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President's FY2012 Budget Proposal Includes Retirement, Health and Compensation Recommendations

By Ann Marie Breheny

On February 14, President Obama released his fiscal year 2012 budget proposal, which would affect employer-sponsored health care, retirement and compensation programs. The recommendations include authorizing the Pension Benefit Guaranty Corporation (PBGC) to set premiums, continuing Medicare's physician reimbursement rate for another two years and taxing carried interest as ordinary income.

The budget represents the president's recommendation for the upcoming fiscal year. Most of the provisions require congressional approval before enactment, and a few are perennials that, so far, have lacked sufficient support to become law. Some of the first-time provisions will likely meet with opposition. The budget process for fiscal year 2012 is expected to be especially contentious as policymakers grapple with spending cuts and entitlement reform to control soaring budget deficits.

Give PBGC Board premium-setting authority

Defined benefit (DB) plan sponsors currently pay a flat-rate premium of $35 per plan participant. The premium is established by Congress and indexed to increases in the national average wage index. Plan sponsors also pay $9 for each $1,000 in underfunding. This variable rate premium can be significant for plan sponsors. During its 2009 fiscal year, the PBGC collected $699 million in variable rate premiums from single-employer plan sponsors. The president's budget recommends giving the PBGC board authority to adjust premiums and directs the agency to consider the "risks that different sponsors pose to their retirees and the PBGC." The proposal calls for two years of study and public comment before changing premiums, and increases would be phased in. The budget states that the new rules "will both encourage companies to fully fund their pension benefits and ensure the continued financial soundness of the PBGC." The proposal would raise an estimated $16 billion over 10 years.

While this is a first-time budget item, changes to PBGC premiums were also recommended by recent deficit reduction reports. President Obama's National Commission on Fiscal Responsibility and Reform recommended granting premium-setting authority to the PBGC board. And a deficit reduction task force established by the Bipartisan Policy Center proposed a premium hike and suggested that premiums reflect the "riskiness" of the plan's investment portfolio (see "Deficit Reduction Groups Recommend Increasing PBGC Premiums, Imposing New Limits on Retirement Savings," *Insider*, January 2011).

Some lawmakers are drafting legislation based on the deficit commission's recommendations, so the budget item could also be a legislative proposal this year. It is not clear that such proposals would gain traction. Proposals to measure the risk posed by a plan or plan sponsor would likely be controversial, and lawmakers might be reluctant to relinquish their authority to adjust premiums.

Establish automatic workplace pensions

Once again, the budget proposes automatic workplace pensions. Under the proposal, employers that have been in business for at least two years and employ 10 or more workers would have to either sponsor a retirement savings plan or provide automatic workplace pensions. Employees who did not make an affirmative

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participation election would be automatically enrolled in a payroll-deduction Roth individual retirement account (IRA) at a 3% of compensation contribution level. Employees could opt out entirely, change contribution amounts or elect a traditional IRA. Employer contributions would not be required. A "low-cost standard type of default investment option and a handful of standard, low-cost investment alternatives" would be determined by regulation or by statute. A tax credit of up to $250 per year for the first two years would be available to help offset the cost of establishing automatic IRAs.

Employers that offer qualified plans would not be required to offer automatic IRAs to employees who are ineligible for participation due to waiting periods or age restrictions. However, employers that excluded some segment of the workforce or class of employees from qualified plan participation would have to offer automatic IRAs to those employees. For example, an employer that excluded all employees of a subsidiary would have to offer automatic IRAs to all subsidiary employees.

This proposal has appeared in earlier budgets and in legislation introduced in the House and Senate over the past several years. However, opposition to plan mandates and concerns about the structure of automatic IRAs have kept earlier bills from gaining legislative traction. A separate proposal in President Obama's budget would double the tax credit for small employers (100 or fewer employees) that established new plans.

Change rules for minimum required distributions and inherited IRAs

The budget suggests exempting some people from minimum required distributions from qualified retirement plans and IRAs. In general, people must begin taking minimum required distributions at age 70-1/2. The proposal would exempt those whose combined IRA/certain qualified plan benefits were $50,000 or less at the beginning of the year they turned age 70-1/2 (or year of death if sooner). Balances in Roth IRAs would count toward the $50,000 threshold, but DB plan benefits already being paid out as a life annuity would not. Minimum required distributions would phase in for those with aggregate balances between $50,000 and $60,000. The administration says the proposal is aimed at simplifying distributions for seniors with modest account balances and giving them greater flexibility in deciding when to draw on those balances.

The budget proposal would expand the rollover options in retirement plans and IRA balances that are inherited by non-spouse beneficiaries. Currently, surviving spouse beneficiaries may use a direct rollover or a 60-day rollover to transfer the inherited assets into an IRA that is treated as either a spousal inherited IRA or the surviving spouse's IRA. Non-spouse beneficiaries must use a direct rollover — the 60-day rollover option is not available. The budget proposal would allow a non-spouse beneficiary to use a 60-day rollover to move assets under a tax-favored employer retirement plan or IRA to a non-spousal inherited IRA.

Protect funding of health care reform

House and Senate Republicans want to de-fund the Patient Protection and Affordable Care Act (PPACA), as well as reduce overall federal spending. Budget negotiations among the House, Senate and administration for determining funding levels for federal agencies — especially those charged with implementing and enforcing the PPACA — will be contentious. The president's budget proposal would increase funding for the Department of Health and Human Services — an agency with significant authority over the PPACA — and for the Treasury Department, which shares jurisdiction over the law.

Fix Medicare payments

The Medicare and Medicaid Extenders Act of 2010 continued Medicare's provider reimbursement rates through 2011, temporarily averting a substantial cut under Medicare's sustainable growth rate formula. This has become a recurring and increasingly difficult issue for lawmakers as the cost of avoiding the payment cuts has grown. The budget proposal would continue the current reimbursement rates for two years, offsetting the cost with other health care savings. The budget also states that the administration will work with lawmakers "to achieve permanent, fiscally responsible reform and to give physicians incentives to improve quality and efficiency, while providing them with predictable" Medicare payments. As the January 1, 2012, payment cut approaches, legislative momentum will build.

Tax carried interest and corporate-owned life insurance as income

The budget proposes taxing carried interest — generally a share of profits earned by hedge fund and private equity managers — as ordinary income rather than capital gains. A partner's share of income on a "services partnership interest" would be taxed as ordinary income, and partners would have to pay self-employment taxes on the income. Gains recognized on the sale of a services partnership interest also would be taxed as ordinary income rather than as capital gains. Proposals to modify the tax treatment of carried interest have been under legislative discussion in recent years and have been approved by the House of Representatives as revenue raisers, but it is not clear whether the proposal will gain acceptance in the Republican-controlled House.

The proposed budget would repeal the exception from the pro rata interest expense disallowance rule for corporate-owned life insurance (COLI) contracts covering employees, officers or directors, other than 20-percent owners of a business that is the owner or beneficiary of the contracts. The proposal would apply to COLI contracts issued after December 31, 2010, in taxable years ending after that date.

Address worker misclassification

The budget states that the misclassification of workers as independent contractors results in lost tax revenue — income, unemployment and payroll taxes. To recapture those funds, the proposal would give the Department of Labor (DOL) $46 million to "combat misclassification," including money for states to identify misclassification and collect unpaid taxes, and for the DOL's Wage and Hour Division to investigate misclassification.

> "Changes to PBGC premiums were also recommended by recent deficit reduction reports."

The budget would also address worker classification under the Internal Revenue Code (IRC) by permitting the Internal Revenue Service (IRS) to issue regulations on worker classification and to require prospective reclassification of workers. Worker misclassification has been on the legislative agenda for several years (see "Congress Might Consider Worker Classification Legislation," *Insider*, December 2010). The legislation could see some renewed attention because it scores as a revenue raiser and could be viewed as a measure that reduces the tax gap.

Other provisions

The budget would allow the IRS to require additional information on electronically filed Form 5500. The proposal notes that the DOL may require electronic filing of information pertaining to the requirements of Title I of the Employee Retirement Income Security Act (ERISA), but the IRS generally lacks authority to require electronic filing of information that relates only to IRC requirements. For example, the proposal would give the IRS authority to request coverage data so it could test compliance with nondiscrimination rules.

The budget proposal also addresses several other programs involving employer-sponsored plans. For instance, it would establish a $23 million State Paid Leave Fund to help states that initiate paid family and medical leave programs, and permanently increase to $75,000 the threshold at which the dependent care tax credit begins to phase down.

Outlook remains unclear

The fiscal 2012 budget was released during a period of intense — and divisive — debate on federal spending, deficit reduction and fiscal discipline. In general, House leaders and Budget Committee Chair Paul Ryan (R-Wis.) criticized the proposal and promise entitlement reform and more spending cuts in their upcoming budget proposal. It is too soon to say which provisions from the president's budget proposal will attract legislative attention and make it to enactment.

Funded Status of *Fortune* 1000 DB Plans Improves Slightly in 2010

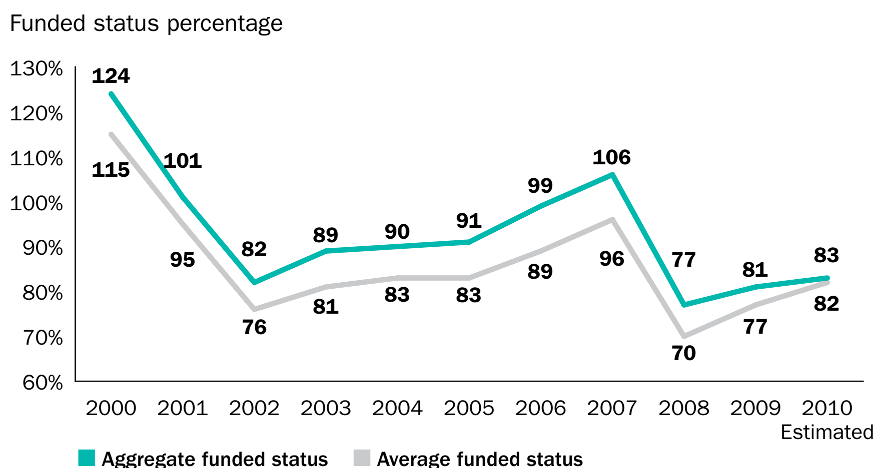
By Brendan McFarland and Erika Kummernuss

In pension plans sponsored by *Fortune* 1000 companies, asset growth outpaced liability growth in 2010, albeit not by much. Lower interest rates increased liabilities, but assets received an even bigger boost from strong equity market returns coupled with substantial employer contributions.

"The estimated value of plan assets increased by 9% in 2010."

Towers Watson analyzed data on U.S. pension plans for the 421 *Fortune* 1000 companies that sponsor defined benefit (DB) plans and whose fiscal years end in December, and estimated their funded status — plan assets over the projected benefit obligation (PBO) — for 2010.

Figure 1. Pension funded status for *Fortune* 1000 companies



Source: Towers Watson.

Figure 2. Estimated changes in PBO and asset values during 2010 ($ billions)

PBO 2009	$1,312
Service cost	$29
Interest cost	$74
Actuarial loss (gain)*	$69
Benefits paid	($91)

Market value of assets 2009	$1,068
Employer contributions	$58
Return on assets	$124
Benefits paid	($91)

PBO 2010 (estimated)	$1,393
Percentage change	6%

Market value of assets 2010 (estimated)	$1,159
Percentage change	9%

*Actuarial loss due to interest rate decrease.
Source: Towers Watson.

On an aggregate level — total assets over total PBO for all firms in this analysis — our estimate of 2010 funded status is 83%, a slight uptick from 81% in 2009 (see *Figure 1*). Calculated as a simple average across all companies, the funded ratio increased from 77% in 2009 to an estimated 82% in 2010.

Growth rates for liabilities and assets similar

The estimated value of plan assets increased by 9% in 2010. While the decrease in interest rates used to measure plan obligations increased plan liabilities for 2010, the higher liabilities are generally offset by slightly larger asset growth. *Figure 2* shows actual aggregate components for 2009 and estimates for year-end 2010.

Assets realize moderate gain

Pension plan assets grow with positive returns and employer contributions, and fall with negative returns, benefit payouts and plan expenses. The estimated 9% increase in plan assets is primarily due to strong equity market returns.

To estimate asset returns, we use company-specific asset allocation information from the 10-K pension footnotes required by the Securities and Exchange Commission. We break the allocation into five categories: equity, debt, cash, real estate and other. Equity returns are based on a 70/30 mix of domestic and international equities. Domestic equity returns are based on the Russell 3000 Index, and international equity returns are based on the MSCI AC World Ex-U.S. (the MSCI ACWI Ex-U.S. includes both developed and emerging markets around the world except the United States). In 2010, based on these indices, domestic equity returns were roughly 17% and international returns were around 11%. Debt returns are based on Barclays Long Government/Credit Index and were thus estimated as around 10%.

Estimated real estate returns are based on the National Council of Real Estate Investment Fiduciaries Property Index, and returns for other investments (assumed to be hedge funds) are based on Hedge Fund Research Inc.'s Global Hedge Fund Index. Returns for cash are based on three-month Treasury bills. We estimate these returns as 13% for real estate, 5% for other investments and less than 1% for cash.

To estimate employers' cash contributions for 2010, we use the greater of actual 2009 contribution amounts disclosed in the 2009 10-K pension footnotes and the amounts employers said they expect to contribute in 2010 (which is typically the minimum required). We believe this approach best estimates the contribution value for 2010. Last year, employers said they would make pension contributions of roughly $40 billion, but they actually contributed $52 billion. As employers are still trying to regain funding ground they lost in 2008, many of them are likely to once again have contributed more than they indicated.

Lower discount rates drive up liabilities

We estimate liabilities to have increased by roughly 6% during 2010. Based on our recent internal survey of plan sponsor assumptions coupled with recent movements in interest rates, we estimate a 46-basis-point decline in discount rates from year-end 2009 to year-end 2010.[1] Variations in the discount rate significantly affect plan liabilities — the higher liability caused by the lower discount rates is reflected in the actuarial loss shown in Figure 2.[2]

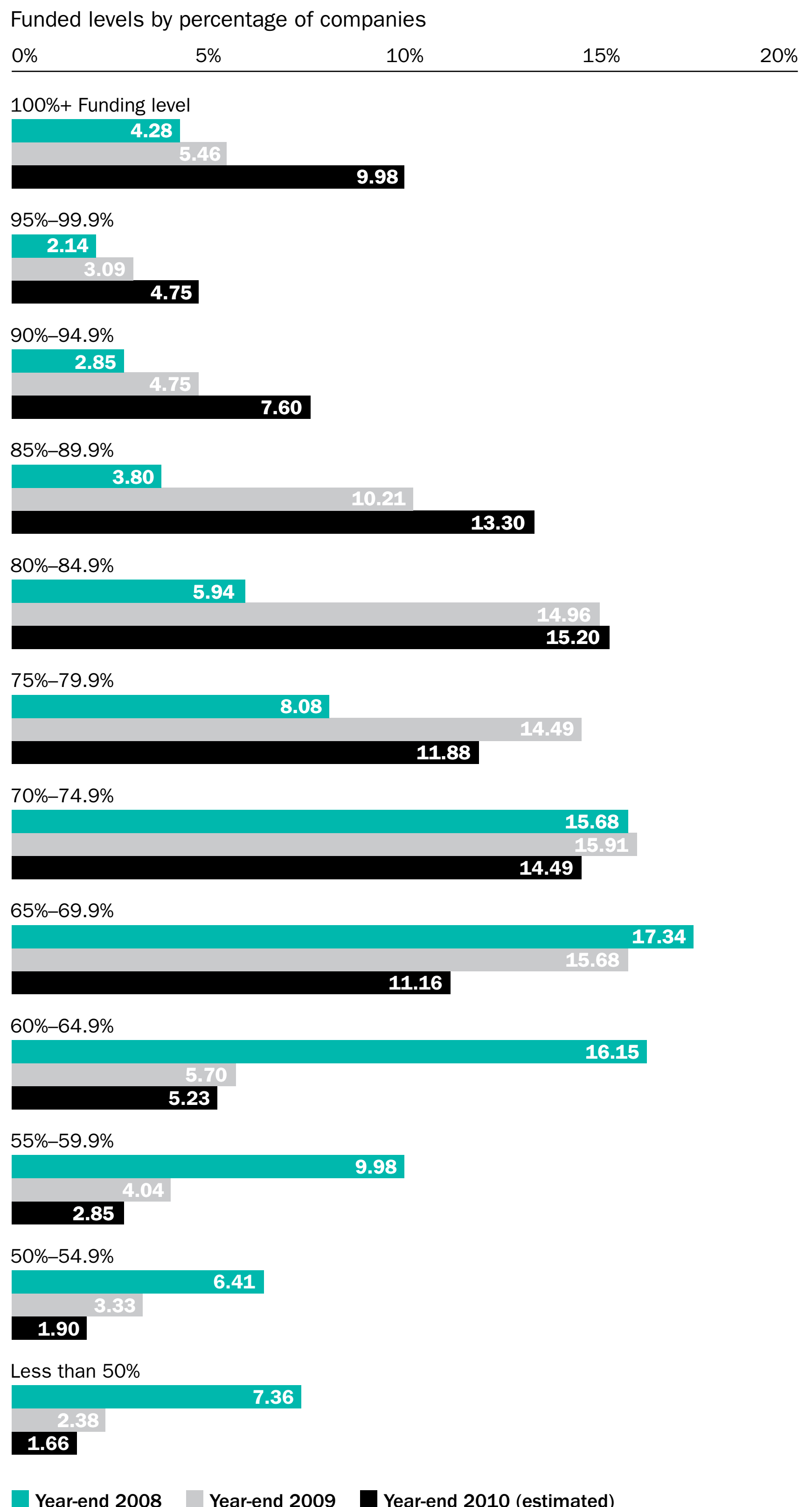
A decrease in year-end discount rates typically increases service cost for the following plan year. From the end of 2008 to the end of 2009, discount rates had fallen from 6.26% to 5.85% for companies in this analysis. Due to this decrease in interest rates, we estimate that service cost (actuarial present value of pension benefits employees earned during the year) increased by 7%.[3]

We estimate interest cost by multiplying the discount rate at the beginning of the year by the PBO for the same period, adjusted by current expected benefit payments over the next year as disclosed in the 2009 10-K pension footnotes.

Distribution of funded levels for *Fortune* 1000 companies in this analysis

At the end of 2009, funded levels were less than 70% for 31% of *Fortune* 1000 companies (see *Figure 3*). At year-end 2010, estimated funded levels are less than 70% for 23% of *Fortune* 1000 companies. At year-end 2009, funded levels were between 70% and 90% for 56% of plan sponsors; at year-end 2010, 55% of sponsors fall into that funding category, according to our estimates. While these shifts are

Figure 3. Distribution of funded status (year-end 2008 and 2009 versus estimates for 2010)



Source: Towers Watson.

[1] According to our internal survey of plan sponsor assumptions conducted in early January 2011, discount rates are expected to have declined from 5.90% at year-end 2009 to 5.44% at year-end 2010.

[2] We calculate plan duration using expected benefit payment schedules. Where this information is not available in the disclosure footnotes, we use an average of all company results, which leads to an assumption of 12.3 years.

[3] While we modeled only the change in service cost arising from interest rate movement, service cost is also affected by pay and employment levels, and plan changes such as freezes that curtail benefits. Addressing these factors, however, would likely not have provided any significant gains in overall accuracy, especially given countervailing factors such as aging workforces.

relatively minor, they represent a significant improvement over 2008. At year-end 2008, funded levels were less than 70% for 57% of the companies in this analysis.

"Estimated average funded levels have increased for the second year in a row, with a good part of this improvement attributable to contribution strategy."

Conclusion

While declining interest rates increased projected DB plan liabilities, favorable asset returns coupled with sizable employer contributions gave assets a considerable boost, thereby increasing aggregate funded levels for 2010. Estimated average funded levels have increased for the second year in a row, with a good part of this improvement attributable to contribution strategy.

The aggregate pension deficit for companies in this analysis remains quite large. Barring a significant extension of the capital market recovery or a large jump in interest rates, sponsors will have to contribute even more to their plans over the next few years to fully recover from the 2008 funding shortfalls.

Benefits Issues to Watch in 112th Congress

By Ann Marie Breheny

The 111th Congress adjourned in late December 2010, wrapping up a legislative session that began during the financial crisis and ended with an emerging focus on deficit reduction. Over those two years, President Obama signed several laws with significant implications for employer-sponsored health, retirement and compensation programs, including a landmark health care reform law, a sweeping financial market reform package, an economic stimulus bill and a major tax package.

These laws and the growing concern about the U.S. budget deficit played key roles in the November 2010 midterm elections. The 112th Congress convened on January 5 in a redrawn legislative landscape, with Republicans holding a majority in the House of Representatives and several more seats in the Senate. The House and Senate remained focused on health care reform in the early weeks of the new session. While health care reform will likely remain high on the legislative agenda through the 2011–2012 legislative term, other issues that would affect benefit and compensation programs will likely come under discussion as the session progresses.

"Senate HELP Committee chair Tom Harkin (D-Iowa) will continue a series of retirement hearings that got under way in 2010."

Health care reform law remains a hot topic

Health care reform was a signature outcome of the 111th Congress. After a contentious debate, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law on March 23, 2010. But enactment did not end the debate — health care reform was among the first issues taken up by the new Congress. On January 19, the House voted 245–189 to repeal the law. The next day it approved a resolution directing the committees with jurisdiction over health care reform to develop legislation to replace the law. Two weeks later, Senate Minority Leader Mitch McConnell (R-Ky.) introduced repeal legislation as an amendment to a bill reauthorizing the Federal Aviation Administration, but the amendment failed to obtain the 60 votes needed to overcome a procedural hurdle.

With Democrats holding a Senate majority and President Obama ensconced in the White House, repeal of the PPACA is not likely. So opponents are expected to refocus on overseeing the act's rollout, denying funding for implementation and enforcement, and highlighting reasons to oppose the law. As House and Senate Republicans continue trying to undo key reform provisions, Democrats will do their best to counteract those efforts and build more support for the law as it now stands.

Retirement issues may gain attention

While retirement took a backseat to health care reform during the 111th Congress, legislation with important retirement-related implications became law in 2010. These include defined benefit (DB) funding relief, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and a law permitting in-plan Roth 401(k), 403(b) and 457 conversions.

Senate Health, Education, Labor and Pensions (HELP) Committee chair Tom Harkin (D-Iowa) will continue a series of retirement hearings that got under way in 2010. The committee's first retirement hearing on February 3 focused on proposals to give workers information and resources to encourage them to save for retirement and make good retirement decisions.

Oversight of the Pension Benefit Guaranty Corporation (PBGC) may receive legislative attention. The HELP Committee held a hearing "PBGC: Is Stronger Management and Oversight Needed?" in December 2010. Senate Aging Committee chair Herb Kohl (D-Wis.) sponsored a bill that would expand the PBGC's board of directors from three members to seven, provide for board members to serve staggered terms and require the board to meet four times a year. It would also require that the PBGC's advisory committee, inspector general and general counsel have direct access to the board.

Pension funding is likely to receive some attention from lawmakers, although the focus may be mostly on public-sector plans and multiemployer plans as lawmakers are concerned about the financial status of retirement plans sponsored by state and local governments. Legislators might not have much time left over for private-sector single-employer plans. Defined benefit plan sponsors had hoped for technical corrections to the 2010 pension funding act. The Senate approved technical corrections during 2010 but the House did not vote on them, and such legislation may not gain traction during the 2011–2012 term.

Compensation outlook unclear

Compensation issues were active during the 111th Congress, which convened soon after the enactment of the Troubled Asset Relief Program. The charged economic environment fueled some of the scrutiny of executive compensation. However, compensation discussions extended beyond executive compensation, and compensation-related activity was triggered by other issues, including DB funding. Legislation to restrict executive compensation seems unlikely to be a priority for the 112th Congress, although — given the intense focus on the budget and deficit reduction — restrictions might remain on the table as revenue offsets for other legislative priorities. Such provisions could face stiffer opposition in the current legislative environment, but the pressing need for revenue could overcome objections.

Other issues will affect agenda

Tax reform and deficit reduction are on the legislative agenda for the 112th Congress. In the Senate, several lawmakers are reportedly developing legislation based on the recommendations of the National Commission on Fiscal Responsibility and Reform, including Senators Mark Warner (D-Va.) and Saxby Chambliss (R-Ga.), and Senate Budget Committee chair Kent Conrad (D-N.D.). The commission's proposals have significant implications for employer-sponsored health and retirement plans — they would eventually eliminate the tax exclusion for employer-sponsored health benefits, increase the premiums DB plan sponsors pay to the PBGC, and reduce maximum contributions to defined contribution plans from both employers and employees. Lawmakers are looking for ways to boost revenues and simplify the tax code, so programs that receive tax deductions, exclusions and credits could find themselves under scrutiny.

"The commission's proposals would eventually eliminate the tax exclusion for employer-sponsored health benefits, increase the premiums DB plan sponsors pay to the PBGC, and reduce maximum contributions to defined contribution plans."

Congress Works to Repeal New 1099 Reporting Requirement

By Ann Marie Breheny

Under the Patient Protection and Affordable Care Act (PPACA), businesses must issue Form 1099s to all payees who receive $600 or more in a year. The provision was intended to raise revenue and improve tax compliance. Businesses — especially small businesses — want to repeal this expanded reporting requirement because of the administrative burdens it will impose when it takes effect in 2012.

On March 3, the House of Representatives approved the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act (H.R. 4). The legislation would repeal both the expanded information reporting requirement in the PPACA and the requirements for reporting certain payments for rental property that is not part of a trade or business. To offset the estimated revenue loss of almost $25 billion over 10 years, the legislation would amend the subsidy recapture provisions in the PPACA.

On February 2, the Senate approved legislation to repeal the 1099 provision in an amendment to a bill reauthorizing the Federal Aviation Administration. Offered by Senator Debbie Stabenow (D-Mich.), the amendment would repeal the 1099 reporting requirement and instruct the director of the Office of Management and Budget to find and recapture unobligated funds elsewhere.

"To offset the estimated revenue loss of almost $25 billion over 10 years, the legislation would amend the subsidy recapture provisions in the PPACA."

Figure 1. Repayment requirements for family coverage*

<table>
<tr><th>Household income (percentage of FPL)</th><th>Original PPACA</th><th>Current law (Medicare and Medicaid Extenders Act)</th><th>Proposed level (H.R. 4)</th></tr>
<tr><td>Less than 200%</td><td rowspan="5">$400</td><td>$600</td><td>$600</td></tr>
<tr><td>200%–249%</td><td>$1,000</td><td rowspan="2">$1,500</td></tr>
<tr><td>250%–299%</td><td>$1,500</td></tr>
<tr><td>300%–349%</td><td>$2,000</td><td rowspan="2">$2,500</td></tr>
<tr><td>350%–399%</td><td>$2,500</td></tr>
<tr><td>400%–449%</td><td rowspan="2">No limitation</td><td>$3,000</td><td rowspan="2">No limitation</td></tr>
<tr><td>450%–499%</td><td>$3,500</td></tr>
</table>

* Under current law and H.R. 4, the limitation for taxpayers with individual coverage would be half the family amount. Under the original PPACA, taxpayers with individual coverage would have been required to repay up to $250.

"The revenue offset has sparked some opposition among House Democrats."

The timing of additional action on the legislation is unclear, but the issue is expected to remain under discussion until repeal of the 1099 provision is enacted.

Recapture of subsidy overpayments

Under the PPACA, taxpayers may qualify for advance premium subsidies based on previous tax returns. If a subsidy is more than the taxpayer should have received based on his or her annual income, the taxpayer must repay the excess amount. The PPACA limited the repayments to $400 for families with incomes up to 400% of the federal poverty level (FPL). The Medicare and Medicaid Extenders Act of 2010 modified the repayment amounts for taxpayers with incomes up to 500% FPL. The Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act would further modify the repayment requirements. *Figure 1* outlines the original, current and proposed limits.

The revenue offset has sparked some opposition among House Democrats. Finding a revenue offset has been the major obstacle to repealing the reporting requirement, which lawmakers in both parties now consider a priority. President Obama expressed his support for repeal in his January 25th State of the Union address. However, the administration issued a Statement of Administration Policy (SAP) expressing "serious concerns" about the revenue raiser in H.R. 4. The SAP did not threaten a veto, and the House approved the legislation with a veto-proof majority.

Investment in 2011 and Beyond: Modest Pickup of Risk Taking Amid Evolving Capital Markets and Global Economies

By Gaobo Pang and Mark Warshawsky

Generally upbeat about capital markets and global economies, investment managers expect that institutional clients will adopt modestly more aggressive investment strategies in 2011, according to the latest *Towers Watson Global Survey of Investment and Economic Expectations*.[1] Investment managers are bullish about public equities and emerging markets in 2011 but bearish about nominal government bonds and the money market. The survey respondents depict diverse economic outlooks such as steady but moderate growth of the U.S. economy, increased competitiveness of emerging economies, particularly China, default risk of sovereign debt in the Euro-zone and the likelihood of economic stagnation in Japan.

"The survey seeks the leading institutional investors' views on prospects for capital markets and global economies."

The survey seeks the leading institutional investors' views on prospects for capital markets and global economies. It also identifies their strategies to manage investment risks, optimize returns and improve governance. The survey was fielded from December 1, 2010, through January 5, 2011. This article reflects the opinions of 141 investment managers who participated in the survey. The managers' business focuses are around the globe, the vast majority of them have more than 10 years' experience in investment, and they collectively manage assets of about $13.5 trillion for institutional investors and $2.9 trillion for retail investors.

Capital market expectations

The survey respondents hold varied views of equity markets but overall expect good returns in 2011, according to the median responses. The median view of global equity return is 10.0%. This is also the consensus expectation of the U.S., U.K. and Australian equity markets. The Euro and Japanese

[1] The results of the first survey were reported in "In the Wake of the Financial Crisis," *Watson Wyatt Insider*, February 2009, and the results of the second in "Investments Emerging From Recession: Optimism, Concerns and the Way Forward," *Insider*, March 2010.

Figure 1. Survey respondents' median predictions for capital markets

Average in 2011	Global	United States	United Kingdom	Euro-zone	Australia	Japan	China
Equity return (%)	10.0	10.0	10.0	7.0	10.0	6.0	10.5
Equity volatility (std. dev. %)	18.0	18.0	18.0	20.0	17.0	15.0	22.0
Short-term (3-month) government yield (%)	1.0	0.4	1.0	1.0	5.0	0.2	4.0
Long-term (10-year) government yield (%)	4.0	3.8	4.0	3.5	6.0	1.4	4.8
Corporate AA spread over gov. bond (10-year maturity, %)	1.0	1.0	1.4	1.4	1.3	0.6	2.2
Real yield on 10-year inflation-indexed gov. bonds (%)	1.5	1.5	1.0	1.5	2.5	1.3	2.0
Annualized average over the next 10 years							
Equity return (%)	8.0	7.8	7.0	7.0	8.0	5.8	10.0
Equity volatility (std. dev. %)	16.6	16.0	16.0	18.0	17.0	16.0	21.0
Short-term (3-month) government yield (%)	2.6	2.5	3.0	2.8	4.5	1.0	4.0
Long-term (10-year) government yield (%)	5.0	5.0	5.0	4.5	6.0	2.0	6.0
Corporate AA spread over gov. bond (10-year maturity, %)	1.0	1.2	1.5	1.4	1.5	1.0	3.0
Real yield on 10-year inflation-indexed gov. bonds (%)	1.9	2.0	2.0	1.8	2.8	1.0	2.0

Source: *Towers Watson 2011 Global Survey of Investment and Economic Expectations.*

Figure 2. Survey respondents' median predictions for macroeconomic indicators

Average in 2011	United States	United Kingdom	Euro-zone	Australia	Japan	China
Real GDP growth rate (%)	3.0	2.0	1.8	3.2	1.5	8.9
Unemployment rate (%)	9.0	7.8	9.8	5.0	5.0	4.4
CPI inflation rate (%)	1.5	3.0	1.7	3.0	–0.2	4.4
Central bank interest rate (%)	0.3	0.8	1.0	5.0	0.1	5.0
Annualized average over the next 10 years						
Real GDP growth rate (%)	2.8	2.2	2.0	3.0	1.5	7.5
Unemployment rate (%)	7.0	6.3	8.0	5.0	5.0	4.0
CPI inflation rate (%)	2.5	2.5	2.0	3.0	1.0	4.0
Central bank interest rate (%)	3.0	3.0	2.6	4.8	1.0	5.0

Source: *Towers Watson 2011 Global Survey of Investment and Economic Expectations.*

"Over the next five years, managers are quite bullish about public equities and emerging market equities and debt, but bearish about investment-grade bonds and money markets and especially bearish about nominal government bonds."

markets are projected to deliver less at 7.0% and 6.0%, respectively, while China is expected to outperform slightly at 10.5% (see *Figure 1*). These statistics indicate a more optimistic one-year outlook about U.S., U.K. and Australian equity returns by 1.0 to 1.5 percentage points but a less optimistic view of Euro and Japanese markets by 2.0 to 3.0 percentage points, compared with the 2010 survey.

Over a longer horizon, the investment managers expect nominal equity returns to be lower than the historical average, accompanied by average levels of risk. For instance, over the next 10 years, survey participants expect the annual U.S. equity return to be 7.8% and the standard deviation to be 16.0%, while the historical statistics over 1962 to 2010 (a period of modern monetary policies after the Treasury-Federal Reserve Accord[2]) are 9.8% and 17.3%, respectively.

In real terms, managers are sanguine about equity return in the United States for 2011 but expect equities to slightly underperform the historical average over the next 10 years — 8.5% and 5.3%, respectively, after adjusting for expectations of inflation (1.5% for 2011 and 2.5% for 2011 to 2021; see *Figure 2*). The 1962 to 2010 historical average real equity return is 5.6% after adjusting for average inflation of 4.2%.

Managers expect friendly credit terms for bonds in years to come. The U.S. corporate AA spreads over government bonds are expected to be 100 basis points in 2011 and to hover slightly above this level for the next 10 years, in contrast to 140 basis points for 2010 from the 2010 survey (actual 104 basis points at the end of 2010). The real cost of borrowing, based on the real yield on 10-year inflation-indexed government bonds, is expected to increase modestly to 1.5% in 2011 (actual 1.2% at the end of 2010) and to rise by another 50 basis points over the next 10 years.

[2] After World War II ended, the Fed continued its wartime pegging of interest rates. The 1951 Treasury-Federal Reserve Accord restored independence to the Federal Reserve.

Figure 3. Actual statistics of economic indicators around the survey time of late 2010

	United States	United Kingdom	Euro-zone	Australia	Japan	China
Real GDP growth (%)	**2.6**	**2.7**	**1.9**	**2.2**	**1.1**	**9.6**
Unemployment rate (%)	**9.4**	**7.9**	**10.1**	**5.2**	**5.1**	**4.1**
CPI inflation (%)	**1.1**	**3.3**	**2.2**	**2.8**	**0.1**	**5.1**
Central bank interest rate (%)	**0.25**	**0.50**	**1.00**	**4.75**	**0.00**	**5.81**
Yield on 10-year government bond (%)	**3.29**	**3.30**	**2.96**	**5.44**	**1.06**	**3.91**

Source: Towers Watson data collection.

According to the respondents, the most important issue for investment analysis is the extent and nature of government intervention, including monetary, fiscal and legislative measures. Managers ranked inflation as the top issue in the 2010 survey and financial stability in the 2009 survey. Over the next five years, managers are quite bullish about public equities and emerging market equities and debt (more than 55% of managers modestly bullish and another 20%+ strongly bullish), but bearish about investment-grade bonds and money markets (four of 10 managers) and especially bearish about nominal government bonds (eight of 10 managers).

Macroeconomic forecasts

Managers expect moderate economic growth around the globe in 2011, along with the continued boom in China. Specifically, the median projections of real gross domestic product (GDP) growth are 3.0% for the United States, 2.0% for the United Kingdom, 1.8% for the Euro-zone, 3.2% for Australia, 1.5% for Japan and 8.9% for China, as reported in Figure 2. Managers expect economic growth to continue in much the same pattern over the next 10 years, but they are slightly more upbeat than one year ago. For instance, the median prediction for real GDP growth in the United States is 2.8% over the next 10 years, which is higher than the 2.5% prediction from the 2010 survey and similar to the historical norm. As a reference, *Figure 3* reports the actual statistics for five variables at the end of 2010, i.e., around the 2011 survey time.

Unemployment is expected to remain a challenge in 2011 for the United States (rate at 9.0%), the United Kingdom (7.8%) and the Euro-zone (9.8%). The managers anticipate improvement — the second or third quarter of 2011 is seen as the turning point for the jobs market — but they do not expect full employment any time soon, projecting fairly high unemployment rates over the next 10 years, as shown in Figure 2.

The respondents expect mild inflation in 2011 and some modest pickup over the next 10 years. For instance, in the United States, the inflation rate is expected to be 1.5% in 2011 and trend upward to an average of 2.5% over the next 10 years. Concurrently, managers expect that central banks will continue to focus on boosting the economy in 2011 with low interest rates but will tighten monetary policies over time. The average Federal Reserve System benchmark interest rate is expected to reach 3.0% over 10 years, a significant rise from 0.3% in 2011 (the current Federal Reserve target is 0.25%).

A recession is unlikely for the U.S. and the U.K. economies in the next five years, despite growth being mild and bumpy, according to the managers. More than 10% of managers, however, view recession as a risk for the Euro-zone and Japan. Twenty-seven percent of managers also believe that stagnation risk threatens the euro economy, and 50% of managers fear the same for Japan. Alongside China's strong economic development, the Chinese renminbi is expected to appreciate significantly in 2011 to ¥5.5 per U.S. dollar (actual ¥6.7 at the end of 2010).

Burgeoning fiscal deficit and public debt are consequences of the financial crisis. Expectations are for monetization (43% of managers) and economic growth (69% of managers) to address the deficit and debt in the United States. Economic growth is also the major route for debt management in the United Kingdom and Japan, but fiscal austerity is anticipated to play a bigger role in these two countries by 44% and 27% of managers, respectively. The Euro-zone is facing tougher fiscal situations, according to the survey, and has some likelihood of sovereign debt default (expected by 28% of managers), bilateral or multilateral debt rescue (44% of managers), and/or debt restructuring with creditors (48% of managers). In contrast, the vast majority of managers view the fiscal situations in Australia and China as solid.

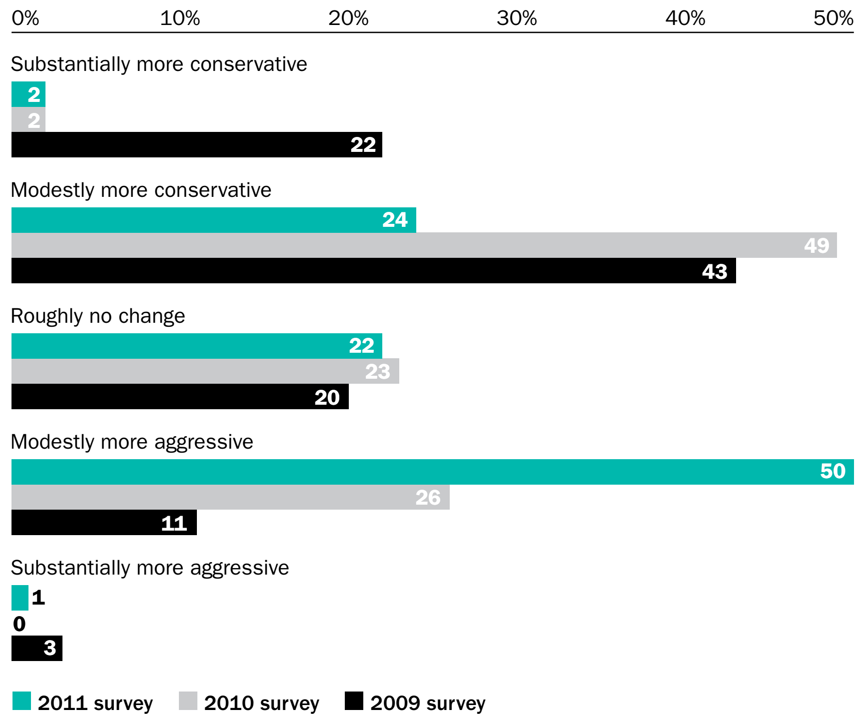
"More institutional investors are expected to turn modestly more aggressive in 2011, a significant reversal from the conservative trend in recent years."

Investment and governance

More institutional investors are expected to turn modestly more aggressive in 2011, a significant reversal from the conservative trend in recent years, as indicated by *Figure 4*. Managers also expect that investment performance will attract greater attention in 2011, surpassing risk control, a top concern in 2009 and 2010. Concerns about economic difficulties are receding among the managers, and more of them reject the prediction that investors' risk appetite will diminish as a result of the financial crisis (44% of managers versus 26% in the 2010 survey, results not plotted).

For the health of the investment industry, managers attach great importance to standardization and regulation of financial products, according to the survey. They call for transparency of derivatives, clarity of balance sheets and uniformity in the regulation of financial institutions. Managers emphasize better understanding, measurement, monitoring, modeling and budgeting of portfolio risks. According to the survey, institutional investment needs to develop new strategies and solutions that can deliver absolute returns and effective asset-liability matching in a variety of market conditions. Managers also urge actions in the pursuit of hedging against inflation and global asset diversification, including currency management.

Figure 4. Investment strategy of institutional clients in 2011



Source: *Towers Watson 2011 Global Survey of Investment and Economic Expectations.*

Investments in DC Plans: Results and Analysis From the 2010 Survey of DC Plan Sponsors

By Tomeka Hill

As employers continue to close and freeze their defined benefit (DB) plans, defined contribution (DC) plans have become the primary retirement plan for many workers. In most cases, DC plan participants — rather than plan sponsors — decide how much to save and where to invest. The investment decisions participants make should reflect sound investing principles as well as their own goals, needs and risk preferences. Unfortunately, the evidence suggests a tremendous disconnect between employee risk preferences and their investment decisions.

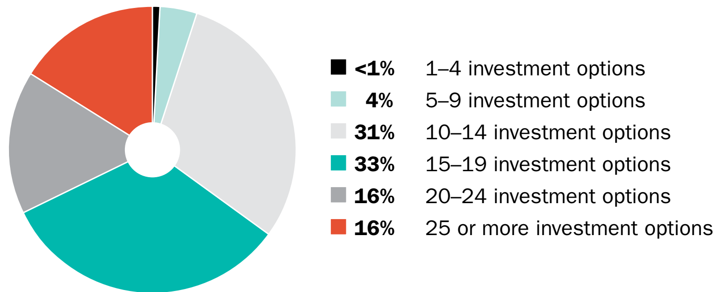
To help employees better align their goals with their decisions, plan sponsors can design investment options that support such alignment. The recent economic downturn has diminished many workers' confidence in their DC plans and their own decisions, thereby making the need for investment education and support greater than ever.

Investment menus in DC plans vary considerably among plan sponsors. Choosing appropriate investment options is challenging for sponsors, as plans must serve workers with wide-ranging needs. Some workers are financially savvy, motivated savers, others need to be nudged to participate at all, and many fall somewhere in the middle. Participant populations contain different mixes of these investor types, so employers must devise their strategies to reflect the needs of their entire workforce.

To more fully engage and inform all participants, sponsors need to improve their communications and framing of investment options. For unengaged participants with little financial expertise, the right plan defaults can improve participation, saving rates

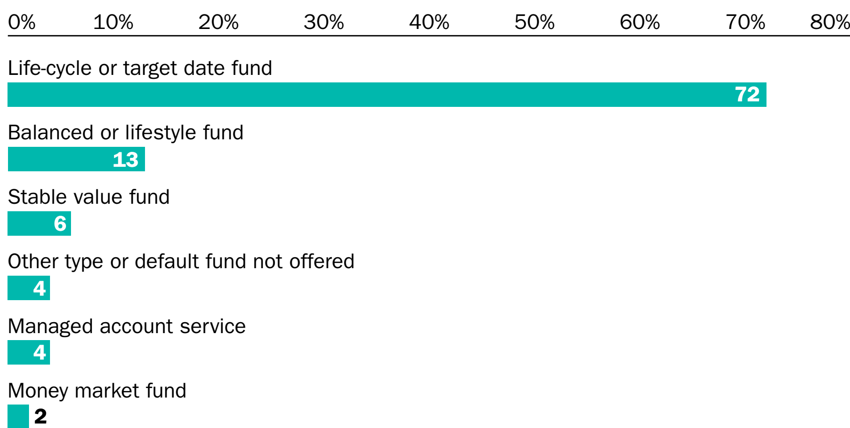
"Two-thirds of plan sponsors in our survey offer between five and 19 investment options."

Figure 1. Number of investment options offered



N=334
Notes: Target date series and brokerage count as one option each; options may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors*.

Figure 2. Default investment options



N=333
Note: Options may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors.*

Figure 3. Type of default investment option by plan size (asset value)

Assets	Life-cycle or TDF	Other default investment or no default investment
$10 million–$99.9 million	**78%**	**22%**
$100 million–$249.9 million	**73%**	**27%**
$250 million–$499.9 million	**75%**	**25%**
$500 million–$999.9 million	**69%**	**31%**
$1 billion or more	**68%**	**32%**

N=333
Source: *2010 Survey of DC Plan Sponsors.*

> "Life-cycle funds or TDFs are the most common default investments."

and investment choices. For more knowledgeable and engaged workers, providing appropriate investment choices is most effective, so they can align their risk preferences and goals with their investment decisions themselves.

To better understand how plan sponsors are helping employees manage today's investment challenges, Towers Watson's *2010 Survey of DC Plan Sponsors* asked employers about investment menus, communications regarding investments and other issues.

Number of investment options

It is important for employers to offer an appropriate number of investment options. Offering too few is likely to leave out options that might best serve some participants' investment goals, while too many may confuse participants. Two-thirds of plan sponsors in our survey offer between five and 19 investment options (*Figure 1*). Roughly one-third of respondents have 20 or more investment options.

Default investments

Seventy-two percent of plan sponsors use a life-cycle or target date fund (TDF) as the default investment option, and 13% use a balanced or lifestyle fund (*Figure 2*). Sponsors of smaller plans are more likely to use TDFs — 78% of plans with $10 million to $99.9 million in assets use TDFs compared with 68% of plans with $1 billion or more (*Figure 3*).

Life-cycle funds or TDFs are the most common default investments and are most prevalent (86%) in the media, communications and technology industry and the transportation industry (*Figure 4*). Only 46% of plan sponsors in the food services and beverages industry use a life-cycle fund or TDF as the default investment option. Instead, all but one of the other food and beverage plan sponsors with a default investment option use a balanced or lifestyle fund.

Nineteen percent of respondents with default TDFs make the underlying investment in all active managers, 24% in all index managers, and 37% in a mix of active and index managers (*Figure 5*).

Seventy-eight percent of plan sponsors use different underlying investments for their core funds[1] and their TDFs (*Figure 6*). Forty-seven percent of those sponsors say the investments underlying their TDF are affiliated with the record keeper, while 31% say they are not. Nine percent say the TDF's underlying investments are the same as those of their core funds (i.e., custom), and 12% say the TDF's underlying investments are the same as those of their core funds and in others (i.e., custom plus).

[1] Core funds are individual collective trust funds designed to track a specific asset class.

Figure 4. Default investment by industry

Industry	Life-cycle or TDF	Other default investment
Media, communications and technology	**86%**	**14%**
Transportation*	**86%**	**14%**
Manufacturing	**82%**	**18%**
Pharmaceuticals	**73%**	**27%**
Utilities and energy	**69%**	**31%**
Health care	**68%**	**32%**
Retail/wholesale	**68%**	**32%**
Business and financial services (incl. insurance)	**62%**	**38%**
Other	**59%**	**41%**
Food services and beverages	**46%**	**54%**

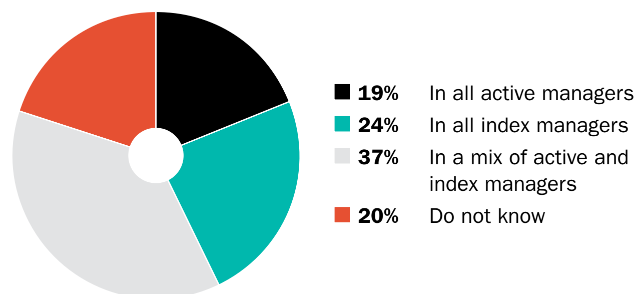
N=332
*The transportation industry has fewer than 10 plan sponsors.
Source: *2010 Survey of DC Plan Sponsors.*

While plans of all sizes utilize custom TDF strategies, they are used most frequently in plans holding $250 million to $499.9 million in assets (*Figure 7*). Of these respondents, 62% use TDFs with underlying investments that are different from core funds and are affiliated with their record keeper, and 23% use TDFs with underlying investments that are different from core funds and that are not affiliated with their record keeper. For respondents with $10 million to $99.9 million in assets, only 34% use TDFs with underlying investments that are different from core funds and are affiliated with the record keeper, and 21% use TDFs that are different from core funds and are not affiliated with their record keeper.

Company stock

Offering company stock as an investment option gives participants a relatively easy way to invest in their company. Plan sponsors offer company stock for several reasons. Some offer company stock to reduce their cash flow needs and benefit from the tax deductions associated with dividends. Some believe owning company stock motivates workers to become more engaged. Unfortunately, some

Figure 5. Underlying investments of target date funds



N=237
Source: *2010 Survey of DC Plan Sponsors.*

Figure 6. Underlying investments and core funds

TDF's underlying investments are different from core funds		TDF's underlying investments are the same as core funds	
and are affiliated with company's record keeper (proprietary off-the-shelf)	and are *not* affiliated with company's record keeper (non-proprietary off-the-shelf)	i.e., custom	and in other funds not available in the lineup, i.e., custom plus
47%	**31%**	**9%**	**12%**
78%		**22%**	

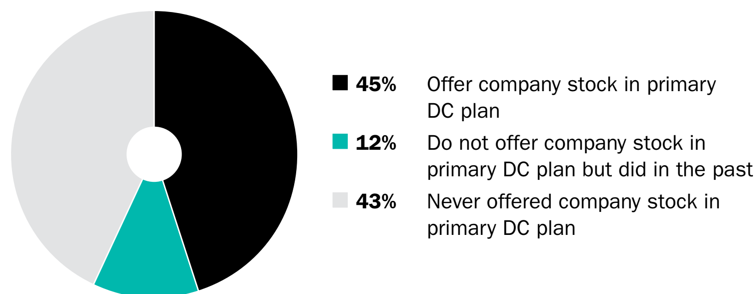
N=234
Note: Columns may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors.*

Figure 7. TDF structure by DC plan size

TDFs with underlying investments that are…	$10 million–$99.9 million	$100 million–$249.9 million	$250 million–$499.9 million	$500 million–$999.9 million	$1 billion or more
Different from core funds and are affiliated with record keeper (proprietary off-the-shelf)	**34%**	**53%**	**62%**	**39%**	**41%**
Different from core funds and are *not* affiliated with record keeper (nonproprietary off-the-shelf)	**21%**	**30%**	**23%**	**41%**	**37%**
The same as the core funds (custom)	**17%**	**7%**	**13%**	**2%**	**10%**
The same as core funds as well as other funds not available in the lineup (custom plus)	**28%**	**9%**	**2%**	**17%**	**13%**

N=234
Note: Columns may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors.*

Figure 8. Company stock in investment option lineup



N=333
Source: *2010 Survey of DC Plan Sponsors.*

Figure 9. Company stock in investment option lineup by industry classification

	Offer company stock in primary DC plan	Do not offer company stock in primary DC plan but did in the past	Never offered company stock in primary DC plan
Utilities and energy	**85%**	**3%**	**12%**
Pharmaceutical	**55%**	**18%**	**27%**
Food services and beverages	**54%**	**15%**	**31%**
Manufacturing	**46%**	**15%**	**39%**
Media, communications and technology	**45%**	**14%**	**41%**
Business and financial services	**43%**	**15%**	**42%**
Transportation*	**43%**	**14%**	**43%**
Retail/wholesale	**42%**	**16%**	**42%**
Other	**34%**	**13%**	**53%**
Health care	**15%**	**0%**	**85%**

Source: *2010 Survey of DC Plan Sponsors.*
*The transportation industry has fewer than 10 plan sponsors.

Figure 10. Plan sponsors that make employer contributions in company stock

Plan sponsors that currently make employer contributions in company stock		Plan sponsors that do not make employer contributions in company stock	
Will continue to contribute company stock	Considering discontinuing contributing company stock	Used to make contributions in company stock	Never made contributions in company stock
44%	**3%**	**25%**	**29%**
47%		**53%**	

N=150
Note: Rows may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors.*

participants invest heavily in company stock because they're more familiar with it and thus perceive it as less risky than other investment options. Too large a share of company stock, however, can potentially put participants at risk of insufficient diversification.

Forty-five percent of our survey respondents offer company stock in their primary DC plan (*Figure 8*). Of the remaining plan sponsors, 12% do not offer company stock (although they did in the past), and 43% have never offered company stock.

Eighty-five percent of plan sponsors in the utilities and energy industry offer company stock as an investment option (*Figure 9*). Plan sponsors in the pharmaceutical and food services and beverages industries follow with 55% and 54%, respectively. At 15%, health care companies are the least likely to offer company stock as an investment option, primarily because most hospitals are nonprofit organizations and so do not have company stock to offer.

Forty-seven percent of plan sponsors that offer company stock as an investment option for participants also make employer matching and/or non-matching contributions in company stock, and only 3% are considering discontinuing this practice (*Figure 10*).

Plan sponsors that offer additional retirement plans are more likely to offer company stock as an investment option (*Figure 11*). Forty-eight percent of DC plan sponsors that also offer a DB plan offer company stock, as do 43% of plan sponsors that offer one or more additional DC plans, compared with 37% of those with no additional retirement plans. One could argue that workers with additional retirement plans can "afford" more risk than those who have only one DC plan.

We asked plan sponsors that offer company stock whether they have set limits on its investment since the recession or are considering such limits. Forty percent have either limited or are considering limiting investment in employer stock (e.g., to a

Figure 11. Relationships between company stock and additional retirement plans offered

	Offer traditional DB or hybrid plan	Offer additional DC plans	No other plans
Offer company stock in primary DC plan	**48%**	**43%**	**37%**
Do not offer company stock in primary DC plan but did so in the past	**12%**	**10%**	**13%**
Never offered company stock in primary DC plan	**41%**	**47%**	**50%**

N=333
Note: Columns may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors.*

Figure 12. Current and potential changes to company stock investment option

	Currently in progress or already took action	Considering action for next year	Not considering taking action
Limit investment in employer stock (e.g., to a maximum percentile)	**28%**	**12%**	**60%**
Disallow new participant contributions or transfers into company stock	**19%**	**3%**	**78%**
Hire independent fiduciary (not company's record keeper) for stock option	**7%**	**3%**	**91%**
Require affirmative election to remain invested in company stock	**5%**	**3%**	**91%**
Eliminate company stock as an investment option	**3%**	**5%**	**93%**

N=149
Note: Rows may not sum to 100% due to rounding.
Source: *2010 Survey of DC Plan Sponsors.*

Figure 13. Impact of stronger emphasis on diversification of asset allocation and the default investment option on participants' investment changes in last six months

	Marginal effects (dy/dx)		
Explanatory variables	**Increase in participant investment changes**	**No change in participant investment changes**	**Decrease in participant investment changes**
Increased emphasis on diversification of asset allocations in DC communication	**10%***	**–9%***	**–1%**
Increased emphasis on description of default investment option in DC communication	**12%***	**–11%***	**–1%***

*Significant at the 10% level.
Source: *2010 Survey of DC Plan Sponsors.*

maximum percentage) (*Figure 12*). Nineteen percent do not allow new participant contributions or transfers into company stock, and 3% are considering such restrictions. Only 8% have recently eliminated or are considering eliminating company stock as an investment option.

Impact of communication on participant investment decisions

To better understand how employers' communications affect participants' investment decisions, we asked respondents several questions about participant behavior and their communication, including whether participants had changed their investment options within the last six months. We also asked whether sponsors had increased their emphasis on specific topics since the economic crisis began.

To determine the relationship between changes in the number of participants making investment changes and an increased emphasis on specific topics, we ran an ordered logit regression model.[2] Control variables include industry classification, other retirement plans offered, asset size and the DC plan type.

The findings suggest that enhancing the emphasis on asset diversification increases by 10% the probability of participants' changing their allocations (*Figure 13*). It reduces the probability of having no change in volume of participant changes by 9% and the probability of having fewer investment changes by 1%. Increasing the emphasis on the description of the default investment raises by 12% the probability of participants' changing their allocations. It reduces by 11% the probability of having no change in volume of participant investment changes and reduces by 1% the probability of having fewer participant investment changes.

"Plan sponsors that offer additional retirement plans are more likely to offer company stock as an investment option."

[2] This is a statistical technique that can be used with an ordered (from low to high) dependent variable, such as bond ratings and opinion surveys with responses ranging from "strongly agree" to "strongly disagree."

"Offering company stock as an investment option gives plan sponsors much to consider."

Conclusions

American workers increasingly rely on DC plans as their primary retirement savings vehicle. Since the economic crisis, however, many workers worry about whether their DC plans will see them through their retirement years. Account balances in DC plans have fluctuated widely over the last two years, leaving many participants unsure about how much to contribute and where to invest. Plan sponsors can help by developing investment strategies that support employees' efforts to satisfy their risk tolerance and meet their rate-of-return goals.

Plan sponsors need to offer enough investment options to enable participants to diversify, but not so many as to overwhelm them. Although most employers offer 15 or fewer options, 16% offer 25 options or more. That many options might be fine for more confident investors, but less engaged and less experienced employees might find that many choices confusing.

Auto-enrollment has proven useful to nudge unengaged workers to participate in DC plans. Having an appropriate default investment option is very important, so workers who are not well-informed or motivated to compare investment options can also land on their feet.

Overall, the most popular default investment option is the TDF, although it is more prevalent among smaller plans and in the media, communication and technology industries. Choosing the right TDF is important, so plan sponsors must consider where the TDFs make underlying investments, their glide path — the formula under which the portfolio's asset allocation rebalances over time — and active versus passive management. Because of their popularity and growing evidence that participants did not fully understand these investments and their associated risks, the Department of Labor has issued educational information on TDFs for participants. The department is also considering issuing guidance to help fiduciaries select TDFs and to require more specific disclosures for TDFs.

Offering company stock as an investment option gives plan sponsors much to consider. While investing in their own company motivates workers to help their employer succeed, it carries risks as well. In some cases, participants may not adequately diversify. Although few companies are considering eliminating company stock as an investment option entirely, some have chosen to limit investment in company stock or not allow new participants to contribute or transfer money into company stock.

To help employees understand their risk tolerance, retirement goals and the importance of making appropriate investment choices, plan sponsors should continue providing financial education. The evidence suggests that emphasizing the importance of diversifying investment options and providing information about TDFs encourages employees to think about and change their investment options. As more employers and workers adjust to a DC-only savings environment, more communication will likely be necessary to help participants contribute enough, minimize their risks and make the right choices to meet their own retirement goals.

About the survey

Between mid-April and mid-May 2010, Towers Watson surveyed DC plan sponsors about critical issues such as plan design, investment, fees, communication and governance. The survey reflects responses from 334 companies with more than 1,000 employees and at least $10 million in assets across a broad range of industry sectors. These companies have an average of 18,426 employees and together represent more than 6 million employees.

The respondents' DC plans vary widely by asset size. The plans represent a total of $386.5 billion in DC plan assets with a median of $477.5 million. Twenty-eight percent of respondents have $1 billion or more in assets in their primary DC plans.

For more information about the survey results and the respondents, please refer to Towers Watson's *New Strategies in Defined Contribution Plan Design: Results From the 2010 Survey of Defined Contribution Plan Sponsors*.

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, financial and risk management. With 14,000 associates around the world, we offer solutions in the areas of employee benefit programs, talent and reward programs, and risk and capital management.

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