# Testimony on Behalf of Aon Hewitt

By

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Before

ERISA Advisory Council

# Issues and Considerations Around Facilitating Lifetime Plan Participation

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# Aon Hewitt Testimony

Aon plc is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources.

As the global leader in talent, retirement, and health solutions, Aon Hewitt is the largest independent provider of administration services for retirement plans, serving more than 14 million retirement plan participants in the U.S. We have more than 12,000 retirement professionals dedicated to helping plan sponsors maximize retirement outcomes for their employees, manage risk, and control total plan costs.

My name is Rob Austin, and I am the director of Retirement Research at Aon Hewitt. I am honored to address the ERISA Advisory Council on a topic that Aon Hewitt considers a very important issue for American workers: facilitating lifetime participation in employer-sponsored retirement plans.

Our testimony will focus on five key areas:

1. The movement of assets out of the employer-based system;
2. Plan sponsors' perspectives and attitudes towards retaining assets within their plans;
3. The benefits of keeping money in the employer-sponsored retirement system;
4. Plan enhancements to facilitate long-term plan participation; and
5. Recommendations for the Council to encourage increased lifetime plan participation.

## Movement of Assets Out of the Employer-Provided Retirement System

Workers in the U.S. have long relied on employer-sponsored retirement plans to help facilitate retirement income. Over the years, there have been changes that allow individuals to access nest-eggs before retirement. Chief among these changes are:

a. A shift from defined benefit (DB) plans to defined contribution (DC) plans. In 2013, 77 percent of plan sponsors reported that they rely on a defined contribution plan as the primary retirement vehicle for employees, a rise from 55 percent in 2003.[1]

b. A movement from traditional pension plan formulas (i.e., annuity-based plans) to hybrid formulas (i.e., cash balance plans). Often, hybrid plans are framed as lump-sum accounts and allow individuals to receive vested accounts when employment is terminated. Today, more than 50 percent of open pension plans allow individuals to receive a full vested account upon termination.[2]

Together, such changes have facilitated the removal of money from the employer-sponsored system. When offered a choice, research shows that individuals are likely to take a one-time, lump-sum payment over annuity options that provide for monthly payment. The Employee Benefit Research Institute (EBRI) finds that when lump sums are available, 56 percent of individuals choose that option if the DB plan has a traditional formula. For cash balance plans that allow for a lump sum of the full account balance, 78 percent of workers choose this option.[3] It is unclear whether individuals roll money into an Individual Retirement Account (IRA) or receive it as a cash distribution, but in either case, the money leaves the employer-sponsored system.

In DC plans, individuals who terminate employment are much more likely to receive a cash distribution of plan balances than to keep money in the plan or roll dollars over to an IRA or other qualified plan. In 2013, 43 percent of terminated participants took a cash distribution compared to 31 percent who left money in the plan and 26 percent who rolled balances to another qualified vehicle.[4] When examining post-termination behavior on an asset-weighted basis, Aon Hewitt's data shows that 5 percent of total balances were cashed out, while 37 percent were rolled over to another qualified vehicle, and 58 percent remained in the plan.[5]

Cashouts are more common among workers who are younger and/or have smaller balances. Aon Hewitt's data shows that 56 percent of workers age 20–29 took a cash distribution upon termination, compared to 33 percent of workers age 50–59. Similarly, 85 percent of workers with a plan balance less than $1,000 cashed out, compared to just 6 percent of workers with a balance greater than $100,000.

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[1] Aon Hewitt, *2013 Trends & Experiences in Defined Contribution Plans* (Lincolnshire, IL: Aon Hewitt, 2013), *11.*
[2] Aon Hewitt, *Benefit SpecSelect* (Lincolnshire, IL: Aon Hewitt, 2014).
[3] Employee Benefit Research Institute, *Issue Brief No. 381: Annuity and Lump-Sum Decisions in Defined Benefit Plans: The Role of Plan Rules* (Washington, D.C.: Employee Benefit Research Institute, January, 2013).
[4] Aon Hewitt *2014 Universe Benchmarks* (Lincolnshire, IL: Aon Hewitt, forthcoming).
[5] Ibid.

### Post-Termination Behavior by Age

| Age | Leaving Money in Pan | Rollover | Taking Cash Distribution |
|---|---|---|---|
| **20–29** | 22.9% | 21.4% | 55.7% |
| **30–39** | 30.8% | 23.4% | 45.8% |
| **40–49** | 31.4% | 25.9% | 42.7% |
| **50–59** | 36.3% | 31.2% | 32.5% |
| **60–65** | 34.7% | 36.5% | 28.8% |
| **65+** | 36.4% | 34.3% | 29.2% |

### Post-Termination Behavior by Balance

| Balance | Leaving Money in Pan | Rollover | Taking Cash Distribution |
|---|---|---|---|
| **<$1,000** | 3.9% | 11.0% | 85.1% |
| **$1,000–$1,999** | 23.3% | 25.7% | 51.0% |
| **$2,000–$2,999** | 23.3% | 29.0% | 47.7% |
| **$3,000–$3,999** | 22.5% | 30.2% | 47.3% |
| **$4,000–$4,999** | 21.8% | 31.6% | 46.6% |
| **$5,000–$9,999** | 34.4% | 19.6% | 46.0% |
| **$10,000–$19,999** | 37.0% | 23.2% | 39.8% |
| **$20,000–$29,999** | 39.4% | 28.6% | 32.0% |
| **$30,000–$39,999** | 41.6% | 32.0% | 26.4% |
| **$40,000–$49,999** | 42.8% | 34.5% | 22.7% |
| **$50,000–$59,999** | 43.7% | 36.7% | 19.5% |
| **$60,000–$69,999** | 46.0% | 37.3% | 16.6% |
| **$70,000–$79,999** | 46.0% | 39.6% | 14.4% |
| **$80,000–$89,999** | 46.4% | 39.7% | 13.9% |
| **$90,000–$99,999** | 48.2% | 39.3% | 12.5% |
| **>$100,000** | 51.2% | 42.7% | 6.1% |

DC plan sponsors are increasingly interested in keeping money from terminated employees in the plan. Aon Hewitt's research shows that 27 percent of plan sponsors prefer to keep money in the plan, up from 20 percent in 2013. Just 11 percent of plan sponsors prefer that terminated participants remove money from the plan, down from 17 percent the previous year.[6]

[6] Ibid and Aon Hewitt *2014 Hot Topics in Retirement* (Lincolnshire, IL: Aon Hewitt, 2014), *23.*

## Benefits of Keeping Assets in the Plan

The benefits of maintaining assets in the qualified DC plan environment, especially for medium and large plans, are numerous and potentially significant. Benefits include:

a. **Enhanced purchasing power.** Because large DC plans have significant numbers of participants and sizeable assets, enhanced purchasing power allows such plans to offer institutional class investment products to participants at a lower cost than what most individuals would be able to purchase on their own in an IRA.

b. **Access to unbiased tools and resources.** Three-quarters of employers offer online guidance, one-on-one financial counseling, online advice and/or managed accounts. Like the investments, advice features are usually offered at a much lower cost than what is available to individuals outside of the employer system. In addition, participants who also have a DB plan with their employer benefit from integrated modeling tools to better manage retirement savings.

c. **Employer expertise.** By participating in a qualified plan, plan participants benefit from the fiduciary oversight and expertise of the plan sponsor and often outside experts in areas such as selecting investment options and reviewing plan design alternatives.

## Recommendations for Employers to Encourage Participation in the Employer-Sponsored System

Employers can take certain actions to help plan participants better understand the benefits of remaining in the plan. Aon Hewitt encourages employers to take the following steps:

**Ask the right questions**. Providers endorsed by the plan sponsor receive a heightened level of trust from participants, so it is important to make sure that trust is well-placed. When providing third parties with access to participants, it is crucial to understand the information and guidance that will be provided. Specifically:

- Ask the provider to quantify the revenue generated from the different options available at retirement or termination to evaluate any business conflicts.
- Ask about the compensation and goals of the individuals who will be interacting with participants.
- Ask about the disclosures that will be provided regarding fees.
- Review agreements to evaluate what marketing messages can and will be sent directly to plan participants, and ensure that there is the appropriate level of comfort with those messages.

**Educate and communicate.** Make sure plan participants have access to the right information about plan options, and that they receive it in a timely fashion. This means not only at the time of retirement or termination, but well in advance to help with retirement planning. Use multiple channels so that participants have options across self-service vehicles, such as online information, phone, or in-person support. Additionally, at a participant’s termination or hire date, the plan sponsor can provide resource materials to explain the benefits of employer-sponsored plans, with clear and simple instructions on how to roll one plan into another. Plan sponsors could post this information on provider web sites along with phone numbers and web links for help.

**Make it easier for participants to roll over money into qualified retirement plans.** The current process for rolling plan balances from one employer-sponsored plan to another can be complex and confusing, requiring a significant amount of paperwork and time by the participant. Plan sponsors and providers need to work together to simplify the process for participants.

**Maintain an attractive investment lineup.** One of the main reasons that IRA providers encourage rollovers out of an employer plan is because participants often lack the breadth of available investments that can be found in an IRA. Plan sponsors can help participants maximize retirement dollars by offering low-cost institutional core investment options complemented by a self-directed brokerage (SDBA) option that provides access to a broad universe of mutual fund alternatives.

**Offer an attractive retirement income option for participants nearing retirement.** Aon Hewitt's research shows that 30 percent of plans currently provide participants with some form of retirement income solution, either inside, or outside the plan.[7] Including easy and flexible monthly payments, income planning and investment help and/or annuity options would give participants nearing retirement an added incentive to stay within the employer-sponsored retirement system.

## Recommendations for the Council and Department of Labor

The Department of Labor, with guidance from the Council, has an opportunity to simplify and support plan sponsors with efforts to keep participants in the employer-sponsored system. Specifically, Aon Hewitt recommends the Department:

1. Provide help and guidance to plan sponsors on the right questions to ask of providers to ensure conflict-free information and business models.
2. Educate plan sponsors and the Department on the benefits and advantages of retaining assets within the employer-sponsored system.
3. Provide clarity and support of fiduciary protections and/or safe harbors for lifetime income solutions within plans.

# Conclusion

The employer-sponsored retirement system provides American workers with unique retirement planning opportunities that most simply could not afford individually. Unfortunately, many participants are not fully aware of the benefits the system provides and there has been an exodus of participant dollars out of plans and into retirement accounts not covered by ERISA. Aon Hewitt urges the Council to strengthen the employer-sponsored retirement system by encouraging plan sponsors to educate participants and simplify the rollover process.

We appreciate the opportunity to share Aon Hewitt's data, experiences and perspectives with the Council and would be pleased to provide resources and expertise as the Council works toward a solution. Thank you.

[7] Aon Hewitt *2013 Trends & Experience in Defined Contribution Plans* (Lincolnshire, IL: Aon Hewitt, 2013) 56.