



Case study: Addressing the 3 c's of retirement: cost, competitiveness and choice

Situation

A large US retailer had struggled with its retirement offering for some time. Eligibility for the traditional final-average pay benefit was frozen about five years ago. As a result, new hires were covered by a cash balance arrangement. While all employees were covered by a 401(k) plan, there was no company match. Further, higher-paid employees were not able to maximize their savings due to poor participation. Key employee groups such as store managers and pharmacists complained. Consequently, the business was having problems recruiting and retaining staff for these key positions. In the face of these challenges, management turned to Mercer to revisit the retirement options.

Challenge

An initial benchmarking analysis showed that peer companies did not offer a defined benefit plan to new hires. Instead, they relied on defined contribution plans including significant 401(k) matching contributions. While senior management was willing to make a change, it couldn't be perceived as a take-away or add to cost. This guidance pointed the way for a multi-pronged solution, one that accommodated existing commitments, introduced a matching feature, and offered certain employees the opportunity to save even more, all while remaining cost neutral.

Action

Working closely with senior management, we designed a new retirement savings option that featured a "safe harbor" 401(k) match. This not only would enable higher-paid employees to aggressively save, but it also included an automatic company contribution not linked to participant contributions, offering a base level of retirement benefits for all employees. And through the safe harbor feature, management didn't have to worry about IRS testing or discrimination issues. The cash balance benefit was discontinued and participants were shifted into this new arrangement. As for participants covered by the traditional defined benefit pension, they were given a choice of remaining in it or electing to be covered by the new program. Mercer developed individualized communications for defined benefit participants so they could thoroughly understand and compare their options to make informed choices.

Results

Employees were overwhelmingly enthusiastic about their new competitive matching option. Senior management and the board complimented HR on the design of the provision and the communications campaign, which ensured that employees not only understood their benefit choices but also appreciated their employer's investment. Although it is too soon to gauge the effect on the workforce, the company is quite satisfied that the new program will put it in a better competitive position. And this was made possible without adding to retirement costs.