STRENGTHENING FINANCIAL FOUNDATIONS FOR EMPLOYEES AND EMPLOYERS
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The workplace benefits landscape is continuously evolving as employers look for ways to enhance their programs while managing associated risks and costs. In an effort to gauge how leading companies are currently thinking about their retirement and benefits programs, Prudential, in collaboration with CFO Research, has conducted its sixth annual study with senior finance executives. The survey results provide insights on how these executives will manage these programs in the coming years, and echo what we are hearing from our institutional clients—that financial wellness programs are gaining in importance, defined benefit plan risk management techniques are being employed, and defined contribution plans are being enhanced to improve employee retirement outcomes. Prudential remains committed to helping companies maintain cost-effective retirement and benefits programs that provide value to employers and employees alike.

“Employers are seeing how funded status volatility is coming from more than just investment markets and can include improvements in the longevity of their plan participants as well. To reduce volatility, many plan sponsors need to get their plan closer to a fully funded status. The survey results indicate an increased desire on the part of many companies to close their funding gaps. We know from our conversations with plan sponsors that a big reason is to get to the point where de-risking strategies, such as liability-driven investing, can be deployed to reduce the funding risk that may come from interest rate movements.”

—Harsh Parikh, Vice President, PGIM Institutional Advisory & Solutions

“The survey results reflect the activity in the marketplace. I think we’d be hard pressed to find a board room in large and mid-size firms where they are not discussing de-risking their pension obligations. The survey results indicate not only a large jump since 2010 in the number of employers who have already completed an annuity buyout, but also in the number who say they are very likely to purchase an annuity in the next two years.”

—Scott Kaplan, Senior Vice President, Head of Pension Risk Transfer

“Although the CFOs surveyed work for companies with DB plan assets, well over half of those companies have closed their plans to new participants or state that they are likely to do so within the next two years. As such, their survey responses indicate an interest in improving the likelihood that their 401(k) plans will be successful in providing retirement security for the employees who won’t have the benefit of a DB plan. Improving contribution rates through more efficient matching contribution formulas, allowing for automatic contribution escalation, and providing guaranteed lifetime income options are each ways to help accomplish this.”

—Jamie McInnes, Senior Vice President, Prudential Retirement

“The survey results echo what we are hearing from our clients and valued producer partners as interest in outsourcing the administrative and regulatory burden of benefits programs, particularly in the area of absence and leave management, continues to grow. Due to the increasing complexity, many companies would rather outsource than build and maintain the expertise in house.”

—Jake Biscoglio, Vice President, Prudential Group Insurance

“It is encouraging to see that employers are seeing the value in helping employees focus on financial wellness. In particular, employers seem ready to look at ways to not only measure the financial wellness of their employees, but also to benchmark it against other companies in their industry. This survey demonstrates that the vast majority of employers recognize that improving the financial wellness of their workforce yields significant benefits for their companies and employees alike.”

—Jim Gemus, Senior Vice President, Distribution & Product Management, Prudential Group Insurance
Overview of This Year’s Findings

This year marks the sixth annual survey that CFO Research has conducted with Prudential Financial, Inc. The surveys provide insights into finance executives’ current thinking on their companies’ retirement and benefits programs.

This year’s results are based on survey responses of 180 finance executives, most of whom (78%) work at large U.S. companies with more than $1 billion in annual revenues. All of the companies in the survey also have defined benefit (DB) plans with more than $250 million in assets; 31% have between $1 billion and $5 billion in assets, and an additional 31% have more than $5 billion in assets.

The 2016 survey confirmed that finance executives remain keenly interested in managing the financial risk to the company related to retirement and benefits programs, while also continuing to ensure dollars invested are achieving desired outcomes. In particular, this year’s survey explored trends in five areas:

**Helping Employees Achieve Secure—and Timely—Retirements** reveals the growing interest among finance executives in offering defined contribution (DC) plan features that help empower individual employees to save an appropriate amount and make those savings last during retirement.

**A Rising Interest in Outsourcing Benefits Administration** explains why finance executives are more likely to consider the outsourcing of some areas of benefits administration, as part of a larger strategy to improve employee satisfaction while containing costs.

Key survey findings on each topic are discussed in the articles collected in this report.
The Value of Employees’ Financial Wellness

In their most recent annual survey on the benefits landscape, CFO Research and Prudential Financial, Inc., found that finance executives have much more than a passing familiarity with the concept of “financial wellness” for employees. In fact, they view it as an important component of corporate performance, as well as a sound human resource management strategy.

Respondents in the 2016 survey agree that good benefits programs are valuable for their businesses, as others have done in previous surveys. More than six in ten of this year’s respondents (63%) say that employee satisfaction with benefits is important for their company’s success, and 65% believe that employee benefits are critical to attracting and retaining employees.

Finance executives recognize the value of benefits packages for human capital management, beyond their impact on financial statements. Even if the deductibility of employer-sponsored benefits were to be removed, a majority of respondents say that their companies would either maintain the status quo (29%)—that is, continue to offer the same package with the same subsidies—or would increase employee compensation to counterbalance reduced corporate subsidies (28%).

Finance executives believe that the financial security of employees is an important concern for the company, as well as for the employees themselves. More than eight out of ten respondents (82%) believe that their companies benefit from having workforces that are financially secure. Nearly as many (78%) also believe that employers should assist employees in achieving financial wellness during their working years. (See Figure 1.)

By far, finance executives consider higher employee satisfaction (59%) and increased retention (53%) as the most important

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**FIGURE 1**
Finance executives support a focus on employees’ financial wellness.

- 82% agree that their companies benefit from having workforces that are financially secure.
- 78% agree that employers should assist employees in achieving financial wellness during working years.
benefits coming out of a focus on financial wellness. They appear to view financial wellness of the company’s employees as part of an effective strategy for human resources management.

These convictions may help explain the fact that 72% of respondents agree that the financial wellness of employees is a focus for their organizations, and even more (84%) say that it is important to ensure that their companies’ employees are educated on key tenets of financial wellness. (See Figure 2.)

Furthermore, finance executives value the measurement and benchmarking of financial wellness. As shown in Figure 2, seven out of ten respondents (70%) agree that it is important for their companies to measure employees’ financial wellness. About the same number (71%) agree that benchmarking their employees’ financial wellness versus other companies is valuable.

**FIGURE 2**

*Finance executives value having more information on their employees’ financial wellness.*

The financial wellness of employees is a focus for my organization.

- 72% Agree
- 15% Disagree
- 14% Don’t know

It is important to ensure my company’s employees are educated on key tenets of financial wellness.

- 84% Agree
- 4% Disagree
- 13% Don’t know

It is important for my company to measure its employees’ financial wellness.

- 70% Agree
- 19% Disagree
- 12% Don’t know

Benchmarking my employees’ financial wellness versus other companies in my industry is valuable.

- 71% Agree
- 17% Disagree
- 12% Don’t know

Percentages may not total 100%, due to rounding.
Closing the Gap in DB Plans

In the 2016 survey from CFO Research and Prudential Financial, Inc., finance executives from companies with defined benefit (DB) plans reveal a continuing concern with funding those plans. Accordingly, many companies are increasing contributions to close their funding gaps, moving them closer to full funding.

The survey shows that, while some companies still need to improve just to reach the minimum funded level required by law, others are working towards higher funded ratios. Sixty-four percent (64%) of respondents report either that their companies have already increased contributions (15%) or that they are likely to do so within two years (49%). (See Figure 3.)

A fully funded plan reduces future financial risk to the company and enables the consideration of different investment strategies available to maintain full funding. It can also lay the groundwork for the next stages of DB risk management, such as transferring pension obligations to a third party insurer.

The issue of funding pension plans has risen to the attention of companies’ leadership. When asked if their board of directors and senior management are focused on the financial risk of their DB plans, four times as many respondents agree (48%) as disagree (12%). (The remainder neither agree nor disagree.)

However, uncertainties about the timing of interest rate increases, continued volatility in equity markets, and increasing life expectancies make it more difficult to calculate liabilities and returns over the long term. Accordingly, half of the firms in the survey (49%) report that they have modeled future DB contributions based on assumptions of extreme market volatility, while 62% have modeled for increasing longevity. (See Figure 4.)

One way to manage volatility is through the use of liability-driven investing (LDI). Far more respondents agree that LDI has significantly reduced their DB risk than disagree. (See Figure 5.) Seven out of ten respondents (71%) report that their companies already invest some portion of their DB plan assets in LDI strategies.

**FIGURE 3**
Nearly two-thirds of companies are making changes to close the DB funding gap.

In your opinion, how likely is your company to increase contributions to close its DB plan funding gap over the next two years?

- 28% Very likely
- 21% Somewhat likely
- 17% Not likely
- 15% Already completed
- 19% Don’t know/not applicable
For some companies, the benefits of an LDI strategy can extend beyond reducing volatility and uncertainty in pension plans as they are currently structured. Thirty-five percent (35%) of this year’s respondents view LDI as an initial step towards full DB liability transfer. (See Figure 5.)

In addition to volatility, longevity risk continues to garner increased attention. The Society of Actuaries has published new mortality tables based on longer life expectancies, with the result that projected liabilities may increase for some companies. (Note that the survey was conducted prior to the announcement of the latest mortality improvement scale in late 2015.)

The survey shows that most companies are preparing to account for the increase in life expectancies in their calculations. About six in ten respondents (61%) say either that they have reviewed participant mortality experience within the past 12 months (46%) or are planning on doing so within the next 12 months (15%). As one respondent writes in the survey, “You have to wonder how long you can maintain payouts [from pension plans] should the employees live much longer than currently anticipated.”

One option for managing the risk involved with mortality assumptions is longevity insurance. In the United Kingdom, some large pension plan sponsors have entered into transactions in order to protect themselves in the event that mortality assumptions prove inaccurate. About a quarter of respondents (23%) believe that these types of transactions could be relevant for their own companies.

However, the largest proportion of respondents (35%) say that they do not yet know enough about the longevity insurance transactions to have an opinion, and an additional 9% are not aware of the transactions at all. As finance executives work towards stabilizing funding and reducing financial risk in DB plans, they may wish to consider all of the options now available to them.
Pension Risk Transfer: Annuities Getting Increased Attention

As finance executives consider the ultimate disposition of their companies’ defined benefit (DB) plans, risk transfer in the form of annuity purchases has become a solution that more companies are utilizing. This is among the trends seen in the sixth annual survey that CFO Research has conducted with Prudential Financial, Inc., on finance executives’ plans for their companies’ retirement and benefits programs.

Risk (or liability) transfer involves the use of third parties to take over responsibility for all or a portion of a company’s pension plan obligations, including asset management and payouts. Typically the transfer is accomplished through the purchase of an annuity from an insurance company.

Within the past three years, in particular, several high-profile companies have attracted attention because of the size of the benefits obligations that they transferred. However, increasingly companies are starting to recognize that size itself does not have to be the

A large increase is seen in those who said they would be “very likely” to purchase an annuity within the next two years.

**FIGURE 6**
Interest and activity in annuity purchases are rising.

Within the next two years, how likely is your company to purchase an annuity for a portion of DB plan participants?

2010

- 3% Already completed
- 5% Very likely
- 28% Don’t know/not applicable
- 18% Somewhat likely
- 46% Not likely

2016

- 15% Already completed
- 21% Don’t know/not applicable
- 17% Not likely
- 23% Very likely
- 24% Somewhat likely
determining factor, and the insurance industry has seen a sharp increase in the number of risk transfer transactions designed for smaller, more narrowly defined populations of DB plan participants.

In the 2016 survey, the number of respondents reporting that their companies have already executed liability transfer transactions has risen from 3% in 2010 to 15% this year. Furthermore, a large increase (from 5% in 2010 to 23% this year) is also seen in those who said they would be “very likely” to purchase an annuity within the next two years. Another 24% say that they are “somewhat likely” to do so. (See Figure 6.)

The rising interest in liability transfer serves as motivation for some companies to close their DB funding gaps—that is, the gap between projected liabilities and the level of assets required to cover those liabilities. The more fully a plan is funded, the easier it becomes for an employer to manage its DB plan risk, and the more options it has open to it—including, in some cases, liability transfer.

Companies that have employed risk transfer transactions in the past appear to be comfortable with their decision. In fact, our survey found that interest in annuities spikes among the companies that already are experienced with them: 73% of those who indicated that their companies have purchased an annuity for a portion of plan participants say they are likely to transfer additional liabilities to a third-party insurer sometime over the next two years.

With nearly four in ten survey respondents (38%) acknowledging that liability transfer could be helpful in enabling them to focus more on their core business, rather than on pension plan management, it appears that finance executives are building a growing recognition of the value that a thoughtfully planned and executed transfer strategy can deliver.
Helping Employees Achieve Secure—and Timely—Retirements

Finance executives continue to look for ways that their companies can help employees better manage their own retirement planning. This conclusion is evident from the results of this year’s survey of finance executives on retirement and benefits planning from CFO Research and Prudential Financial, Inc.

The survey shows that finance executives anticipate having to manage an increasingly aging workforce. Longer life spans mean that employees will need to make their retirement savings stretch even farther. More than half of the finance executives surveyed (57%) believe their companies’ employees already will be delaying retirement due to inadequate savings.

One executive echoed this sentiment when writing that her company needed to address gaps in its portfolio of defined contribution (DC) plan investments “that affect long-time employees reaching retirement age.” In fact, nearly half of the survey respondents (49%) say that the concern over market volatility drives the need for offering more conservative investments in DC plans.

Overall, survey results reveal a growing interest in DC plan features that help individual employees save an appropriate amount while ensuring those savings last during retirement. These include adopting matching contribution formulas that encourage employees to save at higher rates, utilizing automatic contribution escalation policies, and making guaranteed lifetime income products available.

More than half of the respondents (53%) believe DC plan participants will make better behavioral decisions (e.g., not getting out of investments at the wrong time) if they are invested in an option that includes the presence of a guaranteed income feature.

The survey shows that finance executives anticipate having to manage an increasingly aging workforce.

FIGURE 7
Finance executives are interested in options for their DC plans that help employees manage retirement planning better.

To what extent do you agree with the following statements about defined contribution (DC) investment options?

- Participants will make better behavioral decisions (e.g., not getting out of investments at the wrong time) if they are invested in an option that includes the presence of a guaranteed income feature. [53% Agree, 12% Disagree]
- Participants are apt to make better investment decisions when presented with pre-packaged diversified investments like target-date funds. [53% Agree, 9% Disagree]
- Guarantees that provide downside risk protection would help DC plan participants stay invested in the stock market. [51% Agree, 8% Disagree]

Note: Partial results shown
includes the presence of a guaranteed income feature. Virtually the same number (53%) say that participants are apt to make better investment decisions when presented with pre-packaged diversified investments like target-date funds. (See Figure 7.)

Finance executives’ interest in guaranteed lifetime products, in particular, shows an uptick from last year’s survey. Both last year and this year, exactly half of the respondents said their companies were likely to offer guaranteed lifetime income products in their DC plans (although only between 5% and 6% of respondents say that they already do). However, interest this year is somewhat stronger—the percentage of those saying they were “very likely” to incorporate these products, instead of merely “somewhat likely,” has grown over the years, jumping from 9% in the last survey to 17% in 2016. (See Figure 8.)

FIGURE 8
Finance executives who are knowledgeable about guaranteed lifetime income products feel increasingly favorable toward them.

Within the next two years, how likely is your company to offer guaranteed lifetime income products for your DC plan?

Note: Remainder of respondents replied “don’t know”
A Rising Interest in Outsourcing Benefits Administration

Finance executives continue to view the design of benefits offerings as an important part of their companies’ financial and human resource management strategies, according to the 2016 survey from CFO Research and Prudential Financial, Inc. This year’s survey also suggests that, as companies look for ways to focus more on the strategic value of benefits planning and less on the time-consuming administrative aspects, they are more likely to consider the advantages of outsourcing some parts of benefits administration.

As in previous years, respondents in the current survey largely agree on the value that a good benefits program can have for their businesses. A majority (63%) say that employee satisfaction with benefits is important for their company’s success, and 65% believe that employee benefits are critical to attracting and retaining employees.

At the same time, the fact remains that the cost of benefits programs continues to rise steeply—especially for health and medical benefits. Controlling the cost of medical benefits for active employees is the top benefits-related priority for the finance executives in the survey, selected by 35% of respondents. In second place is minimizing benefit cost increases overall (25%). Notably, nearly one-fifth of the respondents (19%) say that complying with local, state, and federal regulations with their benefits programs is a top priority. (See Figure 9.)

For healthcare programs, companies expect that federally-mandated provisions under the Patient Protection and Affordable Care Act (ACA) will increase costs for administration, and potentially require new technology investments as well. Finance officers remain committed to finding ways to control the new costs.

FIGURE 9
Which of the following are your company’s top priorities for its employee benefits programs over the next year?

- Controlling cost of medical benefits for active employees: 35%
- Minimizing benefit cost increases for active employees: 25%
- Controlling the cost of retiree benefits: 24%
- Increasing employee satisfaction with your company’s benefits plans: 23%
- Giving employees more control over their benefits package: 22%
- Complying with local, state, and federal regulations: 19%
- Ensuring a secure retirement for employees: 18%
- Controlling cost of benefits other than medical (group or voluntary benefits) for active employees: 18%
- Ensuring the financial wellness of employees during working years: 16%

Other options that received less than 15%: managing the increased administrative burden, optimizing benefits across retirement and group insurance, managing employee absences/leaves, selecting best-in-class employee benefits from multiple carriers, consolidating employee benefits with a single carrier, moving benefits to a private exchange, managing employee benefits globally, and other.
better and to manage the increasing complexity of the regulations. A director of finance at a financial services firm writes in the survey, “Healthcare is the number one concern right now. The cost is steadily rising and becoming harder and harder to manage with the onset of the ACA. Sometimes it feels like you are drowning in regulations.”

One approach to managing the rising costs of healthcare and non-healthcare benefits involves giving employees more control over their benefits packages, allowing them to customize coverage to suit their particular situations. One of the most widely employed cost-saving strategies noted by respondents (30%) was to replace some employer-paid benefits with voluntary benefits.

A company also can change the way benefits are provided in order to reduce complexity, streamline processing, and lower administrative costs. For example, a controller at a large manufacturer writes that one of his company’s highest priorities will be “standardization of benefits across multiple businesses in North America.” Overall, 28% of respondents will try to consolidate benefits with fewer carriers and vendors, while 18% expect to change carriers or vendors outright.

Interest in outsourcing extends beyond the management of new ACA requirements. Four in ten respondents (40%) also are either outsourcing, or considering outsourcing, administration of requirements for the Americans with Disabilities Act (ADA). Approximately the same number of companies (27%) are already outsourcing ADA compliance as are outsourcing ACA reporting.

Similar numbers currently outsource Family Medical Leave requirements (25%) or are considering doing so (13%). Although fewer respondents report outsourcing local or state leave mandates (17%), equally as many (17%) would consider it.

“In line with these strategies for getting out from under the burden and cost of benefits administration and regulatory reporting, many companies are turning to outsourcing for a variety of benefits programs. (See Figure 10.) Respondents express the strongest interest in outsourcing management of the ACA.

Nearly half (46%) report either that they have already outsourced reporting and regulatory compliance for the ACA to their insurance carriers or to other vendors (26%), or that they are at least considering it (20%).

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“Healthcare is the number one concern right now. The cost is steadily rising and becoming harder and harder to manage with the onset of the ACA.”

**FIGURE 10**
How is your company managing the following compliance challenges?

<table>
<thead>
<tr>
<th></th>
<th>Outsource to insurance carrier</th>
<th>Outsource to other vendor</th>
<th>Considering outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACA reporting and other regulatory requirements</td>
<td>10%</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>Americans with Disabilities Act requirements</td>
<td>11%</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td>Family Medical Leave requirements</td>
<td>10%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Local or state leave mandates</td>
<td>4%</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>
Strengthening Financial Foundations for Employees and Employers

IN SUMMARY, THE 2016 SURVEY FINDS that senior finance executives are actively managing the financial risk of benefits programs as they work to ensure that employees have the tools they need to become financially secure in retirement. The strategy of enabling financial “wellness” of employees via innovative benefits offerings is increasingly acknowledged as a sound human resource strategy, benefiting both the company and the employee.

Companies with DC plans are increasingly interested in adopting plan features that help individual employees save an appropriate amount for retirement. Finance executives anticipate having to manage an aging workforce, and are increasingly interested in providing benefits options that help employees better manage their retirement planning (e.g., guaranteed lifetime income products).

The senior finance executives surveyed also expressed a desire to keep the company focused on strategic benefits planning, rather than on the complex tasks of benefits administration. Many are actively considering outsourcing some aspects of benefits administration.

In closing, it’s clear that finance executives’ efforts to manage benefits risks and costs, while seeking to enhance benefits outcomes, will be critical to their companies’ ability to succeed in the future.

Companies with DB plans are increasing contributions to close funding gaps, but are addressing financial risk as well. Senior finance executives are continuing to reduce the volatility and uncertainty in their pension plans through liability-driven investing, and some are also transferring pension obligations to third-party insurers. Longer life expectancies are adding financial pressure to all pension plans.
About This Report

CFO Research gathered a total of 180 complete survey responses from senior finance executives working in a broad cross-section of company segments, as follows:

DB plan assets
- $5B+ 31%
- $1B-$5B 31%
- $500M-$1B 22%
- $250M-$500M 16%

Annual revenue
- $5B+ 43%
- $1B-$5B 35%
- $500M-$1B 17%
- <$500M 6%

Titles
- Director of finance 28%
- VP of finance 16%
- Controller 14%
- Chief financial officer 14%
- Treasurer 8%
- EVP or SVP of finance 7%
- CEO, president, or managing director 6%
- Chief risk officer 2%
- Senior benefits manager or director 2%
- Other executive 4%

Note: Percentages may not total 100%, due to rounding.

Respondents work for companies in nearly every industry, with the largest segments representing financial services (including real estate and insurance) (35%), health care (11%), manufacturing (including auto and industrial manufacturing) (8%), and business/professional services (8%).