Winning the War for Talent

RETIREMENT & BENEFIT PLAN SERVICES

Leveraging financial benefits to grow and protect your human capital

Much has been written in the media about the aging of the workforce, but the true implications of this trend have yet to be fully realized. Recently Retirement & Benefit Plan Services (R&BPS) spoke to a panel of employee benefits and retirement experts at Bank of America Merrill Lynch to obtain their perspective on the changing dynamics in the workplace and what they mean for plan sponsors and overall benefits and compensation strategies. This paper will explore the emerging war for talent in the workplace and the critical role financial benefits can play in helping organizations enhance employee recruitment and retention.

R&BPS: What workplace trends are you seeing that plan sponsors should be aware of?

Stephen Ulian, head of Institutional Retirement & Benefit Solutions: We are undergoing a historically significant demographics transformation affecting the workplace and retirement in this country. Seventy-six million baby boomers will turn 65 over the next 20 years — that's one every 7 seconds.[1] Americans are living longer, are healthier, and many will need to — or will want to — work longer. The stereotypical goal of moving to Florida is fading — retirement is being redefined right before our eyes.

Roy Williams, head of Defined Benefit Services: Average life expectancy is dramatically longer than it was a mere 30 years ago. These additional years will need to be funded and will have a critical impact on the average individual's decision-making for both the timing and the nature of their retirement. We believe that not only will retirement cost more, participants' income needs will become more complex. It appears that the need for advice and education will become even stronger as participants navigate a long course and uncertain waters.

Stephen Ulian: I agree. While 401(k)s and similar participant-directed plans have helped an estimated 72 million workers save for retirement, there is tremendous concern about the level of retirement readiness in this country.[2] A recent survey by the Employee Benefits Research Institute (EBRI) showed that only 16% of respondents said they were confident about saving enough for retirement. And among workers aged 55 and older, only 13% said they are "very confident" that they have enough money to live comfortably through retirement, down from 27% in 2000.[3]

> "Talent is the new it."[4]

With the anxiety over retirement readiness, combined with an increasingly sensitive regulatory environment, we are likely to see greater government involvement in the business of benefits, resulting in even higher fiduciary standards. At the same time, the new demographic landscape means that skilled older workers will become a scarcer resource and companies will compete in a "war for talent." All of these things have profound implications, not only for retirement, but also for the broader spectrum of benefits offered by plan sponsors.

R&BPS: Can you elaborate on what you mean by a "war for talent?"

Stephen Ulian: Basically, as the global economy shifts into recovery, finding people with the right combination of skills, knowledge and experience has become challenging

See last page for important information.

for many companies. Even though unemployment numbers remain stubbornly high, there is a mismatch between the talent that is available and what is needed by organizations in what is now a knowledge-based global economy.

> More than 30% of employers are struggling to fill jobs they desperately need to in order to succeed.[5]

This situation affects both professional and skilled-trades workers. In the trades, a company needs people "on the ground," so to speak; you cannot send this type of work offshore. That leaves organizations with a critical shortage of skilled tradespeople that may worsen as more experienced workers retire and replacements are not found. According to Manpower's most recent Talent Shortage Survey, more than 30% of employers are struggling to fill jobs they desperately need to in order to succeed.[5]

R&BPS: How is this going to impact plan sponsors?

Stephen Ulian: As an employer, you need to be thinking about the implications. In less than a decade we feel that people with high-demand skills, both young and old, will be our scarcest resource. You need to ensure that you have the leadership and talent capable of taking your business into the future. And that will also mean taking advantage of the older workforce. Smart organizations will view the influx of older workers as a bullish versus negative trend.

Roy Williams: Plan sponsors and service providers will be challenged to ensure that employee benefits meet broader corporate objectives and have maximum appeal for an age-diverse workforce. One could argue that the recent trend toward converting traditional defined benefit plans to cash balance or other hybrid plan designs is an attempt to develop more attractive benefit plan features for a younger, mobile workforce. Yet, as Steve has pointed out, sponsors will need to provide appropriate incentives across the age spectrum.

David Roberts, head of Equity Plan Services: More emphasis will be needed on flexible, personalized compensation and benefits arrangements. Traditionally, stock options and equity compensation plans have been used to attract and retain key talent. Incentive compensation and performance programs will become even more critical in the future to help organizations in recruiting and retaining these skilled workers and meeting increasingly complex financial needs.

Roy Williams: Today's retirement system was built with the assumption that people would work for a certain period and then retire and be replaced with younger workers. But this model may need revisiting. We will need to slow the exodus of older workers whose skills are most valued. At the same time, we will need to prepare successors for critical roles and help them learn as much as possible before these expert resources leave the workplace.

R&BPS: How does this affect today's plan participants?

Stephen Ulian: Participants will look to their employers to provide greater access to advice and guidance. For example, a participant may be looking at multiple things: 401(k) drawdown strategies, vesting equity compensation, health care costs, college education expenses, long-term care, mortgage payments, travel budgets, charitable giving, and estate planning. And when you add in a backdrop of rising taxes and inflation, it becomes a complex balancing act even for those with some financial expertise.

> The war for talent will have profound implications, not only for retirement, but also for the broader spectrum of benefits offered by plan sponsors.

David Roberts: Remember, with the new demographic landscape, skilled individuals will have their pick of employers, so organizations will need to provide them with even more competitive programs. This is a challenge for many employers right now. Just as the competition for talent is heating up, many companies may not be in a position currently to invest in programs that can attract the key talent.

R&BPS: What else should plan sponsors take into consideration for their benefits and compensation strategy?

Roy Williams: Organizations should consider creating an environment where older workers can continue to do their best work and stay healthy financially, in addition to staying well physically. We believe that older workers are looking for flexibility in terms of hours and work location, opportunity for a "phased retirement," competitive equity and benefit plan, help with medical costs for retirement, and the ability to play a mentoring role.

As David alluded to, however, companies will need to find ways to do this cost-effectively. We expect employers will increasingly look to service partners to help their participants prepare financially for both their work and retirement lives.

> In order to remain relevant in the post-retirement-age world of older workers, it will be important for employers to provide the professional resources necessary to assist those who are planning for transition to develop effective plans for the second half of their lives.[6]

David Roberts: Stock and equity compensation programs can help create a sense of ownership where your senior talent may want to stay and increase their value stake in the company. In order to compete for key people, long-term incentive plans will become even more critical in an increasingly competitive marketplace. Rather than a one-size-fits-all approach, however, organizations may need to develop new ways to give valued employees reasons to stay. And that means a greater emphasis on education so that employees understand the value of their awards and how they integrate with their other financial benefits.

Stephen Ulian: Access to advice and support that takes into account your organization's unique culture and programs will be critical. Our research shows that seven out of 10 plan participants say they'd likely use personal finance and investment services if offered through their employer.[7] And a recent Merrill Lynch survey indicated that 76% of affluent individuals say they rely on the retirement products and services offered by their employer.[8]

Seismic shifts in tomorrow's workforce

FROM	TO
Information Age	Human Age
Access to capital the differentiator	Access to talent the differentiator
Workers chasing companies	Companies chasing workers
Talent glut	Talent shortage
Unemployment from oversupply	Unemployment from specific demand

Source: Manpower Inc., 2011.

R&BPS: How can Bank of America Merrill Lynch support clients in helping them retain their best talent with competitive benefits programs?

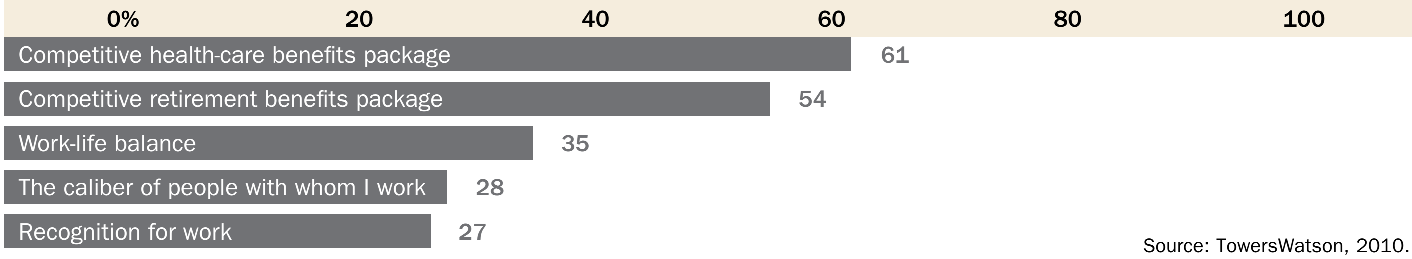
Stephen Ulian: We think that the financial industry has an important opportunity to step up to the challenge. But it's not just about being an advisor to baby boomers. It's about anticipating dramatic change, and investing in innovation on behalf of our clients. We believe that we are well-positioned to help American workers at all stages of life. With our tremendous reach across the country, we are able to offer personalized guidance to our plan sponsors through our dedicated network of Merrill Lynch Financial Advisors, particularly those with Certified Financial Planner™ and/or Chartered Retirement Planning Counselor℠ designations.[9]

R&BPS: Can you provide any examples of how you can help clients deal with these issues?

Stephen Ulian: We are currently working with several organizations to offer programs that help them address the broader financial needs of their employees — "total financial benefits solutions," if you will. This includes a full range of services, including banking, investing, and equity compensation services, offered through the workplace. For example, we offer programs such as Advice Access,* which provides your participants with professional investment management tailored to their life stage and personal situation, and the Financial Wellness Monitor,™ a baseline metric to observe trends in employees' savings and investment behaviors.

Through Merrill Lynch, we have teams of specialists that can review an employee's retirement planning strategy —

Top five factors employees 50+ in large companies consider in deciding whether to stay with a company



at no cost to the employee. We also have a dedicated team of Meeting Leaders and Merrill Lynch Financial Advisors who are available to conduct onsite employee seminars on all aspects of benefits and retirement strategies.

R&BPS: Any other thoughts?

Roy Williams: As an employer, if you offer the competitive benefits and the personalized and meaningful support your employees are seeking, then you will be in a better position to have them say, "This is a company I am likely to stay with."

Stephen Ulian: The war for talent and redefinition of retirement will require new ways of thinking and working together. Plan sponsors and service providers will need to work with each other and the legislators to develop benefit structures and incentives that help ensure worker security while allowing companies to compete effectively in the global economy. At Bank of America Merrill Lynch, you can be sure that all of our efforts are focused on these issues.

For more information about how we can help your company and its employees, contact your Bank of America Merrill Lynch representative or call **1.888.550.7705**.

Visit us online at **benefitplans.baml.com** or email us at **benefitplans@baml.com.**

About us

Bank of America Merrill Lynch is one of the world's most innovative financial institutions, serving individual consumers, small- and middle-market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk management products and services. Broadly capable in virtually every type of benefits solution, Bank of America Merrill Lynch offers flexibility to its plan sponsors. With experience across the spectrum of retirement, equity and other wealth accumulation plans, we are positioned to help American workers achieve financial wellness at all stages of life.

** The Advice Access service is provided to 401(k) plan participants. It uses a probabilistic approach to determine the likelihood that participants in the service may be able to achieve their stated goals and/or to identify a range of potential wealth outcomes that could be realized. Additionally, the recommendations provided by Advice Access do not consider an individual's comfort level with investment risk, and may include a higher level of investment risk than a participant may be personally comfortable with. Participants are strongly advised to consider their personal goals, overall risk tolerance, and retirement horizon before accepting any recommendations made by Advice Access. Participants should carefully review the explanation of the methodology used, including key assumptions and limitations, which is provided in the Advice Access disclosure statement. It can be obtained through Benefits OnLine® or through your Bank of America Merrill Lynch representative.*

***IMPORTANT:** The projections or other information shown in the Advice Access service regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results may vary with each use and over time.*

[1] "Leading-Edge Boomers Still Going Strong", AARP, 2010.

[2] "Target Date Fund Retirement Disclosure", United States Department of Labor, November 29, 2010.

[3] "2010 Retirement Confidence Survey", Employee Benefit Research Institute.

[4] Jeffrey A Joerres, CEO, Manpower Inc.

[5] "2010 Talent Shortage Survey", Manpower Inc., May 2010.

[6] "The New Agenda for an Older Workforce", Manpower Inc., 2007.

[7] "2009 Workplace Financial Education Online Survey", Bank of America Merrill Lynch.

[8] "Affluent Insights Quarterly", Merrill Lynch, January 31, 2011.

[9] "The CFP™ and CRPC℠ are certification marks owned by the Certified Financial Planner Board of Standards, Inc.

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