



## DOES YOUR COMPANY HAVE A RETIREMENT BENEFIT PHILOSOPHY?

For decades, the hue and cry surrounding retirement plans has narrowly focused on encouraging retirement savings, but times have changed. Baby boomers have begun to retire, and the way they think about retirement has evolved. In addition to focusing on accumulation of assets for younger employees, companies also need to be aware of the needs of baby boomers who are interested in distribution strategies that can help them live comfortably throughout retirement.

As the retirement benefit landscape has become more complex, plan sponsors have begun to think more broadly about the priorities and objectives of their retirement benefits. At T. Rowe Price, we suggest you consider developing a retirement benefit philosophy that aligns organization-wide objectives (including workforce management and talent acquisition and retention objectives) with retirement program goals. It's a process that takes time, but the effort can produce a myriad of benefits.



### WHAT IS A RETIREMENT BENEFIT PHILOSOPHY?

While many plans share a common goal—generating sufficient income to support employees throughout retirement—not all employees have the same needs, and not all organizations require the same incentives. A plan's retirement benefit philosophy is grounded in an organization's goals, culture, demographics, and financial constraints as well as the retirement needs of their employee population. When complete, it should define distinct retirement plan objectives and priorities, which will inform plan-specific changes. Recommended changes should focus on achieving outcomes that meet organizational goals.

For example, imagine a large warehouse retailer that has:

- Older workforce; significant numbers move to part time to maintain health care benefits which can be costly
- Fewer new employees bringing in new ideas
- Mix of hourly and salaried workers
- Higher-than-average plan loans
- Corporate culture is very paternalistic

The plan sponsor may prioritize helping older workers become retirement ready to make room for younger employees. Plan objectives may include reducing leakage to increase balances and providing services that facilitate the transition to retirement. The company and plan demographics of a fashion retailer may be quite different. Consider an organization that has:

- Competitive hiring environment
- High turnover: 90-day average tenure
- 80% young, hourly workers
- 20% salaried and highly compensated employees
- 50% participation rate
- Management is more comfortable with participant-directed plan features

The plan sponsor is unlikely to prioritize retirement income. Instead, its priorities may include attracting new workers and managing plan costs to better service long-term employees. The company may want to ensure its benefits program is as good as or better than those of its competitors.

The reality is that not all plans are marching toward the same objectives. When it comes to determining a plan's priorities and objectives, there is no one-size-fits-all answer. Each plan's success must be measured against its unique and specific goals.



## WHAT IS THE VALUE OF A RETIREMENT BENEFIT PHILOSOPHY TO A PLAN SPONSOR?

Developing a retirement benefit philosophy engages stakeholders at different levels within a plan sponsor's organization. Often, the process requires stakeholders to discuss and align their views. For example, a corporate finance group's priorities for a company's retirement plan may be quite different from those of a human resources group. As members of the benefits committee, the two groups must work together to establish objectives and priorities that will guide plan decision-making.

The result of the process is a way of thinking about retirement benefits that reflects the needs of the organization as a whole. In addition to connecting retirement plan success to company success, a retirement benefit philosophy should help a plan sponsor:

- Focus resources on initiatives that matter most
- Align defined contribution plan priorities with best practices
- Make sound strategic decisions regarding plan design, investment menus, and participant experience

Consider the companies described previously. The priorities for the warehouse retailer include helping older workers become retirement ready to make way for younger employees. Since the defined contribution plan is the company's primary retirement savings vehicle, the plan sponsor may want to:

- Add guidance services and other solutions to make the plan more retiree friendly
- Limit loan availability to maximize savings and growth potential
- Stress to participants the importance of accurate contact data during and after employment so the plan can better serve retirees and terminated participants

The fashion retailer relies on its defined contribution plan to counter high turnover and attract new employees. A plan priority is managing costs to better service long-term employees. In pursuit of these objectives, the sponsor may want to:

- Run a report to assess the success of long-tenured employees
- Offer quick enrollment feature
- Evaluate alternative matching formulas to encourage higher deferral rates without increasing costs

By aligning diverse company and benefits objectives, organizations can pinpoint plan priorities and sharpen the focus on critical outcomes. Viewing plan decisions through the lens of a retirement benefit philosophy helps ensure that limited resources support plan priorities and that best practice considerations (for plan design, investment menu, and participant experience) target strategic objectives.



## WHEN YOU'RE READY TO GET STARTED

Gathering the insights of stakeholders at different levels throughout an organization can take time, so it's a good idea to incorporate a retirement benefit philosophy strategy into your organization's strategic planning process.

Contact your T. Rowe Price representative to learn more.