Policy levers for changing retiree well being

Private Sector Employers

Chris Bone
US Retirement Practice Leader
Aon Consulting
Current Pressures

- Declining stock market and economic environment has had a major impact on all areas of retirement benefits
- Three out of every four US company Defined Benefit pension plans are under-funded
- Cost of medical care and prescription drugs have soared
- Employees saw large drop in Defined Contribution accounts
- Employees delaying retirement
Employers

- Feeling cost pressure
  - Operations
  - Benefits
- Reduce pension expense and cash requirements
- Reduce pay increases
- Staff reductions
Employer Reaction: Issues & Considerations

- Rising costs
  - Retirement plans
  - Medical (including retiree medical)
  - Stock option expensing
- Volatility (Surprises)
- Regulatory uncertainty
- Employee reaction
- Administrative costs of change
Regulatory Uncertainty

- **Fiduciary Requirements**
  - Enron
  - Mutual fund industry

- **Defined Benefit Plan Funding Rules**
  - Replacement for 30-year Treasury

- **Defined Benefit Accounting Rules**
  - Mark to market volatility
Employer Reaction

- Employers less likely to maintain DB plans
  - Re-evaluating/halting move to hybrid plan designs
- Provide more retirement planning education for employees
- Greater emphasis on documentation and adherence to fiduciary responsibilities
- Increasing administrative burdens combined with thin HR staff will increase need for outsourced services
Freezing Pension Plans

Aon Consulting October 2003 Survey
Single Employer Defined Benefit Plans

- Already Frozen as of January 1, 2001
- Froze by October 2003
- Will freeze by year-end 2003
- Considering a freeze
- No activity as of October 2003
Freezing Pension Plans

Aon Consulting October 2003 Survey
Reasons for Freezing Plan
(Multiple reasons may apply)

- Other
- Unrelated to Pension Plan Funding
- Pension Expense
- Lump Sums
- Volatility of Contributions
- Unpredictability of Contributions
- Amount of Contribution

0% 2% 4% 6% 8% 10%