this volatility and risk be managed?



Future retirement design — what needs to change to align with business and workforce objectives?

Tweak current platform and find efficiencies



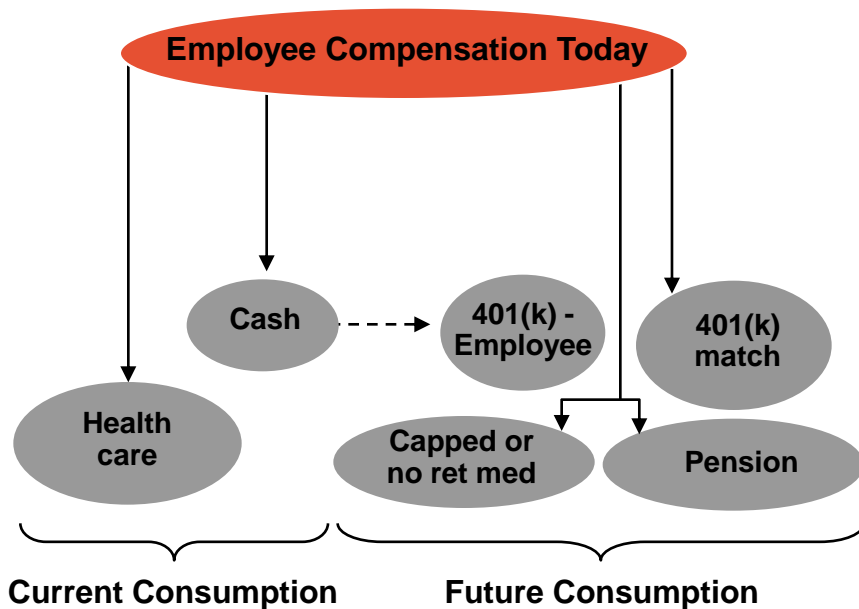
Change delivery platform



Create maximum employee flexibility

Today

...Supported by programmatic communication



Potential Future

...Made actionable by total retirement education

