Transamerica®

RETIREMENT PLAN TRENDS IN TODAY'S HEALTHCARE MARKET

ABOUT THE SURVEY

Retirement Plan Trends in Today's Healthcare Market 2021 is the 15th such study by Transamerica.

In addition to presenting data and insights on issues impacting defined contribution and defined benefit plans, the study provides analysis to guide plan sponsors and their advisors as they benchmark plan design and plan management to identify opportunities to improve their retirement plans.

We are pleased to provide this study as a resource for healthcare organizations to help their dedicated, compassionate employees who put others first every day. We know healthcare organizations are committed to providing workplace benefits that can help employees meet their long-term financial goals and enjoy a healthy retirement on their terms.

Our extensive experience with healthcare clients has given us a deep understanding of the unique challenges throughout the industry (mergers and acquisitions, government regulations, rising operating costs, etc.), and we will continue to help them better understand the retirement plan landscape.

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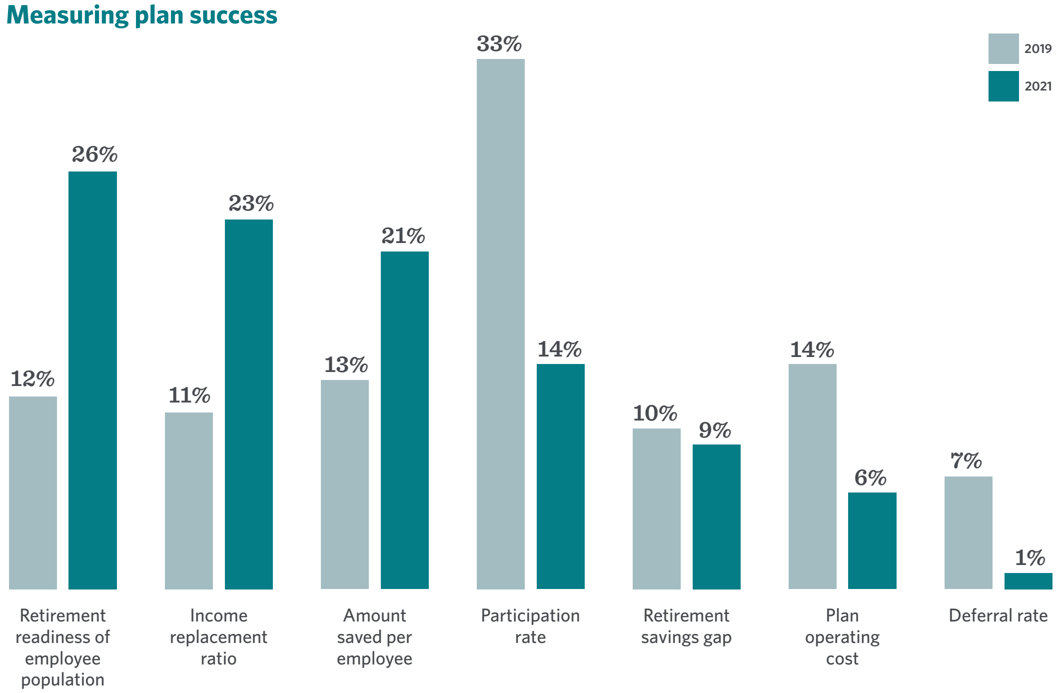
GOALS AND CHALLENGES

INDICATORS OF PLAN SUCCESS

Plan sponsors in the healthcare sector have become well aware that participation rates are not necessarily the best measure of plan success. As more organizations implement automatic enrollment, participation is also becoming less of an issue. More healthcare organizations are now citing measures such as retirement readiness, income replacement ratio, and the amount saved per employee as their preferred indicators of plan success.

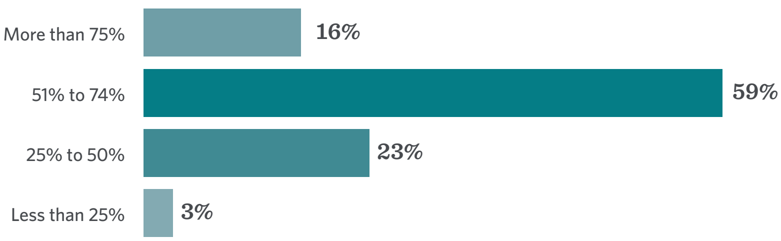
Measuring plan success



ON COURSE TO RETIREMENT SUCCESS

Focusing on the retirement income measure, many participants are on course to achieve retirement success. Indeed, 16% of plan sponsors state that more than 75% of their participants are on course to achieve their retirement income goal. An additional 59% find that more than half of participants are on course to meet their retirement income goals.

Employers' view of employees' progress



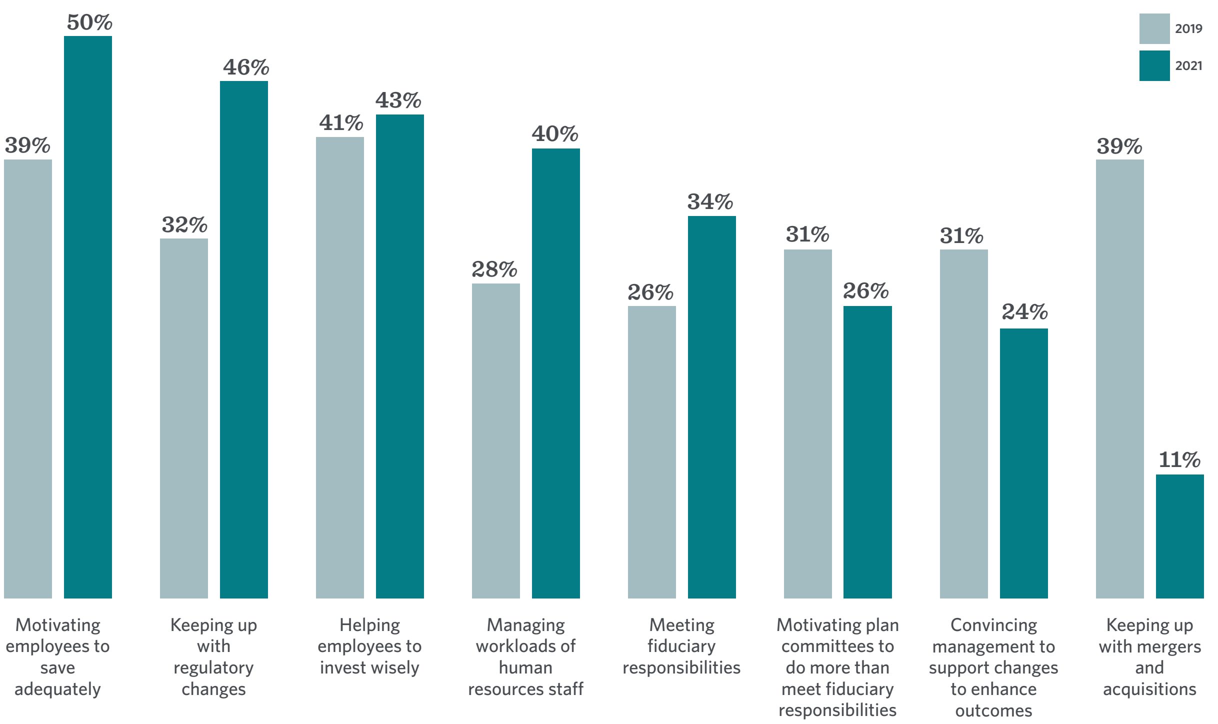
GREATEST CHALLENGES

Managing retirement plans is complex and presents a daunting task for the benefits staff of healthcare organizations faced with a myriad of talent-management issues. Retirement plans are the subject of complex legislation, regulations, and ever-changing jurisprudence. The top challenges recognized by plan sponsors in 2021 include:

- Motivating employees to save adequately for retirement (50%)
- Keeping up with regulatory changes (46%)
- Helping employees to invest wisely (43%)
- Managing the workload of HR staff (40%)

The sharper focus on readiness and income goals puts pressure on HR staff to increase retirement savings rates. Although mergers and acquisitions are still among the challenges cited by 11%, it is no longer among the top challenges plan sponsors face as they manage their retirement plans.

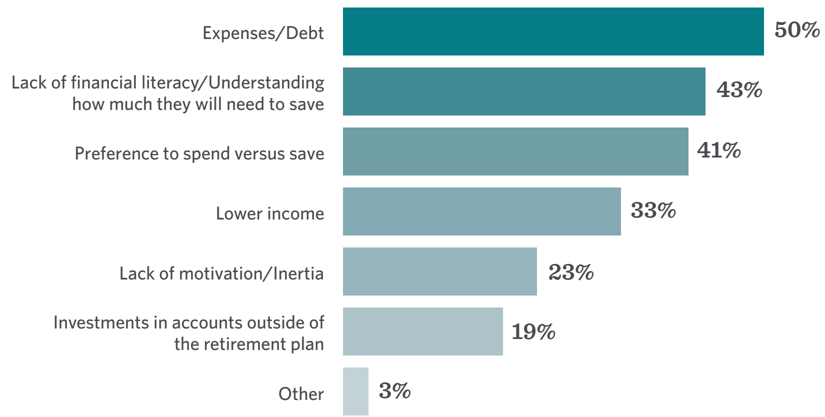
Top challenges to managing the plan



BIGGEST HURDLES TO RETIREMENT SAVING

What stands in the way of retirement saving? Fifty percent of healthcare organizations recognize high expenses and debt as the main stumbling block to saving among their participants. They also cite a lack of financial literacy, including failure to understand how much money they need to save for retirement, and a preference to spend rather than save.

Top factors preventing employees from saving enough for retirement

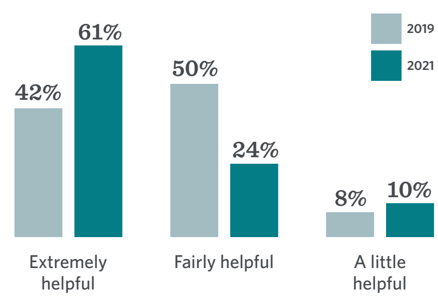


50% of healthcare organizations cite high expenses and debt as the main stumbling block to participant saving

RETIREMENT PLAN SERVICE PROVIDERS OFFER HELP

Healthcare organizations have come to lean heavily on their retirement plan service provider for plan administration, and to help achieve plan goals. The survey finds that most plan sponsors are pleased with the assistance they receive. More than 60% of healthcare organizations find their retirement plan service provider extremely helpful when it comes to achieving plan success.

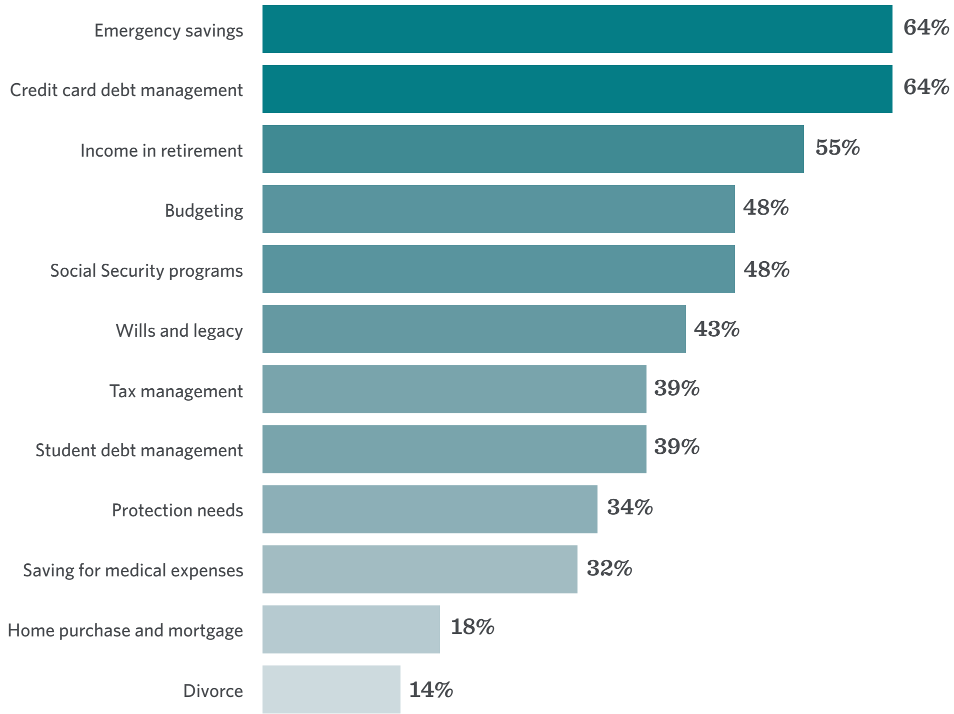
Help from retirement plan service providers in achieving plan success



FINANCIAL WELLNESS PROGRAMS

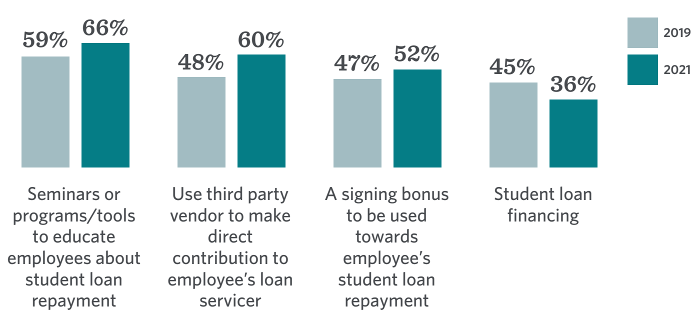
With a sharper focus on employees' near-term family and personal needs, financial wellness programs at healthcare organizations now address such issues as emergency savings, credit card debt management, budgeting, student debt, home financing, and even wills, taxes, and divorce.

Scope of financial wellness program



Student debt management was a key priority in hiring new talent in 2021. Many healthcare organizations offer seminars and tools educating employees on the pitfalls of student loan debt. Some are indirectly servicing student loans or providing student loan financing.

Student loan assistance offered



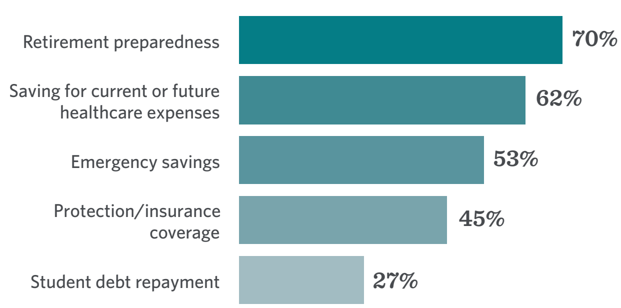
A majority of organizations (52%) offer a signing bonus toward an employee's student loan repayment.

Although healthcare employees face a variety of financial wellness concerns,

70%

of plan sponsors agree that retirement preparedness is still the top financial concern of most participants.

Financial wellness issues of greatest concern to employees

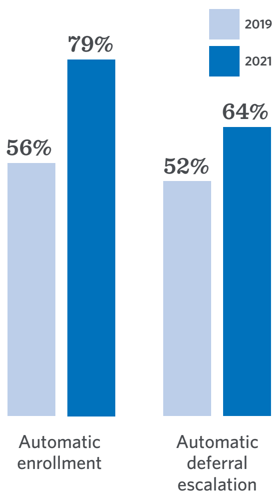


PLAN DESIGN AND CONTRIBUTIONS

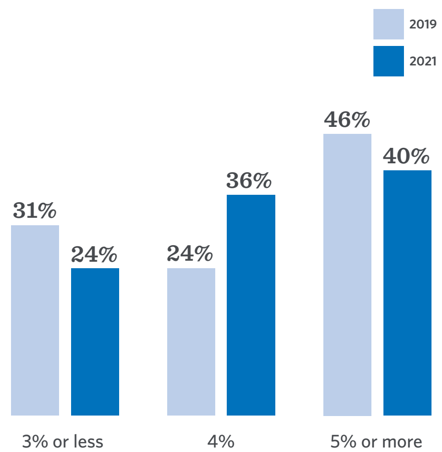
AUTO FEATURES

Nothing has proven better at boosting employee retirement accounts than automatic enrollment at a respectable deferral rate supplemented by automatic deferral increases. Healthcare organizations have embraced automatic plan features as the best way to enhance the retirement readiness of their workforce. Over the past two years, the number of healthcare organizations enrolling participants automatically rose by more than 41%, bringing the use of automatic enrollment to 79%. Default contribution rates are most commonly set at 5% of pay or greater. In lockstep with their increased use of automatic enrollment, healthcare organization plans have actively instituted automatic deferral escalation to help drive employee savings levels up over time. Nearly two-thirds of healthcare organizations (64%) have implemented automatic deferral increases.

Use of Auto Features

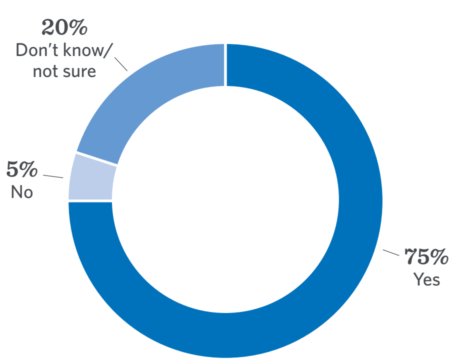


Default contribution rate



With years of experience using automatic enrollment, and plenty of evidence as to its efficacy, many healthcare organizations are now ready to shift to the next level.

Would increase automatic enrollment default contribution rate if advisors recommended it

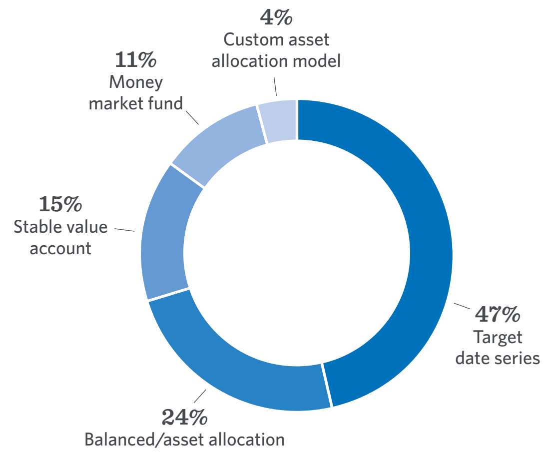


75%

of healthcare organizations would increase their default contribution rate if advisors recommended it.

DEFAULT INVESTMENT ELECTIONS

The default investment option at surveyed healthcare organizations remained relatively consistent compared to 2019. Usage of balanced/asset allocation funds as the default option increased 3%, and stable value was static at 15% in both surveys. However, the number of healthcare organizations citing target dates series as their default investment option rose significantly, from 27% in 2019 to 47% in 2021, remaining the top choice among those surveyed.

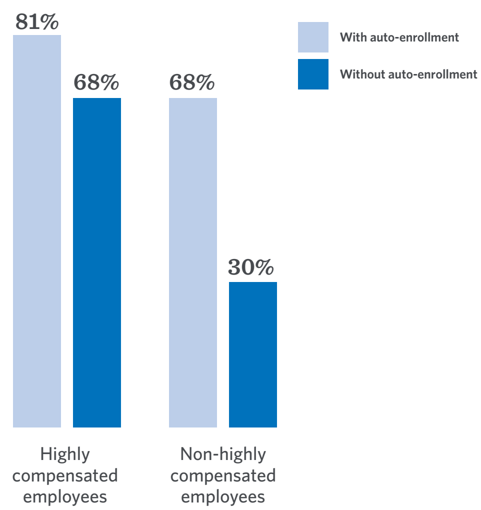


Default investment election

PARTICIPATION RATES

Implementing automatic enrollment has a major impact on employee participation; it is a critical first step to steer participants on the way to retirement readiness. The impact is particularly strong among non-highly compensated employees (NHCE). Respondents without automatic enrollment report NHCE participation at 30%, compared to 68% for organizations that use auto-enrollment. The positive impact carries over to highly compensated employees (HCE).

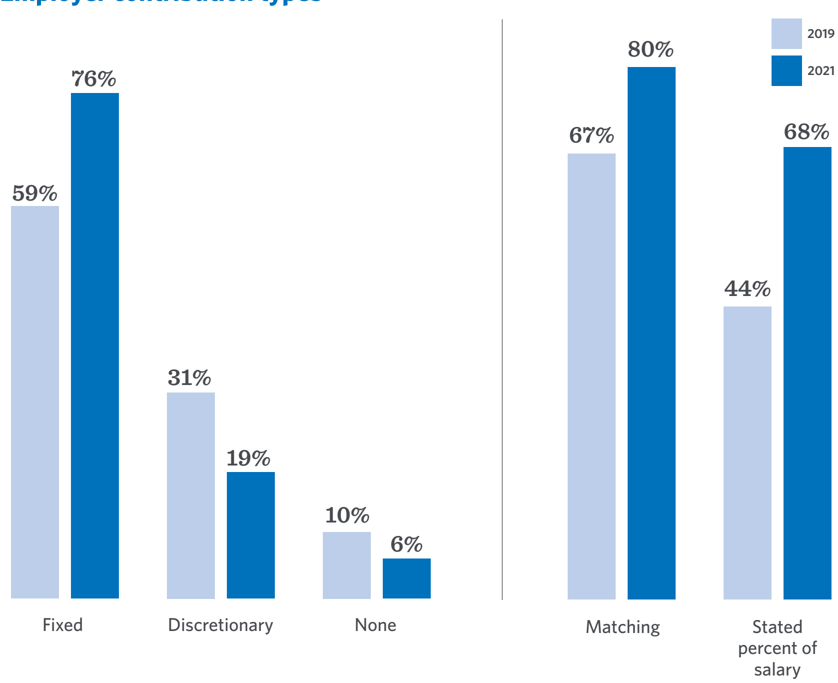
Median Participation Rate



EMPLOYER CONTRIBUTIONS

Three-quarters of healthcare plans offer a fixed employer contribution (stated in the plan document) — a 17% increase in only two years — and roughly 20% offer a discretionary contribution. Four out of five healthcare organizations currently offer a percentage match to the employee contribution. Two-thirds offer a contribution that is a stated percentage of the employee's salary — a considerable increase from 2019. Nearly half of healthcare organizations surveyed (48%) offer both types of employer contribution.

Employer contribution types

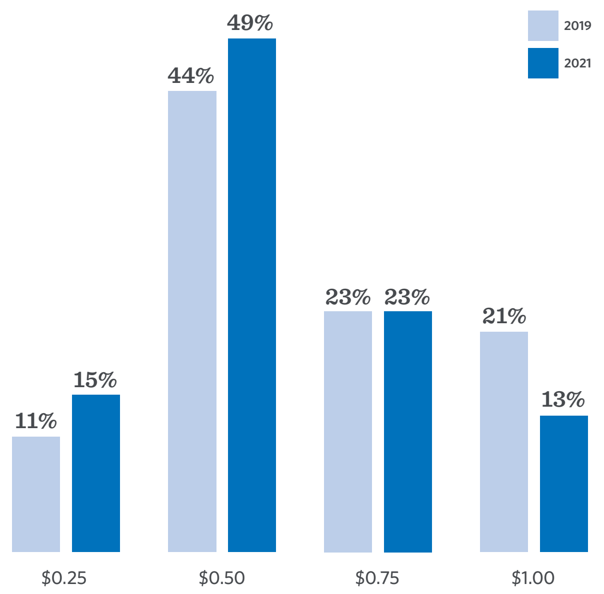


Stretch-the-match strategies that encourage employees to contribute a higher percent of salary to receive the full employer match have been popular for several years. Many healthcare organizations have adopted this strategy, which has proven successful in and outside the healthcare sector.

Among healthcare organizations offering a cents-on-the-dollar matching contribution, nearly half contribute 50 cents for every dollar the employee contributes to the plan, up to some percent of salary.

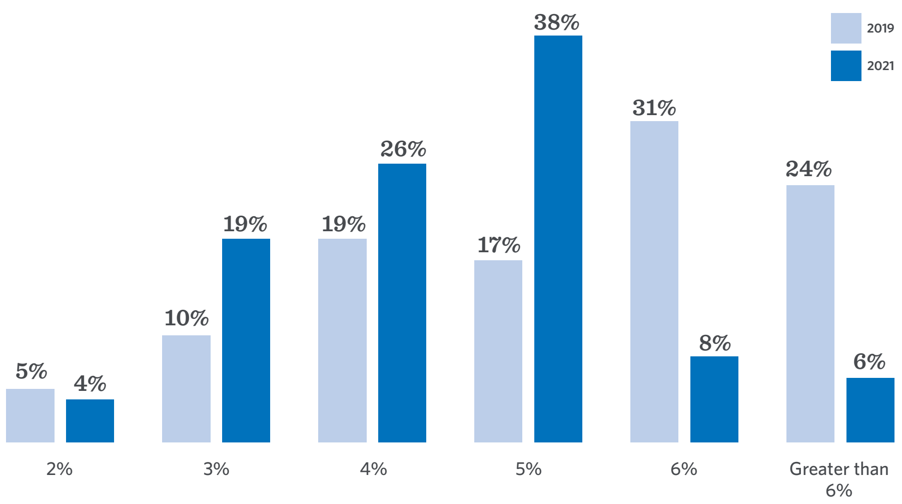
Like the cents-on-the-dollar match, the percent of pay up to which employers match also appears to be seeking middle ground. In 2021, the percentage of organizations offering a match up to 5% of salary more than doubled from 2019 levels to 38%. Few healthcare organizations match only 2% of pay, or more than 5% of pay.

Employer match - cents per dollar



Similarly, organizations contributing a stated percent of salary regardless of the employee contribution are increasingly gravitating toward 5% of pay.

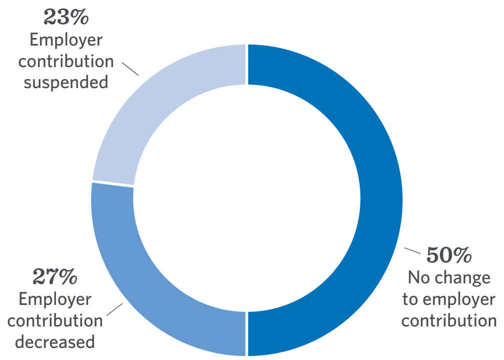
Employer match - percent of pay



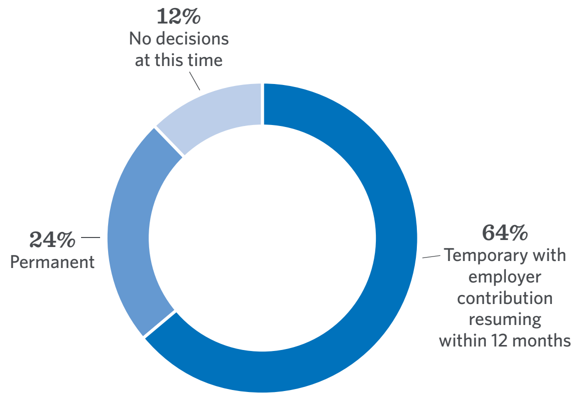
IMPACT OF COVID-19 ON EMPLOYER CONTRIBUTIONS

COVID-19 impacted the revenues and balance sheets of many healthcare organizations. Half of healthcare organizations did not change their employer contribution to the retirement plan during the pandemic. The other half of healthcare organizations was evenly split between having either reduced or suspended employer contributions. At nearly two-thirds (64%) of these organizations, the reduction or suspension was temporary, with resumption expected within the next 12 months.

Covid-related changes to employer contributions



Duration of Covid-related contribution reduction

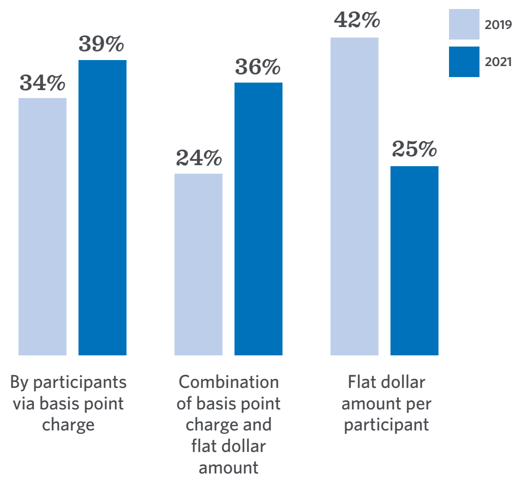


FEES AND EXPENSES

Today, nearly three-quarters of healthcare organizations level, or equalize, fees across their participant base. Only a quarter of healthcare organizations allocate all plans and expenses as a flat dollar amount per participant. Others are nearly equally divided among those who allocate fees exclusively as basis point of plan assets or a mix of the two approaches. Blending the two approaches, with some expenses amortized based on plan assets and others based on the participant count is the fastest growing approach.

Plan expense equalization

Allocation of plan fees and expenses



PLAN OFFERINGS

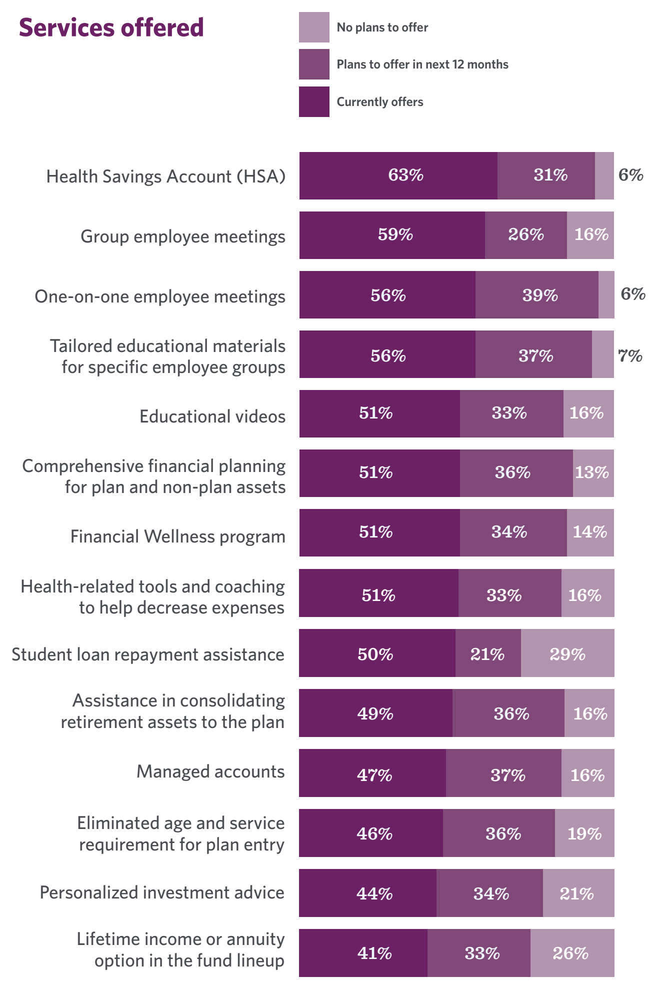
PLAN FEATURES

Healthcare organizations do an outstanding job of offering employees a broad range of helpful plan features. When asked what type of employee contributions they accept into the 403(b) and 401(k) plans, 98% of 403(b) plans and 95% of 401(k) plans accept both tax-deferred and Roth contribution types. Over half currently offer each of the services listed below, including access to health savings accounts, group and one-on-one meetings, educational materials and videos, financial planning advice, and financial wellness programs.

98%

of 403(b) plans and 95% of 401(k) plans at healthcare organizations accept both tax deferred and Roth contributions

Services offered

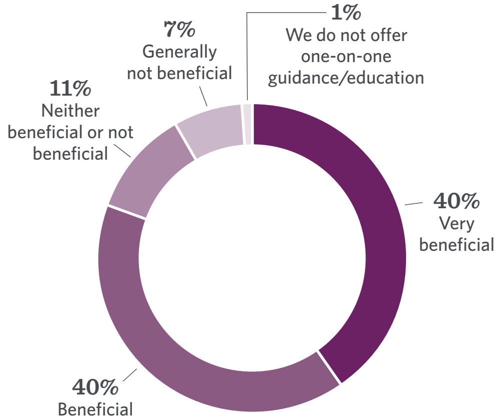


The trend toward providing tools and assistance that better address the needs and concerns of plan participants in healthcare organizations continues, including a broad range of financial wellness features that may be used before and in retirement. These include advice on health-related expenses, student loan repayment, consolidation of retirement accounts, and lifetime income and annuity options. Many have also lowered requirements for plan entry.

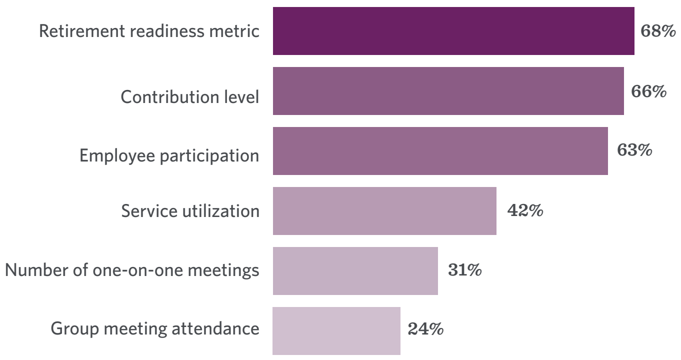
RETIREMENT PLAN SPECIALISTS

Four in five organizations find one-on-one participant interactions with retirement plan education specialists beneficial or very beneficial. Service providers are clearly effective in making financial professionals readily available to plan participants. Having dedicated education specialists doesn't mean that these representatives are physically on site anymore. For some employees working at satellite locations, the availability of onsite meetings at a hospital was already irrelevant. The COVID-19 pandemic has made it difficult for representatives to meet on site with participants at any location. On the other hand, the number of meetings happening online is on the rise as users rely increasingly on handheld devices and apps for dozens of activities, including retirement plan account management. The convenience of at-home visits on a personal device makes virtual meetings with a rep more effective — and more efficient — than an in-person meeting at the hospital.

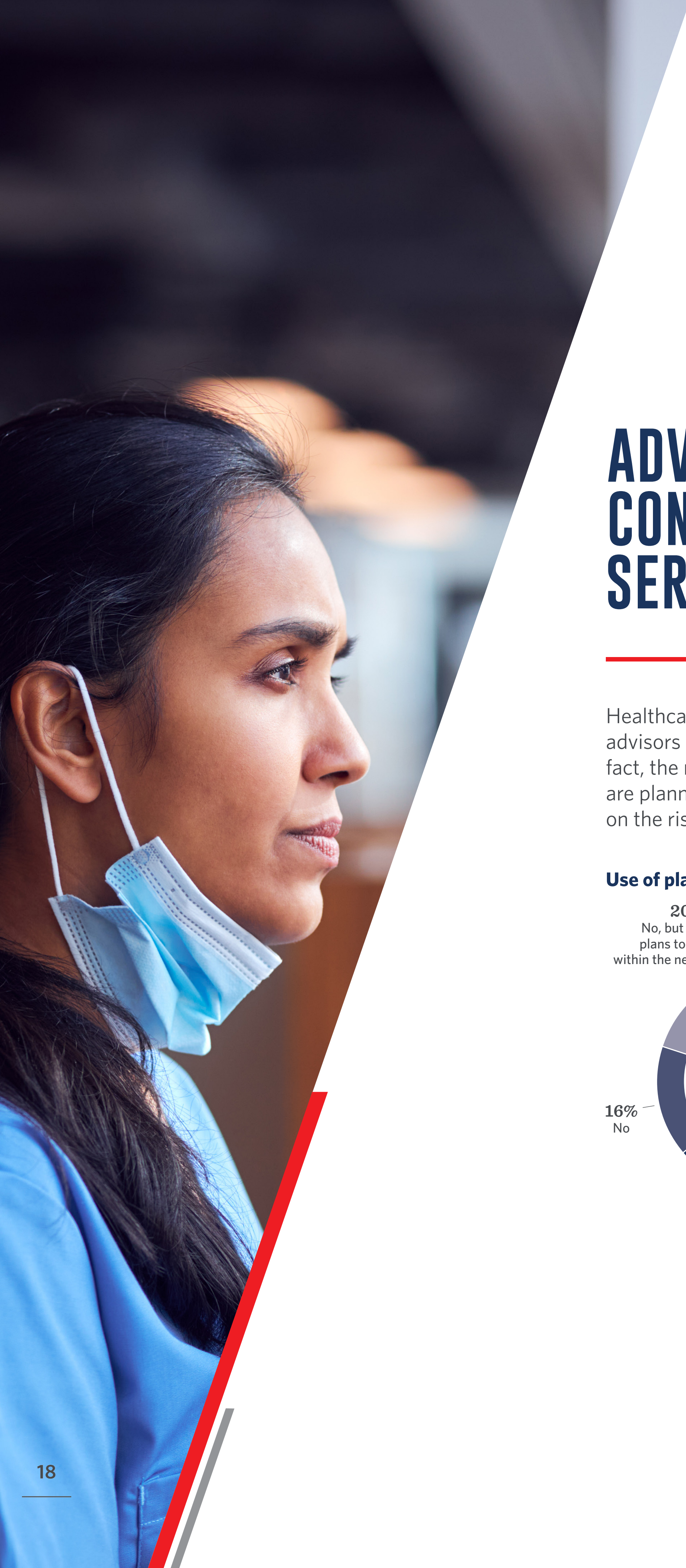
One-on-one participant interaction with retirement plan specialists



Dedicated representatives - management metrics



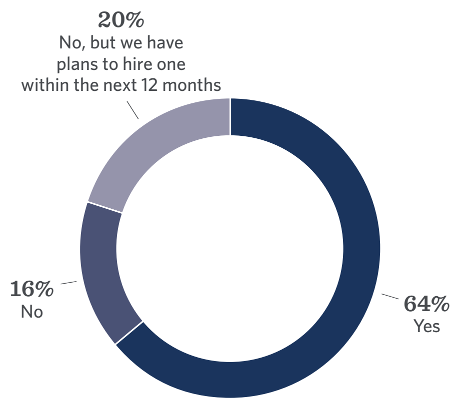
Representatives dedicated to a specific organization are most commonly managed to metrics such as retirement readiness, participant deferrals, and participation rates.



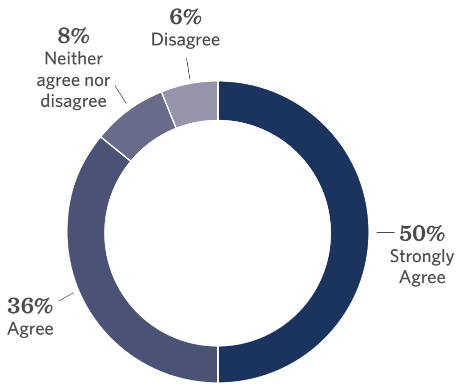
ADVISOR/ CONSULTANT SERVICES

Healthcare organizations' reliance on plan advisors and consultants is as strong as always. In fact, the number of plans without an advisor who are planning to hire one in the next 12 months is on the rise: up to 20% from 9% in 2019.

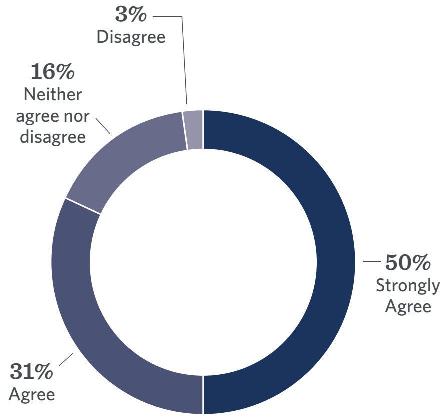
Use of plan advisor/consultant



It is a necessity for a healthcare organization like ours to rely on the services of a retirement plan advisor or consultant

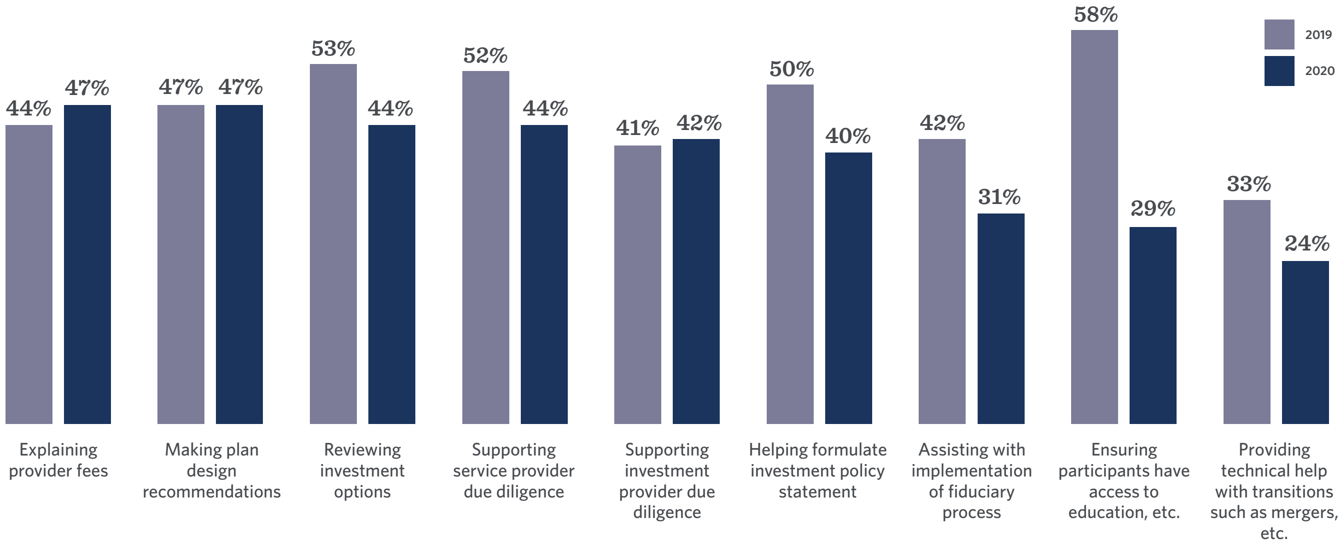


Relying on the services of a retirement plan advisor or consultant can help healthcare organizations carry out their fiduciary responsibilities



Organizations rely on advisors for their expertise on plan design, service provider fees, investment options and fund lineups, and QDIA recommendations. They also look to advisors to assume fiduciary responsibility, and for help with service provider and investment manager due diligence. The pandemic has increased advisor involvement in financial wellness programs including health savings accounts, and student loan remediation.

Plan advisor/consultant responsibilities

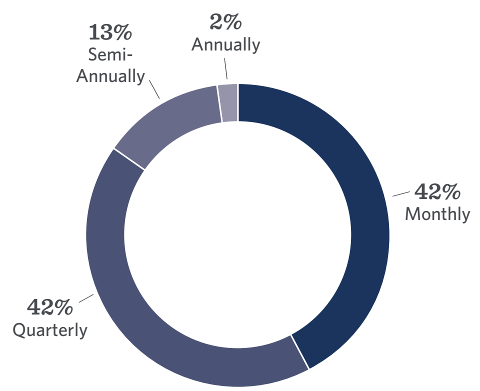


80%

of healthcare organizations saw an increase in the frequency of virtual meetings with their advisor due to COVID-19

Meetings continued — even increased — during the COVID-19 pandemic as advisors moved to an all-virtual environment. Healthcare organizations and their advisors embraced this necessary trend, because of the convenience, ease, and elimination of travel and related expenses. The result has been an increase in the frequency of meetings between advisors and their clients. Quarterly meetings were once the norm, but the same percentage of healthcare organizations now meet with their advisor monthly (perhaps for shorter and more focused meetings). Because of COVID-19, fully four out of five healthcare organizations have seen an increase in the frequency with which they meet virtually with their plan advisor or consultant.

Frequency of plan advisor/ consultant meetings

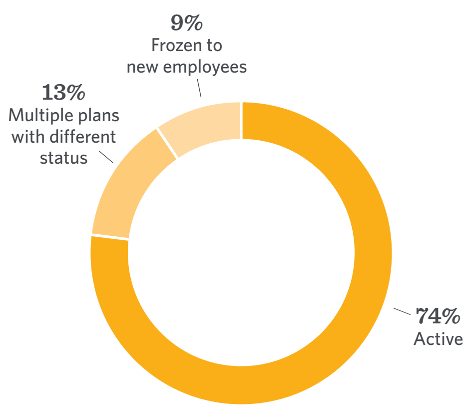


DEFINED BENEFIT PLANS

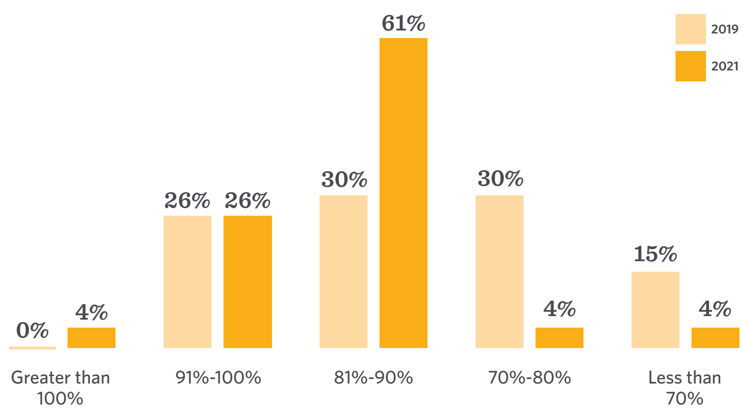
DEFINED BENEFIT PLAN STATUS

Traditional defined benefit (DB) pension plans are becoming less common, but 74% of surveyed healthcare organizations still maintain an active DB plan. Most DB plans of healthcare organizations are funded between 80% and 90%, and fewer are funded below 80%, as compared to 2019. Among healthcare organizations with a DB plan, 70% maintain the salary history of employees covered by the plan in a single database. For 65% of these organizations, the task of maintaining the database falls on in-house staff, presumably in HR or payroll.

DB plan status



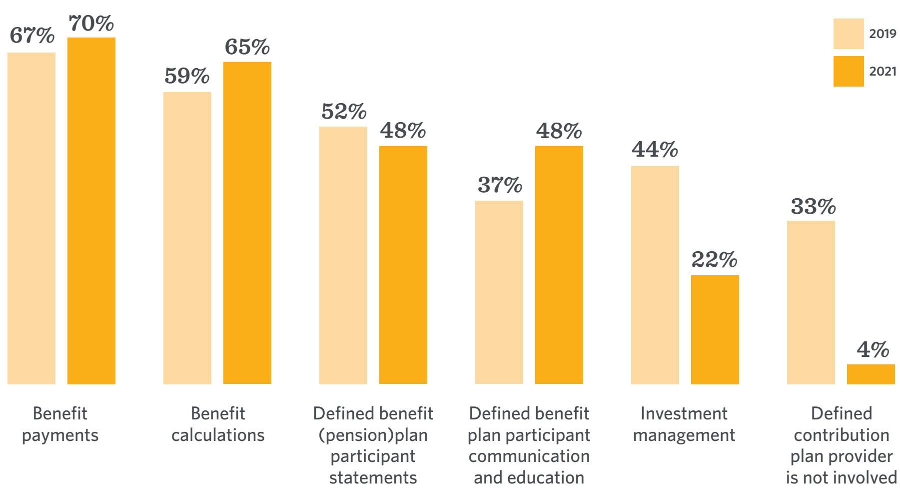
Level of DB plan funding



DEFINED CONTRIBUTION PLAN PROVIDER INVOLVEMENT

Many organizations with a DB plan involve their defined contribution (DC) plan service provider in the administration of the DB plan for functions that include the calculation of benefits, benefit payments, DB plan participant statements, and DB plan participant communication.

DC plan service provider involvement with DB plan administration



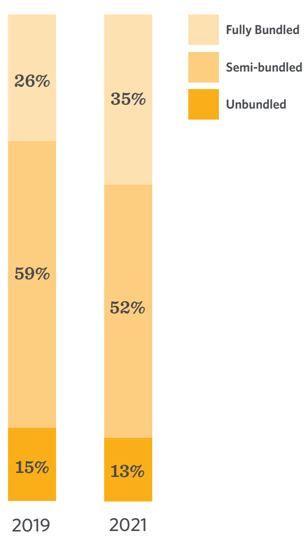
LOOKING AHEAD

Many healthcare organizations plan to make changes to their DB plan within the next 12 months. Chief among these plans is hiring a consultant to develop a strategic plan. Key objectives include negotiating DB plan provider costs, enhancing the DC plan to compensate for the termination or freezing of the DB plan, replacing the DB plan with a 401(a) plan, or simply terminating the DB plan altogether. Just one-quarter of healthcare organizations with a DB plan are not planning any changes to their DB plan.

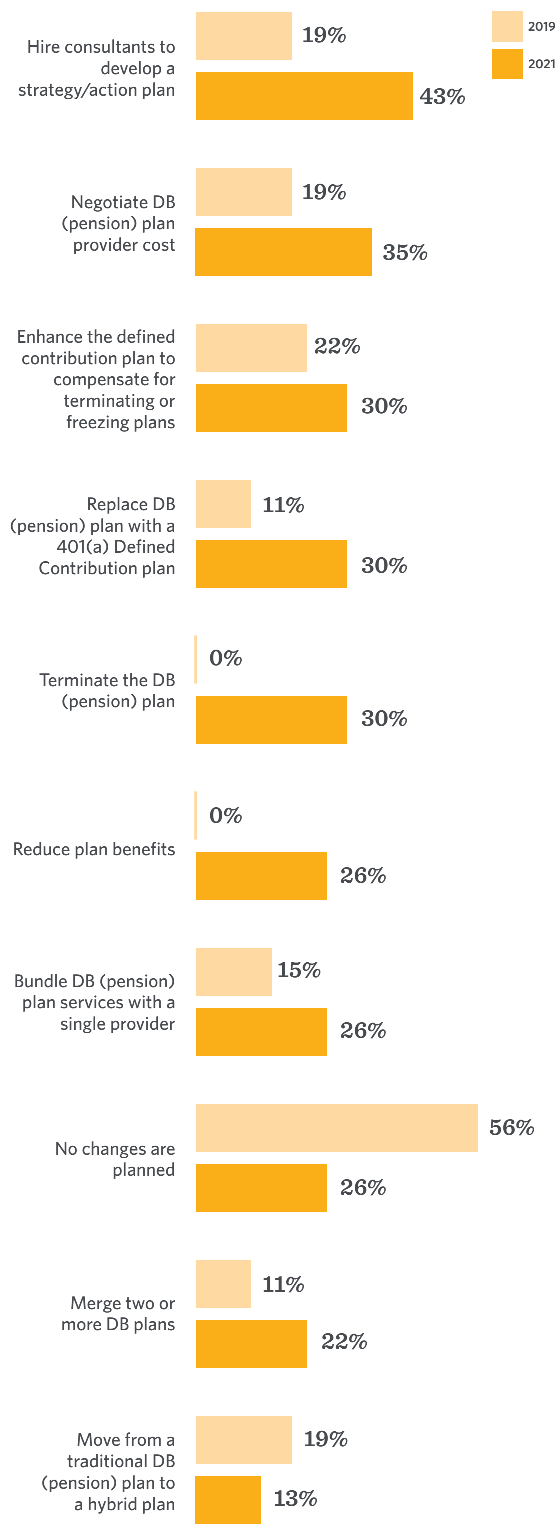
When it comes to servicing DB plans, the trend among healthcare organizations steers toward fully bundled service from a single provider.

Unbundled service packages are on the wane. Most healthcare organizations have at least a semi-bundled service package.

DB plan service bundling



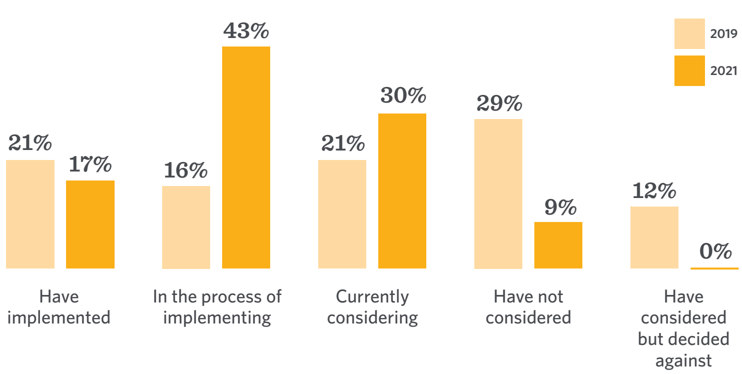
Planned DB plan changes



TOTAL RETIREMENT OUTSOURCING

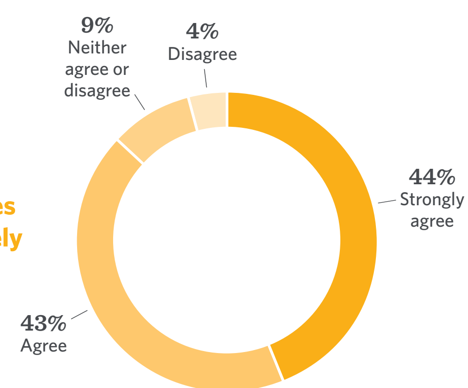
Total Retirement Outsourcing (TRO) is the placement of all or most of the services required for DC, DB, and NQDC retirement plan management with a single provider. Offering an integrated experience that lets employees manage all their plans in one place can provide a more holistic view of their retirement forecast and provide plan sponsors with potential cost savings and reduced workloads. Only 9% of healthcare organization have never considered a TRO arrangement and 43% are in the process of implementing a TRO arrangement.

Consideration of Total Retirement Outsourcing



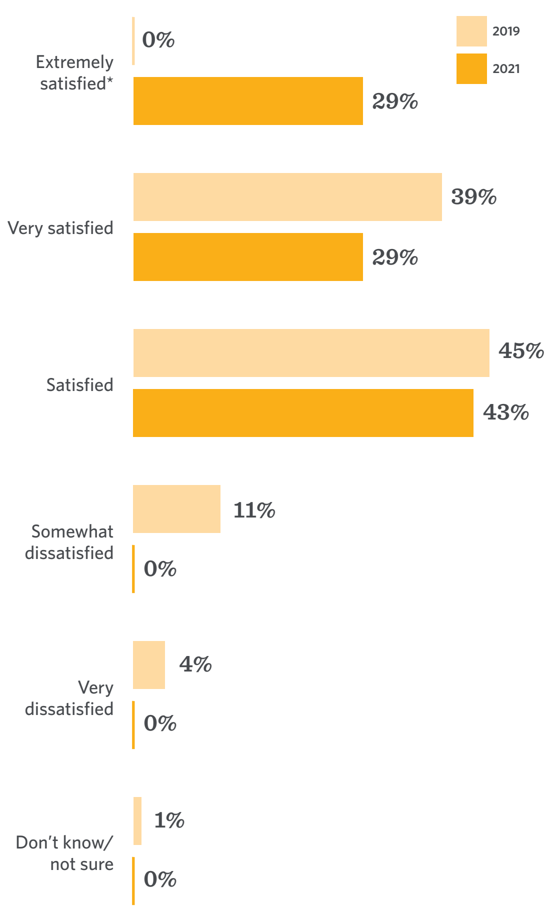
Healthcare organizations largely agree that TRO helps employees plan more effectively for a fully funded retirement by helping them save and invest more appropriately than they would outside of a TRO arrangement. In addition, with TRO, healthcare plan sponsors feel better able to assess the health of their DB and DC plans in meeting retirement program goals.

When DB, DC, and other savings are linked together, it helps our employees plan more effectively for a fully funded retirement



Satisfaction with TRO has significantly improved over the past few years. More than half were either "Very satisfied" or "Extremely satisfied."

Satisfaction with Total Retirement Outsourcing



* Please note: Extremely satisfied was not an available response in the 2019 survey.

STRATEGIC IMPLICATIONS

KEY TAKEAWAYS FOR PLAN SPONSORS AND ADVISORS

Retirement readiness is the goal

Helping participants accumulate the funds needed to reach their retirement income goals remains the primary goal for plan sponsors. By this measure, healthcare organizations achieve good plan-level outcomes: 75% report that more than half of their workforce is on course to achieve retirement success. Service provider support is an important factor in achieving this result.

Motivating employees to save and to stay financially well is a daunting challenge

Improving the financial wellness of participants is a hurdle. Household expenses that exceed earnings and overwhelming debt burden prevent many participants from saving adequately for retirement. To help, more than half of organizations offer a formal financial wellness program, and an additional 34% plan to implement one soon. Emergency savings and credit card debt management are two areas of focus. As for student loan remediation, education seminars and referrals to third-party vendors to make contributions toward loan payments are offered by more than 60% of organizations.

Plan designs support post-pandemic talent acquisition and retention strategies

Automatic enrollment is now offered by 79% of plan sponsors in the healthcare sector, and nearly two-thirds of plans have adopted automatic deferral increases. Even before the Great Resignation, matching employer contributions were already on the rise. The imbalances caused by the COVID-19 pandemic were temporary. Those who reduced or suspended contributions during the pandemic are planning to reinstate them within a year.

Financial advisors are a necessity, and finding one who understands the needs of healthcare organizations are in demand

Deemed necessary to help carry out fiduciary responsibilities, plan advisors who know and understand the healthcare sector are increasingly in demand. Plan sponsors rely heavily on their plan advisor for help with fee analysis and with plan design assistance.

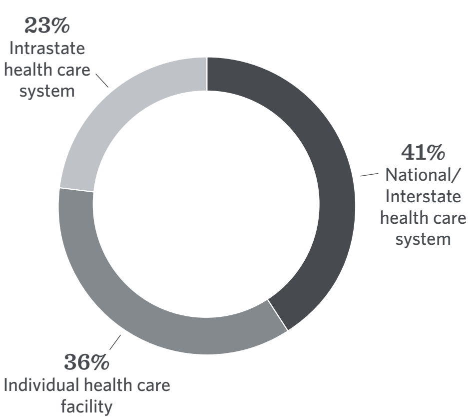
Healthcare organizations value Total Retirement Outsourcing

Many organizations that still maintain a DB plan rely on their DC plan service providers to perform a variety of administrative services for their DB plans. Of those plan sponsors who have implemented a TRO arrangement, 58% are extremely satisfied or very satisfied (up from 39% in 2019), and 29% are extremely satisfied (compared to none in 2019.)

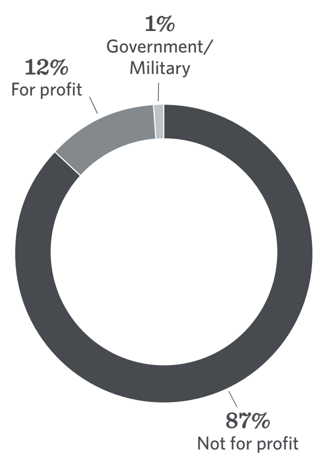
However, a period of change lies ahead for DB plan sponsors as 43% indicate they plan to hire a consultant to formulate a strategic action plan to address the future state of their DB plans. Just one-quarter of healthcare organizations with a DB plan are not planning any changes to their DB plan.

BEHIND THE NUMBERS

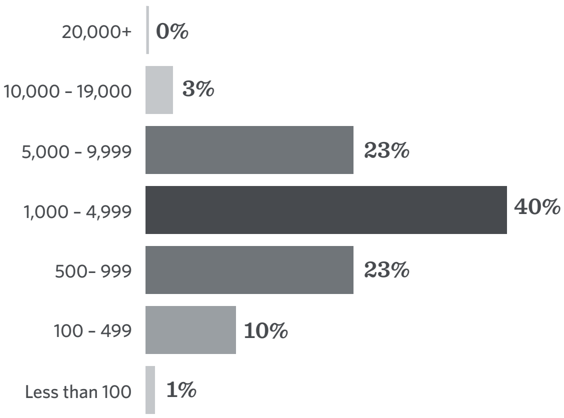
Scope of organization



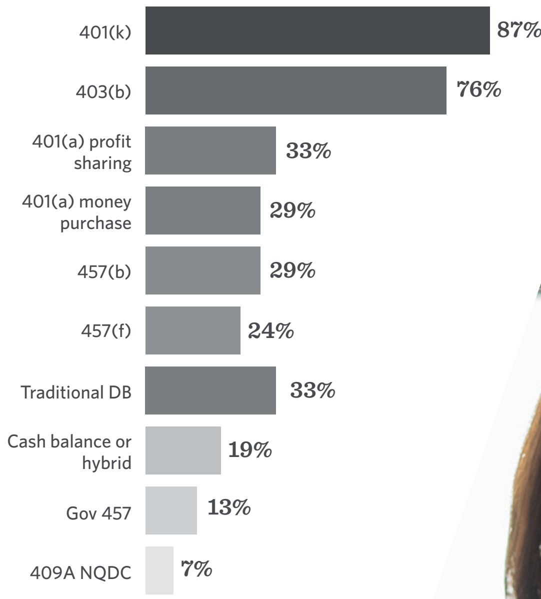
Organization affiliation



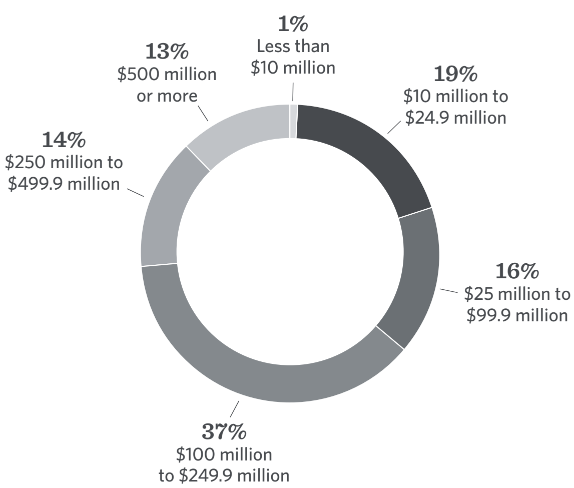
Number of employees



Type of plan offered



Total retirement plan assets



ABOUT THE SURVEY

Retirement Plan Trends in Today's Healthcare Market - 2021 is the 15th study conducted by Transamerica. The surveys were completed online in the third quarter of 2021 by professionals from 70 healthcare organizations.

Respondents were screened to ensure they:

- Work for a relevant healthcare organization
- Are knowledgeable about the retirement plan of their organization
- Are involved in decisions and reviews of their organization's retirement plan offering

Want more information about the solutions Transamerica can offer your retirement plan?

Visit: Transamerica.com

Before adopting any plan you should carefully consider all of the benefits, risks, and costs associated with a plan. Information regarding retirement plans is general and is not intended as legal or tax advice. Retirement plans are complex, and the federal and state laws or regulations on which they are based vary for each type of plan and are subject to change. In addition, some products, investment vehicles, and services may not be available or appropriate in all workplace retirement plans. Plan sponsors and plan administrators may wish to seek the advice of legal counsel or a tax professional to address their specific situations. Transamerica does not serve as a 3(16) plan fiduciary.

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