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December 28, 2010

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-10-25
IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR ACCEPTANCE OF ITS 2011 RETIREMENT BENEFITS PACKAGE

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR ACCEPTANCE OF ITS 2011 RETIREMENT BENEFITS PACKAGE.	CASE NO. IPC-E-10-25 IDAHO POWER COMPANY'S REPLY COMMENTS

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), and in response to Comments of the Idaho Public Utilities Commission Staff ("Staff") and the Industrial Customers of Idaho Power ("ICIP") filed in this docket on December 14, 2010, submits the following Reply Comments.

I. THE PREMISE UNDERLYING THE COMPANY'S BENEFITS REVIEW

Both the Staff and ICIP state in their Comments that Idaho Power started with a "flawed premise." Because neither of these parties clearly defines the parameters of the Company's premise, the Company will do so in these Reply Comments.

First, the Company is in agreement with the Staff's understanding that "the Commission does not intend to supersede the Company's operational decision-making process, and that the Company's directors are ultimately responsible for approving retirement benefits available to Idaho Power's employees." Staff Comments p. 10.

Second, the Company agrees with the ICIP that it would be inappropriate to advocate that the Company should abrogate existing retirement benefits it already owes its existing employees or retirees. ICIP Comments p. 1.

Third, the Company's understanding of the regulatory compact is that in return for the Company's obligation to serve customers and be subject to regulatory oversight, the Company is entitled to recover its prudently incurred expenses and an opportunity to earn a return on its prudently incurred investments. Retirement benefits are a component of business expenses that are subject to recovery from customers.

Both the Staff and ICIP focus on a portion of language in Commission Order No. 31091 that states "Idaho Power must similarly **consider** changes to its retirement plan to address shareholder and employee liabilities in the assignment of pension plan investment risk." Staff Comments p. 5 and ICIP Comments p. 7 (emphasis added). The Company did consider and make changes to its retirement benefits plan that increased employee liabilities and reduced customer liabilities associated with pension plan investment risk. The Company did consider, but did not make, changes to its retirement benefits plan that would create shareholder liabilities associated with pension plan investment risk.

The Commission Staff contends that "the Company disregarded the directive of the Commission" because it "predetermined that shareholders are unwilling to accept any of the investment risk associated with the defined benefits plan." Staff Comments p. 6. The Company did consider but rejected the creation of a shareholder liability associated with pension plan investment risk. Chief Financial Officer Darrel Anderson works closely with the Board of Directors ("Board"), who, as a part of their fiduciary duties, speak for shareholders who elect them. The independent Directors on the Board's Compensation Committee meet regularly to evaluate the appropriate level of Idaho Power's retirement benefits in the ordinary course of business. Idaho Power's shareholders, as represented by and articulated through their elected Board of Directors, expect the Company to establish employee retirement benefits at a reasonable, competitive level with costs (inclusive of investment risk) that will be recovered in their entirety in customer rates. Mr. Anderson implemented the annual retirement benefits package review process with parameters and evaluation criteria consistent with the Board's retirement benefits philosophy.

While some expenses are appropriately paid for by shareholders who directly benefit from them (e.g., corporate goodwill, image advertising), retirement benefits are a labor expense that directly benefits customers; they are not the type of expense for which shareholders should be responsible. If <u>reasonable</u> labor expenses cannot be recovered in customer rates set by the Commission, an order requiring Company shareholders to become financially liable for benefit expenses without a corresponding return on investment may result in confiscatory rates that violate the U.S. Constitution's Fifth Amendment Takings Clause.

Fourth, in order for the Commission to be able to assess the appropriateness of any change to the 2011 Retirement Benefits Package, it is important for the

Commission to have a benchmark against which to assess the reasonableness of the retirement benefits package costs. The Commission Staff implies that the Company's review of retirement benefit package costs was deficient because the "Company merely reviewed its retirement benefits package in the same manner as it had done in the past, without altering its review and evaluation in light of the Commission's explicit directive." Staff Comments p. 6. As noted by Mr. Anderson and Ms. Gerschultz in their testimonies provided in this case, the Company has evaluated its retirement benefits package costs annually and did so again this year with the Commission's directive in mind. Neither the Commission nor its Staff have reviewed or commented on that evaluation process prior to this point in time. Although the Staff and the ICIP may have been unaware of the evaluation process that the Company has been utilizing over time, the conclusion reached that the Company's evaluation process has been deficient is unfounded. It implies that the Company has imprudently managed retirement benefits package costs, and that only with Commission instruction would the Company understand that managing such costs is important. To the contrary, the Company has always understood that managing retirement benefits package costs is important whether or not the Commission was currently scrutinizing those costs.

The Company has demonstrated that based upon independent third-party assessment of the Company's 2011 Retirement Benefits Package costs, the existing package costs are lower than the retirement benefits package costs of peer group businesses. Idaho Power Exhibit No. 1, p. 2. In September 2010, the Board approved changes to lower the package costs even further below peer group costs. As discussed in greater detail in Section IV, that package cost determination balances both investment risk and reward for customers and employees. That is, under the Company's 2011 Retirement Benefits Package, customers and employees are assigned a level of investment risk that is commensurate with the opportunity for investment growth or "reward."

Fifth, once a benchmark analysis has been performed and a reasonable cost level has been established, the Company appropriately must consider whether the composition of the package best serves the business needs of the Company and its customers. For Idaho Power, Mr. Anderson has identified retention of employees as an important factor in keeping other employee related costs down in order to provide safe, reliable service with a qualified, experienced, and flexible workforce. Both the Staff and the ICIP criticize the Company for not moving to a defined contribution plan. Staff Comments p. 9 and ICIP Comments p. 8. Idaho Power believes that the Staff and the ICIP favor a defined contribution feature as a risk reduction measure. However, as previously noted, the retirement benefits package cost benchmarking that was performed reflected both investment risk and reward. Given that the proposed 2011 Retirement Benefits Package has reasonable cost inclusive of investment risk and reward, it is reasonable to include a feature that promotes employee retention.

II. INSTRUCTIONS GIVEN WERE CONSISTENT WITH PREMISE AND ORDER

Both the Staff and ICIP contend that Mr. Anderson's instructions to Ms. Gerschultz were flawed. Staff Comments p. 3 and ICIP Comments p. 12. However, Idaho Power believes that Mr. Anderson's instructions were consistent with both the Company's premise as detailed in these Reply Comments and the Commission's directives contained in Order No. 31091.

Staff implies that the instructions were flawed because the review of retirement benefits package costs was performed in a manner consistent with how such costs have been reviewed in the past. Staff Comments p. 6. Idaho Power has actively evaluated its retirement benefits package over time with a primary emphasis on managing costs that are comparable to peer group businesses to ensure they are both competitive and reasonable. Nothing written in Commission orders would suggest that such method of review should be considered inappropriate or deficient. Basing an assumption that the package cost review process was deficient upon a mere lack of familiarity with the Company's benefits process is inappropriate, and leads to an erroneous conclusion that the Company has imprudently managed package costs in the past. Staff's position is unsupported by facts.

Staff states that "the Company did not change its evaluation process based upon the Commission directive and instead focused on business as usual, and did not address the specific areas of concern discussed by the Commission." Staff Comments p. 7. The Commission did not direct the Company to change its evaluation process, nor did the Commission find that the Company's evaluation process is flawed. To the contrary, the Commission, in its Order No. 31091, issued the following directives:

1. The Company must provide further justification for contributions made to the pension fund balancing account in order for such contributions to be authorized for recovery;

2. Idaho Power must consider changes to its retirement plan and address shareholder and employee liabilities in the assignment of pension plan investment risk; and

3. The Company must carefully review retirement benefits package alternatives to reduce the burden placed on customers in order for the Commission to approve recovery.

With regard to the second directive, the Company did consider and make changes to its retirement package, shifting another portion of investment risk from customers to employees. As a direct result of the shifted investment risk, the cost burden on customers has been reduced. With regard to the third directive, the Company did consider, but did not create, new unrecoverable shareholder cost associated with pension plan investment risk. Again please note that the Company believes it would be unlawful for the Commission to require shareholders to be financially responsible for reasonable and prudently incurred operating expenses. With regard to the first directive, contributions to the pension fund balancing account are directly related to the obligations resulting from retirement benefits packages over time. The Company will be fully prepared to meet this directive at the time it requests recovery from customers.

III. <u>THE 2011 RETIREMENT BENEFITS PACKAGE IS APPROPRIATE</u>

A. <u>2011 Retirement Benefits Package Costs and Risks Are Reasonable</u>.

Mr. Anderson points out on page 9 of his testimony that under the 2011 Retirement Benefits Package, the cost of the retirement benefits for new employees will be reduced from the previous approximately 9.1 percent of a new salaried employee's base pay to approximately 7.9 percent of a new salaried employee's base pay. Adjusting the prospective retirement benefits package cost to 7.9 percent of salaried employees' base pay moves Idaho Power's overall retirement benefits cost to approximately 80 percent of the representative employment market cost as a percentage of total salaried employee pay of 9.9 percent.

While Idaho Power recognizes that the costs of the current retirement benefits package are already below the industry average, the Company understands the importance of being proactive in recognition of benefit plan design trends. With this in mind, Idaho Power has further reduced the defined benefit pension plan cost, resulting in total program costs well below the energy industry figures. The Staff and ICIP fail to even acknowledge this fact in their Comments, let alone give this fact appropriate consideration in the context of whether Idaho Power's retirement benefits package – taken as a whole – is a prudent expense.

Moreover, these facts do not comport with Staff assertion on page 6 of its Comments that Mr. Anderson's instructions led the Company's 2011 Retirement Benefits Package to "disregard the directive of the Commission to address the assignment of investment risk between shareholders and employees, and to review alternatives that reduce the burden placed on customers." In fact, the Company's 2011 Retirement Benefits Package reduces the level of market risk borne by the Company and ultimately its customers. The reduction of the defined benefit plan benefit payout formula from the current 1.5 percent to 1.2 percent reduces the amount of retirement benefits provided by the Company to new employees through the defined benefit plan beginning in 2011. Over time this change will reduce the level of market risk borne by customers and will require new employees to take on additional financial responsibility in preparing for retirement.

The Comments of the Staff and ICIP focus solely on the assignment of investment risk between the customers, employees, and shareowners. What the Staff and ICIP fail to acknowledge is that the Company must consider far more than just investment risk assignment in its evaluation of its retirement benefits. To evaluate the 2011 Retirement Benefits Package under such a one-dimensional approach would be irresponsible and would not likely produce a result that would be in the best interest of customers or shareowners. While investment risk allocation was an important consideration, the Company took a comprehensive look at how changes to its entire retirement benefits package would impact other factors such as overall cost, market competitiveness of its benefits, employee satisfaction, and employee retention – as well as compliance with laws and regulations governing employee compensation. The Company's 2011 Retirement Benefits Package reduces the level of market risk ultimately borne by customers while appropriately balancing the overall costs, benefits, and risks associated with the plan.

B. Evaluation of Alternative Defined Contribution Plans.

The Staff and ICIP both suggest in their Comments that the Company did not adequately evaluate alternative defined contribution plans before selecting its final 2011 Retirement Benefits Package structure. Staff Comments p. 9 and ICIP Comments p. 8. The Company disagrees with the Staff's and ICIP's assessment of its evaluation. In fact, the Company evaluated three general thematic changes (or "Alternatives") to its retirement benefits plan that would accompany a move to alternative defined contribution plans: (1) an increase to the Company's matching formula on employee 401(k) accounts, (2) an increase to the Company's matching formula with employee seniority, so that a more generous matching formula is available as employees approach retirement, and (3) a reduced annual defined benefit pension accrual for all employees with an additional Company contribution to each employee's 401(k) account to compensate for the reduced pension accrual.

In its evaluation of the defined contribution plan alternatives, the Company was careful to consider that the maximum 401(k) vesting period allowed by federal law is three years for cliff vesting and six years for graded vesting. 26 U.S.C. § 411(a)(2)(B). After these vesting periods are fulfilled, both employer and employee contributions are fully portable by the employee should he/she leave the Company. Because vesting regulations limit the employee retention capabilities of a defined contribution plan, Alternative One was found to increase Company costs without providing additional employee retention potential. Alternative Two proved inconsistent with the purpose of a 401(k) plan, which is to incent employee savings early in their careers to take full advantage of compound returns throughout a career. Further, defined contribution formulas consistent with Alternative Two would have to be developed within the bounds of federal regulations that discourage and/or prohibit the establishment of plans that discriminate as to the availability of rights, benefits, and features available to different employees under the same plan. (*See* Title 26 C.F.R. 1.401(a)-4 – nondiscriminatory availability of benefits, rights, and features.) Plan formulas designed to give greater or lesser benefits to different plan participants may not comply with these regulations.

While the first two defined contribution alternatives had significant flaws that eliminated them from further consideration, Alternative Three prompted the Company to request Milliman to generate an analysis combining a 1.2 percent annual pension accrual factor for new and existing employees, with a 1 percent additional Company contribution to each employee's 401(k) account. Alternative Three was, however, ultimately dismissed because the resulting benefit level was no longer competitive and the cost savings were only modest.

The Staff in its Comments recommends that "further evaluation of the retirement benefits package should include the option of a new comparability, cross-tested defined contribution plan, where older employees and employees in critical operations roles may receive a larger contribution than rank and file employees." Staff Comments p. 10. Similarly, ICIP recommends that the Company consider "increasing the Company's matching contributions for employees with more years of service." ICIP Comments p. 8. The defined contribution plan alternatives recommended by the Staff and ICIP are similar to the defined contribution Alternative Two already considered by the Company. As previously discussed, the defined contribution plans recommended by the Staff and ICIP would not be as effective in meeting the Company's employee retention goals as compared to the 2011 Retirement Benefits Package. Further, the alternatives recommended by the Staff and ICIP are likely discriminatory and therefore unlawful. If a plan could be designed that passed the technical requirements of Title 26 C.F.R. 1.401(a)-4 based on age and years of service, such a formula would certainly test the spirit of Title 26 C.F.R. 1.401(a)-4. A plan tilted in favor of employees based on criteria such as "position classification" or "critical operations" would most certainly violate the terms set forth in Title 26 C.F.R. 1.401(a)-4. Establishing a secondary plan that includes only employees of a certain age range or position would also violate these regulations.

IV. <u>INVESTMENT RISK VS. REWARD</u>

A. <u>Regulatory Treatment for Defined Benefits Plan Contributions</u>.

The Staff states on page 7 of its Comments that it believes that the Commission's concerns regarding the assignment of pension plan investment risk which led to the directive in Order No. 31091 were prompted by the establishment of the regulatory balancing account for cash contributions allowed by Order No. 31003. While the balancing account established by Order No. 31003 could be viewed as reducing associated <u>regulatory</u> risk for the Company's shareowners, the Company does not agree that the balancing account changed the level of <u>investment</u> risk borne by customers. The Company believes, now and prior to the issuance of Order No. 31003, that any cost associated with a level of pension plan investment risk that is determined to be prudent and reasonable by regulators is appropriately recovered from customers.

As compared to prior regulatory accounting treatment, the balancing account established by Order No. 31003 provides for a greater level of cost tracking and could be perceived as providing a better opportunity to match costs with revenue. The balancing account is also an effective tool to mitigate the customer impact that annual volatility in cash contributions can cause by providing the Commission with the opportunity to determine an appropriate amortization period prior to authorizing rate recovery. The Company strongly believes that a change in regulatory accounting does not render the costs associated with its pension plan imprudent, nor should regulatory accounting methodology be a criterion upon which the reasonableness of the Company's defined benefit plan is measured. Further, the Company is not aware of any fundamental market changes that would suggest that market risk today is any different than it was prior to the establishment of the balancing account.

B. <u>Investment Growth Rewards Customer Risk</u>.

The Company believes that when it seeks recovery of prudently incurred defined benefit plan costs in the future, the Commission should not ignore the benefits that customers received by assuming some investment risk. In response to this belief, the Staff claims on page 8 of its Comments that "customers have not benefitted from the associated rewards of investment risk," citing a twenty-year comparison of amounts allowed for recovery in rates to actual cash contributions to the pension plan. On the contrary, the level of risk borne by customers has resulted in significant customer benefits through the return on assets contributed to the plan. These benefits were particularly evident during the years 2004 through 2010 in that no customer costs related to the defined benefit plan occurred until the spring of 2010. The growth in plan assets due to the assumption of market risk is precisely the reason that the Commission could provide no current recovery of pension costs in Order No. 29505 and subsequent rate orders while at the same time the Company has been able to provide a competitive benefit to its employees.

The Company has history going back at least to 1976 regarding the market value of, the contributions to, and the distributions from the pension plan trust fund. At the beginning of that time period, the trust had plan assets with a market value of approximately $13 million. As can be seen on Attachment No. 1, during the time period 1976 through 2009, inclusive, the Company made contributions to the plan of approximately $86 million for a total investment of less than $100 million. During that same time period, the earnings of the trust fund have permitted it to pay benefit payments and plan expenses of about $305 million while still having an ending market value of $313 million at December 31, 2009. Essentially (and expressed in nominal dollars), the Company's customers have received more than $600 million in value from approximately $100 million of plan contributions. This performance would not have been possible without the assumption of some market risk. If the same dollars as were contributed to the trust fund had been invested at a risk free rate, the plan value would be markedly less. Had the Company sought to eliminate investment risk while at the same time providing the same level of benefits to employees in order to remain competitive, the cost to customers would have been significantly higher.

C. History of Thoughtful Risk and Cost Management.

The Company has always taken a thoughtful and responsible approach in managing the risks and costs associated with its retirement benefits. As can be seen on Attachment No. 2, the Company has actively looked for opportunities to modify its benefits to appropriate and reasonable levels for many years.

Some historical perspective is also important when reviewing the emphasis that Idaho Power has placed on reviewing risks and assessing alternative forms of retirement benefits. For example, in 1994 the final cost of living adjustment ("COLA") was granted to certain retirees. At the same time, the Company informed retirees and current employees that future COLA increases would no longer be granted. Employees were encouraged to become responsible for the impacts of inflationary pressures by taking advantage of a defined contribution option that had been made available. By ceasing COLA increases in 1994, the Company made the decision to significantly lower its (and customers') exposure to the risks of inflationary pressures. This shift of inflationary risk from the pension plan to a defined contribution option occurred when defined benefit plans were still generally well funded, and long before the Commission directed the Company to review its defined benefit plan. This shift resulted in a balanced approach that encouraged employees to take an active role in sharing the costs of their retirement.

The COLA feature still exists as an obligation in many defined benefit plans today, particularly in government funded pension plans, including the Public Employee Retirement System of Idaho. The Company was proactive in allocating risk in 1994 by removing this costly feature.

Another example of where Idaho Power proactively managed retirement benefit risks and costs was in the area of retiree medical benefits. Retiree medical benefits are commonly offered by many utilities today; however, costs of such benefits have been rising rapidly. As described on pages 11-12 of Mr. Darrel Anderson's testimony, the Company decided in 1993 to cap future retiree medical expense liability at 2003 cost levels for existing employees and that no Company-paid retiree medical benefits would be available for employees hired after December 31, 1998. By making this change, Idaho Power led the industry in removing this significant risk from customers and placing it instead on future retirees. The Consumer Price Index for All Urban Consumers: Medical Care indicates that medical expenses have increased 34 percent beyond the capped liability established by Idaho Power. Employees have been responsible for plan premiums above the fixed Company contribution, which has required some form of savings by employees subject to market risk to address medical costs that have become higher due to inflation.

V. EMPLOYEE TRAINING AND RETENTION

As explained in Section II, Idaho Power evaluates its retirement benefits package with a primary emphasis on maintaining package costs that are comparable to peer group businesses to ensure they are both competitive and reasonable. Once a reasonable level of retirement benefit package costs is determined, it is appropriate for Idaho Power to tailor its package to address other concerns such as employee retention.

The Company expects a significant loss of skilled works over the next decade; 56 percent of all current employees will be eligible for retirement by 2020. Further, 74 percent of current leaders will be eligible for retirement by 2020 and 67 percent of employees that currently hold positions classified as critical operations roles will be eligible for retirement by 2020.

A similar workforce pattern exists for the utility industry as a whole. As reported in a 2005 survey, "Work Force Planning for Public Power Utilities" conducted by The American Public Power Association, the national service organization representing the nation's more than 2,000 community- and state-owned public power utilities, "the loss of critical knowledge and the inability to find replacements with utility specific skills are the two biggest challenges that public power utilities face as a result of the aging work force." One consequence of this dynamic is that utilities are wooing skilled employees away from other utilities with offers of better pay and benefits. For this reason, it is imperative that the Company have the ability to attract and retain skilled workers that will be able to fill these critical roles in the coming years.

At this time, Idaho Power's employee retention is approximately equivalent to that of industry peers. This is in no small part due to the fact that Idaho Power has a competitive retirement benefits package. In Towers Watson's "Retirement Attitudes: Attraction and Retention" survey of more than 3,000 employees conducted in May and June of 2010 (included as Attachment No. 3), 60 percent of new employees (those with less than two years of service) of employers with defined benefit plans cited the retirement program as an important reason they chose to work for their current employer, a sharp increase from just 27 percent in 2009. Four out of five workers (80 percent) at organizations with defined benefit plans said they plan to continue working for their employer until they retire, compared with only 62 percent at companies with defined contribution plans. Because defined benefit plans reward and incent longevity, which in turn facilitates the development and retention of knowledge and expertise, the Company continues to place additional weight on the defined benefit plan. As a result, the Company maintains a skilled workforce with less time and expense incurred for training and developing new employees.

This fact is not insignificant. Idaho Power necessarily spends a tremendous amount of time, resources, and materials training its workforce. Journey line workers comprise the largest job classification at Idaho Power and illustrate why maintaining a skilled workforce is important to the Company and its customers. The Company currently has 107 and 55 employees in the Journey Line Worker and Trouble Response Line Worker categories, respectively. Following graduation from an accredited technical program, an employee enters an apprenticeship program that combines formal classroom, field skills, and on-the-job ("OJT") training. This apprenticeship program, training, and employment records are certified through the Bureau of Apprenticeship and Training, who regularly audits Idaho Power's program and processes. Costs to Idaho Power include both training and administration of the apprenticeship programs.

Typically, training of a Lineman from initial hire to lowest level Journeyman takes 4.5 years for most well-diversified apprenticeship programs of medium-large utilities, who require Journeymen to respond to system-wide construction, redevelopment, maintenance, and emergency response. Idaho Power also requires the ability to build and sustain transmission systems. An additional 18 months will take the "new" Journeyman to a level of training and experience which will allow him/her to operate independently for emergency/routine troubleshooting response, (i.e., can respond to "call-out" on his/her own to determine the source of outages, define materials and resources needed to respond, or conduct protective operations until help arrives.) Thus, approximately 6 years is required to train a new hire to the point of proficient independent Journeyman Lineman.

Because an Apprentice Lineman can be hired at varying levels of prior experience, a three-year average picture is provided below (2008-2010):

New Apprentice

- Average number of Apprentice Linemen in training at all times – 24
- Average number of years to attain lowest level Journeyman – 3
- Minimum number of training hours per year – 144
- Required documented paid on-the-job training hours per year – 2,080
- Annual cost of 1 Apprentice training (does not include annual costs of training yard/facilities) – $15,300 + OJT wage without benefits $56,160 = $71,460

New Journeymen

- Average annual number "New Journeymen" in training – 15
- Average time to attain Trouble Response level – 18 months
- Minimum number of training hours per year – 60
- Required documented OJT in first 18 months – 240
- Average Cost per "New Journeyman" per year (does not include annual costs of training yard/facilities) – $8,660 + OJT/classroom wage without benefits $9,720 = $18,380

The average cost to train a Line Worker Apprentice (Apprentice Lineman) to a Journeyman level is $214,000. This average training cost increases to $242,000 to attain the level of a Trouble Response Line Worker (Troubleman).

In addition to the training savings resulting from reduced turnover, there are operational cost savings attributable to having fully proficient journey-level employees. For example, these benefits include the ability to have these skilled workers respond to an outage or potential outage individually, resulting in faster restoration of customer power, as is the case with the Company's trouble-worker lines positions. Journey positions also are able to perform much of the OJT training and assessment of apprentices, saving dedicated training resources.

Idaho Power also achieves operational cost savings by retaining employees that have received the Company's extensive safety training. The Company places great value on safety, and consistently ranks in the top 30 percent of all U.S. utilities in safety performance. This enhanced focus on safety in recent years has resulted in fewer worker compensation claims, fewer lost-time incidents, and reduced medical expenses incurred from OJT injuries.

VI. REVIEW OF THIRD-PARTY DATA

As indicated on pages 4 and 5 of the direct testimony of Ms. Gerschultz, Idaho Power contracts with Towers Watson, a third-party consultant, to provide a comparison of the value of Idaho Power's retirement benefits to the corresponding values associated with retirement benefits for a peer group of companies. Towers Watson is a nationally recognized professional services firm specializing in employee compensation and benefits, human capital, and risk and financial management. Towers Watson collects employment, compensation, and benefits data from hundreds of companies on the condition that Towers Watson will not allow this sensitive commercial data to be released in a manner that identifies the individual employer. In exchange, a disclosing company receives aggregate benchmarking data for its own use.

Idaho Power does not have access to Towers Watson's retirement benefit database of 700 companies, including 92 energy industry companies. Assuming Idaho Power could somehow convince these companies to disclose the specifics of their benefit plans and related costs, it is not cost-effective for Idaho Power to develop this scale of detailed benchmarking information on its own. Likewise, it is not advisable for the Company to collect this data from an anti-trust perspective. Instead, Idaho Power must rely on a consultant's proprietary analysis that values each retirement benefit program using a generic workforce to ensure consistency in valuation methodology and avoid variations due to demographic differences.

As part of the discovery process, Idaho Power provided detailed Company data to the Staff and ICIP on its benefit plans, costs, accounting and workforce, as well as the aggregate data it received from Towers Watson. Given that the Company did not possess Towers Watson's data or models related to specific companies other than its own, Idaho Power admittedly possessed limited benchmarking data for Staff and the ICIP to verify firsthand. Although the Towers Watson data and valuation models are proprietary, Towers Watson shared all its assumptions and this information was provided to the Staff and ICIP. Furthermore, as stated in the Company's Response to Staff's Production Request No. 6, the Company offered to make available upon request a Towers Watson benefit consultant to explain the study and methodology.

VII. <u>REQUEST FOR ACCEPTANCE</u>

Much like the Company does when it files its Integrated Resource Plans, Idaho Power requested "acceptance" of its 2011 Retirement Benefits Package. The Company defines the term "accept" in this case to mean a formal acknowledgment by the Commission that Idaho Power has fulfilled the Commission's directive in Order No. 31091, which states that prior to a request for additional recovery of pension plan contributions, the Company is to provide "evidence" that it "has carefully reviewed alternatives to reduce the burden placed on customers." Further, the Company believes that "acceptance" of the Company's 2011 Retirement Benefits Package indicates that the Commission views the package structure to be reasonable and in the customers' best interests.

The Company believes that should the Commission choose not to accept the Company's 2011 Retirement Benefits Package, the Company might be forced to modify its retirement benefits package in a manner that the Company does not believe would be in the best interests of the Company, its employees, or its customers. The Company also believes that it is not the desire of the Commission to replace the Company's operational decision-making process, including decisions regarding retirement benefits, but rather to monitor the Company's decision-making process to ensure that the costs associated with those decisions are prudently incurred and in the best interests of customers. This is consistent with the Idaho Supreme Court's interpretation of the Commission's role in such matters:

> The determination of what business expenses are to be incurred by a public utility in its operations is ordinarily a matter left within the discretion of the utility's management. An inquiry into such expenses by the Commission will normally only be extended into whether such expenditures may be classified as "operating expenses" and thus passed on to the utility ratepayers. See, Annot., 83 A.L.R.3d 963 (1978).

Washington Water Power Co. v. Kootenai Environmental Alliance, 99 Idaho 875, 591 P.2d 122 (1979).

With this in mind, the Company has filed within its request for "acceptance" of the 2011 Retirement Benefits Package a demonstration that it has carefully reviewed its current retirement benefits package structure against other alternatives and, based on that review, has acted reasonably and prudently in developing the 2011 Retirement Benefits Package. By issuing the requested order, the Commission would be indicating that it views the Company's 2011 Retirement Benefits Package structure to be reasonable and appropriate. The issuance of the requested order would suggest that costs prudently incurred and resulting from the 2011 Retirement Benefits Package would be recoverable when the Company requests recovery in the future. The Commission would still have the ability to disallow expenditures if such expenditures were not made in conformance with the 2011 Retirement Benefits Package.

VIII. CONCLUSION

The Commission has historically exercised its authority to determine the appropriate level of operational expenses to be recovered by a utility without "micromanaging" or "second-guessing" utility management decisions. *See* Order Nos.

25198 and 30624. As evidenced by Idaho Power's pleadings and testimony, the Company has set its 2011 Retirement Benefits Package at a competitive cost level that is less than the median offerings of similarly situated utility peers. Idaho Power has carefully considered not only the allocation of costs and investment risks between customers and employees but also the operational imperative to maintain safe, reliable service with an engaged, qualified, experienced, and flexible workforce. Therefore, Idaho Power respectfully requests that the Commission issue its Order accepting the Company's 2011 Retirement Benefits Package on or before February 28, 2011. With acceptance of the plan, the Company would anticipate that recovery of plan costs will reasonably follow in a separate proceeding in accordance with Commission Order Nos. 30333, 31003, and 31091.

DATED at Boise, Idaho, this 28th day of December 2010.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 28th day of December 2010 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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Lisa D. Nordstrom

Lisa D. Nordstrom

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-10-25

IDAHO POWER COMPANY

ATTACHMENT NO. 1

Idaho Power Company
Summary of Changes in Plan Assets
1975 - 2009

Year	PLAN ASSETS AT MARKET VALUE (At year end)	CONTRIBUTIONS	BENEFIT PAYMENTS & PLAN EXPENSES
1975	13,238,862		
1976	16,782,164	2,326,793	1,041,202
1977	16,913,364	1,841,572	1,352,791
1978	18,025,388	2,231,718	1,562,862
1979	19,720,300	2,474,400	1,871,503
1980	25,992,210	5,408,961	2,223,268
1981	29,908,584	5,662,078	2,487,181
1982	43,431,758	6,431,234	2,664,275
1983	52,387,613	6,677,326	2,892,413
1984	64,171,514	9,749,285	3,209,375
1985	80,960,036	6,329,467	4,246,587
1986	93,848,012	4,271,664	6,852,790
1987	91,232,481	0	7,154,780
1988	99,756,811	5,500,000	7,293,484
1989	117,136,812	0	7,219,570
1990	117,157,906	2,705,762	7,340,458
1991	142,139,038	5,142,999	7,658,462
1992	149,982,793	5,000,000	8,153,424
1993	169,919,797	2,156,404	8,384,433
1994	166,172,326	5,664,772	8,857,314
1995	204,876,814	5,923,747	9,414,380
1996	230,478,673	0	10,434,117
1997	258,283,872	0	11,336,802
1998	291,171,303	0	11,773,758
1999	341,417,019	0	16,464,289
2000	340,677,268	0	14,629,023
2001	326,266,526	0	14,505,357
2002	282,420,076	0	13,277,134
2003	335,483,495	0	13,347,916
2004	356,215,435	0	13,653,230
2005	369,662,579	0	13,928,464
2006	400,316,441	0	14,437,310
2007	409,577,546	0	15,409,415
2008	291,077,937	0	19,436,969
2009	313,149,743	0	20,577,624
		85,498,182	305,091,960

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-10-25

IDAHO POWER COMPANY

ATTACHMENT NO. 2

Idaho Power Company
Changes made to Retirement Package since inception:

Definitions:

Comp = Compensation
FAP = Final Average Pay (highest consecutive 60 months out of last 120 months, unless noted otherwise)
Max = Maximum
MOS = Months of Service
YOS = Years of Service

Date	Defined Benefit Plan	Post-Retirement Medical Plan	Defined Contribution Plan
January 1, 1943	**Pension Plan implemented.**		
August 1, 1963	**Benefit** is as follows: 1% x YOS; FAP prior to 1/1/63 = Average of previous 60 months (or less) FAP after 1/1/63 = Actual compensation plus 1% of Comp >$4800 x YOS Maximum YOS = 33 Max benefit on >$4800 = 37.5% Max benefit is 40% of highest consecutive 60 MOS (including Social Security).	Medical coverage continued after retirement.	

Date	Defined Benefit Plan	Post-Retirement Medical Plan	Defined Contribution Plan
July 1, 1974			**401(k) Plan adopted.** **Eligibility** after one year of service. 50% **Matching**. Maximum employee contributions allowed as follows: Less than 5 years: 1% to 3% 5 up to 15 years: 2% to 4% 15 up to 25 years: 2% to 5% 25 years and up: 2% to 6% 100% **vested** in Match after five years of participation.
January 1, 1976	For service prior to 1/1/1963, **Benefit** is: 1% x YOS; plus 1% of Comp >$4800 x YOS Maximum YOS = 33 Max benefit on >$4800 = 37.5% Max benefit is 40% of highest consecutive 60 MOS Service on or after 1/1/1963, **Benefit** is: 1% x YOS; plus 1% of Comp >$4800 x YOS Max benefit increased to 50% of highest consecutive 60 MOS Plan requires 10 YOS to be **vested** (ERISA mandate).		

Date	Defined Benefit Plan	Post-Retirement Medical Plan	Defined Contribution Plan
May 17, 1977	For service prior to 1/1/1976, **Benefit** is: 1% x YOS x FAP*; plus 0.75% of Comp >$7200 x YOS *FAP prior to 1/1/76 = Average of previous 72 months (or less) Service on or after 1/1/1976, **Benefit** is: 1% x YOS; plus 1% of Comp >$7200 x YOS		
July 14, 1977			**Match** changed to 50% on first 6% regardless of years of service.
July 10, 1980	**Benefit** changed to: 1.3% x FAP x YOS (Max 30 years) plus 0.9% x FAP x YOS in excess of 30 Maximum benefit based on a percentage of FAP was removed.		
July 1, 1982			**Vesting** of Match changed to 100% after three years of participation.
January 29, 1983			**Match** increased to 60% on first 6% contributed.
January 1, 1985	**Benefit** changed to: 1.5% x FAP x YOS		

Date	Defined Benefit Plan	Post-Retirement Medical Plan	Defined Contribution Plan
January 1, 1989	Plan changed **vesting** to 5 YOS.		
July 1, 1992			**Match** changed to: 100% on first 2% 50% on next 4%
1992		Company announces contribution toward Retiree medical premium will be capped in 10 years. Announcement allows time for employees to save for the post-retirement additional expense.	
January 1, 1993		Implementation of medical premium at Age 65 (Medicare eligible). Retirees continued at $0.00 medical premium if retiree had retired prior to 12/31/1992 and both retiree and spouse had reached Age 65 by 12/31/1992. If retiree retired by 12/31/1992, but either retiree or spouse had not reached Age 65 by 12/31/1992, a cost sharing of 90/10 premium was introduced.	

Date	Defined Benefit Plan	Post-Retirement Medical Plan	Defined Contribution Plan
January 1, 1999		New employees no longer eligible for Company subsidy toward retiree medical plan.	
October 1, 2000			**Eligibility** to enroll in plan changed to immediately after hire. **Match** was 100% immediately vested, but not available until after one year of service.
January 1, 2003		Company contribution toward Retiree medical premium capped. Any increases in medical costs are borne by the retiree through increased premiums. Employees retiring with 30 YOS or more will get full Company subsidy toward medical premium. Employees retiring with less than 30 YOS receive a pro-rated subsidy toward the medical premium.	
April 1, 2006			**Match** changed to immediate after participant enrolled. **Vesting** of Match changed to 100% after one year of service.

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-10-25

IDAHO POWER COMPANY

ATTACHMENT NO. 3

TOWERS WATSON

Retirement Attitudes

Part III: Attraction and Retention

In Parts I and II of our series on employee retirement attitudes, we discussed employees' dwindling confidence in their ability to retire and their propensity to avoid risk in favor of guaranteed benefits in retirement. Given the growing importance employees place on retirement security, it comes as little surprise that they are beginning to view competitive retirement and health plans as a significant differentiator when making decisions about where to work and how long to stay. In an environment in which talented employees are difficult to lure from stable jobs, the right benefit plans could give employers the edge they need.

About the Survey

The Towers Watson Retirement Attitudes survey was conducted in May and June 2010 and includes responses from 9,080 full-time U.S. employees at nongovernment organizations. The primary results reported in this brief report reflect a subset of questions about retirement and health care programs completed by 3,099 respondents.

Key Findings

The survey found:

- One-fourth of employees cite their company's retirement program as an important factor in their decision to work for their current employer; 41% cite it as an important factor in their decision to stay with their employer.
- One-third of employees at companies that sponsor a defined benefit (DB) plan cite the retirement program as an important reason they decided to work for their current employer, compared to only one-fifth (21%) of those at organizations that sponsor a defined contribution (DC) plan.
- 60% of recent hires at companies that sponsor a DB plan say that their company's retirement program is an important reason they chose to work for their current employer (up from 27% in 2009); 72% say it is an important reason they will stay with their current employer (up from 51% in 2009).

Retirement and health care programs are an increasingly important reason why employees stay with their current employer.

Sixty-seven percent of employees would like to work for their current employer until retirement, up from 56% in February 2009 *(Figure 1)*. On the heels of the economic recession, and the 14th consecutive month of unemployment rates above 9.5%, employees are still wary about the job market.

Figure 1. Importance of retirement and health care plans for attraction and retention

	February 2009		June 2010	
	Agree	Strongly agree	Agree	Strongly agree
My company's retirement program was an important reason I decided to work for my current employer	17%	7%	18%	7%
My company's retirement program is an important reason I will stay with my current employer	24%	14%	26%	15%
My company's health care program was an important reason I decided to work for my current employer	—	—	21%	9%
My company's health care program is an important reason I will stay with my current employer	—	—	32%	16%
I would like to continue working for my current employer until I retire	25%	31%	28%	39%
I will probably leave my employer within the next two years	12%	8%	11%	12%

Employees today are even less willing to leave their current employer than they were 15 months ago.

In short, employees prefer the reliability of their jobs and are reluctant to take a chance on another opportunity. These findings are consistent with the results of the Towers Watson Global Talent Management and Rewards Study (see sidebar, "Global Talent Management and Rewards Study").

While this current employee mindset makes retention easier for employers, it creates some challenges when it comes to attracting key talent. That's why it's important for employers to recognize the value employees currently place on retirement and health care programs, particularly in the today's environment.

Employees with a DB plan are most likely to continue to work with their current employer.
Not surprisingly, DB plans are much more likely to be a strong factor in both attracting and retaining employees than DC plans. One-third of employees in organizations that sponsor a DB plan say these plans are an important reason they decided to join their current employer, compared to only one-fifth (21%) of employees at organizations that sponsor a DC plan. Similarly, almost three in five (59%) employees at organizations that sponsor a DB plan cite their retirement program as an important reason they decided to stay with their current employer, compared to only 32% of those that sponsor a DC plan.

The vast majority (80%) of employees at organizations that sponsor a DB plan also plan to continue working for their current employer until they retire, compared with only 62% of employees at organizations that sponsor a DC plan *(Figure 2).*

These findings are particularly telling in light of our previous survey results, which showed that employees currently enrolled in DB plans are more likely to be satisfied with their financial situation today (40% compared with 27% of those with DC plans) and are significantly more confident about their retirement savings (see *Retirement Attitudes Part I: Confidence in Retirement,* October 2010).

Global Total Management and Rewards Study

The economic crisis forced companies around the globe to take cost management or cost-cutting measures, such as hiring and salary freezes, layoffs and bonus reductions. The Towers Watson Global Talent Management and Rewards Survey, which included 1,176 companies globally, including 314 from the United States, found that U.S. employers took the most aggressive measures, with more than 60% implementing at least four cost-cutting actions. These steps exacted a toll on workers. Six in 10 (61%) employers believe their cost-cutting actions increased employees' workloads, while 53% said they adversely impacted employees' ability to manage work-related stress. One-half (50%) said these measures had a negative impact on employee engagement and workers' ability to balance their work and personal lives.

According to the survey findings, more than one-half (52%) of U.S. companies reported problems attracting critical-skill employees, and 45% of U.S. companies reported similar difficulty attracting top-performing, talented employees. On the other hand, companies in most regions, including the U.S., reported less difficulty retaining employees than attracting them — only 11% of U.S. firms reported retention issues.

The Global Talent Management and Rewards Study survey was conducted in May and June 2010. Participants included human resource professionals with responsibilities in compensation and benefits or talent management. For more information, please visit: www.towerswatson.com/talent-management-rewards

Figure 2. Importance of retirement and health care plans for attraction and retention

	DB plan		DC only	
	February 2009	June 2010	February 2009	June 2010
My company's retirement program was an important reason I decided to work for my current employer	31%	33%	21%	21%
My company's retirement program is an important reason I will stay with my current employer	52%	59%	33%	32%
My company's health care program was an important reason I decided to work for my current employer	—	36%	—	28%
My company's health care program is an important reason I will stay with my current employer	—	55%	—	45%
I would like to continue working for my current employer until I retire	67%	80%	53%	62%
I will probably leave my employer within the next two years	16%	20%	22%	24%

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

For employees with a DB plan, retirement and health care plans are comparably important as factors in their decision to work for their current employer.

Greater retirement security is increasingly attractive to the youngest employees.

Notably, it is not just older employees who are most attracted to their company's retirement program. As shown in *Figure 3,* 43% of employees who are less than 40 years old (at organizations that sponsor DB plans) say their company's retirement program was an important reason for deciding to join their current employer, versus just 28% in 2009 — a 15-percentage-point increase. At organizations that sponsor a DC plan, the percentage of younger employees citing retirement programs as an attraction factor dropped by two points since 2009.

Retirement programs also serve as a key retention tool — 63% of employees who are less than 40 years old at organizations that sponsor a DB plan cite their company's retirement program as a reason for staying with their current employer, versus 37% in 2009. However, the percentage of these employees at organizations that sponsor a DC plan that view their retirement program in this way dropped by three percentage points since 2009.

It is somewhat surprising that employees in their 40s in companies that sponsor a DB plan show declines in considering their company's retirement plan as a reason to join or stay with their current employer. This could reflect the fact that mid-career workers who were hard hit by the recent economic downturn are burdened by higher levels of debt and financial responsibility, and least satisfied with their current financial situation. On another note, employees in their 40s say their employer's retirement program was a top reason for joining the organization, as shown in *Figure 6,* page 4.

Younger employees at organizations that sponsor a DB plan are also much more interested in staying with an employer until retirement — an increase of 26 percentage points since 2009 — while those in their 40s and 50s have not seen as significant a change. This reinforces our earlier findings that employees, particularly younger employees with a DB plan, are much more risk-averse about many aspects of their finances and their careers, and are willing to pay more for greater certainty in their retirement and health care benefits.

Figure 3. Importance of retirement plan for attraction and retention

		DB Plan			DC only		
	Age	February 2009	June 2010	Percentage point change	February 2009	June 2010	Percentage point change
My company's retirement program was an important reason I decided to work for my current employer	Less than 40	28%	43%	15%	19%	17%	-2%
	Age 40 – 49	38%	24%	-14%	21%	24%	3%
	Age 50+	30%	35%	5%	27%	20%	-7%
My company's retirement program is an important reason I will stay with my current employer	Less than 40	37%	63%	26%	29%	26%	-3%
	Age 40 – 49	61%	51%	-10%	32%	37%	5%
	Age 50+	61%	61%	0%	37%	32%	-5%
I would like to continue working for my current employer until I retire	Less than 40	44%	70%	26%	37%	39%	2%
	Age 40 – 49	74%	76%	2%	58%	66%	8%
	Age 50+	81%	87%	6%	80%	76%	-4%

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

Figure 4. Importance of retirement plan for attraction and retention

	Tenure	DB Plan February 2009	DB Plan June 2010	DB Plan Percentage point change	DC only February 2009	DC only June 2010	DC only Percentage point change
My company's retirement program was an important reason I decided to work for my current employer	<2 years	27%	60%	33%	16%	20%	4%
	2 – 5 years	18%	30%	12%	19%	19%	0%
	5 – 10 years	38%	38%	0%	23%	22%	-1%
	10+ years	33%	31%	-2%	24%	21%	-3%
My company's retirement program is an important reason I will stay with my current employer	<2 years	51%	72%	21%	26%	26%	0%
	2 – 5 years	34%	51%	17%	28%	24%	-4%
	5 – 10 years	45%	53%	8%	31%	32%	1%
	10+ years	60%	61%	1%	41%	36%	-5%
I would like to continue working for my current employer until I retire	<2 years	66%	83%	17%	45%	45%	0%
	2 – 5 years	47%	59%	12%	34%	49%	15%
	5 – 10 years	56%	74%	18%	52%	63%	11%
	10+ years	77%	85%	8%	70%	70%	0%

Note: Percentages indicate responses of "somewhat agree" or "strongly agree."

The percentage of employees enrolled in DB plans that factored in the retirement program in their decision to work for their current employer jumped by 33 percentage points, compared to those enrolled in DC plans, which jumped by only four percentage points.

Retirement programs are viewed as particularly important by new hires.

Strikingly, an employer's DB plan also factored into recent hires' decisions to join their company. Sixty percent of new hires at companies that sponsor DB plans say their company's retirement program was an important reason they chose to work for their current employer (up from 27% in 2009). Almost three-quarters (72%) of new hires cite their company's retirement program as an important reason to stay with their current employer, up from 51% in 2009 *(Figure 4)*.

Base pay and vacation are more important to younger employees, while health and retirement benefits are more important to mid-career employees.

In general, although health and retirement benefits are high on the list regardless of company plan, younger employees' decisions to join an organization are more influenced by base pay and vacation time. However, health care and retirement benefits are more important to young employees at organizations that sponsor a DB plan (*Figures 5, 6* and *7*).

Predictably, benefits are far more important in older workers' decisions to join an organization. For this group, it appears that retirement benefits are viewed as slightly less important in organizations that sponsor a DC plan than in organizations that sponsor a DB plan. Health care benefits appear to be equally important regardless of plan type.

Figure 5. Most important factors that influence employees' decisions to join an organization

Less than 40	Under 40 with DB plan	Under 40 with DC only
1. Base pay	1. Base pay	1. Base pay
2. Vacation/PTO	2. Vacation/PTO	2. Career advancement
3. Career advancement	3. Flexible schedule	3. Vacation/PTO
4. Flexible schedule	4. Career advancement	4. Flexible schedule
5. Work location	5. Health care benefits	5. Work location
6. Health care benefits	6. Reputation	6. Health care benefits
7. Reputation	7. Work location	7. Reputation
8. Other benefits	8. Learn new skills	8. Other benefits
9. Challenging work	9. Other benefits	9. Challenging work
10. Workload	10. Retirement benefits	10. Workload

Note: Based on top five most important factors with 27 options

Figure 6. Most important factors that influence employees' decisions to join an organization

Age 40 – 49	Age 40 – 49 with DB plan	Age 40 – 49 with DC only
1. Base pay	1. Base pay	1. Base pay
2. Vacation/PTO	2. Health care benefits	2. Vacation/PTO
3. Flexible schedule	3. Vacation/PTO	3. Flexible schedule
4. Health care benefits	4. Flexible schedule	4. Health care benefits
5. Work location	5. Retirement benefits	5. Work location
6. Career advancement	6. Work location	6. Career advancement
7. Retirement benefits	7. Career advancement	7. Caliber of coworkers
8. Caliber of coworkers	8. Challenging work	8. Retirement benefits
9. Financial health	9. Caliber of coworkers	9. Financial health
10. Reputation	10. Other benefits	10. Workload

Note: Based on top five most important factors with 27 options

Figure 7. Most important factors that influence employees' decisions to join an organization

Age 50+	Age 50+ with DB plan	Age 50+ with DC only
1. Base pay	1. Base pay	1. Base pay
2. Health care benefits	2. Health care benefits	2. Health care benefits
3. Vacation/PTO	3. Retirement benefits	3. Vacation/PTO
4. Retirement benefits	4. Vacation/PTO	4. Work location
5. Work location	5. Work location	5. Retirement benefits
6. Flexible schedule	6. Flexible schedule	6. Flexible schedule
7. Challenging work	7. Challenging work	7. Financial health
8. Financial health	8. Financial health	8. Workload
9. Workload	9. Other benefits	9. Reputation
10. Caliber of coworkers	10. Reputation	10. Challenging work

Note: Based on top five most important factors with 27 options

Conclusion

Amid continuing uncertainty about an economic recovery, employees, including top talent, are reluctant to leave secure jobs. On the one hand, this is good news for employers when it comes to retaining critical-skill employees. But as businesses grow and evolve, they will need workforces that are flexible enough to change with them.

In this environment, competitive benefit programs can be a strong differentiator. As our survey findings suggest, employees place a higher value on retirement benefits at companies that sponsor a DB plan than employees at companies that sponsor a DC plan. This is not surprising, given that DB plans provide workers with a greater level of security than DC plans. This preference is consistent across all employee groups — including new and younger employees. For the latter group in particular, which is typically more open to risk taking than their older colleagues, this trend marks a significant departure from their usual attitudes. As our previous survey findings have shown, over half of younger employees saw significant declines in their retirement savings during the economic crisis. This experience undoubtedly plays a large role in their current preferences.

In a sluggish economy, a talented workforce may be the competitive edge organizations need to boost performance and drive results. That's why companies looking to attract top talent would be wise to take a second look at all of their benefit programs.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

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