Testimony
of

Lisa Mancini Peare
Senior Vice President, Fidelity Investments

Before a hearing of the

2015 Advisory Council on Employee Welfare and Pension Benefit Plans

Model Notices and Plan Sponsor Education on Lifetime Plan Participation

August 19, 2015
Washington, DC

Introduction

Thank you for the opportunity to participate in this very important discussion. My name is Lisa Mancini Peare, and I am a Senior Vice President with Fidelity Investments within our workplace investing business. Fidelity has the privilege of providing Defined Contribution, Defined Benefit, Health & Welfare, Non-Qualified, Stock Plan, and Health Savings Account recordkeeping and administrative services to more than 20,000 plan sponsors and over 25 million plan participants.

I oversee the Communications and Education (C&E) group that supports Fidelity's largest clients. My team works with our plan sponsors to design, develop, and deliver communications programs for their plan participants. The goal of our C&E offering is to drive better outcomes for participants through programs that engage, educate, and spur action toward savings goals and lifetime participation.

I am eager to participate in this discussion about how service providers, like Fidelity, and the government can better partner with plan sponsors on education aimed at lifetime plan participation. Fidelity takes very seriously its responsibility to ensure that workers know how to save, how much to save, and how to prepare for retirement, and I hope my testimony on this topic will be helpful to the Council's recommendations to the Secretary of Labor.

Overview of Fidelity's Communications and Education Programs

Fidelity's C&E programs are intended to engage participants in making better decisions. We have found C&E materials to be most effective when they utilize simplified language, address personal needs or situations, and offer a clear "best next step" to take. Fidelity leverages its enormous store of data to segment population groups for communications based on a number of factors. We work with plan sponsors to develop customized programs for specific groups, including job changers and retirees.

Importance of Communication Materials for Transitioning Participants

According to the Bureau of Labor Statistics Job Openings & Labor Turnover Survey (JOLTS) and the Pew Research Center respectively, 38% of the U.S. labor force departed from their employer in 2013 and 10,000 people are reaching retirement age (65) every day. In addition, the Employee Benefit Research Institute (EBRI) estimates that over a 40-year career of full-time employment, the average American worker will change jobs 10 times. Many participants don't understand what they can do with the balance left with a former employer's plan and are turning to unreliable sources of information. It is imperative that transition guidance for separated participants be fair and balanced and based on educating participants about their options to help them meet their retirement goals. Separated and retiring employees need the most help in navigating these life events, and the related communication and education needs to be designed to deliver what is in the participant's best interest in a simple, personalized, and action-oriented format.

Today, technology is changing the paradigm for how people prefer to receive and use information, and retirement plan communications are no exception. Communications and education need to continue to evolve, not only in the method of delivery (i.e., direct mail to e-delivery) but also in the way they engage participants (i.e., personalization, infographics, and "gamification"). Similarly, required notices and disclosures need to use simplified language and modernized delivery models to ensure the effectiveness of these important materials. The dialogue with participants about retirement readiness needs to start early in one's career and continue throughout the working years. With regard to model notices and other communications on the subject of lifetime participation, we believe it is important to consider them within the context of the entire suite of communication and education programs that are shared with participants over the course of their careers. Model notices fulfill an important requirement, but they also represent an engagement opportunity, particularly for participants experiencing a transition or separation from employment (see Appendix A for Fidelity model 402(f) and 411(a)11 notices). Model notices should explain a plan's withdrawal options in clear, easy to understand language and help participants understand what the terms mean (qualified joint & survivor annuities, for example), along with how they can seek guidance. They should be brief. Moreover, the communication and education programs that support these pieces are imperative to ensure a full understanding of the options available to participants during a job change or at retirement.

As you can see in Appendix B, Fidelity's separated participant communications program is two-fold and multi-pronged. The program provides both ongoing engagement campaigns in addition to a post-employment triggered campaign. Materials include fact sheets, brochures, invitations to guidance sessions and a resource guide. The first of four communications kits includes a plan-specific distribution notice that gets added to the direct mail version of the kits. The email version of the first component includes a link to the generic Special Tax Notice online. Fidelity has found that participants often have a preference in the way they like to receive education. Accordingly, Fidelity provides education during job transitions through a variety of channels, including online content, telephone calls with a Fidelity representative, face-to-face workshops, email communications, and U.S. mail. During job transitions, Fidelity offers 401(k) plan participants education and information on all of their distribution options. This includes the benefits of staying in the plan, as well as the benefits of rolling over assets to a new retirement plan or an IRA.

In a recent Fidelity study it was noted that 13% of participants take a full distribution (i.e. cashouts not rollovers) in the 12 months following termination (excluding participants with deminimus distributions). By the beginning of the fifth year following termination, 27% have taken a full distribution. Because these decisions are complicated and far-reaching, Fidelity has also established a group of specialized representatives who are trained to handle this specific type of interaction with a Fidelity customer. Participant feedback indicates they prefer human interactions for more complex situations like planning, because representatives are able to simplify the situation for them, offer personalized guidance, and facilitate the next best step.

Many Fidelity clients augment their communications with customized materials aimed at further helping participants understand the options available to them during job transitions. See Appendix C for examples of custom client pieces from Avaya, Roche, UnitedHealth Group, and Bristol-Myers Squibb, which depict the options available when terminating from the plan. Especially during job transitions, materials such as these need to highlight the advantages and disadvantages to each of the options available vis a vis the long term goal of income in retirement.

Planning for retirement is important, but ensuring the retirement plan is focused on income in retirement is even more important. The sooner an employee begins to save, and the more consistent the record of saving, the more likely it is that a participant will be able to reap the potential benefits of compound earnings and to meet his or her savings and retirement goals. If a participant continually depletes his or her retirement accounts during periods of job transition, it will be virtually impossible to catch up and accumulate the amount of savings necessary to fund a secure retirement.

Improving the Effectiveness of Model Notices

Communication and education materials need to be focused on driving active participation in the plan, ensuring a healthy savings rate and an appropriate investment mix for participants' age. When they leave their employer, participants need to understand their options for their workplace savings plan. Notices and other communications should provide education to participants from the time they first enroll in their workplace savings plan, while they are actively contributing and saving in their plan, and through job transitions and retirement. Each life event in an employee's career allows for an opportunity where the information provided is relevant at the time and therefore more meaningful to the participant.

Notices and disclosures, in particular, can be dense and confusing, leading participants to disregard them. We believe that required notices and disclosures should be treated as an opportunity to engage, not just an obligation to inform. Out of the 17 million participants who received disclosure statements from Fidelity in 2012, only 1,332 participants called in response. Some participants seemed overwhelmed by the data and showed little interest. To be most effective, model notices should:

- Use simplified language
- Include an indication of whether an action is necessary
- Include easy-to-read graphs/tables where appropriate
- Include a clear description of the options available
- Outline the considerations involved with each option
- Reference how to access additional resources or assistance

Model notices must also be easily accessible through each participant's preferred delivery channels. Mobile devices and tablets are becoming a preferred communications vehicle for participants in virtually every age category. For communications to be effective on mobile, they have to fit the same paradigm—simple, personal, actionable. E-delivery, through websites like Fidelity NetBenefits or via email, presents greater opportunities for engagement. This includes interactive infographics, simulations, video, and one-click access to phone or online support. Therefore, Fidelity urges the ERISA Advisory Council to support e-delivery as the default method of distribution for these notices.

Fidelity's online benefits site, NetBenefits, receives more than 16 million logins on a monthly basis and over half a million daily visits. In fact, in Q1 2015, 78% of participants that contacted Fidelity utilized the Web as opposed to 22% using phone guidance. The site is one of the primary ways that Fidelity delivers education and guidance, with over 200,000 participants using online tools and calculators each month. Thus, Fidelity urges the Department to revisit the current regulatory protocol ("2002 Safe Harbor") for notices and disclosures under ERISA and allow for more, not less, e-delivery of required notices and disclosures in its future rulemaking. As for approach, we would suggest alignment with the interim rule for quarterly benefit statements established by the Field Assistance Bulletin of 2006-03.

In addition to mobile devices and tablets, a host of different mediums should be employed in order to engage employees in the way that works for them during a job change or retirement. Fidelity has noted a cultural movement away from long textual content to more engaging delivery via video and animation. Participants who engage in an online retirement planning session increase their deferrals by an average of 5 percentage points (9% to 14%).

To improve the engagement of younger age groups with their retirement plans, Fidelity has researched the tendencies and preferences of Gen Y, also known as the Millennials. Our research showed that this group affirms the benefits of simple, personalized, and action-oriented communications. They prefer "friendly" online tools, "personalized guidance and financial education," and human contact for complex tasks. They rely heavily on the Internet to interact with Fidelity, and we need to engage with Millennials according to their preferences. Communications with this group should focus on mobile delivery, include social collaboration and benchmarking, provide "one-click" transactions, and incorporate elements of "gamification." Additional innovation is being done with infographics, personalized videos, social media, and tools like augmented reality. These mediums should also be considered for enhanced communications to job changers and retirees.

<u>Educational Materials for Sponsors on Plan Features</u>

A defined contribution plan should be designed to yield an outcome for its participants in retirement. Yet over 80% of plan sponsors have not designed their plan with a specific outcome target in mind, even as six in 10 employees are relying on it as their primary source of retirement income. With 55% of workers not on track to cover their essential living expenses in retirement, effective plan design becomes paramount. Fidelity provides guidance to plan sponsors on plan design through programs such as Retirement Vision 2020 and Executive Insights.

Fidelity's Retirement Vision 2020 identifies four interrelated strategies employers and their provider partners can institute in order to help drive better outcomes for their employees in the form of better readiness for retirement that benefits both the employer and the employee. The four things employers must do now to help drive better outcomes are the following:

- Design for income—DC plans should be designed with an income replacement goal and should consider the potential results of employee and employer contributions over a career.
- Account for health care—Employers should help employees understand the increasing role of health care expenses in saving for retirement. Through effective plan design and financial incentives, and through use of savings vehicles such as health savings accounts (HSAs) (combined with a high deductible health plan (HDHP)), employers may be able to help employees reduce their current health care spending and increase saving for their health care needs in retirement.
- Engage the evolving workforce—Employers and their provider partners must drive for broader and deeper employee engagement in retirement savings vehicles, using the latest scientific research and data mining techniques.
- Transition with confidence—Employees need personalized help as they near the next phase of their careers, whether they retire or continue to work in some capacity. Employers, with support from their provider partners, can help these workers determine how long they need to work, what resources they will have available to them in retirement, and how to get the most out of those assets in meeting their retirement needs (including the need for health care spending).

These strategies are important, not only for the millions who are approaching retirement in the next few years, but also for the generations who follow in the decades ahead. (See Appendix D for Plan Sponsor infographic.)

Fidelity's Executive Insights provides plan sponsors with detailed plan performance analysis. Through this web-based tool, we regularly provide the plan data, analytics, and insights plan sponsors need to make informed decisions that result in a more productive plan design and better outcomes for their employees. This overview of their offering—including plan performance data, benchmarking results, dashboards, and other important analytics—is designed to help sponsors identify trends and opportunities for improvement in their program. The summary dashboard displays six key retirement readiness metrics—Participation Rate, Savings, Asset Allocation, Loans & Withdrawals, Guidance, and Interaction—and provides a visual summary of a plan's performance against peers. Each of these metrics has its own set of dashboards, providing more details for further analysis. Data can be filtered by employer data, such as plan name, division, and region; participant data, including age, income, and tenure; or a combination of filters. In addition, trending data can be displayed on the Summary dashboard by quarters or years. (See Appendix E for screenshots of Executive Insights.)

Fidelity believes a defined contribution plan should be designed to yield a 45% to 50% income replacement rate in retirement, excluding social security. With regard to participation and savings rates, we have found that "auto solutions" such as auto enrollment and auto increase are the best ways to get participants into the plan and contributing. Not surprisingly, participation rates in plans with auto enrollment are significantly higher than in plans without (86% versus 52%). Just as important is Annual Increase Program which was responsible for 41% of all deferral increases in the past year. Our research shows that when employees are automatically enrolled in an Annual Increase Program, 93% do not opt out, but only 14% of our sponsors offer auto-AIP, in all other circumstances the employee must proactively enroll.

Fidelity recommends plans set up an auto enroll feature with a deferral rate of 6% or higher, along with a plan sponsor-directed auto increase program up to 12%. Please see Appendix F for an infographic that illustrates this reasoning. Solutions such as Fidelity's Easy Enroll which make the enrollment process as simple as possible and use preset packages that offer a range of deferral rates (8, 10, 12) resulted in an average deferral rate 28% higher as compared to standard enrollment.

As you can see from the infographic in Appendix G, 401(k) loans of any kind can have a big impact on retirement income, especially for those who decrease deferrals to offset the repayment. In fact, 40% who take loans reduce deferrals or stop saving altogether. In order to balance the need to make employees feel comfortable that they have access to their money, Fidelity recommends guardrails for loan access to make sure participants are not preempting their long-term goals. Suggested guardrails include borrowing only against employee money, allowing only one loan, and a wait period between loans.

One Fidelity client, Credit Suisse, has had success with implementing plan design changes to help promote better outcomes for participants. In fact, they were named a Plan Sponsor of the Year by Plan Sponsor®. See Appendix H for the case study and http://www.plansponsor.com/2015/Plan-Sponsors-of-the-Year/2015-Plansponsor-of-the-Year/?cid=6442514012 for the article.

Data Security

At Fidelity Investments, we recognize the absolute imperative of protecting our customers' accounts and personal information.

Our Corporate Privacy department is responsible for setting firm-wide program direction by developing strategy, establishing policy, prioritizing initiatives, and recommending privacy best practices. Corporate Privacy oversees compliance with policies and procedures by establishing standards for supervision and monitoring, testing, and reporting. Further, to oversee compliance with firm-wide privacy policies and procedures, Corporate Privacy also performs testing and reporting on business unit monitoring activities. These may include, but are not limited to, testing and reporting activities identified and documented in risk assessments for key privacy program activities such as privacy notice development and distribution, security breaches, and affiliate marketing. A copy of Fidelity's privacy policy can be found at http://personal.fidelity.com/accounts/services/findanswer/content/privacy.shtml.cvsr .

We believe that plan sponsors should be provided with a checklist of questions to ask their providers about data security protocols. A list of suggested questions that sponsors should be asking, and Fidelity commonly receives, includes but is not limited to, the following:

- Do you carry, specifically, cyber liability/data breach insurance?
- Where are data centers located, and who manages them?
- Will the system transfer/share data with any other internal systems or third parties?

- Will any data be transferred or stored outside of the continental United States?
- Please describe the system processes and controls that are in place, or available, to satisfy current privacy laws (PII Data).
- What are your data retention/destruction requirements?
- Please describe what application firewalls are used to protect data.
- Is role-based authorization used?
- Please describe the type of encryption used.
- If your systems are breached, do you have an incident response policy in place?

In addition, plan sponsors themselves need to have a robust data security program as it relates to their own employees and infrastructure.

Closing

Fidelity's research has shown that participants who receive education take action—resulting in increased workplace savings plan participation, increased savings, and appropriate age-based asset allocation. Focusing on termination, our experience has shown that when terminating participants receive education, they are less likely to take an immediate distribution, thus setting them up for a more robust financial future.

Fidelity believes that information given to participants about their distribution options should be simple, balanced, and understandable. These are difficult decisions for participants, and they often occur at a disruptive time in their lives. Disclosure requirements that are too lengthy or complex could overwhelm participants rather than assist them. Fidelity has been actively working with regulators over several years on new and simpler ways to bring financial information to participants—including income illustrations—and using Web, mobile, and social media to help support optimal retirement savings decisions. Fidelity believes that determining what factors are most important for an individual's personal situation must be done on a case-by-case basis and has designed its programs and representative training based on this overarching principle.

With outcome-oriented plan design features and access to effective communication and education programs, most Americans have the potential for a secure retirement. Success hinges on:

- Employers having more flexibility in the rules and regulations to design benefits plans that meet the diverse needs of their workforce without risk of fiduciary liability and increased coverage cost
- Providers like Fidelity continuing to innovate to help plan sponsors optimize their benefits programs and service participants based on their needs
- Plan participants taking an active role in educating themselves on the most prudent way to save and manage their financial future

As a leading provider of workplace savings and benefits plan recordkeeping services, Fidelity welcomes the opportunity to partner with the ERISA Advisory Council and the Department of Labor to help maximize the effectiveness of retirement plan communications for all population segments.

Thank you for the opportunity to offer our perspective and experience, along with my insights, and I hope by working together, we can come to an agreement on simple solutions to encourage Lifetime Plan Participation.