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Retirement Plan Types of *Fortune* 100 Companies in 2012

Over the last 27 years, the ratio of traditional defined benefit (DB) to account-based retirement offerings for new hires has flipped completely among the *Fortune* 100.

By Brendan McFarland

In 2012, the number of *Fortune* 100 companies offering new salaried employees only a defined contribution (DC) plan rose, as it has for many years. Today, less than a third of these companies offer any DB plan to newly hired salaried workers, and only 11 still offer a traditional DB plan to new hires.

Large employers have been reassessing their retirement offerings for some time now. Over the past decade, most have shifted from traditional DB plans to either account-based DB plans or DC plans. The shift is motivated by several factors, including employers' desire to reduce overall retirement costs (perhaps due to higher compensation and benefit costs elsewhere, especially health care), perceptions that workers prefer more portable plans, market trends and the belief that such a shift reduces financial risk.[1]

Fortune 100 plan sponsorship over time

Towers Watson has been tracking the retirement plan types offered by *Fortune* 100 companies for many years.[2] Since 1998, employers have been steadily shifting their retirement offerings for newly hired salaried employees away from traditional DB plans.

At the end of 1998, 90 *Fortune* 100 companies offered a DC plan and some sort of DB benefit, either a traditional or hybrid (account-based pension, typically cash balance) plan. Today only 30 companies on the *Fortune* 100 list offer a DB plan to their new salaried hires (*Figures 1a* and *1b*). Offering DC benefits only has become a prevalent practice.

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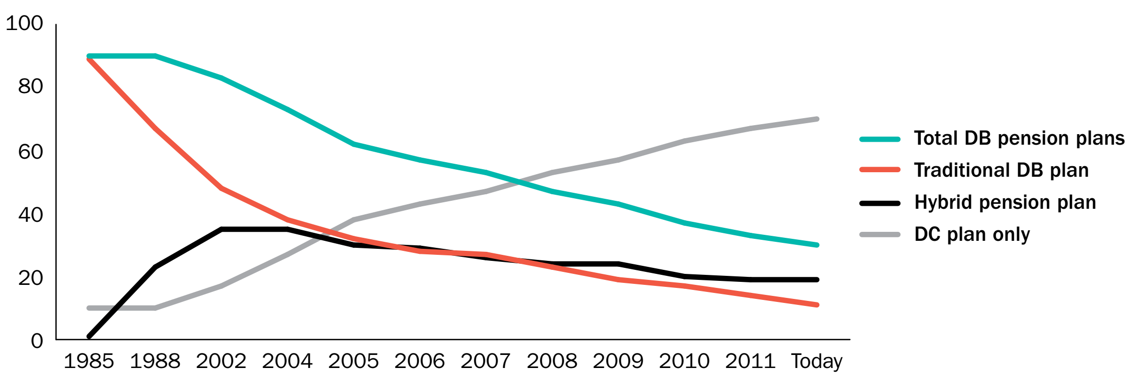
A traditional DB plan provides an annual income at retirement defined by a formula that generally relates to pay and years of service. The value of benefit accruals is typically back-loaded, meaning benefit values increase faster as participants near retirement. As such, traditional DB plans are meant to encourage valuable workers to spend most of their productive

Figure 1a. *Fortune* 100 retirement plan sponsorship, 1985 – 2012

	1985	1998	2002	2004	2005	2006	2007	2008	2009	2010	2011	Today
Total DB pension plans	90	90	83	73	62	57	53	47	43	37	33	30
Traditional DB plan	89	67	48	38	32	28	27	23	19	17	14	11
Hybrid pension plan	1	23	35	35	30	29	26	24	24	20	19	19
DC plan only	10	10	17	27	38	43	47	53	57	63	67	70

Figure 1b. *Fortune* 100 retirement plan sponsorship, 1985 – 2012



Note: Sponsorship shown as plan type offered to salaried new hires at year-end is based on the following year's *Fortune* 100 list. For example, 2011 data are based on the 2012 *Fortune* 100 and include plans offered at year-end 2011. The 2010 data are based on the 2011 list and so on. The "Today" column in Figure 1a reflects plan changes that took effect between January 1, 2012, and June 30, 2012.

Source: Towers Watson

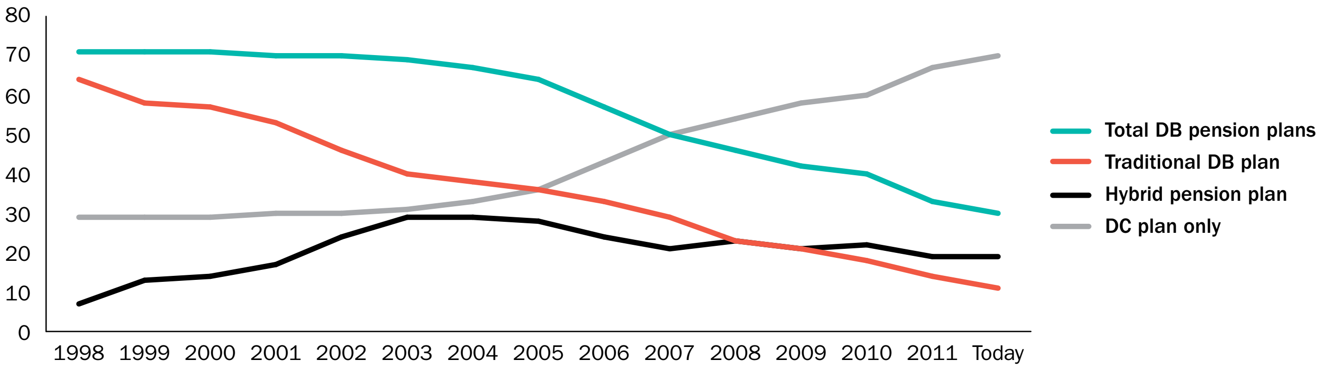
[1] See Towers Watson's "Retirement Plan Changes and Employer Motivations," April 2012, available at www.towerswatson.com/assets/pdf/7078/Towers-Watson-Retirement-Plan-Changes.pdf.

[2] See "Prevalence of Retirement Plan Types in the *Fortune* 100 in 2011," Towers Watson *Insider*, July 2011, available at www.towerswatson.com/united-states/newsletters/insider/5010.

Figure 2a. Sponsorship trends for 2012 *Fortune* 100 companies, 1998 – 2012

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Today
Total DB pension plans	71	71	71	70	70	69	67	64	57	50	46	42	40	33	30
Traditional DB plan	64	58	57	53	46	40	38	36	33	29	23	21	18	14	11
Hybrid pension plan	7	13	14	17	24	29	29	28	24	21	23	21	22	19	19
DC plan only	29	29	29	30	30	31	33	36	43	50	54	58	60	67	70

Figure 2b. Sponsorship trends for 2012 *Fortune* 100 companies, 1998 – 2012



Note: Sponsorship is shown as plan type offered to salaried new hires at the end of the year. In Figure 2a, the "Today" column reflects plan changes that took effect between January 1, 2012, and June 30, 2012. Trend data are shown for the 2012 *Fortune* 100 companies and capture changes to retirement plans since 1998.

Source: Towers Watson

careers with the employer. They are also intended to help employees retire with sufficient income to enjoy a reasonable standard of retirement living as well as help employers predict and control the timing of workers' retirement. Over time, the employer focus changed to providing a more uniform level of retirement-directed capital accumulation for all workers, prompting many companies to freeze or close their traditional DB plans.

Hybrid plans define the benefit as an account balance (a lump sum) rather than an annuity. The benefits typically accrue more evenly over a worker's career (though hybrid designs can vary accruals by age, service or a combination of the two). When hybrid plan participants leave their employer, they are allowed to take their lump sum account balance with them, as DC plan participants typically do. Hybrid participants can also convert their account balances into life annuities, but most do not. (Indeed, many traditional DB plans now offer lump sum distributions at retirement, and they are often the most popular option.)

"Tracking the same *Fortune* 100 companies over time softens the arc of the trend away from DB plans somewhat."

In 1985, 89 *Fortune* 100 companies offered a traditional DB benefit to newly hired salaried employees. Almost 30 years later, the pattern has completely flipped. In today's *Fortune* 100, 89 companies now offer only account-based retirement plans to new salaried hires.

The evolution of today's *Fortune* 100 plans: 1998 – 2012

Some of the changes in the reported retirement offerings arise from annual turnover in the *Fortune* 100 list, reflecting mergers, spin-offs, new or rapidly growing businesses, and bankruptcies. Historically, seven to eight companies are new to the *Fortune* 100 list in any given year, and six companies are new to the 2012 *Fortune* 100. To control for annual list turnover, we analyze the evolution of retirement offerings since 1998 for current *Fortune* 100 companies (*Figures 2a* and *2b*).

More sponsors of active DB plans joined the *Fortune* 100 this year, replacing companies offering only a DC plan to new salaried hires. Of the six companies new to this year's *Fortune* 100, four are DB plan sponsors. Only one of the companies that fell off the list was a DB plan sponsor; thus, list turnover resulted in a gain of three DB plans.

Tracking the same *Fortune* 100 companies over time (i.e., comparing Figures 2a and 2b to Figures 1a and 1b) softens the arc of the trend away from DB plans somewhat, with both the decline in DB plans and the rise in DC-only approaches slightly less pronounced.

Our past analyses found that new list members were less likely to have ever offered a DB plan. For example, 29 of the companies in today's *Fortune* 100 offered only a DC plan to new hires back in 1998, but only 10 companies in the 1999 *Fortune* 100 sponsored only a DC plan.

This difference is mostly attributable to shifts in the sector makeup of the *Fortune* 100 over the last 20 to 30 years. For example, 30 years ago, most *Fortune* 100 companies were in manufacturing, and that sector typically offered traditional pension plans to new hires. Over time, however, these manufacturing companies have been replaced by high-tech companies, most of which never offered DB retirement plans.

Today, 70 of the 2012 *Fortune* 100 companies offer only a DC plan to new hires, whereas at year-end 1998, 29 of those same companies offered only a DC plan. Between year-end 2011 and June 2012, three additional companies stopped offering DB plans (two traditional DB plans and one hybrid plan) to new hires, opting for a DC-only approach instead. Over the same period, one company converted its traditional DB plan to a hybrid plan.

Of the 30 companies that offer a DB plan to new hires today, more than half sponsor a cash balance plan (roughly two-thirds sponsor some type of hybrid), as shown in *Figure 3*. Final average pay plans are the second most prevalent offering.

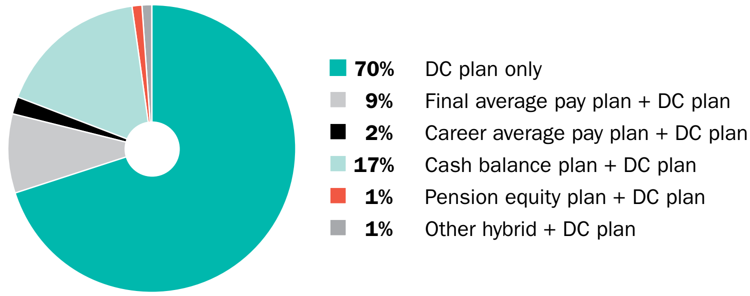
Companies took varying paths to their current retirement programs for new hires. *Figure 4* depicts the most recent plan action by current *Fortune* 100 companies. (Figures 2a and 2b serve as points of comparison.)

When a sponsor freezes a DB plan, some or all benefits stop accruing for some or all participants. For example, the sponsor might stop accruals of benefits linked to service but continue those linked to pay. Benefits might stop accruing for all participants younger than 50 or those with 15 or fewer years of service. After a pension plan has been closed, benefits continue to accrue for existing participants, but no one else can join the plan. Since 1998, 23 companies froze their pension plans (some closed their plan to new hires at an earlier date and then froze the accruals later), while 17 closed them. One company terminated its plan. Meanwhile, 17 other companies converted their traditional DB plan to a hybrid plan. A minority of companies made no changes to their plans during the period.

Conclusion

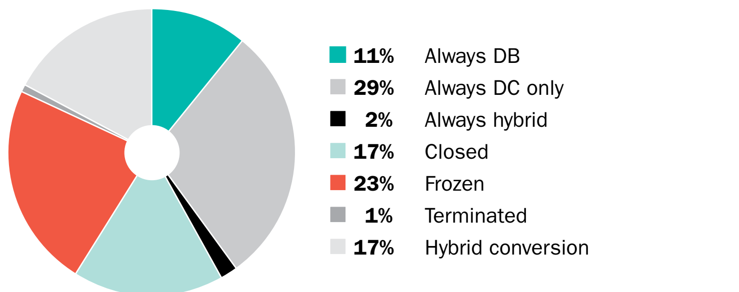
The shift away from traditional DB pension plans is well-established, as companies continue turning to account-based DB plans or a DC-only environment. Today, 70 *Fortune* 100 companies provide only DC plans to new hires. Looking at 2012 *Fortune* 100 companies back to 1998, only 11 offer a traditional

Figure 3. Plan types offered by *Fortune* 100 companies today



Source: Towers Watson

Figure 4. Most recent change to retirement program, 1998 – today



Source: Towers Watson

DB plan to new hires today versus 64 in 1998 (thus controlling for turnover). Of companies on the *Fortune* 100 list in 1985, only 11 did not offer a traditional DB plan.

So far in 2012, there have been fewer retirement plan changes relative to 2011. Three companies have stopped offering DB plans to new (salaried) hires, shifting to an all-DC retirement environment, while one company converted its traditional DB plan to a hybrid plan.

"Of the 30 companies that offer a DB plan to new hires today, more than half sponsor a cash balance plan."

These changes — both recent and over time — signal a large-scale redistribution of corporate resources for retirement. Employers are spreading their retirement dollars more evenly across the workforce, rather than concentrating benefits on older and longer-tenured workers. Traditional DB plans offer employers greater control over workforce retirement patterns. This is becoming more of an issue today, as the financial crisis and sluggish recovery have highlighted the shortcomings of a DC-only approach and many older workers are delaying retirement. Account-based plans generally make employees more responsible for their own retirement saving and planning, and result in less predictable retirement patterns.

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