McDonald's Case Study

McDonald's is a top global foodservice retailer with more than 32,000 restaurants in more than 100 markets. In the U.S., approximately 85% of its nearly 14,000 restaurants are franchised. The franchise owners are free to set their own benefits and pay packages. The focus of this case will reflect benefits available to the 50,000 people who work in the Company owned restaurants in the U.S. and the staff people who work in our offices throughout the country.

McDonald's History – Employee Savings

McDonald's has a long history of offering benefits to our employees that assist them in saving for retirement. In 1965, we began a profit sharing plan, and introduced 401(k) in 1984.

Providing our employees with the best retirement and benefit programs is important to McDonald's, so better understanding their value and participation rates is critical. That's why McDonald's has tracked investment patterns in the U.S. for the last seven years. This study was broken down by ethnicity to better understand the different patterns by group.

This data played a key role in helping McDonald's drive a three-pronged strategy that positively impacted employee investment decisions. And with more than $2 billion in assets invested in its 401(k), the enhancements have led to increased participation in company savings programs among all employee ethnic groups.

Each of the three strategic areas will be covered in detail including:

- Auto enrollment
- Company match
- Investment Options

McDonald's 401(k) Revamp

In mid-2004, McDonald's took a deeper look at the retirement plan and how it was working. There were concerns about the number of employees participating and the amount saved, particularly with restaurant employees.

McDonald's began to look at making changes to our 401(k) and wanted to accomplish 3 things: increase participation, increase savings and improve investment diversification. Part of this change included providing the same plan for restaurant employees all the way up to the highest executive levels.

Auto Enrollment

To encourage greater levels of participation among employees, the company instituted automatic enrollment when we added the 401(k) feature in 1984 until 2002. All levels of employees were automatically enrolled at 3% – from executive to crew members in the restaurants.

In 2002, we redesigned the plan to put in a safe harbor match. At that time, we eliminated auto-enrollment for everyone and participation started dropping for restaurant employees. So we reevaluated our plan design in 2004 and added auto-enrollment back in the plan in 2005.
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Through automatic enrollment, McDonald's implemented a default 1% contribution to the restaurant manager's 401(k) unless they chose to opt out or select a higher contribution rate.

A one-time salary increase of 1% was also given to all current salaried restaurant managers to offset the impact to their take-home pay and demonstrate the company's commitment to helping employees save. Participation jumped immediately and remains high at 98.6% five years later.

Company Match

In addition, the 401(k) match was front-loaded to ensure that employees, particularly those at the restaurant level, would benefit from the investment they made in their future. This enhancement gave employees $3 for each $1 they contributed on the first 1% of pay and $1 for each $1 on the next 4% employees contributed for a total guaranteed match of 7% on the first 5% employees saved.

At the same time, McDonald's instituted a discretionary match of up to 4% for all employees participating in the 401(k). When combined with the 401(k) match, the discretionary match provided a compelling investment opportunity for employees. For 2009, an employee contributing 1% as a result of the automatic enrollment received a total of 6% from the company when the 401(k) match was added to the discretionary match. An employee contributing 5% received a total of 10% from the company.

Investment Options

The selection of investment options for employees was also expanded. Today, there are 12 investment funds covering a wide spectrum of investments, including an aggressive stock fund, a small company index fund, a real estate fund and a global bond fund.

Recognizing the risk of investing in a single stock, McDonald's eliminated the requirement for participants to hold McDonald's stock as soon as it will allowable under government rules. Effective January 1, 2007, participants can put no more than 20% of their future contributions into McDonald's stock. The discretionary match is subject to the 20% limit.

McDonald's utilizes a program which selects and monitors the appropriate investments for employees based on a number of factors. While all participants are welcome to join this program, McDonald's restaurant managers who automatically enrolled were defaulted to a managed account. As with the automatic 401(k) enrollment, this enabled McDonald's to play an active role in helping employees take the first step in managing their investments. Today, there is $152 million in the managed account, which is just 6% of Plan assets but 22% of the population. McDonald's also added a no-cost online financial planning tool to make investment resources more accessible to those who might not be able to afford the services of a financial planner.

Communications

To ensure employees understood their investment options and how to maximize the benefits available to them, branded employee newsletters and seminars were added with increased frequency. Outreach efforts also began with the various diversity employee groups at McDonald's (e.g. Asian Employee Network, McDonald's African American Council, Hispanic Employee Network)

All plan communications are issued in English and Spanish and our record keeper's website also offers participants their election choices in English or Spanish.

The record keeper's customer service representatives speak both English and Spanish with the added capability of utilizing a translation service for any other needed language.

Results

Results from the plan design changes, new investment options and communications enhancements have been extremely positive. From 2004 to 2009, the enrollment percentage doubled. Although the benefits of these changes are most dramatic at the restaurant level where McDonald's has its most diverse employee population, they have also strengthened staff employee participation.

Diversity Data Gathered and Sorted

For the purpose of this presentation, we obtained information about our participants with respect to their participation in the plan, average contribution rate, average account balances, loans outstanding and percentage of the account invested in equities.
The data was sorted into four major ethnic groups:

Asians
African - Americans
Hispanics
Caucasians

The data was further subdivided into four pay groups:

Restaurant Hourly
Restaurant Management
Staff
Executives

The data was also sorted by gender. We found that males and females were very similar in all aspects that were studied. As a result, we will not comment any further.

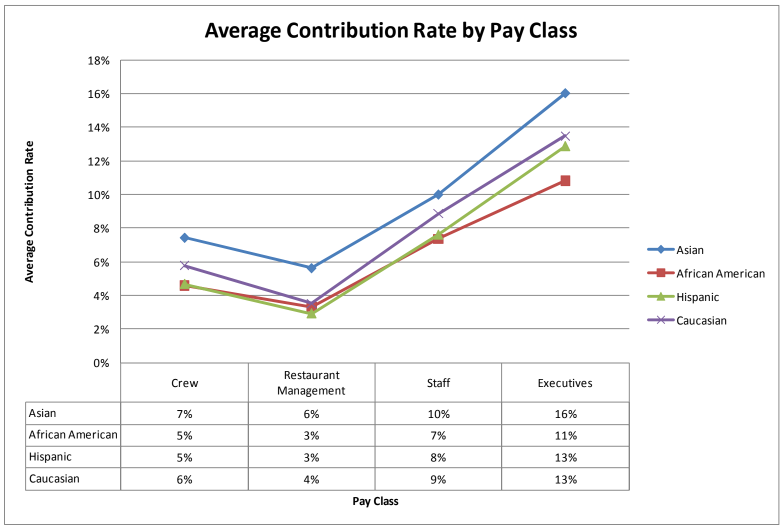
Before discussing the results, it should be pointed out that this data was not further stratified by participant age, tenure with the Company or salary. The analysis is based on the assumption that the salaries in each of the pay groups were relatively cohesive.

Diversity Differences

The diversity differences results are broken down by participation in the plan, average contribution rate, loans, equity investments, and average account balances.

Participation Rates: Our aggregate participation rate exceeds 90% for all pay categories except our hourly restaurant workers. One negative side effect of automatic enrollment for our restaurant management is that they have the lowest average contribution percentage of any pay group at about 3.5%. About half of the restaurant managers are contributing at 1%, the default rate.

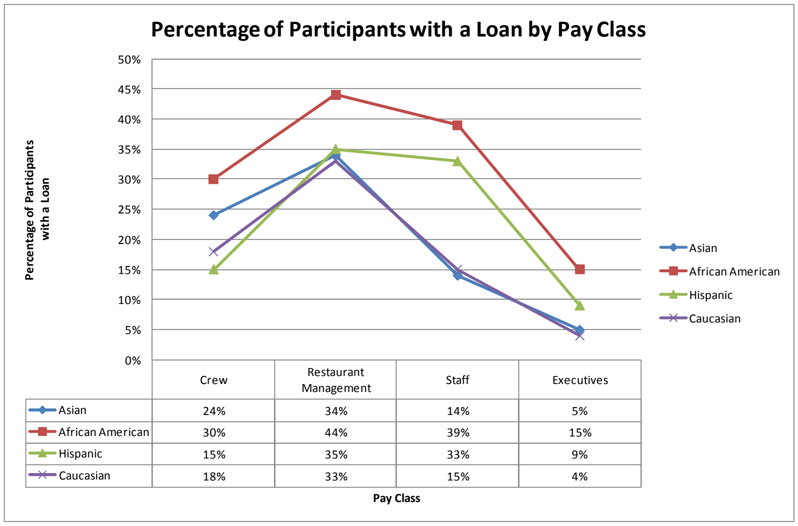
Asians have the highest participation rates and the highest average contribution percentages. The next highest is Caucasians, followed by Hispanics. African Americans tend to have both the lowest participation rates and the lowest average contribution percentages. These observations occur in all four of the pay categories.



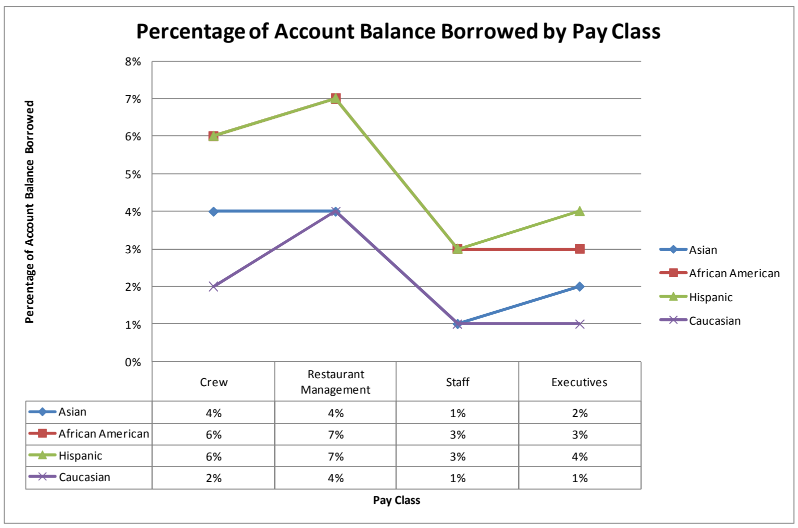
	Crew	Restaurant Management	Staff	Executives
Asian	7%	6%	10%	16%
African American	5%	3%	7%	11%
Hispanic	5%	3%	8%	13%
Caucasian	6%	4%	9%	13%

Loans: The Plan allows participants to take out a loan for any reason at any time. There can only be one loan outstanding at a time and loans cannot be refinanced in order to borrow more. Loans are repaid through payroll deductions, but when a participant leaves the Company, most loans are defaulted and then become taxable income. Thus, while loans are convenient and a low cost way of obtaining capital, they pose a risk to a participant's account. We believe that the one loan at a time plan rule helps keep the number of loans lower than other plans.

Our data review looked at the percentage of participants who have a loan and the percentage of the total account borrowed. African Americans had the highest percentage of participants with a loan outstanding across all four pay categories studied. African Americans and Hispanics had nearly identical percentages of their account borrowed while Asians and Caucasians had significantly lower percentages of participants with loans and percentage of account borrowed.



	Crew	Restaurant Management	Staff	Executives
Asian	24%	34%	14%	5%
African American	30%	44%	39%	15%
Hispanic	15%	35%	33%	9%
Caucasian	18%	33%	15%	4%

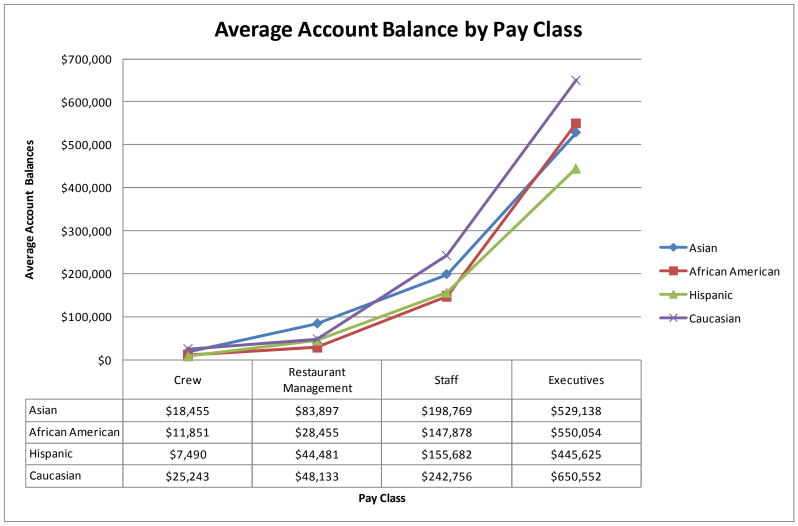


	Crew	Restaurant Management	Staff	Executives
Asian	4%	4%	1%	2%
African American	6%	7%	3%	3%
Hispanic	6%	7%	3%	4%
Caucasian	2%	4%	1%	1%

Investment in Equities: Most financial advisors recommend a substantial exposure to equities given their generally higher investment performance over long periods of time. All ethnic groups were about the same in this category. The average person has 75% invested in equities.

Average Account Balances: A number of factors combine to make up a large account balance: high contribution rate, long tenure with the Company, high pay, successful investing and no loans.

As expected, the higher the pay band, the higher the average salary. Caucasians had the highest average account balances in three of the four pay bands, followed by Asians. In the restaurant management category, the rankings were reversed. African Americans and Hispanics had significantly lower account balances than the other two ethnic categories. Hispanics had the lowest average account balances for restaurant crew and executives. African Americans had the lowest average account balances for restaurant management and staff.



	Crew	Restaurant Management	Staff	Executives
Asian	$18,455	$83,897	$198,769	$529,138
African American	$11,851	$28,455	$147,878	$550,054
Hispanic	$7,490	$44,481	$155,682	$445,625
Caucasian	$25,243	$48,133	$242,756	$650,552

Additional comments

Because ERISA requires that the same communications be given to all participants, we are not able to target communications to ethnic groups. For example, we write our communications in English and then translate them exactly into Spanish rather than try to customize them in a writing style that might be more easily understood by Hispanics. We would prefer to have the flexibility to communicate similar content, but have the flexibility to change the context so it is relevant and can be better understood for different ethnic groups.

It costs time and money for record keepers to develop and produce reports such as the ones we have used for this study. McDonald's Corporation pays all the administrative fees for the plan. We understand this is something other companies may not be able to support financially.

Thank you for the opportunity to share this material.