



# Retirement Plan Trends in Today's Healthcare Market—2011

comprehensive benchmarking information to help  
the strategic evaluation of your retirement programs

## About the Survey

*Retirement Plan Trends in Today's Healthcare Market—2011* is the ninth annual survey conducted by Diversified and the American Hospital Association (AHA). This report analyzes responses from 194 healthcare retirement plan sponsors nationwide. This survey was designed to help sponsors and advisors strategically evaluate the strength and competitiveness of their retirement programs.

## Executive Summary

Retirement plans in the healthcare market continue to evolve. Employers still believe in the importance of participant education, and both employers and employees realize there is a dire need for better retirement preparedness. The current market conditions present plan sponsors with several challenges trying to regain their footing though they are eager to help participants achieve their retirement goals.

Employers recognize the need to help participants save, in part because employers are paying a decreasing amount of the retirement bill. The trend of declining defined benefit plans is continuing. However, there is some indication that this trend could slow over the next year or so. Fewer plan sponsors expect to make changes to their plans and fewer expect to freeze their plans than one year ago.

In organizations that expect a modification to their defined benefit plan, defined contribution plan enhancements are expected to compensate for the cutback.

Healthcare organizations report that two-thirds of their employees participate in a defined contribution plan. Participation rates in 401(k) plans are higher than those in 403(b) plans. Typically, employees contribute about 5% of their salary; highly compensated employees contribute slightly more, 7%. These figures are concerning as there is expansive evidence that these levels are not sufficient for most individuals to achieve a fully funded retirement.

Consistent with their objective of helping employees financially prepare for retirement, most healthcare plan sponsors make contributions to their defined contribution plans. The presence of these contributions is likely to increase both participation and savings rates. A fixed, matching contribution is most common. The match is often \$0.50 on the first 4% or 6% of salary. Fewer plan sponsors are offering a stated percent of salary as compared to a year ago, and when offered, the likeliest contribution is 2-3%. Most healthcare plan sponsors fully vest employees after three years—and one-third fully vest immediately.

Typically employers require employees to be just 18 years of age to enroll in defined contribution plans. Healthcare organizations are slightly more stringent when it comes to receiving employer contributions as employees need be at least 21 in most organizations. Though most plan sponsors impose service requirements on defined contribution plans, they are less likely to impose a service requirement for plan entry as compared to eligibility for employer contributions. This is consistent with more lax age requirements on plan entry.

Since plan sponsors indicate that the primary goal of their retirement plan is to help employees prepare for retirement, healthcare plan sponsors should consider how the imposition of a service requirement affects plan participation—generally the longer the service requirement, the lower the participation. However, it's interesting to note that plans with a service requirement of less than three months have a higher participation rate than plans with no service requirement at all. This may indicate that newly-hired employees are too distracted to focus on enrolling in a retirement plan.



The notice of eligibility after a three-month wait might come at a time when employees are more likely to focus on this opportunity.

A significant number of plan sponsors are acting on the challenge of motivating employees to save, as one-third of organizations employ automatic enrollment. This is effective as just 8% of participants opt out of the plan once enrolled, resulting in greater participation than for plans that do not use automatic enrollment. However, only one-quarter of healthcare organizations have implemented automatic escalation.

Using only one automatic feature alone however—either automatic enrollment or automatic escalation—is not likely to be enough to help participants achieve a fully funded retirement. While plan sponsors recognize the importance of retirement savings, and are increasingly using automatic enrollment, they admit that the default deferral of 3%, which is most common, is not sufficient. Using automatic enrollment with automatic escalation is key to helping participants meet their retirement income goals.

Some participants continue to use some of their retirement savings to assist them with current expenses. One-in-ten plan participants currently have an outstanding loan and almost one-half of sponsors surveyed state hardship withdrawals have increased in the past two years.

Plan sponsors are increasingly taking advantage of complete open investment architecture. The sole use of funds that are proprietary to the recordkeeper continues to decline and many plans (29%) do not offer any proprietary funds at all. Retirement plan providers who rely on proprietary funds in retirement plans may find this a hindrance to future business development.

Outsourcing of various retirement plan management functions is common and increasing and the use of multiple vendors is declining. This could result in more widespread single vendor relationships. Loan, hardship withdrawals, QDROs and paperless enrollment are more likely to be outsourced than in the past, and this trend is likely to continue. When plan sponsors opt to not outsource, they do so because they feel their own human resources staff can handle the functions.

Many healthcare plan sponsors expect to improve employee education, which is vital given employee demand. This could result in an opportunity for advisors and providers to examine the specific educational needs of sponsors and their participants to deliver well-suited education to each situation. This may have a greater level of influence in setting providers apart.

About four-in-ten (39%) healthcare plan sponsors have on-site representatives, and these representatives' responsibilities are varied. They assist with several tasks including education and enrollment. As retirement planning and servicing becomes more technologically advanced, and more functions can be handled easily online and through interactive voice response vehicles, plan sponsors and providers need to encourage participants to use these vehicles, so the on-site representatives can be utilized for greater employee education and less for tactical items such as enrollment.

*Retirement Plan Trends in Today's Healthcare Market—2011* presents hot topics and ongoing trends occurring in an evolving market. The findings are designed to help plan sponsors and their advisors compare their plans to industry benchmarks, enabling them to measure plan health and to provide direction for future plan management.

## About the American Hospital Association

The AHA is a not-for-profit association of healthcare provider organizations and individuals that are committed to the health improvement of their communities. The AHA is a national advocate for its members, which include nearly 5,000 hospitals, healthcare systems, networks, and other providers of care. Founded in 1898, the AHA provides education for healthcare leaders and is a source of information on healthcare issues and trends. For more information, visit [www.aha.org](http://www.aha.org).

## About AHA Solutions, Inc.

AHA Solutions, Inc. is a resource to hospitals pursuing operational excellence. As an American Hospital Association (AHA) member service, AHA Solutions collaborates with hospital leaders and market consultants to conduct product due diligence and identify solutions to hospital challenges in the areas of finance, human resources, patient flow and technology. AHA Solutions provides related marketplace analytics and education to support product decision-making. As a subsidiary of the AHA, the organization convenes people with like interests for knowledge sharing centered on timely information and research. AHA Solutions is proud to reinvest its profits in the AHA mission: creating healthier communities. For more information, contact AHA Solutions at **800-242-4677** or visit [www.aha-solutions.org](http://www.aha-solutions.org).

## About Diversified

Diversified is a leading provider of customized retirement plan administration, participant communication and open architecture investment solutions for mid- to large sized organizations. The company's expertise covers the entire spectrum of defined benefit and defined contribution plans. Diversified helps two million participants save and invest wisely for and throughout retirement. To learn more, visit [www.divinvest.com](http://www.divinvest.com).

## Retirement Research Council™

The Retirement Research Council, the research group of Diversified, is dedicated to: portraying a comprehensive picture of the private retirement plans market today and in the future; providing retirement plan sponsors and their advisors with comprehensive bench marketing information; and detailing trends to assist with the strategic evaluation of retirement plans.

To request a copy of the full *Retirement Plan Trends in Today's Healthcare Market—2011* report, contact your Diversified representative or **email [RetirementResearchCouncil@divinvest.com](mailto:RetirementResearchCouncil@divinvest.com)**.

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