Are Your Public Sector Employees Ready for Retirement?

The Real Deal on Retirement Readiness

As retirement plans evolve in the public sector, the retirement income adequacy picture for the employees covered has changed over the generations. Measuring retirement readiness through Aon's *The Real Deal* can help public sector plan sponsors answer these and other questions:

- Do you know how well the retirement income of your employees will keep up with their financial needs throughout retirement?
- In addition to the annuity benefits provided by their employer, do employees need to take responsibility for their retirement security by saving in a defined contribution plan with other investments?
- How does retirement readiness vary across generations within your population?

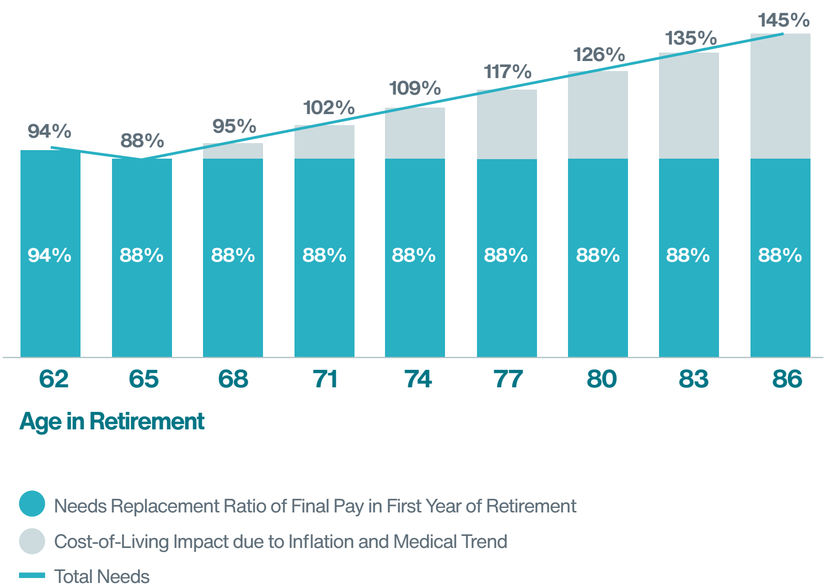
Replacement Ratios Don't Tell The Full Story

Replacement ratios are commonly used to understand the retirement income needed or available based on an employee's final pay at retirement. However, replacement ratios often limit the analysis of retirement readiness to the first year of retirement — what about the remainder of retirement?

Financial needs can grow throughout retirement due to inflation, both general and medical, and can also decrease when Medicare becomes available to cover some retiree medical needs at age 65.

> While a replacement ratio is a valuable measure for the first year of retirement, this information becomes less relevant at future ages as the retirees look to maintain their standard of living throughout retirement.

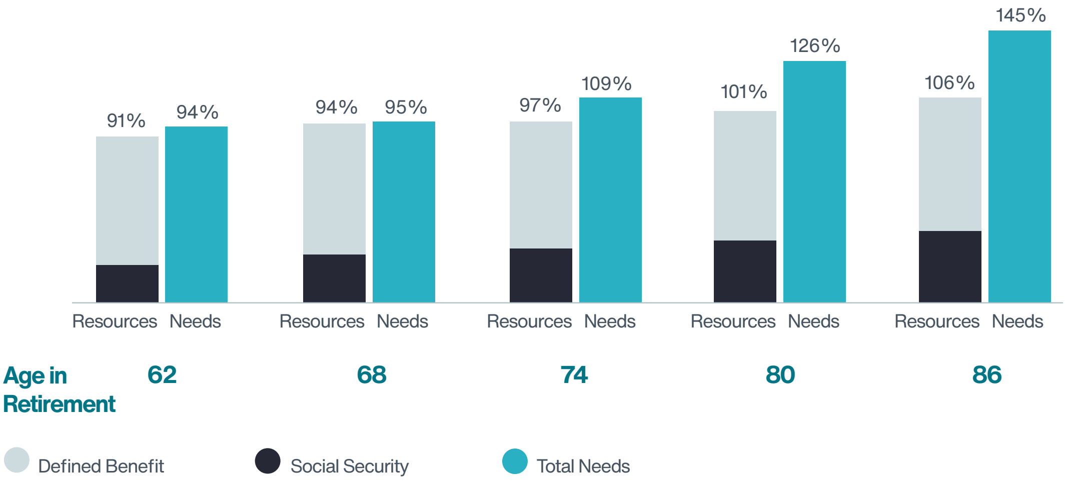
Sample Needs throughout Retirement



Sample First-Year Replacement Ratio			
	Final pay	=	100%
-	Savings	=	6%
-	Tax change	=	7%
+	Additional medical costs at 62, reflecting retiree medical subsidy	=	7%
	First-year replacement ratio at 62	=	94%

Resources in the form of an annuity (e.g., defined benefit plan, Social Security and postretirement medical plans) may also increase throughout retirement, but likely not at the same rate as needs change. An annual cost-of-living adjustment (COLA) is included in Social Security and may also be included in defined benefit plans, but these increases may still not be enough to keep up with medical and general inflation.

Sample Projected Annuity Resources and Needs through Retirement

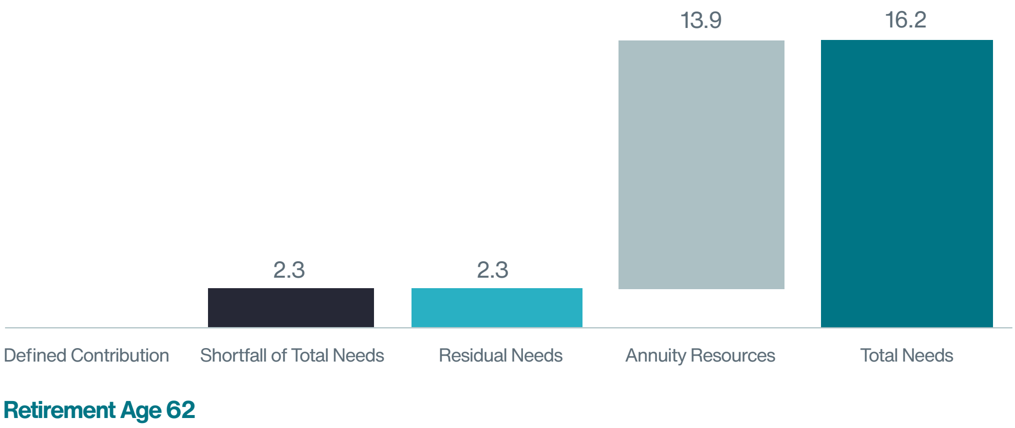


Closing the Gap

After considering the employees' defined benefit and Social Security, what is the remaining gap between resources and needs? The residual needs can be resolved by considering:

- A supplemental employer-provided defined contribution (DC) benefit
- Employee contribution to a DC plan, health savings account or another savings vehicle
- Reduction in standard of living during retirement
- Deferral of retirement
- Outside assets such as housing equity

Sample Present Value of Needs and Resources as a Multiple of Final Pay



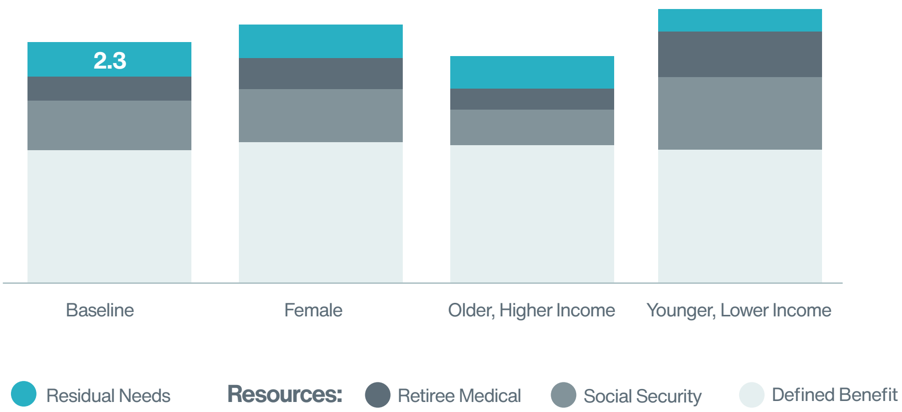
Retirement Readiness across Your Workforce

Retirement resources vary by the benefit level, the level of employee savings within the plan and the Social Security benefit, which varies by income.

Retirement needs can vary significantly depending on age and income. Medical costs are a flat dollar amount, resulting in lower-income participants needing more, relative to their pay, to cover these costs. Medical costs are also anticipated to increase faster than salaries, making these costs more impactful for younger employees than for those closer to retirement. In addition, changes in taxes can impact participants in different ways.

The Real Deal projects resources and needs through retirement for each individual employee to provide insights into retirement readiness across the population. This is important because both resources and needs will differ by employee.

Sample Present Values of Resources and Residual Needs as Multiples of Pay



What Can Employers Do?

Measure the Retirement Readiness of Your Workers

- Current and future workforce trends and emerging patterns
- Influence of recent or pending changes in plan design (COLAs, employee contribution levels, retiree medical subsidies)
- Understanding realistic retirement age targets

Focus on Participant Behaviors

- Help workers know where they stand and offer tangible steps to improve results
- Communicate that savings may be necessary and suggest milestones toward adequacy

Monitor Changes in Retirement Readiness

- Measure the impact of:
  - Generational differences in retirement readiness
  - Plan design changes
  - Communication efforts, resources, tools and segmentation

Target Financial Wellbeing Initiatives

- Budgeting, debt management and student loans
- Retirement versus other savings goals, including:
  - Emergency funds
  - Education savings, e.g., 529 plans
  - Housing

About Aon

Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries and sovereignties with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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