Risks of Retirement Poorly Managed

By Editor Test *Wed, Oct 7, 2009*

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Nobody likes to retire after a losing year. Just ask Brett Favre.

Older employees appear to postponing retirement until an economic recovery begins and employers are delaying major changes to their retirement plans until business-as-usual returns, according to Aon Consulting, the human resources consulting arm of Aon Corp.

Aon surveyed 1,313 employers nationwide for its 2009 Benefits & Talent Survey. More than 90% said they are *not* changing their retirement programs quite yet and 87% said employees are delaying retirement due to economic conditions.

A third of employers polled said fewer than 70% of their employees are enrolled in their defined contribution (DC) plans, with two-thirds saying they believed workers are not participating because they don't believe they can afford to.

Meanwhile, 38% of these employers believe employees have little knowledge of the funds they needed to invest in for retirement and 52% said employees have an accumulation target. Just 8% believe their employees have a strong understanding of how much money they'll need in retirement.

Workers wanting to learn more about retirement savings have turned to their employers for additional information. In fact, 64% of responding employers said there was an increase in investment-related questions in 2008 vs. 2007, but only about a third of these organizations increased their communications around the importance of saving for retirement last year, while 62% said their communication remained unchanged from the previous year.

"The 'wait-and-see' attitude is not surprising," said Amol Mhatre, senior vice president responsible for retirement innovation with Aon Consulting. "We may continue to see dramatic economic swings, as interdependencies grow in the global economy, and retirement programs and savings can't stop with every downturn."

In addition to not changing their retirement communications strategy, 92% of organizations are not changing their pension/defined benefit (DB) programs in the near future, citing the high cost of company-required contributions (71%), volatility (47%) and administrative costs (35%) as the main reasons. Employers also are not changing the risk profile of their pension plans, as two-thirds of these organizations have not made changes to their pension investments during the past two years and do not intend to do so in the next two years.

Regarding defined benefit plans, the survey showed that only 45% of employers offer a DB plan to their employees. Forty-one percent of employers have frozen their pension plans to new entrants, 25% have frozen their plans entirely and do not have a strategy regarding plan termination, and 20% have frozen their plans and intend to terminate the plan once funding allows.

As for defined contribution plans, 56% of respondents said they offer matching contributions on DC plans. Of those, approximately half provide a match greater than three percent. In addition, 41% of employers have an automatic enrollment plan, with 53% implementing a default contribution from employees of 3%.