Testimony

On Behalf of the LIMRA LOMA Secure Retirement Institute

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Before

U.S. Department of Labor's Advisory Council on Employee Welfare and Pension Benefit Plans, ERISA Advisory Council

"Mandated Disclosure for Retirement Plans — Enhancing Effectiveness for Participants and Sponsors"

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Secure Retirement INSTITUTE™

Council Chair, Ms. Jennifer Tretheway, Issue Chair, Ms. Deborah Tully, and Members of the ERISA Advisory Council, thank you for the honor and opportunity to submit a statement of testimony on this important issue.

The LIMRA LOMA Secure Retirement Institute provides comprehensive, unbiased research and education covering all aspects of the retirement industry. The Institute tracks and reports on a number of retirement industry benchmarks, and it surveys retirement plan participants, plan sponsors, record keepers, and advisors on a variety of topics. The Institute also offers a forum for members across the financial services retirement landscape to identify and discuss the challenges Americans face surrounding retirement. Its goal is to spur innovation and broaden industry collaboration to help improve retirement readiness and promote retirement security.

The Institute, established in 2013, is informed and supported by LIMRA, a worldwide research and professional development organization that helps more than 850 insurance and financial services companies in over 70 countries increase their effectiveness. LIMRA was founded in 1916. We do not engage in advocacy. We are pleased to contribute to the examination of the content and usability of disclosures required by the U.S. Department of Labor relating to retirement plans, including single employer and multiemployer defined benefit and defined contribution plans.

In recent years, we have studied plan participants' views of and reactions to fee disclosure for ERISA defined contribution (DC) plans (2012–2013) and broader consumer perceptions of the language used by the retirement and life insurance industries (2015). My testimony will focus on these research findings, specifically to respond to questions D and B as posed by the Council:

D. Are the disclosures valuable to users and are the disclosures material to a participant's understanding of the plan and their decision making?

B. Is the content of the disclosures understandable and are there specific recommendations and examples that can be provided to improve the communication of the content in existing disclosures?

D. Are the disclosures valuable to users and are the disclosures material to a participant's understanding of the plan and their decision making?

An estimated $7 trillion is currently invested in U.S defined contribution plans.[1] These assets represent the majority of consumers' retirement savings, and, for many, they will be their primary source of retirement income. One of the biggest challenges associated with these plans is how to communicate effectively with plan participants to help them make informed decisions.

This is a particular challenge because only about 15 percent of DC participants say they are very knowledgeable about investing or financial products. Almost 4 in 10 (39.6 percent) say they are not very or not at all knowledgeable.[2] When asked where they acquired their financial knowledge, the greatest proportion of people report that they are self-taught. After that, family and friends are the most frequently cited information source, especially for younger Americans.

At the same time, the level of engagement with the plan is not especially high. As one consumer shared in a focus group: "I don't think they are trying to confuse us on purpose. I think they have a really difficult time communicating a complicated set of concepts to people who have basically no interest in hearing how complicated everything is."[3] Our research also found that only 1 in 5 participants said they were very involved in monitoring and managing their retirement savings.[4] The most common engagement activity is looking at account statements (Table 1).

Table 1: Activities Done in the Past 12 Months*

Reviewed my account statement (online or printed copy)	73%
Visited website that has information on my current employer's account	36%
Discussed retirement issues with friends, family, and/or colleagues	32%
Spent time researching retirement issues and/or information	22%
Discussed retirement issues with a financial professional	20%
Used an online retirement planning tool	18%
Compared investment option costs	15%
Attended a webinar on retirement issues	9%
Attended an in-person seminar on retirement issues	9%

Source: LIMRA Secure Retirement Institute 2016 Consumer Survey, unpublished data
* Participants were asked to indicate all that applied.

[1] *2017 Investment Company Fact Book*, Investment Company Institute, 2017.
[2] LIMRA Secure Retirement Institute 2016 Consumer Survey, unpublished data.
[3] *Get Real Already: Authenticating Industry Language*, LIMRA and Maddock Douglas, 2015.
[4] LIMRA Secure Retirement Institute 2016 Consumer Survey, unpublished data.

In addition, the LIMRA Secure Retirement Institute has conducted research that provides information on participant understanding relative to DC plan fee disclosure. Across the retirement industry, there was a consensus that fee disclosure was important and that participants should receive this information to make informed investment decisions.

We examined DC plan participants' perceptions and attitudes both before and after the final regulations the DOL's Employee Benefits Security Administration released in 2012 on the participant fee disclosures for ERISA DC plans. While the new rule was effective July 1, 2012, disclosures were not required until August 30, 2012. Given that these disclosures represented an in-depth look at the fees associated with their plans, some industry experts expected a strong reaction from participants. Others predicted little overall impact.

To gauge employee understanding of the upcoming fee disclosure, our first study asked DC plan participants about their receipt of disclosures, knowledge of plan fees, and potential reactions to fee information.[5] This research, conducted in 2012 prior to the initial participant disclosure requirement date, found that 1 in 5 DC plan participants rarely or never read retirement plan disclosures.

Of those who claimed to read these disclosures all or some of the time, half said they spent only two to five minutes doing so, and 1 in 3 spent more than five minutes. This is not a result of inadequate disclosure, but rather more a function of participants using fee information only when making investment changes or examining statements beyond a quick account balance check.

Few participants reported taking action based on disclosures. In fact, 51 percent of DC participants and IRA owners said they took no action on their plans in the past 12 months because of what they read in a disclosure.

Further, half of participants did not know how much they pay in annual fees and expenses, and 38 percent believed they didn't pay any fees or expenses. Only 12 percent of DC participants were able to estimate their fees. Of those who estimated their plan fees, 74 percent believed they were reasonable.

In early 2013, we fielded a follow-up survey that told the same story.[6] It found that, despite the 2012 fee disclosure regulations, half of DC plan participants still did not know how much they paid in DC plan fees and expenses per year (Figure 1).

However, disclosure (or the discussion of it) did seem to have had some effect on perceptions. The proportion of participants who did not believe they paid any fees or expenses decreased

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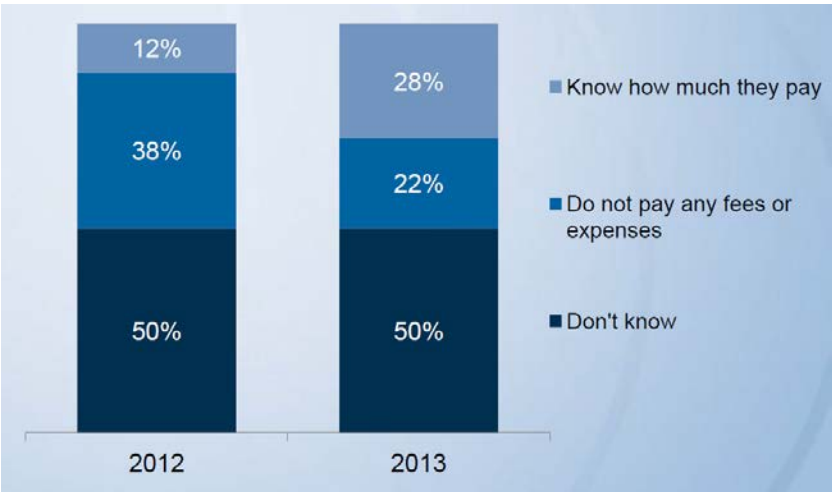
[5] *Deciphering Disclosure: Plan Participants' Views on Fees and Disclosures,* LIMRA Research Briefing, September 2012.

[6] *Quarterly Retirement Perspectives 2013: Defined Contribution Plan Participants and Fee Disclosures*, LIMRA, 2013. These findings were based on a nationally representative survey of 2,316 Americans who were either the primary financial decision makers or share responsibility for making financial decisions.

from our 2012 LIMRA survey, from 38 percent to 22 percent. In addition, those who said they knew how much they paid increased from 12 percent to 28 percent.

Figure 1: DC Participants' Knowledge of Plan Fees and Expenses*

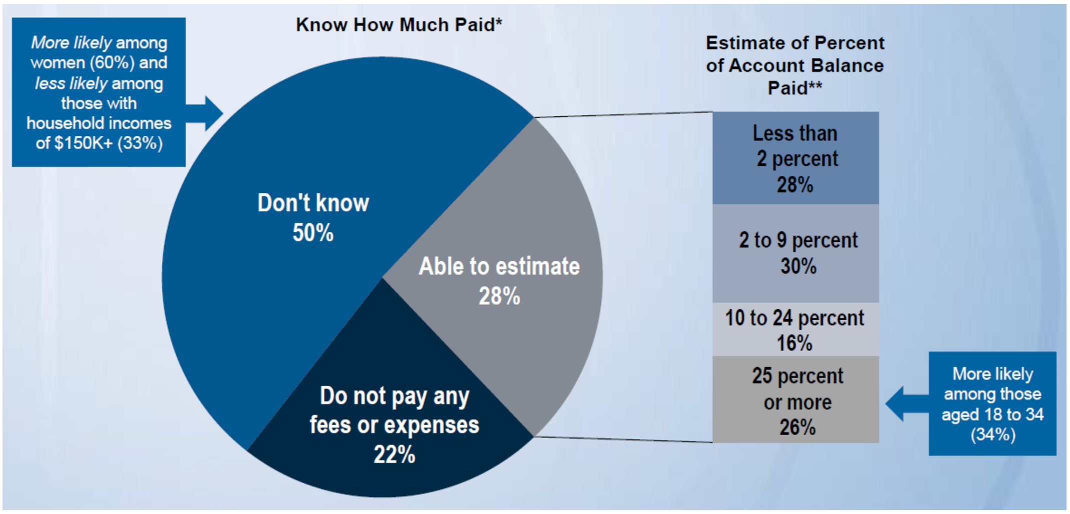


Source: Quarterly Retirement Perspectives 2013: Defined Contribution Plan Participants and Fee Disclosures, *LIMRA*

* 2012 Base: 974 non-retired consumers currently contributing to a defined contribution plan.
2013 Base: 741 non-retired consumers currently contributing to a defined contribution plan.

Interestingly, though, fees were extremely overestimated. Among DC participants who were able to estimate the amount they pay in plan fees and expenses per year, 42 percent believed they paid 10 percent or more (Figure 2). In 2012, that proportion was only 26 percent. Less than 1 in 3 DC participants estimated their DC fees and expenses to be under 2 percent.

Figure 2: DC Participants' Knowledge of How Much They Pay*



Source: Quarterly Retirement Perspectives 2013: Defined Contribution Plan Participants and Fee Disclosures, *LIMRA*

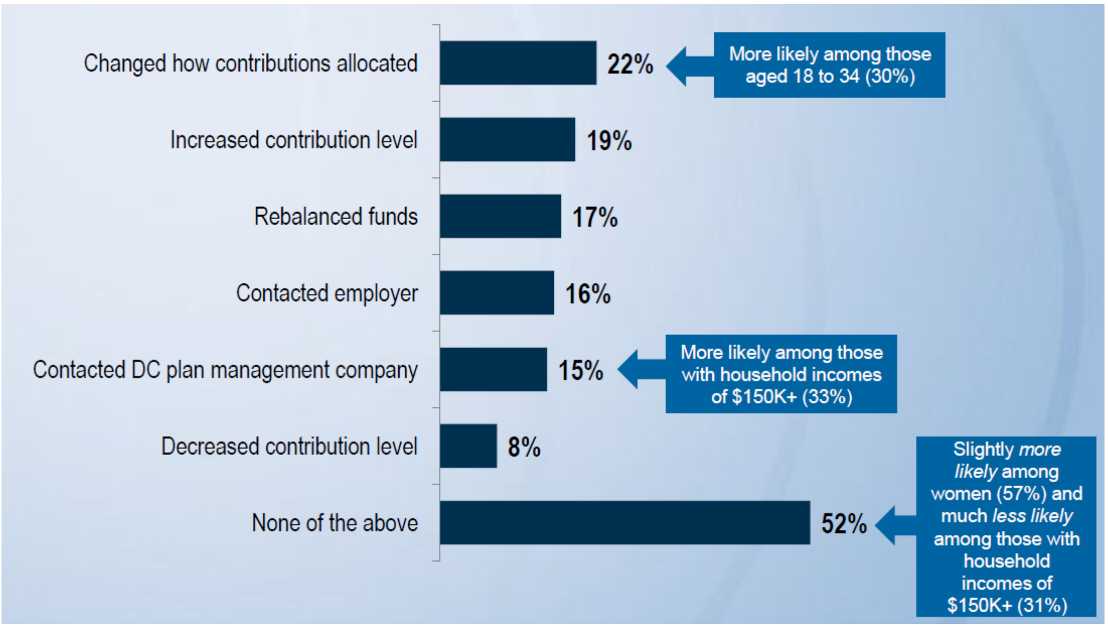
* Base: 741 non-retired consumers currently contributing to a defined contribution plan.

** Base: 205 non-retired consumers currently contributing to a defined contribution plan, and who reported amount paid in annual fees and expenses.

In terms of the fees themselves, 71 percent of DC participants who knew they paid DC plan fees and expenses believed they were reasonable. That number did not change markedly from the 2012 survey. (This does vary some by age: Those under age 45 are more likely than those 45 and older to perceive them as reasonable — 76 percent versus 66 percent, respectively.)

Among the 38 percent of DC participants who noticed the new fee disclosures, 24 percent said they understood them "very well" and 47 percent said they understood them "somewhat well." Forty-eight percent of DC participants who noticed them said they took action as a result (Figure 3). The most common actions taken after reading the fee disclosures were to: change investment allocation (22 percent), increase contribution levels (19 percent), and rebalance funds (17 percent).

Figure 3: DC Participants' Reactions to Fee Disclosure*



Source: Quarterly Retirement Perspectives 2013: Defined Contribution Plan Participants and Fee Disclosures, LIMRA
* Base: 974 non-retired consumers currently contributing to a defined contribution plan. Multiple responses allowed. Note: This question was modified from the AARP question included in LIMRA's 2011 study *401(k) Participants' Awareness and Understanding of Fees*.

Overall, there was much speculation on how consumers would respond to the disclosure notices. Yet our consumer surveys and discussions with plan service providers indicated that there had been limited participant reaction to learning about their fees and expenses. This does not diminish the fact that fee disclosure requirements help to boost transparency from the financial services industry. They put a foundation in place, and the industry must help participants understand the role and value of their retirement plan benefit, including the fees they pay.

B. Is the content of the disclosures understandable and are there specific recommendations and examples that can be provided to improve the communication of the content in existing disclosures?

Research conducted in 2015 by LIMRA and innovation consulting firm Maddock Douglas explored how consumers view the language used by the retirement and life insurance industries.[7] While the analysis was not specific to disclosures, the findings point to some trends and recommendations that merit consideration in this context.

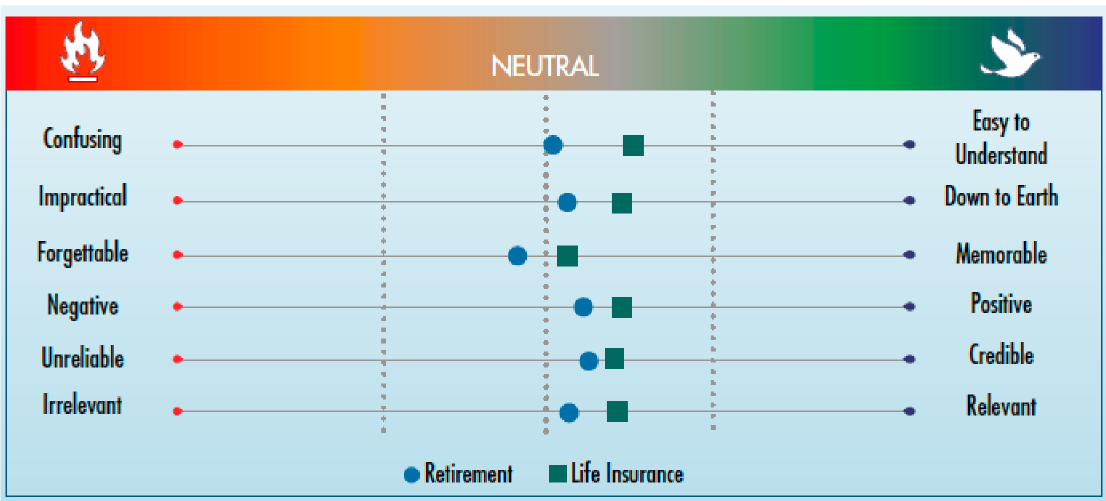
We know that people seek authenticity and relevance from the companies with which they do business — particularly in their communications. This is not limited to marketing materials, but rather can certainly extend to their plan statements and other documentation.

Within authenticity, this research discovered key elements that included:

- *Easy to Understand:* Language people use every day
- *Positive:* Messages that feel warm and comforting
- *Credible:* Sources of information that are trustworthy

In an analysis of retirement and life insurance material and websites, consumers did not perceive the material and information to be particularly helpful or effective (Figure 4).

Figure 4: Authenticity First Impression Scoreboard for Retirement and Life Insurance Material



Source: LIMRA and Maddock Douglas (2015)

With this as a backdrop, LIMRA and Maddock Douglas identified opportunities for innovation that can help the financial services industry communicate more effectively with consumers. Improving even just one or two may greatly improve the participant experience.

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[7] *Get Real Already: Authenticating Industry Language*, LIMRA and Maddock Douglas, 2015.

In this case, “easy to understand” is a logical starting point related to disclosures. Fifty percent of responding consumers compared researching retirement investments to going through a maze. Words and phrases that the industry uses routinely, such as “annuity” and “guarantees,” are confusing to many consumers (between 65 percent and 75 percent of respondents). We would suggest reviewing disclosures from this lens, and even perhaps “testing” them with consumer review, to ensure confusing terms are removed or explained.

The notion of being “credible” has two primary aspects: expertise and trust. First, do consumers believe the company has the knowledge to offer the proper advice? Second, do consumers feel the company has their best interests at heart? Many consumers do not appear convinced that companies are committed to helping them. Perhaps disclosures could address this concern by specifically including language such as: “Because we are committed to ensuring you fully understand how your retirement plan works, we provide the following information...”

This study also recommended shifting focus from the amount of information created (outputs) to the amount of information participants are likely to retain (outcomes). Consider how to include only the required information that they must remember or understand.

A second shift should occur “from completeness to context.” Rather than providing extensive detail, consider putting information into a familiar context. To translate this for disclosures, for example, perhaps this implies that at the simplest levels, the fee structure is listed, but there is also an effort to explain why that, in fact, matters to participants. This language could read, for instance: “What does this mean for you? It is important that you understand the fees you pay and how they support your retirement savings plan…”

A final shift is described as “from defensible to intentional.” While disclosures are required, it appears that some are designed from a legal perspective. This strategy, while understandable, is not particularly helpful to participants. They do not need extra detail and clarification that will ultimately confuse them. They are looking for information they can understand that will help them make better decisions.

To summarize this study, it calls for a renewed effort around how the industry communicates with consumers and participants. It asserts that an authentic approach is the key to individuals understanding and engaging with their retirement plans.

In Conclusion

It is increasingly important that all stakeholders in the retirement space understand the role of consumer understanding, especially in terms of its likely connection to them taking action. As our regulatory environment evolves, we must continue the iterative process of evaluating and simplifying retirement industry communications for plan participants. Ensuring that our nation's DC system is as strong and seamless as possible is critical to the retirement security and financial future of millions of American workers and their families.

I appreciate this opportunity to share our research, perspective, and expertise with the Council. LIMRA and the LIMRA LOMA Secure Retirement Institute applaud your continued efforts to ensure retirement plan disclosure content is clear and usable for American workers. Thank you.