EBeRT - Mercer's Executive and Broad-based Employee Retirement Tool
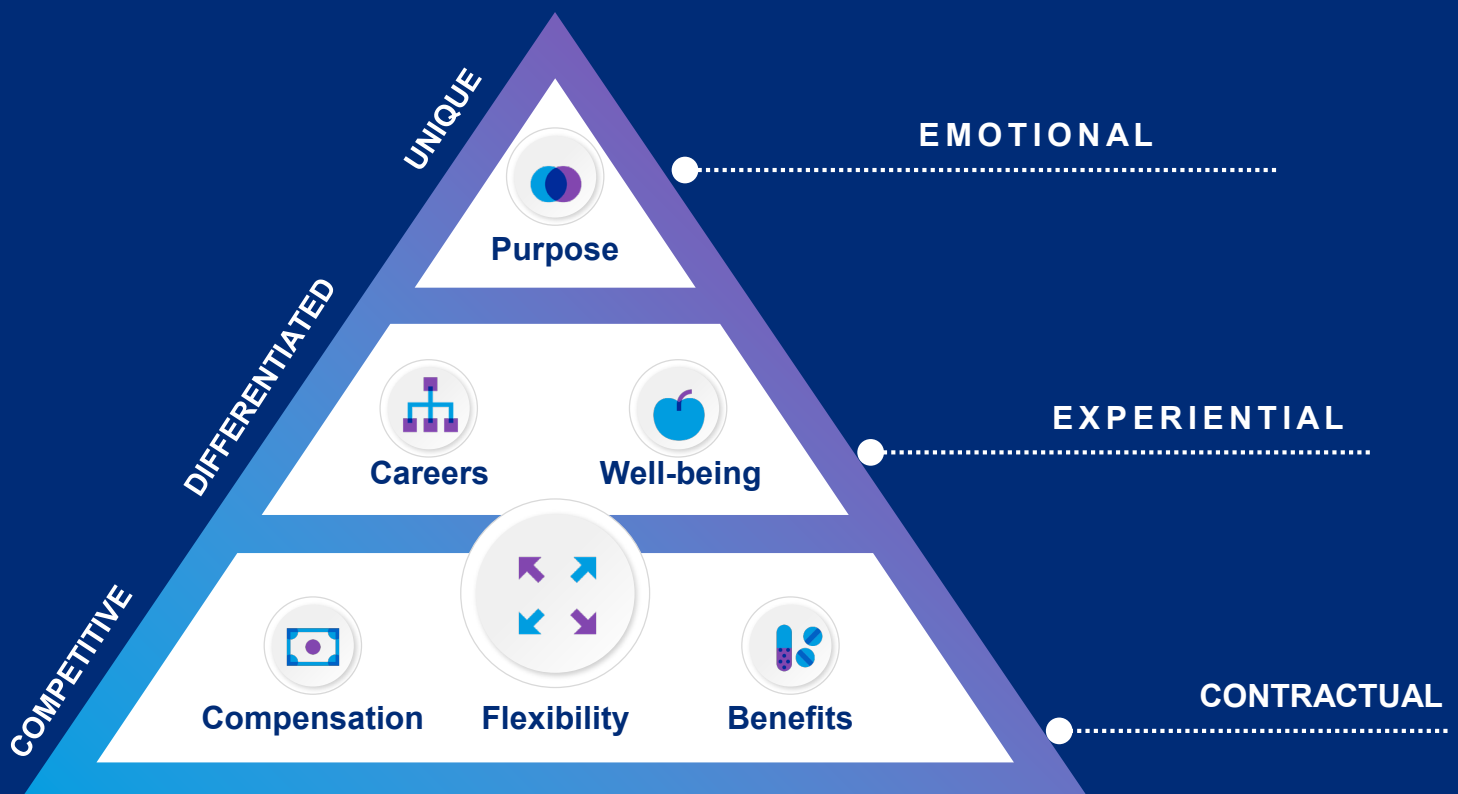
Special Considerations for Employers with Pension Plans

Retirement Benefits and the Employee Value Proposition

Companies are aiming to strengthen and communicate their employee value proposition (EVP). This includes pay, benefits, career, well-being, and ultimately purpose.

Retirement programs play an important role in supporting the financial well-being and retirement readiness of your workforce. Companies strive to stay competitive, optimize their rewards spend, and properly message to a multi-generational workforce the role of retirement. This is especially challenging when the level of benefits may greatly vary based on an employee's tenure with the company.

UNIQUE · DIFFERENTIATED · COMPETITIVE

Purpose — EMOTIONAL

Careers · Well-being — EXPERIENTIAL

Compensation · Flexibility · Benefits — CONTRACTUAL

The Need to Keep Current

Over the past 15 years, companies have made material changes to their retirement plans. These changes include benefit designs, contribution levels, and other key plan provisions.

As a result of the shift away from pension plans, there are many employers with closed or frozen defined benefit (DB) plans, also known as grandfathered or legacy plans. To help companies stay current and market competitive, the exhibits on the next page show how programs provided by Fortune 500 companies have changed over the past 15 years. Exhibit 1 shows the shift from DB to defined contribution (DC) plans. Exhibit 2 shows that today, only 15% have ongoing DB accruals for some portion of the population through a combination of active and/or closed plans. However, including frozen plans, 40% of employers must address ongoing financial oversight.

Exhibit 1:

Prevalence of Defined Benefit vs Defined Contribution

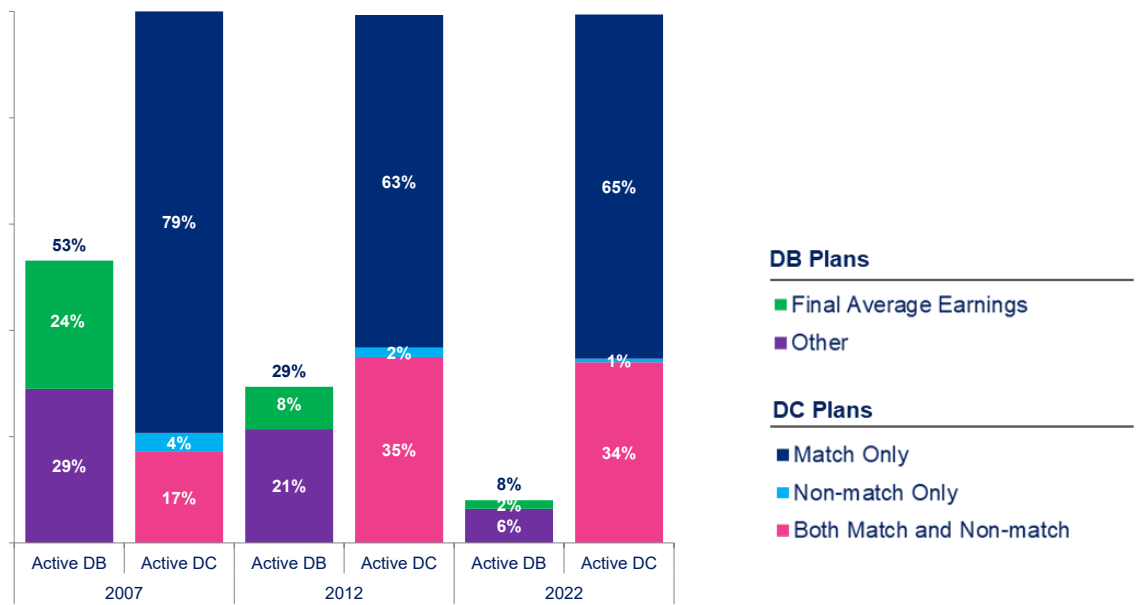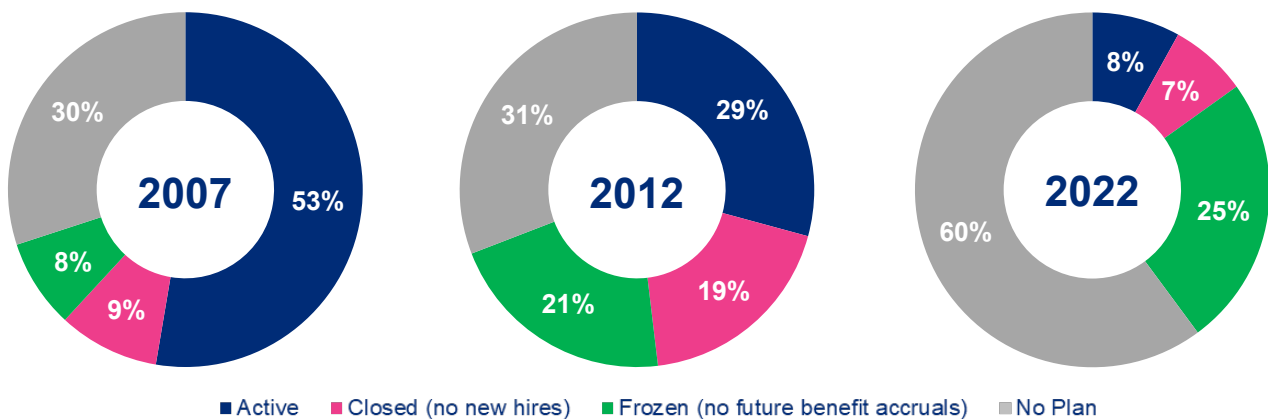## Employer-paid Retirement Plans Open to New Hires

DB Plans
- ■ Final Average Earnings
- ■ Other

DC Plans
- ■ Match Only
- ■ Non-match Only
- ■ Both Match and Non-match

Exhibit 2:

Prevalence of Active/Closed/Frozen Defined Benefit Plans

- ■ Active
- ■ Closed (no new hires)
- ■ Frozen (no future benefit accruals)
- ■ No Plan

Source for Exhibits 1 and 2: Fortune 500 companies from Mercer's Executive and Broad-based Employee Retirement Tool (EBeRT)
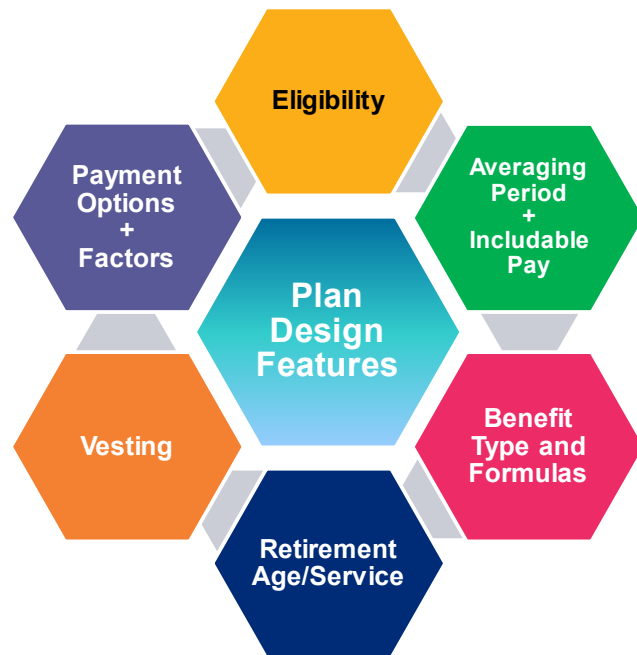
What is EBeRT?

In 2005, Mercer developed our proprietary Executive and Broad-based Employee Retirement Tool (EBeRT). EBeRT has current and historical data on all types of retirement plans, benefit levels, and plan features.

- Robust retirement information for more than 1,000 US companies
- Unlike published surveys, our sources are publicly available so information can be shown on a company-named basis
- Real-time information that can be shown for a custom peer group, industry, and/or revenue scope
- Detailed trend information going back annually for 15+ years
- Over 6,000 documents reflecting retirement information for the entire workforce: 401(k), pension, executive retirement, and deferred compensation

How EBeRT Helps You Stay Current

- Total employer-provided benefit levels (DB + DC, qualified + nonqualified) expressed as level percentage of annual pay or income replacement at retirement (i.e., total retirement adequacy)
- Tailored market analysis based on legacy DB plan participation; can either be based on new entrant employees (active plans only) or career employees that include closed, frozen, and active plans based on employees' age/service/career progression
- Compare against a peer group, industry, revenue scope, plan asset size, or any combination
- Analyze key plan design provisions that could materially affect the value or impact of your plan

Defined Benefit Plan Provisions

Eligibility

Payment Options + Factors

Averaging Period + Includable Pay

Plan Design Features

Vesting

Benefit Type and Formulas

Retirement Age/Service

What you get

Through EBeRT, Mercer can help you understand:

Prevalence of Plans

Prevalence of various types of retirement plans offered by your peer companies, including:

- DB: Cash balance, final average pay, and other DB plan types
- DC: Employer match, non-match, profit-sharing, ESOP, and age/service-based contributions
- Executive: SERP, restoration, and voluntary deferred compensation plans

Contribution and Benefit Levels

Understand the employer contributions and projected level of benefits your peer companies are providing to their employees:

- Maximum employer contribution as a percent of compensation or annual dollar value
- Percentage of final earnings at retirement replaced by each plan
- Equivalent lump sum value of the benefits
- Differences in benefit levels provided to grandfathered vs non-grandfathered populations
- Cost of plan changes and impact on participants

Market Trends — Monitor trends that develop over time, including changes in plan structures and benefit levels

The Importance of Regular Benchmarking

- Regularly benchmarking your retirement benefits against industry, geography, etc., mitigates risks and provides valuable insights. Informed employers can:
    - Keep pace with market trends
    - Make intentional decisions to provide benefits above, at, or below the market
    - Communicate the competitiveness of benefits vs peers
    - Reiterate the role of retirement in total rewards/EVP
    - Optimize and prioritize the total rewards spend

Addressing Internal Dichotomy

Companies with legacy pension plans and grandfathered formulas can have a wide disparity in retirement values within their workforce (also known as "the haves and the have nots"). This can create challenges when assessing total remuneration for purposes of looking at internal equity, benchmarking external competitiveness, communicating total rewards, and defending total pay/benefits to key stakeholders. EBeRT can help companies quantify, understand, and explain the impact of legacy plans. EBeRT can model both the market and your total retirement plans (and total remuneration if desired), reflecting new entrant profiles (active plans only) and career profiles (including legacy plans) with varied legacy plan eligibility based on age/service/career progression.

Contact Us

For more information about Mercer's solution to understanding and valuing retirement benefits, please click here or contact a member of our Executive Benefits Group.

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Mercer's Executive Benefits Group (EBG) is a national consulting practice with 25+ members. For more than 30 years, EBG has provided consulting services focused on the benchmarking, design, financing, implementation, communication, and regulatory compliance of benefit plans.

EBG consults with more than 700 clients annually in all areas of benefits. 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 EBG.