BUILD BETTER **FINANCIAL WELLBEING**

2018 Retirement Pulse Survey Executive Summary

U.S. Edition

Gallagher

Insurance | Risk Management | Consulting

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Survey Overview

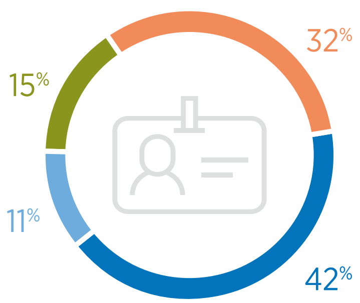
Gallagher's 2018 Retirement Pulse Survey provides data and insights that result in better outcomes through better benchmarking. Data was collected October-November 2018 from 343 organizations across the United States, representing a spectrum of retirement plan types.

The full report covers urgent issues facing employers in their retirement plans within the following sections:

- Retirement strategy
- Plan decision-making
- Limiting fiduciary liability
- Financial wellbeing education for employees
- Improving employee saving habits and plan participation
- Future trends

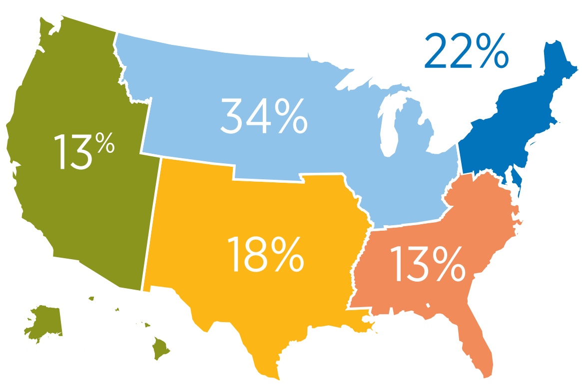
To discuss your retirement programs and strategies, or to participate in the 2019 Retirement Pulse Survey, contact your local Gallagher representative or the national practice leader listed in the back of the report.

WORKFORCE SIZE — FULL-TIME EQUIVALENT EMPLOYEES (FTEs)



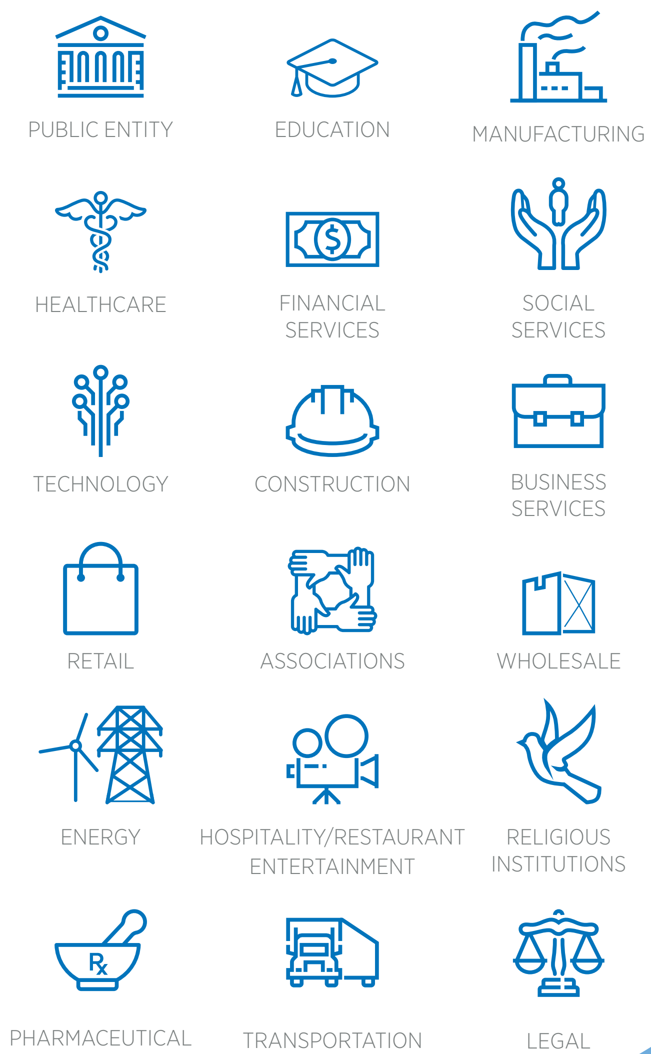
- Small employer—under 100 FTEs
- Lower midsize employer—100 to 499 FTEs
- Upper midsize employer—500-999 employees
- Large employer—1,000 or more employees

GEOGRAPHY



West | North Central | South Central | Southeast | Northeast

PARTICIPATING ORGANIZATIONS BY INDUSTRY



Retirement Strategy

As the persistent competition in the labor market wears on, employers are tailoring their approaches to retirement offerings and financial wellbeing overall to meet demands. Total compensation strategies, for instance, require dedicated financial wellbeing elements. Some organizations design retirement strategies to get the best return on employer investments and employee contributions while also reducing the organizational risk of delayed retirements. Advisors can help employers think through how to align philosophy with budget, determine workforce needs and help employees through education and communication.

They can also evaluate the organizational cost of delayed retirement, including healthcare and workers' compensation expenses.

- Over two-thirds (69%) of organizations are retooling retirement plans to position them as industry competitive or strategic offerings.
- Despite most organizations having a philosophy towards retirement plans, most (65%) have not considered that delayed retirements result in higher costs.
- Reassessing retirement offerings is an opportunity for organizations to see if their educational resources and support align with their overall retirement philosophy and financial wellbeing.

Plan Decision-Making

In their role as retirement plan sponsors, employers must make investment and fiduciary decisions while managing risks and expenses. Organizations are limiting liability through adherence to fiduciary standards, documentation, independent advisors and regular review. Due to the potential for lower liability, employers should work with independent, third-party advisors to establish an investment committee to help fulfill and document their fiduciary duties. For organizations lacking an established process and committee, building such a structure is of the highest priority. This includes codifying processes in decision-making, evaluating recommendations and detailing possible conflicts of interests. Establishment of formal investment committees, regular meetings and process documentation are essential for mitigating fiduciary risk. Committees can also help ensure optimal plan design through reviewing participation, deferral rates, and participant outcomes. When a qualified retirement plan allows stock of the sponsoring employer as an investment in the plan, ERISA requires that a fiduciary diversify the investments of the plan so as to minimize the risk of large losses to participants, unless under the circumstances it is clearly prudent not to do so.

Evaluating investment types in retirement plans means ensuring the right products given the plan size.

- Fifty-nine percent (59%) of employers have a formal committee to review the retirement plan and its investment options.
- With 89% of organizations offering them, mutual funds are by far the most common type of investment in a retirement plan.
- Seventeen percent (17%) of organizations that offer company stock as an investment have not reviewed the suitability of this option with an independent fiduciary.
- Independent advisors can help provide protection against additional liabilities, such as determining the suitability of company stock as an investment option.

Limiting Fiduciary Liability

To avoid litigation, employers must manage the risks of being a fiduciary; this includes mitigating risks that come from selecting and monitoring a plan's investment lineup. To reduce fiduciary risk, best practice processes include proper documentation, committee member training and recordkeeper RFPs. Litigation concerning retirement plans is increasing in frequency and magnitude — proper documentation, including meeting minutes and advisor follow up, is a vital part in defending against such lawsuits. These documents should not only help committees prepare for audits, but also support better participant outcomes and more reasonable fees. Because fees and expenses tend to generate the greatest risk, proper training to support the committees' knowledge of best practices on these topics is vital. Periodic training increases new committee members' overall awareness while refreshing established committee members on their responsibilities.

Case law shows benchmarking exercises are an important protection against liability. An RFP or benchmarking process should avoid conflicts of interest between funds chosen, revenue paid and the recordkeeper. An independent advisor will help ensure the plan in place is to the exclusive benefit of the participants and will support the review of management liability coverage.

- Most (89%) committees have an investment policy statement that can guide the monitoring process.
- Only 32% say they have conducted a recordkeeper RFP within the last three years, and 10% within three to five years.
- Ensuring best practices and appropriate fees aren't always a plan sponsor's priority: 40% of organizations say they're unaware of when they last requested a retirement recordkeeper RFP, and 18% have not met the DOL recommendation for a formal RFP process to review every three to five years.

Financial Wellbeing Education for Employees

Employers anticipate continued growth in more formalized financial wellbeing programs. Currently, select financial education offerings are commonplace, so organizations should inventory programs already available to them prior to implementing new ones, particularly when they are embedded into core benefits like the retirement plan, employee assistance programs and health plans. Next, employers need to establish clear financial goals that align with those of their participants. For instance, in-depth wealth management information is appropriate for some employees, but not for workers living paycheck-to-paycheck, who would be better served with tools to address more immediate financial challenges such as daily budgeting, debt counseling and student loan programs. In addition, employers should be discerning as they select a financial wellbeing vendor; advisors can help evaluate and guide the selection process.

Tools focused on behavioral finance result in savvy consumers with budgetary discipline. One example: student loan management programs. Employers can help employees understand how to pay down debt and consolidate loans while maintaining positive daily financial habits. Giving employees the tools, education and resources to address near-term financial stress will enable them to save for the long term — and ultimately, create a more resilient workforce leading to better business outcomes.

- Twenty-eight percent (28%) of survey respondents sponsor a financial wellbeing program
- Twenty-six percent (26%) anticipate adding a financial wellbeing program in the future.
- Ninety percent (90%) of employers offer at least one ad hoc employee financial education program.

Improving Employee Saving Habits and Plan Participation

Employers typically view retirement plans as a core benefit supporting long-term financial wellbeing. Many organizations have made strides toward improving employees' saving habits through auto-enrollment in retirement plans, intentional matching formulas, auto-escalation of contributions, financial education and retirement readiness statements. Even so, there's significant room to improve. Despite increasing enrollment, a lot of uncertainty and underutilization remains around health savings accounts (HSAs).

Providing education related to fund selection and how to manage multiple accounts and expenses is another way to improve employee saving habits and plan participation. To encourage participation, employers should limit the number of investment options offered.

Fewer funds are better — choice architecture is one reason, another is in the form of increased delayed retirement. Too much choice creates analysis paralysis and directly correlates to reduced enrollment. Another suggestion is to establish automatic retirement plan enrollment into qualified default investment Alternative (QDIA) funds. These funds provide safe harbor protections for potential personal liability of plan fiduciaries while improving the ability of participants to build toward retirement benefits.

- Only 15% of organizations position HSAs as a retirement benefit.
- A well-communicated plan is key to participant success/ better outcomes.
- Nearly one-third (32%) of employers apply workforce demographic tools to measure retirement readiness.

Future Trends

Organizations are increasingly recognizing the role a retirement plan plays in the physical and emotional wellbeing of an employee and the sustainability of an organization. To improve retirement readiness, organizations are limiting the number of investment options and reviewing plan designs to drive long-term participant outcomes. Innovation in retirement plans will be necessary to meet the needs of a modern workforce and navigate a complex investment environment.

In addition, many employers now offer participant education and financial wellbeing tools, including enhanced communications as well as resources that support health savings accounts (HSAs) and improve spending habits and debt management. In order to better reach employees with these initiatives, organizations are harnessing technology advances such as expanded communication platforms.

- Employers will place greater emphasis on the holistic financial wellbeing of plan participants.
- Lower costs and higher participation will accompany the maturation of in-plan guaranteed income or annuity products.
- Expect the popularity of managed account services to increase.
- With 63% of employers offering them, defined contribution plans such as 401(k) or 403(b) plans are the most common retirement platform.
- Thirty-seven percent (37%) of respondents have defined benefit plans, reflecting the heavy participation of public entity organizations in the survey.

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Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent. What does that look like? It's a workplace where people feel they belong — where there's a sense of developing a career instead of punching a clock. And a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher Better Works℠ — a comprehensive approach to benefits, compensation, retirement, employee communication and workplace culture aligns your human capital strategy with your overall business goals. It centers on the full spectrum of organizational wellbeing — strategically investing in your people's health, talent, financial security and career growth. And developing benefit and HR programs at the right cost structures to support a multigenerational workforce.

From evaluating the demographics of your workforce to surveying and analyzing competitor trends, Gallagher helps you gather new insights and apply best practices that promote productivity and growth. And a data-driven focus allows you to continually improve.

That's what it means to create a better workplace culture. It's about never being content to rest each time you reach your best. Your better is never finished.

As you develop and sustain this destination workplace culture, your people can thrive and perform at a higher level — optimizing your annual talent investment and mitigating organizational risk to maximize your profitability. Best of all, you gain a competitive advantage as a workplace that simply works better.

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