Advisory Council on Employee Welfare and Pension Benefit Plans

Report to the Honorable Thomas E. Perez,
United States Secretary of Labor

Successful Plan Communications for Various Population Segments

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NOTICE

This report was produced by the Advisory Council on Employee Welfare and Pension Benefit Plans, usually referred to as the ERISA Advisory Council (Council). The Council was established under Section 512 of ERISA to advise the Secretary of Labor on matters related to Welfare and Pension Benefit Plans. This report examines Successful Plan Communications for Various Population Segments. The contents of this report do not represent the position of the Department of Labor (hereinafter referred to as "DOL" or "the Department").

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ABSTRACT

The 2013 ERISA Advisory Council examined plan communication practices and plan design options that increase participation and savings for participants in general, as well as certain segments of the participant population. Based upon testimony received during two days of hearings, this report provides recommendations of best practices for participant communication and plan design that have been statistically proven to be effective. Moreover, the Council seeks clarification for specific areas of participant communications that may be construed as advice and requests guidance on whether promotional items may be used to encourage retirement plan participation if purchased using plan assets. Furthermore, the Council outlines recommendations to the DOL to facilitate cooperation with other agencies in order to increase the use of certain plan designs (specifically, automatic enrollment and automatic escalation) that may be utilized by plan sponsors to increase participant enrollment and savings.

ACKNOWLEDGEMENTS

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Larry Good, EBSA, DOL
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Witnesses from June 6, 2013

Donn Hess	J.P. Morgan, for American Benefits Council
Greg Walker	J.P. Morgan, for American Benefits Council
Donna MacFarland	Lincoln Financial Group
Linda Jacobsen	Lincoln Financial Group
Jennifer Benz	Benz Communications
Lori Lucas	Callan Associates
Beth Boden	Aon Hewitt
Cathy McCabe	TIAA-CREF
Morgan Gold	TIAA-CREF
David Richardson	TIAA-CREF

Witnesses from August 27, 2013

Bob Benish	Plan Sponsor Council of America
Annette Grabow	M.A. Mortenson Company
Michael Kiley	Plan Administrators, Inc.
Josh Braun	The Jellyvision Lab
Hugh O'Toole	MassMutual
Kris Gates	MassMutual
Thomas Ryan	Fidelity Investments
Brigitte Madrian	Harvard Kennedy School
Robert Clark	North Carolina State University

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

Since the adoption of the Employee Retirement Income Security Act of 1974, as amended (ERISA), communications to participants have moved from "one size fits all" to tailored communications for specific population segments. The Council observed that certain communication methods used for specific segments of the population have helped increase both participation and savings rates.

Moreover, with the increased study of behavioral science and its practical applications, there are new insights into the factors influencing retirement saving decisions by various groups. Advances in behavioral science have been used to analyze "social norming" concepts as a way of assisting with tailoring these communications.

In 2010, the Council identified empirical data from multiple sources demonstrating that women and minorities had less than optimal participation in the retirement system. The Council made recommendations in 2010 with its report, *Disparities for Women and Minorities in Retirement Savings,* which included recommendations that the DOL issue appropriate guidance for plan sponsors permitting targeted disclosures to women and minorities. Another recommendation by the Council was that the DOL issue guidance regarding best practices in plan design for use by plan sponsors to encourage savings plan coverage and participation.

This year, the Council expanded this 2010 study by investigating the message and the use of media directed to other population segments in addition to women and minorities, in order to understand what communication methods and plan design options are most effective. The Council heard testimony from witnesses who provided strategies for reaching participants within particular segments, including but not limited to, segments categorized by income level, household status, generation, gender, and ethnicity.

Through testimony and discussion over a two day period, the Council heard repeatedly about the value of tailoring communications to different subgroups of employees through direct communication. The Council attempted to address the following issues based upon the testimony received:

- What best practices in communications and plan design have employers used to ensure participation and adequate savings by participants? What tailored communication techniques are most effective (and least effective) for ensuring various population segments save enough for retirement?
- What are the practical applications learned from behavioral economics that encourage plan participation, adequate savings, good investment decisions and payment options that produce an income stream (annuitization)?
- Whether there are concerns with the cost and use of resources needed to tailor communications;
- Whether there are potential legal concerns for plan sponsors in the areas of privacy and cost issues over data collection and analysis, discrimination in

tailored responses, or communications segmented to a portion of the plan's population;

- Whether there are systemic gaps in communication and plan design that impact retirement plan participation and to which population segments;
- What the DOL can do to help plans achieve more effective communications, and help participants have better retirement outcomes.

The Council also heard extensive testimony regarding the benefits of certain plan design options that increase both participation and savings rates. Witnesses advised that despite the successful communication methods presented throughout their testimony, plan design was the most effective tool to increase participation and retirement savings. In particular, automatic enrollment and automatic escalation plan design options are extremely beneficial in achieving the goal of increased retirement savings. The Council discussed the guidance shared by various witnesses about why implementation of these automatic plan design options still remains a concern with plan sponsors, despite their proven success. To that end, the Council has made recommendations in this report that may encourage plan sponsors to implement these reported improvements in plan design.

II. RECOMMENDATIONS

Based upon the testimony and research received, the following recommendations from the Council are that the DOL should:

A. Provide education to plan sponsors on specific techniques and communication practices that have been statistically proven to be effective;

B. Clarify the distinction between advice and education, particularly the extent to which segmented education and life planning may be construed as advice;

C. Issue guidance to plan sponsors that would allow the use of promotional items or incentives to encourage participation, including purchasing reasonably priced promotional items with plan assets;

D. Consider coordinating with Treasury to promote self-correction programs for plan sponsors who might not offer automatic enrollment and/or automatic escalation out of concern about unintentional errors;

E. Provide examples of target contribution rates to enable participants to meet their retirement goals. Also, the DOL should encourage higher default rates of employee contributions for automatic enrollment and/or automatic escalation.

III. BACKGROUND

The shift in recent years from employer sponsored defined benefit pension plans (DB plans) to defined contribution plans (DC plans) has placed the responsibility of saving for retirement squarely on the shoulders of participants. Current statistics indicate that most Americans will not have saved enough to achieve their retirement goals. A recent study provided by Aon Hewitt found that only 29 percent of full-career American workers are projected to meet 100 percent of their retirement needs.[1] DC plans are the primary source of retirement income for three-quarters of employers. Aon further noted that only one in four employers offer a DB plan to new employees.

The need for better methods of communication is paramount because evidence provided to the Council indicates that the demographics of the population are shifting.[2] Advances in healthcare and other factors are extending lives and it is now projected that a majority of the population will spend twenty or more years in retirement. For example, census data indicates that women are experiencing a longer life expectancy and that women who reach age 65 outlive men by an average of three years. Women have lower lifetime earnings as a result of earning less and spending less time in the workforce. While women have saved less for retirement, they will need more income. Their longevity increases the risk of outliving their retirement savings.

Unlike DB plans, where plan sponsors make all key decisions regarding the administration and investment of the plan, participants in DC plans must make several key decisions including, but not limited to, (i) whether they will take the first step of participating in the plan, (ii) what their level of salary deferrals will be and (iii) how they will invest their money. Participant decisions about how much to save and how to invest continue throughout an individual's participation in the plan.

There has been substantial research and media commentary on the difficulties surrounding making decisions in preparation for retirement. An often repeated opinion is that plan sponsors spent the last fifteen years educating the same 20 percent of employees who already understand investing for retirement. It is the 80 percent who are "clueless" that plan sponsors worry about.[3] Studies have shown these retirement readiness decisions to be a daunting task for most employees, who may find they are too busy or lacking basic financial literacy or background to make them. According to a 2012 Participant Engagement Study conducted by Lincoln Financial, 41 percent of employees are only somewhat engaged or fully disengaged from any retirement plan. A mere seven percent of employees are fully engaged and interact with their retirement plan on a regular basis.[4]

Moreover, overcoming debt is a key focus for many Americans. According to a study conducted by the Employee Benefit Research Institute (EBRI) in 2012, 55 percent of American workers view overcoming debt as a problem, while 31 percent use savings to pay for basic expenses. According to a 2013 Pew Research study, 69 percent of Americans provide financial support for a grown child or parent.[5]

Although "Generation X" (born between 1965 and 1979) is becoming a cohort of major investors with approximately $4.5 billion in investable assets, overcoming debt is still a focus of this generation. According to testimony received by the Council, over half of the Generation X population (who are now in their mid-thirties to early fifties) have substantial credit card debt and 30 percent are still paying off student loans.[6] The average member of Generation X has $110,000 of debt.

Millennials or "Generation Y" (born between 1980 and 2000) are less likely to concern themselves with decisions related to their retirement. They are more likely to be focused on immediate, tangible purchases. This generation of young adults, who are generally under age 30, has been faced with lower employment opportunities and higher education costs. Retirement often is less of a priority compared to immediate financial needs and paying off student loans.

Because their retirement plan is not a top priority for many participants, plan sponsors focus plan communications on encouraging employees to participate in the plan and increasing their level of savings.[7] While objectives are clear, few are meeting all of their goals. Only 24 percent of the plan sponsors surveyed reported meeting their goals last year, with an additional 19 percent admitting they were not certain if they met their benchmark.[8] Plan sponsors are also focusing on improving participant education, as indicated by the Annual Benchmarking Survey provided by Deloitte.   Eighty-four percent of those surveyed were focused on improving participant education and 78 percent cited retirement readiness as a top priority.[9]

Methods in which plan sponsors communicate to their participants have a direct impact on the participants' involvement in their own retirement plans, whether through increasing deferrals, engaging in investment education and/or advice, or simply enrolling in the plan. The concern over the form and substance of communications has resulted in studies involving behavioral finance, economics, and social norming, which have been used to drive the successful results that are represented in this report.

The objectives of this report were to expand upon a 2010 Council report on retirement plan communications that was targeted towards women and minorities, by looking at both the message and the media used to reach additional population segments. This study focused on demonstrated successful communication strategies for population segments identified by:

1. Income level
2. Life events
3. Household type
4. Age by generation
5. Gender
6. Ethnic background

The Council evaluated what communication methods used are most effective in encouraging participants to save for retirement. An effort was made to balance the need for comprehensive plan communications against cost. A variety of methods were explored including the use of current and emerging social media. The value of certain plan designs were also studied as they relate to increasing participant enrollment and savings.

In particular, the Council heard testimony regarding the use of automatic features. Automatic enrollment has existed as a plan design since the 1980's. When plans enroll employees, they perform two other functions: the plans automatically choose the employees' contribution percentage and the plans automatically enroll the participant in an investment vehicle. However, this has caused problems for employees enrolled at low contribution rates, e.g., three percent (or less), because they do not increase their contribution rates due to inertia. Furthermore, employees have the impression that the contribution rate initially required by the employer is the most appropriate percentage to achieve retirement security. Because most employees may have only one defined contribution plan, without a defined benefit plan to supplement their savings, the contribution rate that is typically used is too low to achieve a reasonable replacement rate after retirement. Employees commonly consider the employer defaults as advice or a best practice toward achieving their retirement savings goals. Another concern is that employers invest the contributions of automatically-enrolled employees into very conservative and, as a corollary, low-yielding investments.

Since the passage of the Pension Protection Act in 2006, the number of plans incorporating automatic enrollment, automatic escalation, and target date funds has increased, due to additional incentives and fiduciary protections. These plan designs have helped all segments of the population, since they automatically help everyone, particularly those segments of the population who were not saving enough.

Since participation rates are close to 90 percent when automatic enrollment is used, new approaches are being considered on how to get employees to contribute more and what contribution rate is appropriate to retire securely. Although some employers are setting higher default contribution rates than before, others are hesitant about doing so out of concern that employees will opt out of the plan altogether. To address the concern of how much is enough, more employers are using individual benefit projections to help employees understand how well (or poorly) they are saving for retirement. While this is an additional expense for the plans, there is evidence that such projections increase participant contribution and savings levels.

The Council received additional guidance on these issues examining what methods of plan design were most successful.

IV. SUMMARY OF TESTIMONY WITH RECOMMENDATIONS

The Council received testimony from a wide range of representatives including trade and other associations (American Benefits Council and Plan Sponsor Council of America and WISER); corporations (M.A. Mortenson Company); service providers (Fidelity, JP Morgan, Lincoln, MassMutual and TIAA-CREF); consulting firms (Aon Hewitt, Callan Associates); third party administrators (Plan Administrators, Inc.); communication companies (Benz Communications and Jellyvision) and academia (Professor Madrian of Harvard University and Professor Clark of North Carolina State University). The Council wishes to extend its gratitude for providing their guidance and expertise. Their contributions to this report were invaluable.

A. Methods of Successful Plan Sponsor Communications

There is ample evidence that plan communication and education can provide people with the financial knowledge needed to understand their employee benefits, make better financial decisions, and achieve better outcomes; thereby enhancing their retirement readiness. Personalizing communication and education is important to participants who prefer to receive targeted content to learn about benefits that are relevant to their individual needs. However, the cost of such customization and personally delivered communications is a factor that must be considered. Witnesses suggested that showcasing exemplary communication methods will help plan sponsors consider these successful options, instead of spending money on less effective methods. The plan sponsors who are most successful at communicating use many channels; from print to external websites, online tools, social media, and creative marketing. Witnesses emphasized that there is still a need for simple and clear examples that are available to companies of all sizes.

Council Recommendation: The Council recommends that the DOL provide education to plan sponsors on specific techniques and communication practices that have been statistically proven to be effective. This education may lead to better methods of communication that should increase the involvement of employees in saving for retirement and streamline the collaborative goal of increasing retirement savings. Accordingly, the following examples from testimony heard by the Council provide methods and techniques that have been successful:

1. Communications that are tailored to particular segments drive results

The Council found that communications used by plan sponsors to specifically target participants based upon their interests, background, and/or economic status were more successful than providing general communications intended for every participant/employee in the retirement plan. Communications tailored to a particular employee group had better results than the "one size fits all" philosophy.

Personalizing the approach and understanding the unique characteristics of the particular workforce garnered effective results when compared to a simple mass communication. Communication materials for the participants in the Trustees of the Elevator Constructors 401(k) Plan were designed as a story of three elevator constructors whose careers looked similar, but who made different savings decisions during their careers. The narrative of the three elevator constructors was woven throughout one-on-one sessions with printed materials to demonstrate how a 401(k) contribution would benefit participants in certain circumstances -- such as temporary layoff, hardships or early retirement. As a result of providing relatable examples regarding these circumstances to the elevator constructors, plan participation rates increased from 26.56 percent to 29.82 percent in 2011. The plan also experienced an 85 percent increase in plan activity from those who attended meetings.[10]

Annette Grabow, Manager of Retirement Benefits at M.A. Mortenson Company, an international construction firm, described the use of construction-related themes in its financial education activities, which engaged participants and fostered pride in the company. The company also made financial education a mandatory activity and divided the workshops by career stage, age, and gender. Like other witnesses, Ms. Grabow reported that the plan sponsor focused on participants' preferences by surveying them after the workshop and making changes based on the employee feedback to yield desired results. This participant-centric communication method was cited as a best practice throughout the two days of testimony.

Another example demonstrating the benefits of understanding the unique characteristics of a particular workforce is Consolidated Citrus Limited Partner. This employer wanted to increase attendance at plan educational meetings, increase plan participation, increase deferral rates and encourage participants to maximize their match. The workforce consisted of hourly workers working in orange groves, harvesting oranges for juice production. Ninety percent of the workers spoke only Spanish. Since the majority of the day was spent in the orange groves, office meetings were not feasible. In order to make the communication program successful, the company had Spanish speaking leaders meet with small groups in the orange groves. Announcement posters were placed on site using simple, straightforward materials in both Spanish and English to tell employees about the meetings.

As a result of bringing the meetings to the employees in the groves (rather than relying on the workers to come to a meeting elsewhere), 95 percent of the targeted group attended the meetings. Participation in the Plan increased from 40 percent to 75 percent and deferrals increased from four percent to eight percent. Results also proved that if the information is delivered in the participants' native language, the information is easier to understand and employees take appropriate action.[11]

The use of branding is also a successful technique for targeting specific employee groups. Branding consists of the use of communications that include a particular unique positive image that is relatable to the participants. In one case brought before the Council, the use of branding proved to be especially successful. Members of the Animation Guild 401(k) Plan are artists who work in animation studios across Southern California. Working with the Guild's representatives, plan sponsors were able to obtain insight on what would work to help the members save more for retirement. The result was a branded communication with a cartoon image urging participants to remember to enroll. Consequently, the response rate increased over eight percent from the previous year, with 135 new enrollees.[12] In another example provided by Beth Boden from Aon Hewitt, a particular employer targeted a campaign for younger workers and increased participation by 30 percent just by keeping the message fun, simple and "cool."[13]

Tailoring the communication to a specific participant segment includes understanding the culture and background of the workforce being targeted. The Plan Sponsor Council of America (PSCA) advised the Council that many companies face challenges in trying to understand language and cultural factors that might be creating barriers to full participation. To reduce these barriers, plan sponsors are implementing retirement plan "campaigns" to increase awareness.

Understanding the uniqueness of cultures is important in tailoring communications. Donna MacFarland of Lincoln Financial Group stated that in her experience education materials typically are translated from English to Spanish. She recommended that sponsors design the material using the reverse approach, developing the materials first in Spanish to address specific cultural needs and language differences. This is particularly important because Hispanics are on track to make up nearly one-third of the country's population. This population growth rate translates to more than 66 million Hispanics in a few years and more than 132 million by the year 2050.[14]

The sponsor of the Four Seasons 401(k) Plan was particularly concerned about a plan change from a year-end employer profit sharing contribution to an employer matching contribution. The sponsor considered the culture of the Hispanic population and obtained feedback from the bilingual meeting presenters in designing the campaign. For example, materials provided during the campaign included photographs depicting Hispanics. Presentations also were created in Spanish from the ground up, not translated from English and were designed to be culturally and linguistically accurate. A focus on better retirement planning outcomes was achieved with the inclusion of a sample personal budget, an analysis for competing financial needs and an analysis showing why saving for retirement was important. As a result, the average deferral rate of the targeted group rose from 2.9 percent to 5 percent. Beneficiary designations also significantly increased.[15]

Human Resource professionals also have found that allowing employees to map out an action plan rooted in realistic scenarios is an extremely effective tool. Some plan sponsors have successfully used a "three-pronged" approach to reach out to their participants by combining simple income replacement projections, behavioral finance strategies and a personalized message. For example, JP Morgan developed 36 different personas based on three age groups (younger than age 30, age 30-50 and older than 50). The firm also targeted participants based upon their regional median income (e.g., Kansas' median income is $30,000 while in New York City it is $70,000). The basis for this approach was to enable these groups to compare themselves against their peers and take the appropriate action toward saving for retirement.

By narrowly tailoring their target audience on behalf of the plan sponsors that retained them, JP Morgan subsequently monitored whether employees opened their email communications and took action toward saving for retirement. If the individual took action, that person was considered "active," while someone who opened the email but did not take action was considered "interested." Based upon the action taken by the individual, the participant received specifically targeted information. This technique resulted in three to four times the response rate of participants who were not targeted.

However, some witnesses advised that there is a general concern regarding the use of targeted communications because complex data collection may provide gender or ethnic identification. Thus, there is concern over whether specific segments identified based upon race or gender could raise discrimination or deferential treatment issues. The Council heard testimony from Donna MacFarland of Lincoln Financial and Thomas Ryan of Fidelity that the use of particularly sensitive demographic information causes concern among plan sponsors. There are also practical concerns about housing information technology. Nevertheless, the overwhelming opinion received during testimony was that targeted communications work.

2. One-on-one or small group meetings increase action

a. One-on-One Meetings

Participants overwhelmingly desire one-on-one meetings for their retirement planning. The results of a study provided by Donna MacFarland of Lincoln Financial showed that two-thirds of participants prefer one-on-one guidance, and Lincoln has made it a component of its financial education model.

Testimony received from Cathy McCabe of TIAA-CREF also supported the observation that large numbers of participants seek one-on-one sessions and the need for individualized information is particularly acute for groups who have low participation rates, such as women and minorities. TIAA-CREF's financial empowerment program, *Women to Women* showcases the success of one-on-one meetings. More than 4,500 women attended general workshops geared specifically toward women, with 40 percent requesting a one-on-one appointment after the general meetings. Moreover, TIAA-CREF's *Hispanic Initiative* has resulted in more than 2,500 attendees at over 200 workshops and benefit fairs. These meetings resulted in 78 percent of those attending requesting a one-on-one appointment.

In 2012, MassMutual representatives spoke with 150,000 employees in face-to-face meetings. Forty-six percent of these individuals took action to improve their retirement readiness and, in one-on-one meetings, 75 percent of employees took action.

Studies indicate that when employees requested in-person group workshops facilitated by financial experts the results were impressive. Ninety-seven percent of participants feel financial education is an important part of their total benefits package and 100 percent would recommend attendance at the workshops to others. Of those attending a recent one-on-one savings and education forum sponsored by an international construction company with a diverse workforce in 2013, 89 percent took action regarding their retirement savings and on average, participants made three changes to improve their finances.[16]

TIAA-CREF also discussed the benefit of providing general investment advice to participants through one-on-one meetings, resulting in two-thirds of participants who sought advice choosing to save more, or examine or rebalance their portfolio. Among contributing participants, approximately half increased their savings by a median amount of 25 percent. Approximately eight out of ten participants receiving advice are more confident about their assets being invested properly.

b. Small Group Meetings

Although one-on-one meetings are optimal, costs and timing may be reasons why plan sponsors may not able to provide this option. Providing small group meetings and audience segmentation has also been successful. Lara Hinz, Director of Programs at WISER, highlighted in her written submission the success of these small group meetings and audience segmentation used by the National Resource Center on Women & Retirement Planning. WISER provided an example -- the FINRA funded *Nurses Investor Education Project*. This project convened small group meetings, attended by well-educated nurses who were interested in taking action toward their retirement savings. While the nurses willingly attended WISER's sessions, WISER learned that many were not attending sessions provided by their own retirement plan sponsors. Generally, the nurses advised WISER that a lack of basic knowledge, or their perception that they did not know enough to attend these sessions, prevented them from attending. As a result of using small group meetings as a forum, the nurses changed their behavior and their perceptions, by recognizing they understood basic concepts involving investment education and that they knew more than they realized. This resulted in more nurses attending their employer's retirement plan sessions.

Although the testimony received shows that one-on-one and small group communications promote participation and savings, a number of witnesses asked that the DOL clarify to what extent the discussions during these meetings may be construed as advice rather than guidance and education. The Council heard testimony that the use of some technology resources and tools would be more effective if they were accompanied by in-person assistance.

Lincoln Financial witnesses asked that the regulatory environment encourage one-on-one communication and that the DOL's guidance regarding education and advice balance the participants' needs for protection with plan sponsors' and service providers' need to manage costs and legal risks. Overall, balance is critical to ensure that participants have access to the services they want and need. In furtherance of this need, Fidelity testimony included specific recommendations that were made earlier this year to the Senate Health, Education, Labor, and Pensions (HELP) Committee. The testimony recommended that the Senate HELP Committee "protect and promote the availability of education and guidance by service providers and record keepers," and "modernize and simplify the current regulatory framework to allow innovation in plan design and participant communications."

Council Recommendation: In light of the concerns about certain actions crossing the threshold from education to advice, the Council recommends that the DOL should further clarify the distinction between advice and education, particularly the extent to which segmented education and life planning may be construed as advice. This includes one-on-one meetings, group meetings and retirement income projections.

3. Immediate "on the spot" communication is more effective than delaying the communication for a later date

Professor Madrian spoke of the need to couple financial literacy with the ability to take action at the time the participant is thinking about retirement savings. This is more effective than just communication alone. One of Professor Madrian's examples was the case of a student who studied a financial management course required by the U.S. Army for new soldiers. Providing the enrollment forms for the Thrift Savings Plan during the course resulted in a sizeable increase in participation, because soldiers could sign up for the Plan before leaving the classroom. This approach was supported by a study conducted by Professor Robert Clark, where a large percentage of employees polled said "yes" to enroll in a plan but there was no immediate way for them to sign up. He noted that having computers in the room at the time they said "yes" would have allowed them to sign up and take immediate action. The Council received similar statements from other witnesses that once employees become engaged, it is best to direct them to their next (simple) action step.

4. Keeping the communication short, simple and focused drives more participant response

Witnesses noted that behavioral studies show that individuals are overwhelmed by too much information and would benefit from streamlined communication. The most effective communications use materials with simple, straightforward language specific to a participant's personal situation.

The Council received testimony from Beth Boden of Aon Hewitt, who advised that in general, the information provided to retirement plan participants is written at a college level and often uses complex terminology. Simplifying this language to a more reader friendly eighth grade level facilitates a more positive participant response. Professor Madrian included the concept of "keeping it simple" in her testimony to the Council. She provided an example showing that a simple communication generated a 10 percent higher response rate than more complex communications typically sent out to employees.

Moreover, people generally do not have enough time. Therefore, impediments to action should be eliminated or simplified. For example, if employees do not remember a personal identification number (PIN) for a website, that extra step may prevent them from taking action. Employers could provide employees with a remedy by having the PIN sent directly to their email account or a phone number registered with the company or investment firm. In order to encourage access to a website, some employers found that mailing a postcard with the website's uniform resource locator (URL) encourages people to visit the website.

Participants can also receive different messages depending on age, assets, interactions or transactions with the plan. This approach means the participants receive a clear call-to-action, such as increasing their contribution rate or initiating a session with a guidance counselor or tool – actions that can be accomplished in a short time frame.[17]

5. Multiple "touches" using various creative formats helps increase participation

Witnesses repeatedly noted that effective plan participation is a result of consistent, continuous and on-going meaningful communication. Each contact point with a participant is commonly referred to as a "touch." An important aspect of providing effective touches is repeatedly sending out simplified mailings. Professor Madrian provided an example in which, the third mailing of a simplified reply form (that required checking of a box to enroll in a plan), resulted in 45 percent of non-participating employees signing up -- more than doubling the 22 percent who had signed up over a similar time frame with just one mailing. Beth Boden also provided an example of a large manufacturer who used multimedia with a different message each week helping employees learn how to improve their retirement outcomes. The campaign was successful because it allowed for employee self-selection based on the individual's situation.

Most plan sponsor information about retirement is provided to employees nearing the end of their career. To avoid waiting until an employee nears retirement, employers could provide many low cost informational "nudges." Professor Robert Clark advised the Council that in one study conducted involving mid-size employers, participation doubled from 3.3 percent to 7.71 percent for workers aged 18-24 through the use of these informational nudges.

However, a general barrier for plan sponsors in providing multiple levels of communication for participants is the cost. Many sponsors' financial resources are consumed with the cost of regulatory communication requirements for their DC plans. Several witnesses mentioned cost factor as the reason why so many companies continue to let legal compliance set their communications strategy. Testimony provided from Jennifer Benz, Principal at Benz Communications, referenced a human resources survey indicating that, despite best intentions to engage participants, nearly half of employers are dissatisfied with their current communications strategy, even though nearly 80 percent said it was a top priority.

To alleviate these costs, several witnesses referenced the cost-effectiveness of social media, but very few companies use social media channels for retirement information. Professor Clark mentioned it as an important way for plan sponsors to nudge employees at a minimal cost. Some witnesses suggested that the DOL take the lead in providing guidance regarding the appropriate multimedia tools for online messages for employers. Most of the witnesses did agree that there is a need for multiple media sources. As one witness stated, employers who do this well invest in resources such as websites, online tools and smart and creative marketing, and use every channel from print to external websites to social media. To that end, TIAA-CREF continues to build on the success of its women's program and is developing a digital community, as women have requested that option. TIAA-CREF, like other witnesses, has given female participants a choice as to how to engage on these issues.[18]

Barriers such as financial literacy and the inability of individuals to integrate financial decisions can substantially impede action.[19] Thus, new employee orientation, annual enrollment for health benefits, financial seminars and other key decision points when employee attention is focused on finances should be used by employers to redirect attention to retirement savings.

Incorporating other important employee benefit communications (such as health care plan enrollment) may prompt participants to act on their retirement. Any time that employees make a benefit plan decision is an excellent time to communicate retirement savings information.

In one instance, Professor Madrian suggested that, if the health benefits enrollment is online, a plan sponsor could introduce a screen that says, "You are not participating in the savings plan. Do you want to sign up now? Click this box." That single simple action could motivate an employee to participate in the plan.

6. Increased use of technology is effective and a cost efficient method of communication

According to Thomas Ryan of Fidelity, every demographic group is using the Internet via home computer or electronic mobile device as a preferred source of information. Fidelity also has found that tablets and mobile phones are becoming preferred vehicles for communication in every age category. Mr. Ryan cited a Deloitte study[20] from 2012 that found 93 percent of Americans place Internet access as the most valued household subscription. Fifty-four percent of Americans own smartphones, and the rate is increasing 29 percent annually.[21] One out of three Americans over age 50 has downloaded an application to a smartphone and 28 percent access their bank accounts via smartphone.[22] In essence, plan sponsors should "embrace electronic communications and ensure that the regulations allow [them] to do it."[23] Mr. Ryan testified that while Fidelity makes all channels of communication accessible, email communications have been most successful and generated higher response rates than direct mail.

The use of electronic media is the most effective method of communication to engage younger generations in their retirement planning. Generation X (born between 1965 and 1979) is the first generation truly charged with taking complete control of their retirement savings. Delivering messages through "YouTube" videos, Facebook forums, Twitter, and email are more effective for this group. Donna MacFarland stated in her testimony that this group prefers to be in control by reaching out, watching and replying to communications when it is most convenient for them. Accordingly, a focus has been placed on providing various types of different media applications specifically targeting this population. Sophisticated marketing tools have made an impact on this segment of the population.

Mr. Ryan explained that Fidelity has studied the preferences of Generation Y, or "Millennials" (born between 1980-2000), for using electronic communication. Mr. Ryan stated that this group tends to rely heavily on the Internet to interact with representatives from Fidelity, although they appear to be the least engaged when it comes to the frequency of contact. Millennials serviced by Fidelity have the lowest 401(k) participation rate, at 58 percent, compared to 67 percent for all other populations. "To combat the potential inertia caused by competing financial priorities, such as student loan debt, we need to engage Millennials according to their preferences."[24] Communication with this group should focus on mobile delivery, including providing "one click" transactions and incorporating elements of "gamification," which will be discussed further in this report.

Design changes made to simplify online interaction with Millennials resulted in a 40 percent increase in web utilization by this group, according to Fidelity. Lori Lucas of Callan Associates, pointed to another model used by Putnam as they “rolled out” a plan primarily for Millennials. It encouraged participants attending the plan sponsor’s meeting to interact by bringing their tablets and logging on to the benefits website. The result was that 40 percent of the attendees increased their deferrals within 90 days after attending the meeting. Putnam found that because the presentation was interactive, participants could take immediate action on savings in a manner that appealed to them. MassMutual also advised the Council that offering enrollment and savings increases using iPod Touch devices in group meetings resulted in action rates of 85 – 90 percent among those attending. The use of targeted and tested mail and email campaigns resulted in $150 million in new deposits over three years and a 3.9 percent increase in action rates.

Conversely, while Millennials want user-friendly online tools; they also want simple, personalized, and action-oriented communications. For complex tasks, Mr. Ryan advised, they prefer human contact. Plan sponsors still need to evaluate the segments of their population who may use electronic media and strike a balance between the use of new technology, along with the more traditional methods of mailing and communication.

Additional testimony provided by various witnesses indicated that the use of electronic communication in multiple formats is an extremely effective form of communication. In addition, electronic media provides the ability to track responses, which is unavailable when the communication is sent through printed materials and regular mail.

Mr. Ryan urged the DOL to review the current regulatory guidance for providing electronic notices and disclosures under ERISA and allow for a more relaxed protocol involving electronic delivery of required notices and disclosures in its future rule making. This message was echoed by Robert Benish of the Plan Sponsor Council of America (PSCA). PSCA recommended to the Council that the DOL modernize its rules for providing required disclosures electronically and expand Field Assistance Bulletin 2006-03 to permit additional default electronic disclosures. Mr. Benish suggested that the DOL expand its position relating to the provision of quarterly benefits statements to other mandatory disclosures. Under the Field Assistance Bulletin, disclosure requirements may be achieved by providing a notice that a required disclosure is available on a secure website and that a paper version of the disclosure is available upon request. Mr. Ryan and others went on to encourage the DOL to allow electronic delivery to be a default, rather than mail.

Witnesses expressed the need for the simplification of required disclosures that must be mailed to participants. For example, with respect to the ERISA Section 404(a)(5) disclosures, in 2012, a report from Fidelity indicated that it distributed approximately 17 million statements during the April – August time period. Fidelity received approximately 1,400 phone calls about the new disclosure. It was suggested by Mr. Ryan of Fidelity that the use of electronic delivery would help better determine whether recipients actually opened the communication.

Discussions ensued among the members of the Council, indicating a reluctance to advise the DOL that the current regulations should be relaxed to permit electronic disclosures as the default. Rather, the Council generally agreed that the provision of the disclosures through the mail should remain. Nevertheless, recognizing that the use of electronic communications to participants is currently being studied by the DOL, it would be helpful to encourage and clarify that electronic communication can be less costly than mail and effective for communications that are above and beyond required disclosures.

7. Behavioral economics and "social norming" can be used to increase participant involvement and savings

Behavioral economics and social norming studies are being used to understand individual reactions towards their savings, and can be used to influence the way certain information is presented which can have a resounding impact. Behavior can be influenced through simple concepts such as the way choices are presented to the participant. Simply placing options in a different order or presenting a higher deferral percentage on an application may lead a participant into taking action to increase his or her deferral rate. For example, if plan options originally displaying contributions options from three percent to ten percent of salary were changed to start at six percent and end at 15 percent, contribution rates increased 100 percent – to six percent rather than the original three percent -- leading to better outcomes.[25] This method is commonly referred to as "anchoring."

Even if contribution rates are not increased, simply presenting the order of the selection differently can change selection rates due to behavioral economics. For example, communications traditionally place the options for selecting contribution percentages in ascending order from one percent to five percent, with the first available option being one percent. Studies have shown that when this order is reversed so that the first option shown is five percent, with a descending order (i.e., five percent, three percent, one percent), a much higher uptake of the five percent option occurs. This method is referred to as "placement."

The way a particular message is phrased may also dictate outcome. Internet research has shown that phrasing the statement "ten things you're missing out on" instead of "ten great benefits" increases the level of readership.[26]

"Social Norming" refers to the idea that people tend to benchmark themselves against their peers. In an example of its use, geographic statistics are taken from the Bureau of Labor Statistics showed participants how they benchmarked against others in their region with similar income levels.[27] Results showed that participants tend to tacitly compete against their peers who are in similar socioeconomic conditions.

8. Incentives given by sponsors and "gamification" help trigger participant involvement

"Gamification" is a way of engaging users in solving problems by the use of game thinking and game mechanics. The use of gamification is an effective tool in reaching out to individuals who do not typically involve themselves with retirement savings. These individuals are typically categorized as "non-savers". Michael Kiley, representing the third party administrator Plan Administrators, Inc., explained that gamification could be used to reward people if they engage in the correct behaviors. Mr. Kiley referred to the NFL's "Play 60" campaign which incorporates the use of the NFL brand to incentivize children to play for at least 60 minutes a day. He stated that, if plan sponsors wish to engage individuals who are not interested at the moment, plan sponsors should be able to use incentives to get them engaged. As an example, Mr. Kiley discussed the possibility of allowing plan sponsors to contract with vendors who may provide participants with rewards if they obtain a certain benchmark towards savings.

Raffles are successful at getting workers involved and learning facts about retirement, and thus helping workers become more prepared to participate and make decisions. In one instance, testimony discussed the particular case of a rug manufacturer in northern Georgia who had a series of meetings for people working multiple shifts. In order to get participants to attend, the plan sponsor gave away lottery tickets. The result was standing room only for the meeting.[28]

However, witnesses expressed concern that providing incentives and rewards for participants might violate the exclusive benefit rule under Section 404 of ERISA, the improper use of plan assets, or other rules. It would be helpful for participants and sponsors if the DOL clarified what was acceptable. The Council discussed the use of gamification incentives in light of the recent issuance of Field Assistance Bulletin 2012-01, which addresses certain reasonable expenses for marketing paid for by Apprenticeship and Training Plans. In particular, the Council discussed whether certain expenses could be incurred to increase participation and increase contribution rates.

Council Recommendation: Based on this concern that arose from testimony and analysis, the Council recommends that the DOL issue guidance to plan sponsors that would allow the use of promotional items or incentives to encourage participation, including purchasing reasonably priced promotional items with plan assets.

9. Six general principles that may assist plan sponsors in improving communications

The Council looked at communication techniques that could be useful in targeting various audience segments. Plan sponsors may find the following behavioral techniques helpful in attaining the goal of successful communications, regardless of the form of media or the method of presentation.

Testimony was provided by Josh Braun, Vice President of Business Development for the Jellyvision Lab in Chicago, Illinois. This corporation is active in providing advice on more effective methods of communicating to others and creating useful marketing analysis and techniques for its clients. Mr. Braun provided input on behavioral analyses that have been used to tailor communications toward a targeted audience.

In general, part of the failure to effectively communicate occurs when the plan sponsor communicates in a manner that is considered uninspiring and difficult for audiences to understand. This leaves the audience confused, bored and/or unmotivated. Consequently, the recipient is less likely to take whatever additional steps are necessary in order to attain the goal that the plan sponsor is trying to reach (e.g., increasing participation or savings rates in the 401(k) plan).

At times, the communicator is burdened with a "curse of knowledge," a bias in which the communicator is better informed about the information being conveyed, which makes it difficult for the communicator to demonstrate it from the perspective of lesser-informed people.[29] As an example of being too close to the information conveyed, one group of subjects "tapped" a well-known song on a table while others listened and tried to identify the song. Some individuals who "tapped" the song described a rich sensory experience in their minds as they played the melody. Those who "tapped" previously had estimated that 50 percent of the listeners would identify the specific tune being played. However, only 2.5 percent of listeners could identify the song. Mr. Braun suggested that the "curse of knowledge" contributes to the difficulty of teaching.[30]

Moreover, today's technology makes it easier and quicker to create presentations with an abundance of information, complete with special effects. However, restraint and simplicity should supersede a person's desire to communicate using "technical abundance and wizardry." Mr. Braun also suggested presenters who utilize PowerPoint should reduce the number of bullets that are used to convey certain talking points -- because "bullets can kill" the information presented. This sentiment confirmed Ms. Boden's testimony that keeping the message simple drives participant action.

The Council received testimony regarding six principles of communication that plan sponsors should consider when drafting documents or presenting to their participants that will inspire action:

A. Show Empathy

Instilling empathy in communications is about understanding the needs of the audience. The concept is to ensure the recipients feel like the particular communication was directed to them. Few things will make a participant less receptive than receiving information that he or she already knows or is not relevant to his or her particular situation. Mr. Braun advised that in order to determine relevance, it is important to engage the audience and ask questions. The content of the presentation or the communication should then be tailored to answer those questions.

For example, in one case, Mr. Braun's company developed a program to help consumers understand and lower their energy bills. The computerized question asked the following:

Can I help you with your bill?

a. Yes, help me understand my bill.
b. Help me save money.
c. Both of the Above.
d. I'm Here for Something Else.

By showing empathy to the issue that the consumer cared about and by giving some information and tips to help them feel more in control, the questions presented helped raise consumer satisfaction.[31] This example further supported the recommendations to the DOL that tailored communication drives results better than the typical disclosures that are measured as "one size fits all."

B. Use Metaphors and Analogies

The use of metaphors ("like or as") and analogies also enable the recipients of the communication to reference something they already know. Communications also can reference a visual picture to help the recipient relate to the message. For example, Mr. Braun discussed the moment that Ridley Scott presented the screenplay for *Alien* to his producers. During his presentation he used the popular movie *Jaws*, as a reference point. Using the metaphor "it's like Jaws in space," Mr. Braun suggested that Ridley Scott was able to conjure up a concept that the producers easily understood.[32]

C. Use Storytelling

A recipient is more likely to relate to information if it is presented as a story. A story is easier to absorb because people are overwhelmed with information. Story-telling also eliminated extraneous facts and captures the recipient's interest. Stories can relate to the recipient on an emotional level, creating a deeper, more intimate bond to the information presented. As a result, individuals tend to forget facts that are presented but usually remember a story.

D. Use a Conversational Voice

Using overly technical information is a common problem. The individual communicating may be speaking to the audience using compliance or legal jargon. Mr. Braun advised that, as children, we learn to speak using methods that enable us to be understood by other humans. However, as adults, after being exposed to the technical complexities of a particular profession, many people tend to communicate in a more complex manner. The following statement was provided as an example of the way people tend to speak in a more complex manner than necessary:[33]

> Beyond the basic benefit, both individual and spouse buy-up options are available. Please note: an election of voluntary life coverage for a spouse can equal up to half your individual life buy-up, although depending on the desired level of coverage, EOI may be required.

However, what should be communicated is as follows:

> The company is going to buy life insurance for you. If you want, you can buy extra life insurance. Whatever extra life insurance you buy for yourself, you can also buy up to half that amount for your spouse. Now, depending on how much additional insurance you'd like, one or both of you may need to answer some questions about your health to see if you qualify for it.

Accordingly, communicating in a conversational tone will make the information seem less complex.

E. Surprise the Recipient

Using unexpected methods of engaging the recipient helps obtain the individual's attention. This is especially important if the information being communicated is not considered particularly interesting.

F. Use Humor

Using a little humor in the message will keep the audience engaged and may also help the audience relate to the person who is communicating the message.

Using these basic principles of communication will enable a plan sponsor to tailor the type of communication needed to increase understanding and motivation. In whole or in part, the examples of successful communications provided in this report utilized these basic principles in some way to reach the intended recipients.

B. Successful Methods of Plan Design

Donn Hess from J.P. Morgan opened his testimony by saying "there is no communication practice or strategy that is as effective as plan design elements that incorporate automatic enrollment and automatic escalation."[34] Despite all of the successful communication methods presented, plan design, above all, was cited as the most effective tool in moving employees into a retirement plan and improving retirement savings.

However, plan design defaults that incorporate automatic enrollment and automatic escalation are often interpreted by employees as recommendations regarding how much and how best to save. A typical default contribution of three percent of a person's annual salary is not enough for participants to save adequately. However, employees may infer that this amount is appropriate because the plan sponsor implemented a particular percentage deferral rate as the automatic rate.

Based upon testimony received, below are certain plan designs that have been found to increase participation and retirement savings:

1. Automatic Enrollment

Most plans traditionally provided that employees must enroll in order to participate. Automatic enrollment is a plan design which includes a new employee as a plan participant, often at the point of hire or shortly thereafter. Under this feature, the new employee must take measures to affirmatively remove himself as a participant, rather than take the more involved steps toward enrollment. In a plan with normal or opt-in enrollment, inertia often prevents an individual from taking the steps to enroll in his or her plan because it is not a priority for the individual. However, if a new employee is automatically enrolled, the same inertia causes the employee to remain in the plan at the default savings level. This is arguably a preferred design method to increase participation and to facilitate retirement savings.

The Council recognizes that the plan design does not assist employees hired before automatic enrollment was implemented. For these workers, plan sponsors have the option of enrolling them annually. Automatic enrollment or re-enrollment forces employees to opt-out if they do not wish to be enrolled in the plan. Incentives for plan sponsors who automatically enroll workers do exist under certain regulatory safe harbors but they may not be enough to convince employers to implement automatic enrollment as a plan design feature.

If automatic enrollment is implemented by a plan, participation rates rise regardless of the segment that is targeted. Automatic enrollment increases average participation rates from 65 percent to 85 percent. It is also particularly helpful for low-income workers (i.e., annual wages under $20,000), where participation increased from 27 percent to 82 percent. As a result of automatic enrollment, average participation for employees under age 30 doubled from 41 percent to 82 percent.[35] The best improvements were among the segments that had the lowest participation rates. Thus, automatic enrollment reduced disparities in the participation rates due to gender, race and ethnicity. This was corroborated in a study by Brigitte Madrian and Dennis Shea as presented in the testimony of Lori Lucas.

2. Mandatory Contributions and Automatic Escalation

Although automatic enrollment will increase participation, it is not enough to increase savings. Testimony received by the Council noted that the average worker's shortfall (of money needed to retire at the same level of lifestyle) was 2.2 times annual pay. For women, it was 2.6 times annual pay. For 21 percent of workers, the shortfall is six times annual pay.

In testimony provided by Beth Boden, 40 percent of workers saved below the company match threshold because the default employee contribution was set below the company match threshold. This default contribution is often set too low because of concern that employees will opt-out of the plan (or to keep the employer match down). Defaults that are too low can also impact workers who would otherwise have contributed more, because the default is seen as a recommendation of the appropriate amount for a secure retirement. While studies have shown higher default contribution rates will not increase opt-out rates, employers generally will not default employees at higher contribution rates.

One way to increase employee contribution rates is for the employer to do a stretch match (increase the maximum amount of pay that can be matched and decrease the percent matched, so that the employer's costs do not increase.) For example, change the match from 100 percent on the first three percent of pay contributed to a 50 percent match on the first six percent of pay contributed. Ms. Boden noted that participation rates did not decrease when employers stretched the amount of their match over an increased percentage of participant contributions. In fact, participant contribution rates can increase when using a stretch match, because participants need to contribute more to receive the full match.

Another successful plan design to increase savings is automatic escalation. Under this design, plan sponsors automatically increase a worker's contribution rate by one percent or two percent of salary at each pay anniversary. The employee will still receive a pay increase (assuming their pay increases by that percentage or more), or the automatic escalation can be capped at the pay increase. The escalation can continue each pay anniversary until a cap, such as for example, 12 percent of pay is reached. A three percent match received by the employer then raises the employee up to the 15 percent of pay contribution rate recommended by Aon Hewitt. Employees could always opt-out of the automatic escalation increase when desired but workers generally will not know how much they should contribute.

David Richardson from TIAA-CREF, noted that 403(b) plans typically have much higher contribution rates, ranging from 10 percent to 15 percent of pay compared to five percent to seven percent for 401(k) plans, due to mandatory contributions from both employers and employees as a requirement of employment. The reason for this may be the result of historical plan design, 403(b) plans tending to involve a higher educated workforce, and a greater cultural emphasis on adequate retirement security.

While default design often focuses on enrollment and participation in a 401(k) plan, default designs can also affect retirement income adequacy and the form of retirement benefit available at distribution. As Mr. Richardson explained, the 403(b) plans that TIAA-CREF administers see much higher annuitization rates -- 40 percent compared to four percent for 401(k) plans. The use of annuities helps facilitate a steady stream of income in retirement.

Although it is widely recognized that the foregoing plan design options greatly increase the enrollment of employees in a retirement plan and subsequently increase retirement savings, the Council heard testimony regarding the concerns that plan sponsors and professionals have toward implementing automatic enrollment, mandatory contributions and automatic escalation.

The most notable concern was cost. Lori Lucas of Callan Associates discussed with the Council that some employers are concerned that increased enrollments caused by automatic enrollment and higher contribution rates caused by automatic escalation can increase costs in the form of increased employer matching contributions.

Linda Jacobsen from Lincoln Financial Group noted that there are also concerns, particularly with small employers, that changing the plan design can hurt their ability to meet the non-discrimination rules and force them to return tax-deferred contributions to highly-paid employees. She noted that meeting the non-discrimination rules is often the most important goal of the plan sponsor.

In connection with the hiring of prospective employees, Mr. Hess of J. P. Morgan said that some employers have a concern that the example used previously of moving to a 50 percent match on the first six percent of pay will be looked at unfavorably when competing against an employer with a plan that matches 100 percent on the first three percent of pay. While the employer could note that its design encourages a better retirement outcome for employees that contribute six percent of pay, the prospective employees may not appreciate that point if they would rather limit their contribution to three percent of pay.

Michael Kiley noted that plan sponsors may make only small mistakes, but such mistakes can violate the Internal Revenue Code's non-discrimination rules and result in sizable penalties. For example, if plan sponsors change from automatic enrollment at three percent to automatic enrollment at six percent and inadvertently fail to enroll some employees into the plan (due to changing providers, etc.), the employer is forced to pay six percent of pay twice (i.e., once as a penalty and once into the plan). Mr. Kiley suggested the need for more lenient (or elimination of) penalties the first time an error is committed so that small employers will not avoid automatic-enrollment designs or avoid increasing their default percentage.

Council Recommendation: The Council recognizes that the Internal Revenue Service provides the Employee Plan Compliance Resolution System (EPCRS) in order to facilitate self-correction by plan sponsors without incurring these penalties. In addition to the EPCRS, the Council recognizes that the DOL has a robust Voluntary Fiduciary Compliance Program that closely mirrors EPCRS. The DOL should consider coordinating with Treasury to promote self-correction programs for plan sponsors who might not offer automatic enrollment and/or automatic escalation out of concern about unintentional errors.

Ms. Boden advised the Council that the standard of saving 10 percent of pay is typically not enough for most participants to attain a secure retirement. Due to longer lifespans and lower interest rates currently, Aon Hewitt suggests that employees need to save 15 percent of pay each year, if they begin at age 25. The savings rate is much higher if workers delay retirement saving until later in life. The DOL recently proposed that employers provide information to their workers on how much retirement income they can expect from their 401(k). Testimony suggested that this information be dynamic (i.e., allow workers to input various savings rates into a web-based program to see how it would impact their retirement). Testimony also indicated that employees often did not understand annuity concepts or how much of a lump sum might be required for a retirement goal. However, employees did seem to relate to "years of retirement saved" as a way to measure their progress toward a retirement goal. "Years of retirement saved" also is a way for those individuals with shorter or longer life expectancies to adjust their savings level to reflect their own unique situation.

Council Recommendation: The Council recommends that the DOL provide examples of target contribution rates to enable participants to meet their retirement goals. Also, the DOL should encourage higher default rates of employee contributions for automatic enrollment and/or automatic escalation.

C. Other Considerations

The Council also heard testimony regarding the following specific topics that were considered outside the scope of this report:

The Aon Hewitt testimony suggested that IRS allow tax refunds to be deposited directly to individual retirement accounts (IRAs) or retirement plans, as this would be an easy way for workers to contribute money that they had not expected to save. Since individuals could manipulate this by overpaying taxes, IRS would probably want to maintain the maximum individual 401(k) limit on the total amount saved by an individual for any particular year.

Employers often require employees to pay off 401(k) loans in 60 or 90 days after they terminate employment or are laid off, which can require large payments, exactly at a time when these employees have no income or reduced income. It would help if employers increased the time when loans could be repaid by terminated employees. IRS could require a longer payback period, or could require the new employer to take over the loan from the prior employer. Alternatively, the IRS could allow a rollover of the 401(k) account to an IRA at a bank, and let the bank continue receiving the loan payments into the IRA. That would eliminate the de facto distribution of the qualified money (or at least delay it until the borrower defaulted on the loan).

V. CONCLUDING OBSERVATIONS

The Council received a significant amount of testimony on effective communications tactics that have made a real impact on plan participation and preparing plan participants for a successful retirement. Plan sponsors are encouraged to evaluate these communications in light of their own personal needs, considering cost with their efficacy. Through the recommendations provided in this report, plan sponsors can create their own methods of tailoring communications to specific segments that they employ in order to successfully engage their population.

Continuous, simplified, personalized communication using multiple channels, connected with humor and empathy, were often cited as effective ways to communicate with plan participants to encourage participant engagement. Plan sponsors need to continue to develop unique and personalized techniques and methods to engage their employees in order to assist them with their retirement savings.

Plan design, above all, was cited as the most effective tool in getting employees into a retirement plan and improving retirement savings rates. However, some plan sponsors hesitate to implement automatic features because of lingering concerns about potential fiduciary minefields. To the extent the Department can promote the use of automatic features and quell fiduciary concerns (such as whether certain automatic deferral levels are appropriate or not), more DC plan sponsors may be willing to incorporate automatic features into their plans.

[1] Written Statement of Beth Boden
[2] Written Statement of Linda Jacobsen
[3] Written Statement of Lori Lucas
[4] 2012 Participant Engagement Study conducted by Lincoln Financial.
[5] Written Statement of Linda Jacobsen
[6] Written Statement of Donna MacFarland
[7] See, Inside Benefits Communication Survey Report 2012; (Top Goals conveyed: Executing a Successful Annual Enrollment (60percent); increasing workers use of preventative care (48percent); increasing 401(k) savings (42 percent))
[8] Written Statement of Jennifer Benz
[9] Lincoln Financial Report citing EBRI’s 2013 Retirement Confidence Survey
[10] Written Statement of Robert Benish
[11] Written Statement of Robert Benish
[12] Written Statement of Robert Benish
[13] Written Statement of Beth Boden
[14] Written Statement of Donna MacFarland
[15] Written Statement of Robert Benish
[16] Written Statement of Annette Grabow
[17] Written Statement of Tom Ryan
[18] Written Statement of Jennifer Benz
[19] Written Statement of Professor Madrian
[20] Deloitte 2012 State of the Media Democracy Survey
[21] Written Statement of Tom Ryan
[22] Written Statement of Tom Ryan
[23] Written Statement of Robert Benish
[24] Written Statement of Tom Ryan
[25] Written Statement of Tom Ryan
[26] Written Statement of Jennifer Benz
[27] Written Statement of Donn Hess.
[28] Written Statement of Robert Benish
[29] Written Statement of Josh Braun
[30] Id.
[31] Id.
[32] Id.
[33] Id.
[34] Written Statement of Donn Hess
[35] Written Statement of Beth Boden