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Retirement offerings in the *Fortune* 500: A retrospective

By Brendan McFarland

The last two decades have witnessed a sweeping shift in retirement offerings from large employers, most of whom now provide only defined contribution (DC) and other account-based plans to newly hired employees. The shift away from traditional defined benefit (DB) to account balance plans gives today's increasingly mobile workforce more choices, flexibility and transparency, and helps employers manage the ongoing costs and risks/opportunities of providing retirement benefits.

Companies have made the transition to account-based plans in a variety of ways. Some closed or froze their traditional DB plans and then moved workers into hybrid pensions, while others transitioned workers to a DC-only environment, sometimes offering a hybrid pension to some workers along the way. Many companies now have multilayered plan designs to accommodate different workforce segments, and most of these companies still manage assets and liabilities for these various plans.

Willis Towers Watson has been tracking retirement offerings from large companies for many years. This study takes a historical look at the primary retirement plans offered by current *Fortune* 500 companies between 1998 and 2017, thus showing how their retirement programs have evolved over the last 20 years. The analysis focuses on the employer's largest plan offered to newly hired salaried workers, disregarding separate plans for hourly/collectively bargained workers.[1]

In 1998, 238 companies in today's *Fortune* 500 offered a traditional DB plan[2] to newly hired workers, compared with only 16 today. Nevertheless, a significant number of these sponsors still offer pension plans to newly hired workers, mostly in the form of hybrid (cash balance) plans.[3]

Highlights of the analysis include the following:

- In 2017, only 16% of *Fortune* 500 companies offered a DB plan (traditional or hybrid) to new hires, down from 59% among the same employers back in 1998.[4]
- 51% of these companies still employ workers who are actively accruing pension benefits, and 93% of those who sponsored a DB plan in 1998 still manage plan obligations and assets.
- There has been an uptick in plan freezes since the 2008 financial crisis among plans that were already closed to new hires. In 2008, 20% of companies that had offered a DB plan in 1998 had frozen their pensions and 19% had closed their primary plan to new entrants. By 2017, 42% sponsored a frozen plan and 24% had closed their primary plan.
- More than half the pension sponsors in this analysis had a hybrid DB plan at some point, and 44% of them were still offering the same plan to new hires in 2017.
- Certain industry sectors, as well as employers whose pensions are relatively small (as compared with their market capitalization) and/or well funded, are more likely to offer a traditional pension plan to new hires.
- After eliminating a DB plan for new hires, most employers contribute more to the DC plan.

[1] Some sponsors closed or froze their primary plan but still maintain open plans for hourly or collectively bargained workers. According to a recent Willis Towers Watson survey, among companies that sponsored both a union and nonunion plan, 25% had open nonunion plans, while 41% sponsored an open union plan. See "Evolving Risks, Structure and Strategies in Retirement Plan Governance: 2016 Willis Towers Watson Retirement Plan Governance Survey," July 2016.

[2] A traditional DB plan benefit is based on a formula that is typically linked to pay and years of service. It is expressed as an annuity at retirement age, and so can provide a predictable income stream in retirement. The value of benefit accruals rises sharply as the participant approaches retirement age, thereby encouraging long-term commitment from workers.

[3] Hybrid DB plans define the benefit as an account balance rather than an annuity. Hybrid benefits typically accrue more evenly across a worker's career than traditional DB benefits (although hybrid designs can increase benefit accruals as a function of age, service or a combination of the two). When hybrid plan participants leave their employer, they usually take their account balance with them. As hybrids are DB plans, they must offer an annuity as the primary distribution option.

[4] Unless otherwise indicated, all retirement plans in this analysis are those offered to newly hired salaried workers.

Figure 1. **Retirement plan sponsorship trends, 1998 – 2017**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total DB pension plans	288	285	282	278	277	268	254	238	218	193	177	161	144	132	117	108	98	90	85	81
Traditional DB plan	238	225	216	195	179	161	150	134	119	100	83	69	53	47	37	31	22	21	19	16
Hybrid pension plan	50	60	66	83	98	107	104	104	99	93	94	92	91	85	80	78	76	69	66	65
DC plan only	199	206	210	214	218	227	241	259	280	305	322	338	355	367	382	390	401	410	415	419

Notes: Sponsorship is shown by plan type offered to salaried new hires at year-end. Trend data are shown for *Fortune* 500 companies and capture changes to their retirement plans from 1998 through June 2017. In earlier years, sums do not equal 500 because a small number of today's *Fortune* 500 companies did not exist at the time. Where there have been mergers or spinoffs, the analysis used the data on the largest salaried plan for results prior to the merger or spinoff.

Source: Willis Towers Watson

Evolution of *Fortune* 500 retirement plans: 1998 – 2017

Tracking the same group of *Fortune* 500 employers over 20 years shows a dramatic decline in traditional DB offerings. Between 1998 and 2017, the percentage of employers offering a traditional DB plan to newly hired employees fell from roughly half (238 companies) to 3% *(Figure 1)*.

As detailed in this report, over time, many employers opted for more portable, account-based retirement programs such as DC and hybrid DB plans.

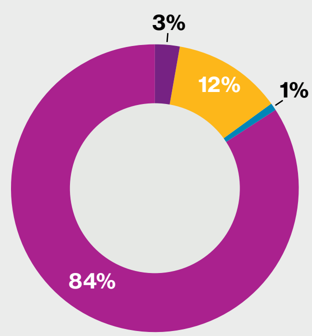
In 1998, 59% of the *Fortune* 500 offered some form of DB plan, and 41% offered only a DC plan. As is true today, DB plan sponsorship varied by industry (as discussed later in this analysis); for example, retail and high-tech industry employers tended not to offer DB pensions.

Sixteen percent of *Fortune* 500 employers still offered a DB plan to salaried new hires in 2017 *(Figure 2)*. Among DB plan sponsors, 75% offered a cash balance plan, and 19% offered a traditional final average pay plan.

Employers followed different paths to their current retirement programs. *Figure 3* depicts the most recent retirement plan action taken by these *Fortune* 500 companies.[5]

Between 1998 and 2017, the percentage of employers offering a traditional DB plan to newly hired employees fell from roughly half to 3%.

Figure 2. **Retirement plan types offered in 2017**



Final average pay plan + DC plan
Cash balance plan + DC plan
Other hybrid plan + DC plan
DC plan only

Source: Willis Towers Watson

Figure 3. **Most recent changes to retirement programs since 1998**

Always DC **40%**
Frozen DB **25%**
Closed DB **15%**
Hybrid conversion **10%**
No change to DB (traditional or hybrid) **6%**
Terminated DB **4%**

56% of employers still manage pension assets and liabilities

Source: Willis Towers Watson

[5] While Figure 3 captures change in plan type, some companies kept the same plan type but changed its provisions, which is not captured in this analysis.

When a sponsor freezes a DB plan, some or all benefits stop accruing for some or all participants. For example, the plan might stop accruing benefits linked to service but continue those linked to pay,[6] or benefits might stop accruing for all participants younger than 50 with 15 or fewer years of service. After a sponsor closes a pension plan, benefits continue to accrue for participants and no one else can join the plan.

Since 1998, 25% of *Fortune* 500 employers have frozen their primary DB plan, and 15% have closed it.[7] Ten percent of employers amended their traditional DB plan to a hybrid design and were still offering these plans in 2017. Four percent of employers terminated their primary DB plan, meaning benefits were frozen and then fully settled via annuity purchases and or/lump sum payments. Nearly half – 46% – of these employers have not changed their retirement plan type since 1998, and 40% were DC-only over the entire period. Only 6% of these *Fortune* 500 employers retained the same DB structure from 1998 to 2017.

As shown in *Figure 4*, employers often took more than one path to arrive at their current plan structure.

Approximately 93% of employers that sponsored a traditional DB plan in 1998 no longer offer the plan to new hires. Fifty percent froze or closed their primary plan and transitioned to a DC-only environment for salaried new hires, and 43% amended the traditional DB plan to a hybrid DB design.

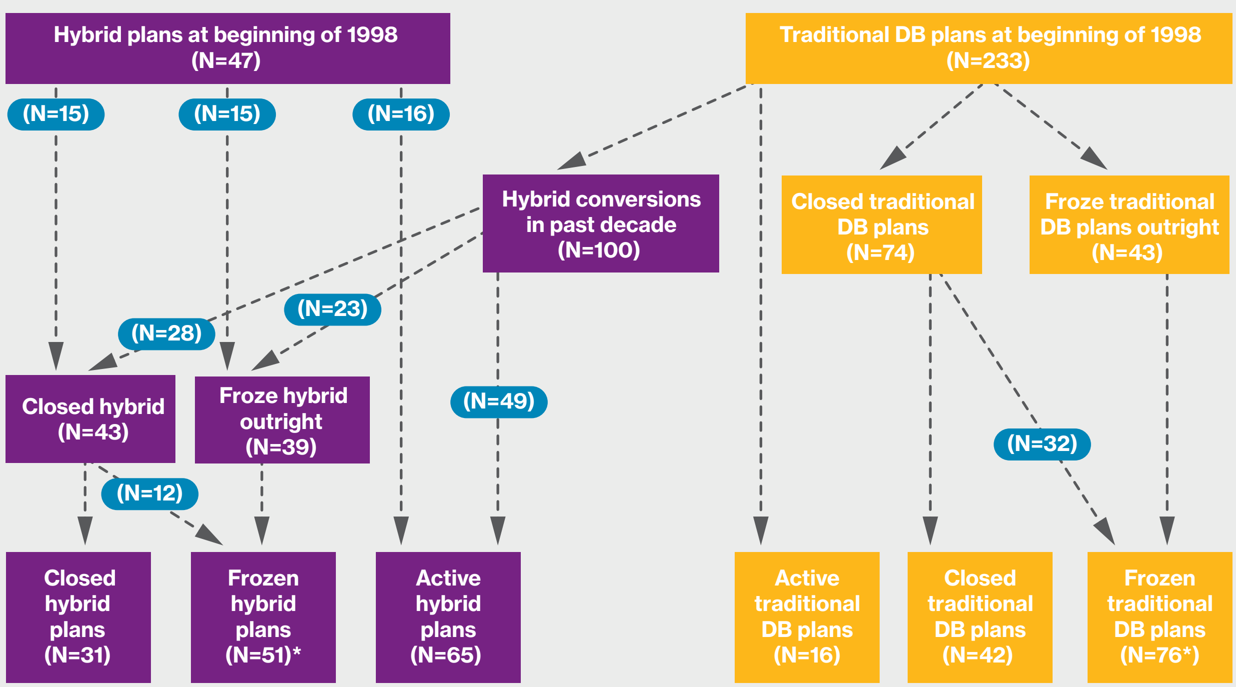
The shift away from DB plans is less sweeping when hybrid sponsors are included. In 2017, slightly less than half (46%) of *Fortune* 500 employers that at one time had a hybrid plan for salaried workers (or half of all DB plan sponsors) still offered it to new hires.

The shift away from DB plans is less sweeping when hybrid sponsors are included.

[6] If benefits linked to pay are frozen but those linked to service continue to accrue (or vice versa), we define the plan as frozen. If the plan is frozen for some workers (not just new hires) but active for others, the analysis defines it as frozen.

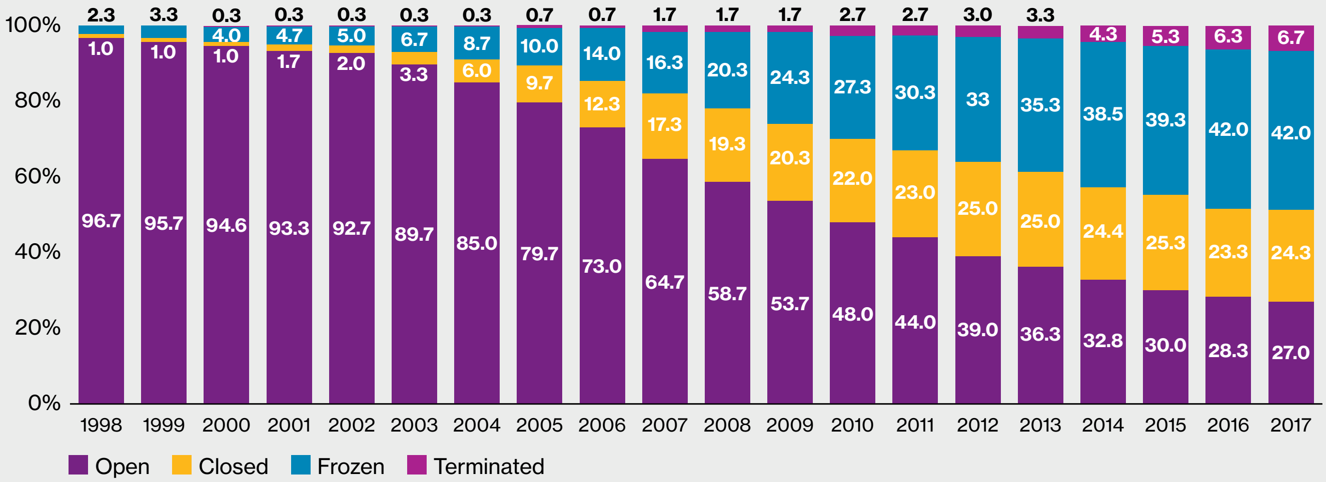
[7] These results reflect only the most recent change to the retirement plan. For example, if an employer closed a plan and later froze it, the results capture the freeze.

Figure 4. **Various paths taken by DB sponsors to arrive at 2017 offering for new hires**



Notes: Includes changes made since 1998. Excludes companies that terminated DB plans.
* Includes plans that did not exist in 1998.
Source: Willis Towers Watson

Figure 5. **Evolution of DB plan sponsorship for *Fortune* 500 companies, 1998 – 2017**



Source: Willis Towers Watson

Thirty-four percent of employers that offered hybrid plans to all salaried workers in 1998 were still offering them in 2017, and 51% of employers that converted their traditional DB plans to hybrids after 1997 still offered them to new hires.

Among *Fortune* 500 companies that offered a DB pension in 1998, the most common course of action has been to freeze the primary plan, though many sponsors took multiple steps to get there. *Figure 5* depicts the evolution of open, closed, frozen and terminated pensions for all *Fortune* 500 companies that sponsored a pension in 1998.

The incidence of pension freezes rose significantly after the 2008 financial crisis. By 2014, there were more sponsors of frozen plans than of open primary plans for the first time during the 20-year analysis period. Back in 2008, 20% of plan sponsors had frozen pensions and 19% had closed their primary plan to new entrants. By 2017, 42% sponsored a frozen plan and 24% had closed their primary plan.

The incidence of pension freezes rose significantly after the 2008 financial crisis.

Figure 6. **Interval between DB plan closures and freezes among *Fortune* 500 companies**

	Years from close to freeze
Average	**5.4 years**
90th percentile	**10.9 years**
75th percentile	**7.3 years**
50th percentile	**4.8 years**
25th percentile	**2.8 years**
10th percentile	**1 year**

Source: Willis Towers Watson

Thirty-five percent of companies sponsoring frozen DB plans had closed their plans before freezing them. This pattern of first closing, then later freezing, has become more common over the past few years. In companies that froze their primary DB pension after 2015, 70% of the plans had already been closed to new entrants.

Figure 6 shows the interval between closing and freezing for DB plans that followed the close-then-freeze pattern. The average interval was 5.4 years and the median interval was 4.8 years.

Retirement plan provision by industry

While the shift to a DC-only environment has been widespread, there are variations among sectors. *Figure 7* shows the *Fortune* 500 primary plans offered to new hires by industry sector at the beginning and end of the analysis period.

Almost half of *Fortune* 500 employers in the insurance and utilities sectors still offered DB plans to newly hired employees in 2017. Utilities are typically heavily unionized and generally prefer to keep their retirement structure consistent between their union and nonunion workforces. Moreover, many jobs at utilities companies are physically demanding, and DB plans facilitate retirement at an appropriate time.

While hybrid plans are the most prevalent DB offering, some insurance and pharmaceutical companies still offer traditional DB plans to most salaried new hires. These two sectors sponsor almost half (44%) of all traditional DB plans offered to new hires today. Insurance-sector employees may be more likely than other workers to understand and appreciate DB plans.

The high-tech, services and retail sectors have had low DB sponsorship rates historically, and DC plans are probably a better fit for them (e.g., their relatively high turnover makes portability more important).[8]

Economic conditions and workforce demographics affect plan design trends. Between 1998 and 2017, the most striking uptick in DC-only sponsorship was in the food and beverage, automobiles and transportation equipment, communications, transportation, manufacturing and finance industries: 55% in finance and 79% in the food and beverage sector, with the others falling in between. These sectors, along with the

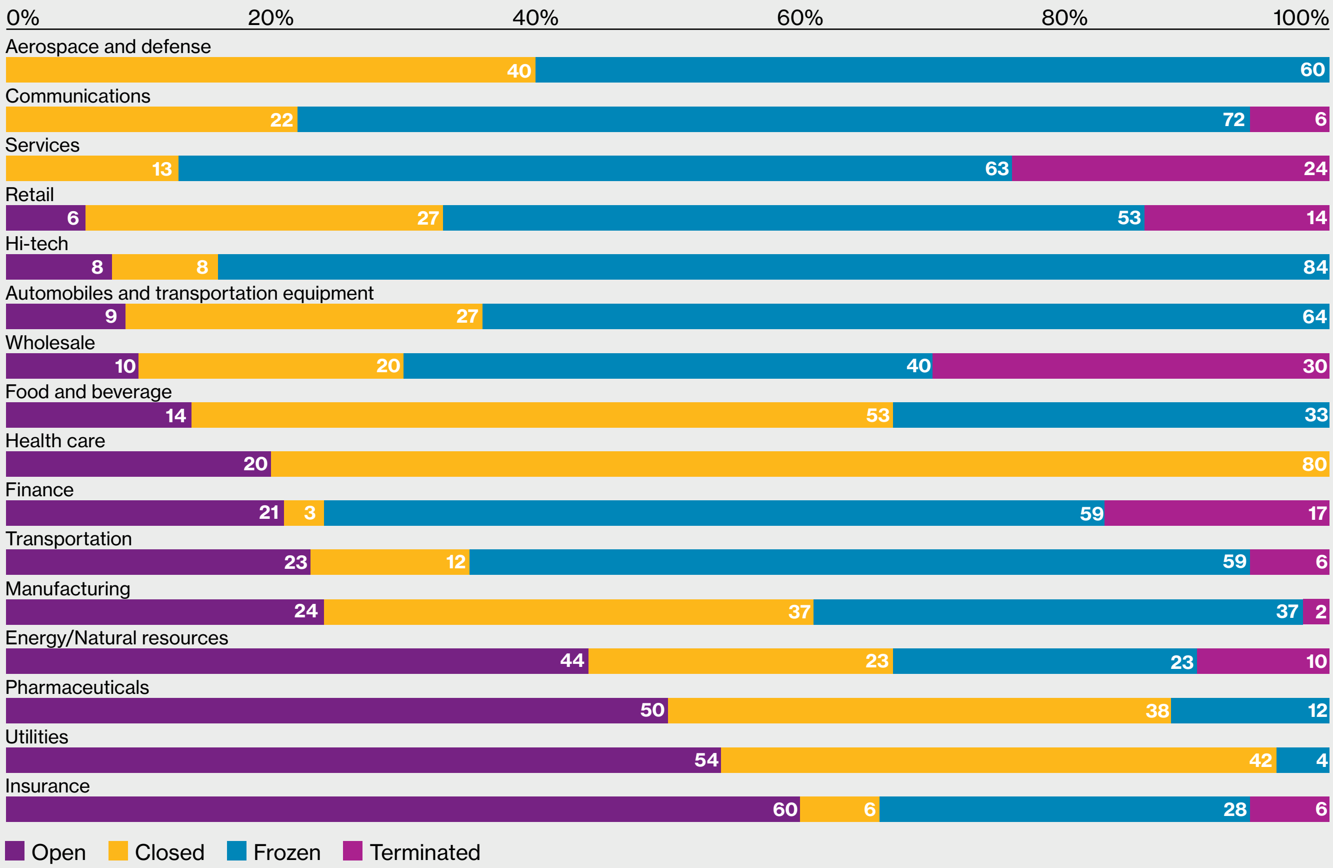
[8] See "Median years of tenure with current employer for employed wage and salary workers by industry, selected years, 2004-14," Table 5, *Economic News Release,* Bureau of Labor Statistics, at www.bls.gov/news.release/tenure.t05.htm.

Figure 7. **Plans offered to new hires by industry (sorted by open DB plan prevalence) in 1998 versus 2017**

	1998			2017			1998 – 2017
Industry (number of companies)	Traditional DB plus DC	Hybrid plus DC	DC only	Traditional DB plus DC	Hybrid plus DC	DC only	Growth in DC-only sponsorship
Insurance (38)	81%	5%	14%	11%	39%	50%	36%
Utilities (29)	62%	28%	10%	3%	45%	52%	42%
Health care/Pharmaceuticals (13)	61%	0%	39%	23%	8%	69%	30%
Energy/Natural resources (46)	56%	7%	37%	2%	28%	70%	33%
Manufacturing (63)	65%	13%	22%	3%	16%	81%	59%
Transportation (22)	71%	9%	20%	9%	9%	82%	62%
Finance (38)	55%	16%	29%	5%	11%	84%	55%
Food and beverage (23)	70%	22%	8%	0%	13%	87%	79%
Automobiles and transportation equipment (14)	77%	8%	15%	7%	0%	93%	78%
Wholesale (19)	37%	5%	58%	0%	5%	95%	37%
Health care (24)	8%	13%	79%	0%	4%	96%	17%
High-tech (36)	26%	11%	63%	0%	3%	97%	34%
Retail (58)	16%	5%	79%	0%	2%	98%	19%
Communications (27)	65%	4%	31%	0%	0%	100%	69%
Services (25)	18%	9%	73%	0%	0%	100%	27%
Aerospace and defense (5)	100%	0%	0%	0%	0%	100%	100%
Property and construction (11)	0%	9%	91%	0%	0%	100%	9%
Tourism and leisure (9)	11%	0%	89%	0%	0%	100%	11%

Source: Willis Towers Watson

Figure 8. **Current status of *Fortune* 500 DB plans by industry**



Source: Willis Towers Watson

wholesale industry, have also had significant shifts (over 20%) from DB to DC-only since the 2008 financial crisis. Employers in the communications sector have had an especially high number of DB-to-DC transitions over the past few years (not shown in the figures).

Looking only at companies that offered a DB pension at some point, most sectors – with the exceptions of food and beverage, manufacturing, energy/natural resources, pharmaceuticals and utilities – now have more frozen than closed plans *(Figure 8)*. At least 60% of the companies in which workers are still accruing pensions are in the manufacturing, energy/natural resources, pharmaceuticals, utilities and insurance sectors.

Most sectors now have more frozen than closed plans.

DB plan sponsorship by relative plan size

There is a relationship between relative plan size – projected benefit obligation (PBO)[9] over market capitalization – and pension changes. *Figure 9*, next page, shows pension size at fiscal year-end (FYE) 2016 by the most recent change to the primary DB plan.

On a median basis, open DB plans were slightly smaller than frozen and closed plans. The difference was even more pronounced on an average basis, mostly because employers with very large plans were more likely to close or freeze their primary DB plan. Many hybrid plans had a much lower PBO-to-market-cap ratio because lump sum distributions are prevalent among these plans.

[9] The PBO is an actuarial liability equal to the present value of liabilities earned and of those from future compensation increases.

Figure 10 depicts 2017 plan status for all DB plan sponsors in the *Fortune* 500 – open, closed or frozen – broken out by pension size. Every company whose DB plan obligation was more than 100% of the firm's value has switched to a DC-plan-only environment.

Half of employers whose DB plans were between 5% and 9% of their firm value still offered the plan to salaried new hires in 2017. These employers' relatively low pension risk might be one reason for keeping their primary DB plan open. On the other hand, only 14% of plans whose obligations were less than 5% of the company's market capitalization remained open to new hires in 2017. The finance sector includes many employers with small plans relative to firm value but has one of the highest growth rates in DC-only sponsorship.

Plan sponsorship also varies with the plan's funding deficit/surplus relative to the sponsor's market capitalization. A plan might have both large obligations relative to the value of its sponsor and manageable funding levels or even a surplus. *Figure 11* depicts the relationship between relative funding deficits/surpluses and status of the primary DB plan. Plans with significant deficits relative to the sponsor's market capitalization are more likely to be closed or frozen than those with surpluses.

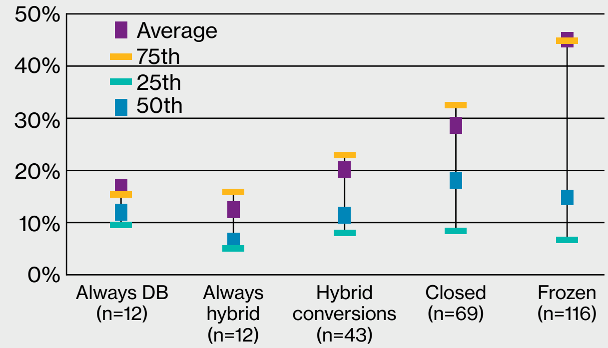
Transitioning workers to a DC-only environment

Most employers follow one of three broad paths to a DC-only environment. The first is to close the primary DB plan to new hires. The second approach is a partial plan freeze, in which only participants who meet certain age and/or service requirements continue accruing benefits. All other participants are switched to the primary retirement plan offered to salaried new hires. The third approach is a complete freeze, where the plan stops all accruals and all participants are moved to the retirement program offered to new hires.

Of employers that adopted a DC-only approach since 1998 and still manage pension obligations, 34% closed the primary DB plan, 8% partially froze the primary DB plan[10] and the remaining 58% froze the primary plan completely by 2017. If an employer implemented one transition approach and later changed it, these analysis results capture the latest approach.

[10] Of the companies that partially froze their DB plans, all but one were traditional DB plans before the change.

Figure 9. **Average plan size at FYE 2016 by last retirement plan action taken**



N=252
Note: Entries are shown for companies whose financial data were readily available.
Source: Willis Towers Watson

Figure 10. **Retirement plan status in 2017 based on relative plan size at FYE 2016**

Size (PBO/market capitalization)	2017	
	DB plan + DC plan	DC only (formerly DB for new hires)
100% or greater	0%	100%
50% to 99%	24%	76%
30% to 49%	11%	89%
20% to 29%	24%	76%
10% to 19%	34%	66%
5% to 9%	50%	50%
Less than 5%	14%	86%

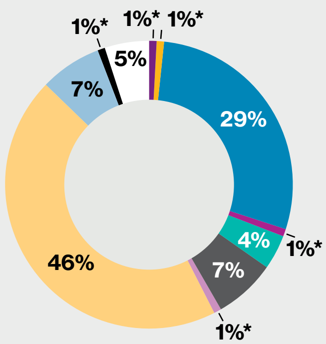
N=252
Note: Entries are shown for companies where financial data were readily available.
Source: Willis Towers Watson

Figure 11. **Retirement plan status in 2017 based on funding deficits/surplus over market capitalization at FYE 2016**

Pension deficit/surplus over market capitalization	2017	
	DB plan + DC plan	DC only (formerly DB for new hires)
10% or greater	12%	88%
5% to 9.9%	20%	80%
3% to 4.9%	29%	71%
1% to 2.9%	37%	63%
0% to 0.9%	28%	72%
Surplus	26%	74%

N=252
Note: Entries are shown for companies whose financial data were readily available.
Source: Willis Towers Watson

Figure 12. **Transition approaches in moving from DB to DC-only environment**



- Closed DB plan to new hires and reduced DB benefit for DB-eligible workers. Increased DC benefit for all.
- Closed DB plan to new hires and reduced DB benefit for DB-eligible workers. Increased DC benefit for new hires.
- Closed DB plan to new hires and increased DC benefit for new hires.
- Closed DB plan to new hires. Increased DC benefit for all, with larger increases for new hires.
- Closed DB plan to new hires. No change in DC benefit.
- Partially froze DB plan. Increased DC benefit for new hires and non-DB-eligible workers.
- Partially froze DB plan. Increased DC benefit for new hires only.
- Fully froze DB plan and increased DC benefit for all.
- Fully froze DB plan. Increased DC benefit for all. Former DB participants received additional DC benefit.
- Fully froze DB plan. Increased DC benefit for former DB participants only.
- Fully froze DB plan. No change in DC benefit.

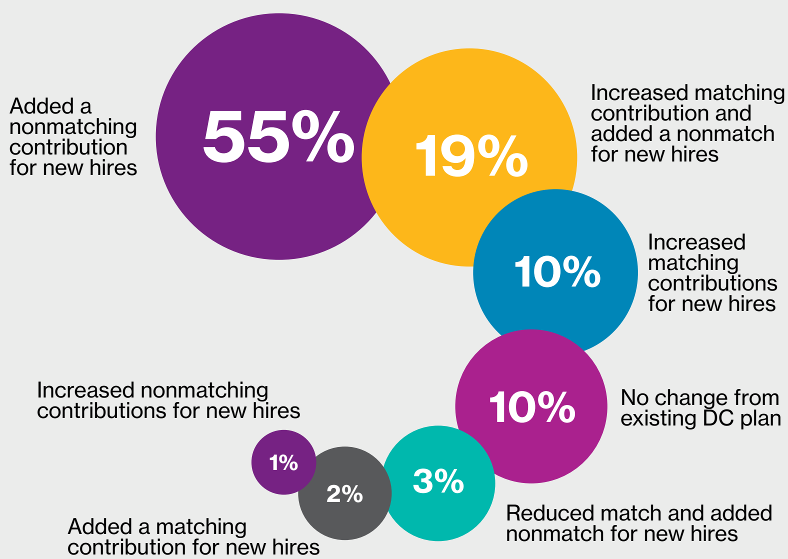
N=201
Note: Results are shown where transition data were available.
* Value is less than 1%; chart does not sum to 100% due to rounding.
Source: Willis Towers Watson

As shown in *Figure 12*, employers varied the details within the three broad transition approaches. The most frequent approach (46%) was freezing the primary DB plan completely and enhancing benefits in the DC plan for all workers. The next most common practice (29%) was keeping the primary DB plan open for current participants and increasing DC benefits for newly hired workers. Seven percent of employers froze the primary DB plan completely, enhanced DC benefits for everyone and gave former DB plan participants a larger DC benefit than new hires.

Changes to DC plan after closing DB plan

Almost all employers that closed their primary DB plan increased benefits in the DC plan for salaried new hires. As shown in *Figure 13*, the most prevalent approach (55%) was to add a nonmatching contribution to the DC plan, meaning the employer contributes even if the employee does not. Nineteen percent of employers increased the match and added a nonmatching component to their plan design for new hires.

Figure 13. **Changes to DC plans in companies that closed their DB plans**



N=69
Note: Results are shown where transition data were available.
Source: Willis Towers Watson

The most frequent approach was freezing the primary DB plan completely and enhancing benefits in the DC plan for all workers.

Employer contributions to DC plans for new hires were an average of 3.5% of compensation higher than contributions for their pension-eligible counterparts.

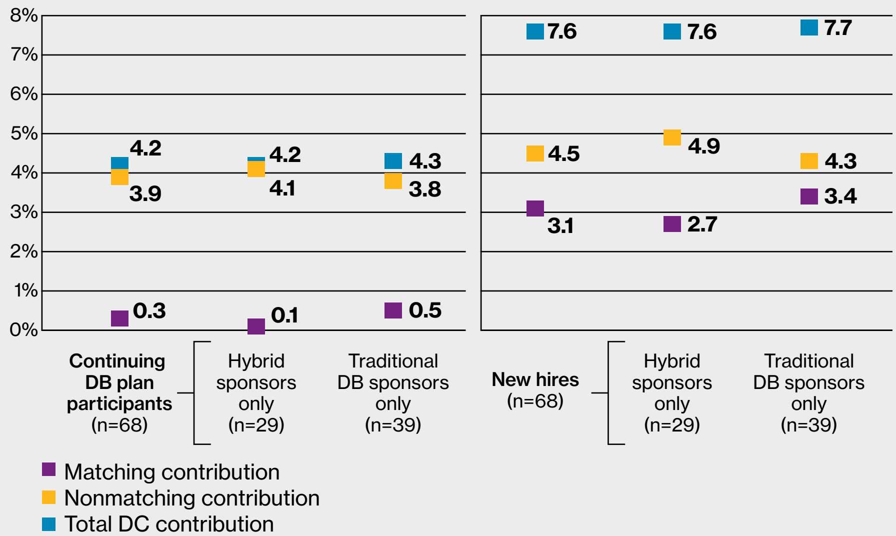
Because non-pension-eligible workers received higher DC benefits than DB plan participants, we next quantify DC contributions as a percentage of pay for these two groups of workers. *Figure 14* shows total DC employer contributions for two 35-year-old employees earning $50,000 per year: one a new hire and the other a continuing DB plan participant with five years of service.

Total employer contributions to DC plans for new hires were an average of 3.5% of compensation higher than contributions for their pension-eligible counterparts. Most of the increase reflects higher nonmatching contributions for new hires (which generally would not fully replace the pension loss).[11]

Changes to DC plan after partially freezing DB plan

We next analyze changes to the DC plan when the sponsor partially froze the primary DB plan, meaning some workers remained pension-eligible while others were moved into the DC-only program. As shown in *Figure 15*, the most prevalent action (31%) was to add a nonmatching contribution for former DB participants and new hires. The second most popular transition strategy was to increase the employer match in the DC plan for new hires and former DB participants, and add nonmatching contributions for former DB participants (19%).

Figure 14. **Employer contributions to DC plans at companies that closed their primary DB plan (% of pay)**

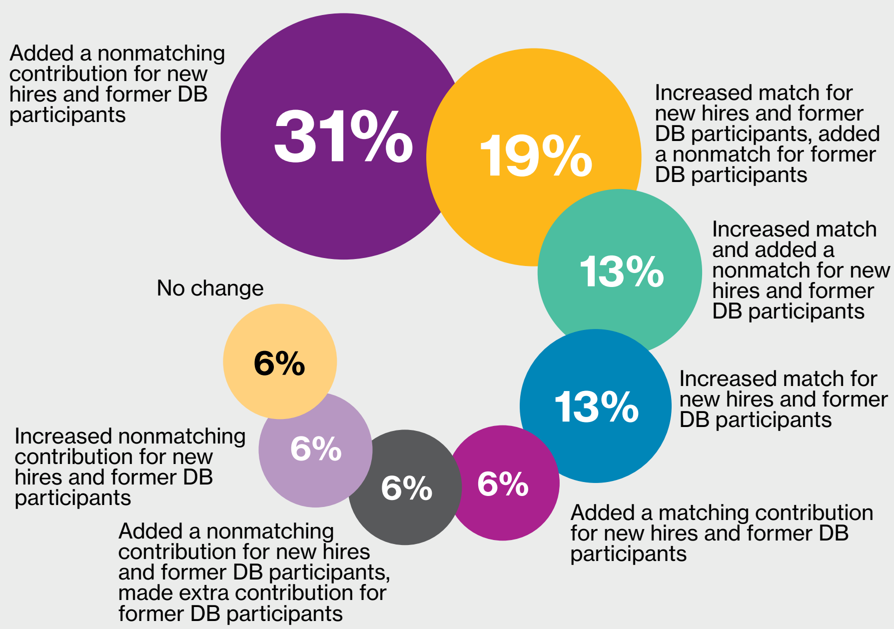


N=68

Note: Results are shown where full contribution data were available. If discretionary contributions were shown in ranges, the maximum value was used. Employees are assumed to contribute enough to receive the maximum employer match.

Source: Willis Towers Watson

Figure 15. **Changes to DC plan in companies that partially froze their primary DB plans**



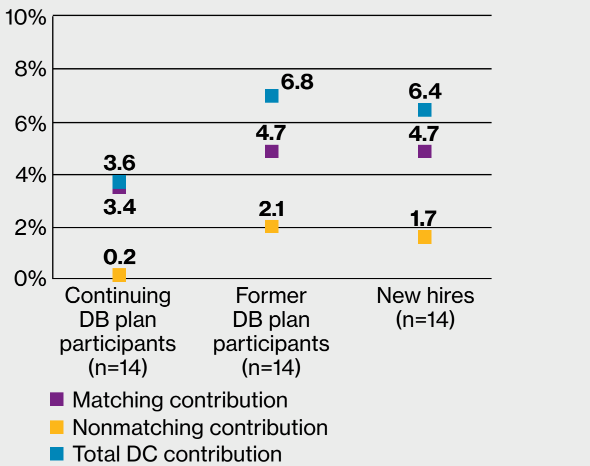
N=16

Note: Results are shown where transition data were available.

Source: Willis Towers Watson

[11] See "Shifts in benefit allocations among U.S. employers," Willis Towers Watson *Insider*, July 2017.

Figure 16. **Employer contributions to DC plans at companies that partially froze their primary DB plans (% of pay)**



N=16

Note: Results are shown where full contribution data were available. If discretionary contributions were shown in ranges, the maximum value was used. Employees are assumed to contribute enough to receive the maximum matching contribution.

Source: Willis Towers Watson

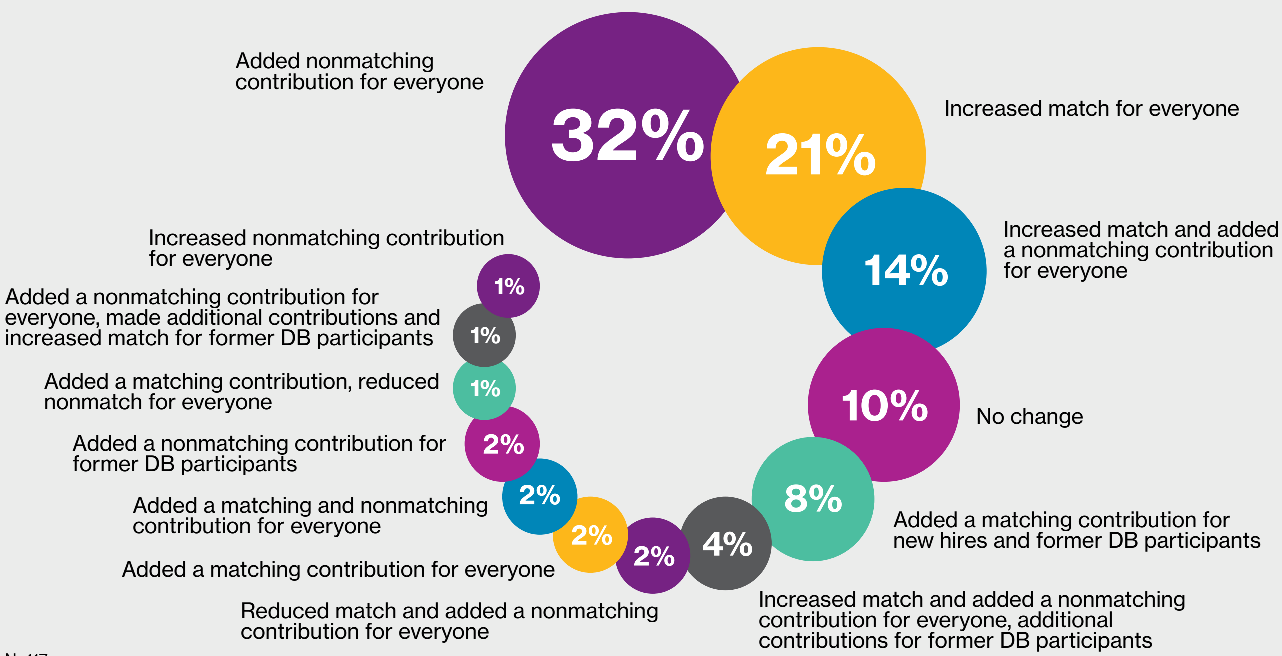
Figure 16 quantifies DC benefits as a percentage of pay for employers that partially froze their primary DB plans. Employers contributed more to DC accounts for former DB plan participants and new hires than to the accounts of those who remained DB plan-eligible, by roughly 3.2% and 2.8% of compensation, respectively. Among these employers, on average, the additional benefit for former DB plan participants and new hires was distributed fairly evenly between the match and nonmatch. All but one of the employers that partially froze their primary DB plan had provided a traditional plan before moving to a DC-only environment for new hires and some formerly pension-eligible workers.

Changes to DC plan after fully freezing DB plan

We next analyze what happened to DC plans when the sponsor moved all employees to a DC-only program (*Figure 17*).

After a full pension freeze, the majority of employers either added a nonmatching contribution to the DC plan, increased the current match or some combination of the two. In 15% of companies that completely froze their primary DB plans, former DB plan participants received larger DC contributions than those who were never enrolled.

Figure 17. **Changes to DC plans in companies that fully froze their primary DB plans**

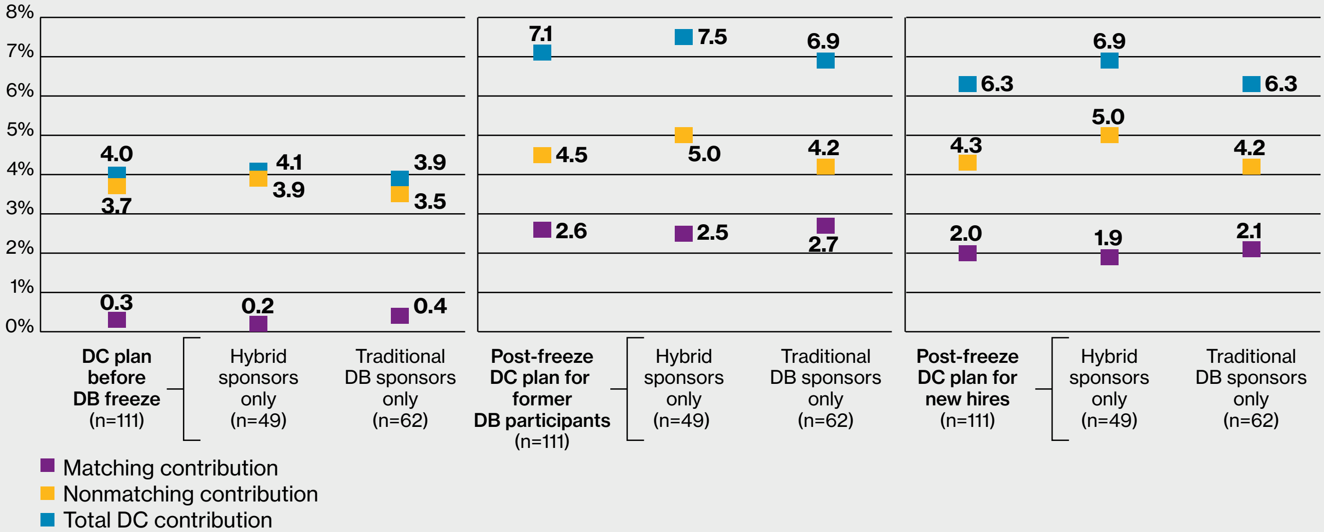


N=117

Note: Results are shown where transition data were available.

Source: Willis Towers Watson

Figure 18. **Employer contributions to DC plans at companies that fully froze their primary DB plans (% of pay)**



Note: Results are shown where transition data were available.
Source: Willis Towers Watson

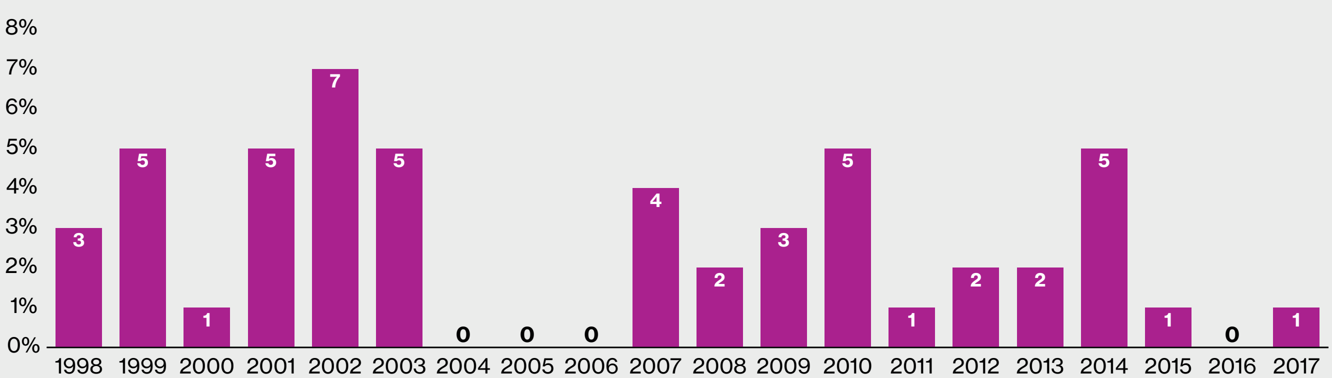
Figure 18 shows average DC employer contributions for former DB plan participants and new hires, as well as employer contributions to the DC plan before the primary DB plan was fully frozen.

In transitioning from the original DC to the enhanced DC plan, former DB participants gained an average 3.1% of pay in their DC plan. The difference between new hires and former DB participants was roughly 0.8% of pay, most of which derived from nonmatching contributions. Of DB plan sponsors that moved directly to a DC-only arrangement, 61% of those with hybrid plans fully froze their plans versus 55% of those with traditional DB plans. When hybrid sponsors freeze their plans completely, however, they generally offer a larger matching benefit than their traditional DB plan counterparts (about a 0.7% differential today).

Transitioning workers from a traditional DB plan to a hybrid plan

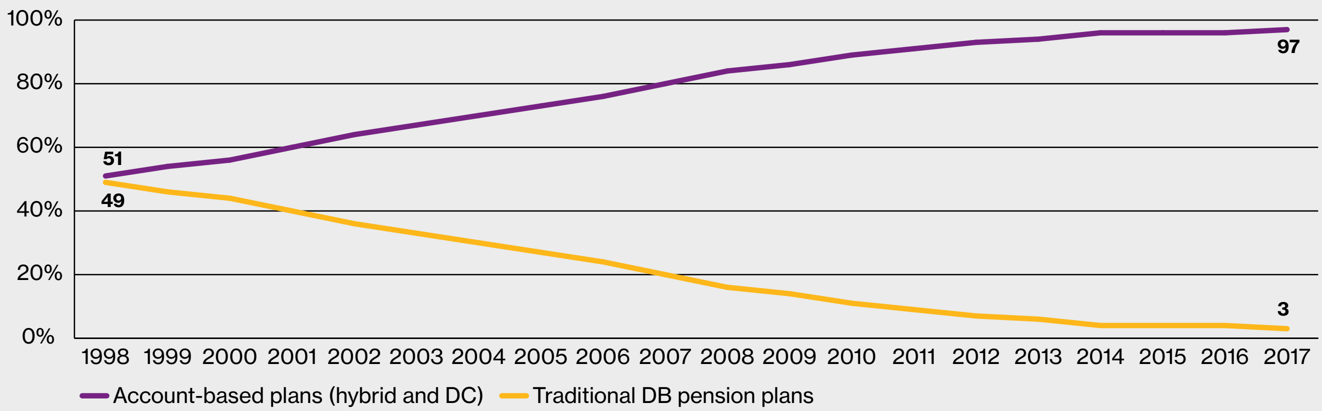
In 2017, roughly 80% of active pension sponsors in the *Fortune* 500 offered a hybrid pension (or 13% of all *Fortune* 500 companies), and around 80% of them (52 of 65) had a traditional DB plan in 1998. *Figure 19* depicts the timing of these DB-to-hybrid-plan conversions.

Figure 19. **Hybrid conversions (1998 – 2017)**



N=52
Note: Results are shown only for open hybrid plans in 2017.
Source: Willis Towers Watson

Figure 20. **Traditional DB pensions versus account-based plans, 1998 – 2017**



Source: Willis Towers Watson

In the earlier years of the analysis, employers were converting traditional pensions to hybrids at a steady pace – half of these conversions were before 2004. There was a lull between 2004 and 2006, most likely due to the legal and regulatory uncertainty about whether these plans were age discriminatory. After later court rulings and the Pension Protection Act of 2006 (PPA) resolved the issue, conversions picked up again.

Employers that converted their traditional DB plans to hybrids after 1998 (and still offered them in 2017) used various methods to transition workers into the new hybrid formula. Nineteen percent of employers kept current workers in the traditional DB plan and enrolled new hires in the hybrid plan. Thirty-one percent allowed employees to choose between the traditional pension plan and the hybrid plan. Eight percent kept workers who met specific age and/or service criteria in the traditional plan and shifted other workers into the hybrid plan.

Thirty-three percent of these active hybrid sponsors froze traditional accruals and moved all workers to the hybrid plan. Among this group, two-thirds used an A + B approach, where A represents the frozen traditional pension benefit and B represents the accruing hybrid balance. The other one-third froze the traditional DB plan and converted the pension accruals into opening account balances.[12]

The remaining employers offered employees the greater of the traditional benefit or the hybrid benefit.

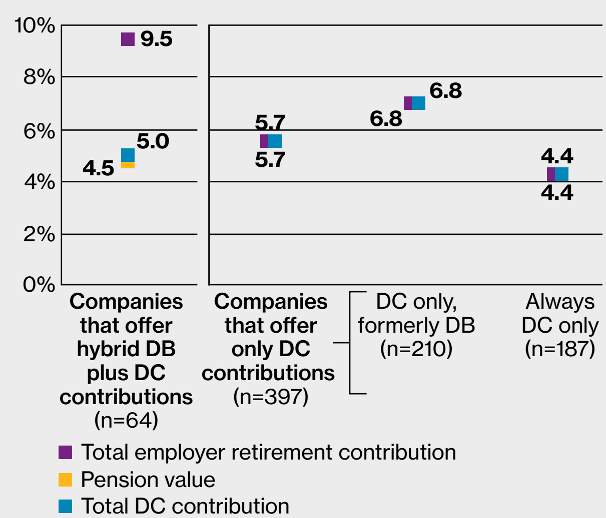
[12] The vast majority used this implementation approach before 2006.

An account balance world

In 2017, 97% of *Fortune* 500 employers offered only account-based plans as the primary retirement vehicle to newly hired salaried employees *(Figure 20)*.

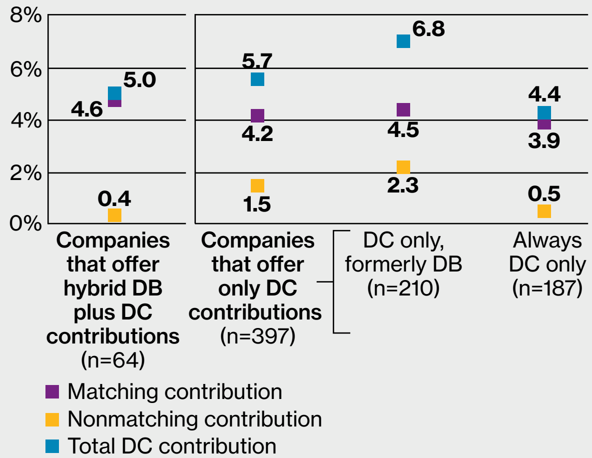
We next analyze the annual percentage of pay employers allocate to their primary account-based plans. *Figure 21* shows retirement (DB plus DC) allocations to account-based plans belonging to 35-year-old newly hired employees earning $50,000 per year.

Figure 21. **Annual allocations to account-based plans for new hires (% of pay)**



Note: Results are shown where complete contribution data were available. If discretionary contributions were shown in ranges, the maximum value was used. Employees are assumed to contribute enough to receive the maximum matching contribution. The 16 traditional DB plan sponsors are excluded.
Source: Willis Towers Watson

Figure 22. **Annual contributions to account-based plans for new hires (% of pay)**



Note: Results are shown where complete contribution data were available. If discretionary contributions were shown in ranges, the maximum value was used. Employees are assumed to contribute enough to receive the maximum matching contribution. The 16 traditional DB plan sponsors are excluded.

Source: Willis Towers Watson

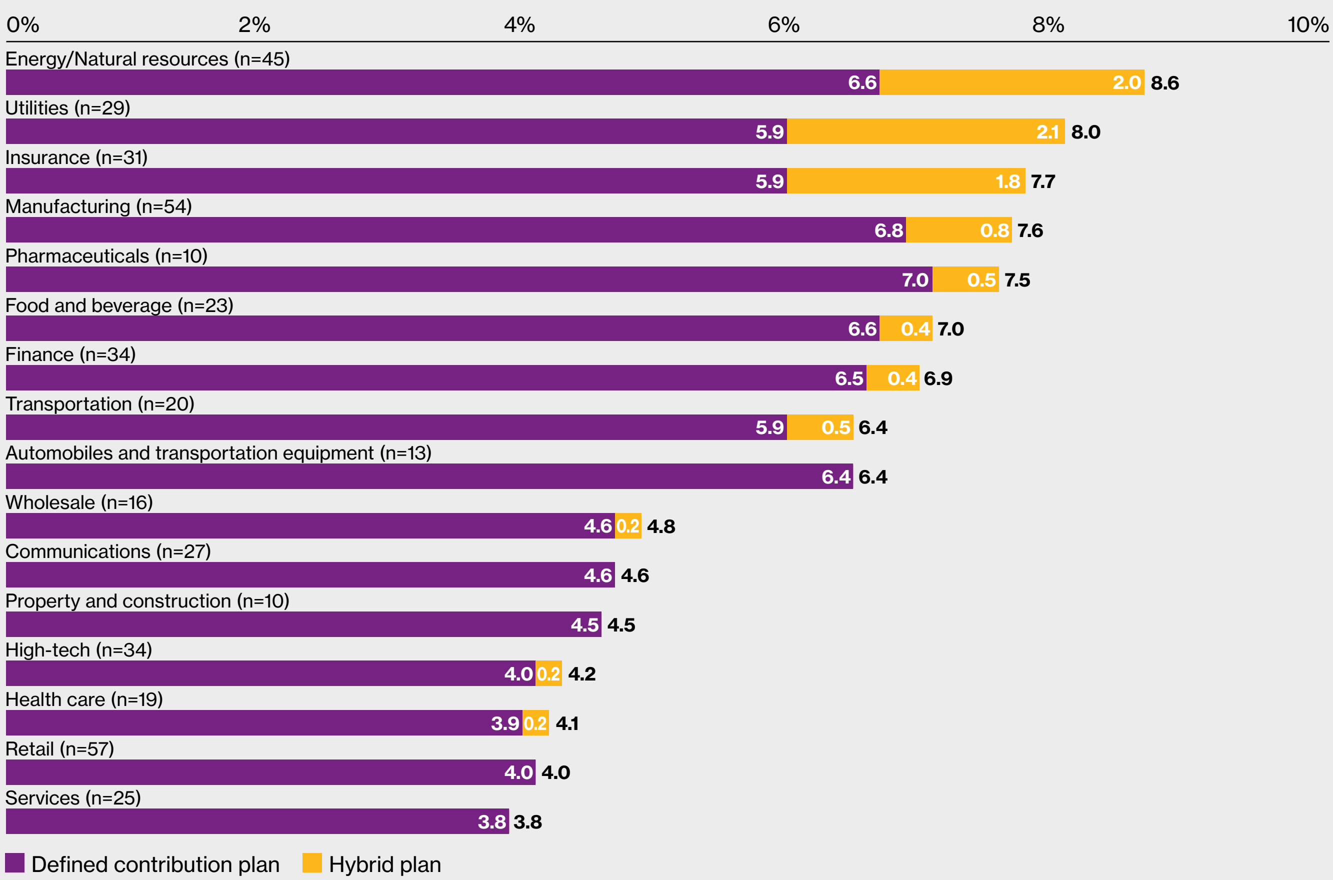
On average, an employee received retirement benefits worth 9.5% of pay at a company with a hybrid plan and DC plan versus 5.7% of pay at a DC-only company. Among DC-only companies, employer contributions varied significantly, from an average 4.4% at companies that were always DC only to 6.8% at companies that once sponsored a pension (DB or hybrid).

The different allocations shown in *Figure 22* between employers that were always DC only and those that used to have open DB plans arise from companies eliminating their primary DB plans and then boosting the match, adding a nonmatching contribution or both, as discussed earlier in the analysis.

Figure 23 shows retirement allocations as a percentage of pay for various industry sectors,[13] and the level of benefits varies widely. Retirement benefits tend to be more generous in the energy/natural resources, insurance and utilities industries.

[13] Allocations are shown for industries with more than 10 observations.

Figure 23. **Annual contributions to account-based plans for new hires by industry**



Source: Willis Towers Watson

Conclusion

As part of the ongoing shift to account-based plans, some employers have been paring back overall spending on retirement benefits, as well as spreading the benefits more evenly across the employee's career. Account-based plans also shift more responsibility for retirement needs to employees, which creates its own challenges for both sponsors and workers.

To help employees manage the additional responsibility, many employers are making financial best practices a core piece of their overall well-being strategy. Some have expanded their wellness programs to include such supports as debt management and budget counseling, incorporating new technologies to create an engaging and rewarding user experience.[14] Delivering a benefit package that employees value has never been more important as employers compete to retain key workers in a low-unemployment environment. Failing to address workers' concerns about their finances and retirement security could become a drag on productivity, ultimately harming an employer's bottom line.

[14] See 2017 Global Benefits Attitudes Survey, Willis Towers Watson (2017).

The shift from traditional DB pension plans to account-based DB plans or a DC-only environment is well established. Nevertheless, many *Fortune* 500 employers still offer DB pension plans to new hires, albeit in a hybrid form, and most companies with pensions are still accruing benefits for many workers, as well as administering the plans, and managing assets and obligations. The transition to account-balance plans is presenting new opportunities and challenges for both employers and employees in terms of workforce/risk management and retirement security.

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