Testimony on Behalf of State Street Global Advisors
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Before the
United States Department of Labor
Advisory Council on Employee Welfare and
Pension Benefit Plans
(ERISA Advisory Council)

With Respect to
Participant Plan Transfers and Account Consolidation for the Advancement of Lifetime Plan Participation

August 23, 2016

Thank you for the opportunity to participate in this discussion on the challenges facing American workers saving for retirement. I am honored to share my perspective with the ERISA Advisory Council and the Department of Labor on this important topic.

My name is Megan Yost and I am the head of State Street Global Advisors' Participant Engagement Team. I work closely with our clients — some of the largest employers in the United States — to help make retirement work. Specifically, I help plan sponsors increase employee engagement with workplace retirement plans on topics spanning saving, investing, and financial well-being. Through this effort, we seek to understand the needs of employees and their employers, and we utilize academic research, marketing and communications best practices, and regulatory and legislative guidelines to develop outreach strategies and tools that help employers improve retirement security for their employees.

Since my area of focus is workplace retirement savings plans, my comments will reflect this landscape and the challenges facing employers, policymakers and industry providers.

I'd like to share with you some of our work on understanding the perspective of the end user and the obstacles impeding plan-to-plan savings transfers. I will focus my comments on three themes, specifically the rise of:

- **individualism,**
- **consumerism and**
- **humanism.**

I will also offer three recommendations on what we could do collectively to improve the experience of plan-to-plan transfers for American workers to prevent the loss of hard-earned savings. This includes:

1. **Making portability easier for participants**
2. **Providing safe harbor protection to plan sponsors who proactively encourage, promote and accept roll-in savings from an employee's previous 401(k) plan, IRA or both**
3. **Providing safe harbor protection to allow plan sponsors to proactively promote the selection of the plan's default fund**

A key theme underpinning my comments is the reality that the workplace has been and is undergoing a seismic shift, and with that comes behavioral, experiential and emotional considerations that we must use to inform our approach to helping American workers achieve dignity and financial security in retirement.

Allow me to share a personal story that illustrates this seismic shift underway in the American workplace, looking back to the 1990s. For context, this is when we rented movies from Blockbuster and purchased books from Borders; it was before we owned iPhones and before my friend Josh's firm, Facebook, even existed. A lot has happened in two decades.

Individualism
When I was in high school, I was given a reading assignment on the new protean career. I didn't even really know what that meant, but the suggestion that my generation would not just hold multiple jobs, but would have multiple careers, really struck me. It was the

opposite of what I had witnessed with my parents, who were teachers and content with one career for life. I recall sharing this prediction with my parents at the dinner table, thinking it was crazy — and I continued to dream of that one career.

Around that time, Boston University professor Douglas T. Hall defined a protean career as one "that is driven by the person, not the organization, and that will be reinvented by the person from time to time, as the person and the environment change."[i] He wrote, "Pursuing the protean career requires a high level of self-awareness and personal responsibility. Many people cherish the autonomy of the protean career, but many others find this freedom terrifying, experiencing it as a lack of external support. A developmental or learning process is required to adapt. Psychologist Robert Kegan found that fewer than half the adults in his samples were comfortable operating independently in a complex environment."[ii] What this means is that as employees have become more responsible for their careers and benefits choices, we as an industry have yet to acknowledge the emotional discomfort that comes with this independence.

These predictions of the "new career contract"[iii] in the 21st century are now a reality — and then some. My point here is that it is not just accounts, but careers, that have become self-directed. And while this new paradigm allows for potentially greater individuality, personal satisfaction and fulfillment, it also has a darker side. We who take part in and influence the employee experience must therefore be considerate of and sensitive to the potentially volatile and perhaps somewhat more emotional journey of the new American worker, who may leave an organization of his or her own accord, but who may also leave an organization as a result of job downsizing, delayering or displacement. As our environments are now much more fluid, our retirement savings journeys need to match that. We need to allow workplace savings accounts to transfer from one employer to another just as easily.

Consumerism

Individualism now meets consumerism — not only in how we buy things, but in how we use and consume them. From media to dating to cabs and diapers, we take it all in with a single click or swipe. Now think about how we consume retirement planning. Ten clicks to get to 40-page documents and incomprehensible forms — financial planning uses online tools that were once considered futuristic, but we've not kept up with how end users and the world around us has developed. It is time that we understand how to use the consumer mindset to encourage increased savings (that is, earnings opportunities) in workplace retirement plans.

This shift, which has been underway now for several decades, is what marketers Lippincott and Hill Holliday call a change from "the institutional era" to "the human era." [iv] This means that interactions are more reciprocal between buyer and seller. To give you some examples, I ride, but I rate. I buy, and I review. Today's sellers are more empathetic and transparent with their consumers. I emphasize this deep cultural shift both to highlight changing consumer expectations and to identify how organizations are becoming increasingly responsive to consumers' wants, needs and feedback.

If we as an industry want to encourage people to save more for retirement and to plan more effectively, then we need to understand these influences on Americans' hearts and minds. To make retirement planning relevant to American workers — that is, to garner more share of mind (in terms of engagement) and more share of wallet (in term of savings) — we need to focus on fostering positive behaviors, such as making good choices easy and bad choices difficult, and acknowledging that additional disclosures and general education have little impact on 401(k) participants' long-term outcomes. A career change presents tremendous opportunities. The best moments to try to catch a person's attention are at inflection points. Receiving trustworthy, step-by-step guidance at these moments could go a long way to increase participants' confidence and engagement with retirement planning.

Humanism

Before I share suggestions for how to better engage workers, I want to share one more insight that I think is very relevant to what we do as providers of retirement security. In this shift from institutional to human approaches, the way leading organizations talk to consumers has changed significantly. Lippincott and Hill Holliday suggested that "Human Era companies shed the jargon, lose the corporate pronouncement, and have a dialogue like real people do," as opposed to corporate language, noting that "[s]omehow in most institutions, the shorthand jargon that employees adopt to get work done efficiently has leaked out to customers."[v]

The retirement industry may just be one of the worst offenders of this jargon-filled, old-fashioned, outdated approach. All too often, plans communicate to their participants in language filled with legalese and technical vocabulary. We need to change the approach, tone and tenor of these conversations with employees if we really want to enact change and get people to alter their behaviors and save more for their futures.

The provisions of the Pension Protection Act of 2006, or PPA, ushered relief to plan sponsors, enabling them to take stronger actions to help enroll American workers in 401(k) plans, increase their savings over time, and invest them automatically in well-diversified default funds. In other words, we've gotten employees into the driver's seat, but we're not helping them switch lanes as needed in response to the dynamic environment that surrounds them.

Recommendations for Increasing Lifetime Participation

In order to continue building upon the progress made by the PPA and go beyond getting people started with enrollment, I suggest the following three considerations to the Council, with respect to helping people transfer accounts. These include:

1. **Making portability easier for participants**
2. **Introducing safe harbor relief for plan sponsors who embrace and encourage roll-ins**
3. **Providing safe harbor protection to allow plan sponsors to proactively promote the plan's default fund**

Let's examine my first recommendation, making plan-to-plan transfers easier. Three ways we could improve upon current processes include:

- **Automating the movement of savings from one employer to another, which would help decrease the likelihood that employees cash out savings**
- **Simplifying, standardizing and digitizing roll-in application paperwork**
- **Making it easier to find and access roll-in applications**

Automation of portability is affirmed by Spencer Williams of the Retirement Clearinghouse. The Clearinghouse recommends a third-party entity, such as their organization, to help facilitate the movement of accounts from an old to a new workplace savings plan.

While we work to solve auto-portability, there are simple steps we can take now to make movement easier for participants. Forms should be uniform across all recordkeepers. They should also be easy to find, intuitive to complete — meaning they include clear steps and can be filled out in less than five minutes — and they need to be available digitally. And let's not forget the power of deadlines.

Making plan-to-plan account transfers easier also requires providing more support to employers, which leads me to my second recommendation:

- **Provide safe harbor protection to plan sponsors who proactively encourage, promote and accept roll-in savings from an employee's previous 401(k) plan, IRA or both.**

The threat of potential litigation paralyzes many plan sponsors from taking proactive steps to help participants save and invest more effectively for retirement. Many of the plans I work with really want to help their participants retire successfully and with dignity. According to Aon Hewitt's annual report on retirement and financial wellness, the number-one reason sponsors are creating or expanding financial wellness programs is that "they think it's the right thing to do."[vi]

Yet a system that does not allow plan sponsors to take bolder steps to frame choice or to meta-nudge participants toward better outcomes is not supportive of lifetime participation and optimal utilization. We as an industry need to find a better balance between protecting the interests of participants and plan sponsors, while understanding the realities of the world we live in and getting participants' attention.

Behavioral economic experts Richard Thaler and Cass Sunstein affirm, "When people have a hard time predicting how their choices will end up affecting their lives, they have less to gain by numerous options and perhaps even by choosing for themselves."[vii]

Sponsors spend tremendous amounts of time, money and resources vetting, selecting and reviewing appropriate defaults for their plans. Yet it is not enough. The approach used by many plans and recordkeepers and reinforced by legal advisors and regulations still favors hobbyists and enthusiasts, and doesn't go far enough to help the silent majority. This leads me to my third recommendation:

Provide safe harbor protection to allow plan sponsors to proactively promote the plan's default fund.

We need to expand upon the use of the default system in communications and re-enrollment and mapping practices.[1] This type of safe harbor is particularly important given the Department of Labor's recently released final fiduciary regulation that may give plan

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[1] Re-enrollment refers to the process where plans re-map all participants into the plan's default fund; participants have the ability to opt out and choose their own funds if they do not want their current balance and future contributions mapped to the default fund.

sponsors pause in providing this type of communication to their participants. I will discuss this issue a bit more below.

There is a growing trend among employers to guide participants through the selection of benefits choices. One large employer refers to it as “guided, assisted consumerism.” Another refers to it as the “end to the age of investor autonomy.” I’d like to underscore what’s new and different about this approach: Plan sponsors are not dictating choice; rather, they are illuminating it.

I strongly encourage the Council to promote this practice and to provide relief to plans adopting it.

Ways we can encourage this effort include:

- **Providing relief to plan sponsors with respect to 404(c) and the new DOL fiduciary guidance around investment education to allow sponsors to promote its plan’s well-diversified qualified default investment alternative (QDIA) fund as a suitable choice for all employees of various ages, career stages and retirement goals**

- **Providing relief to plan sponsors, including HR and call center staff, to recommend the plan’s default investment option as a suitable option if employees ask for guidance during the roll-in process**

For example, imagine the following sequence:

- You join a new organization after 10 years of employment in the private sector.
- Much like your iPhone announcing a software upgrade, you receive a push notification from your new employer reminding you to roll in outside savings. (This notification could appear quarterly until addressed.)
- You click accept, and the next question asks how you want to invest those savings, with the default fund pre-selected.
- You click accept or “consider additional options.”
- You’re finished, or you choose your own allocation.

To compete with busy lives and information overload, we need to make it that easy to transfer.

Other ways the industry can help influence plan-to-plan employee account transfers include:

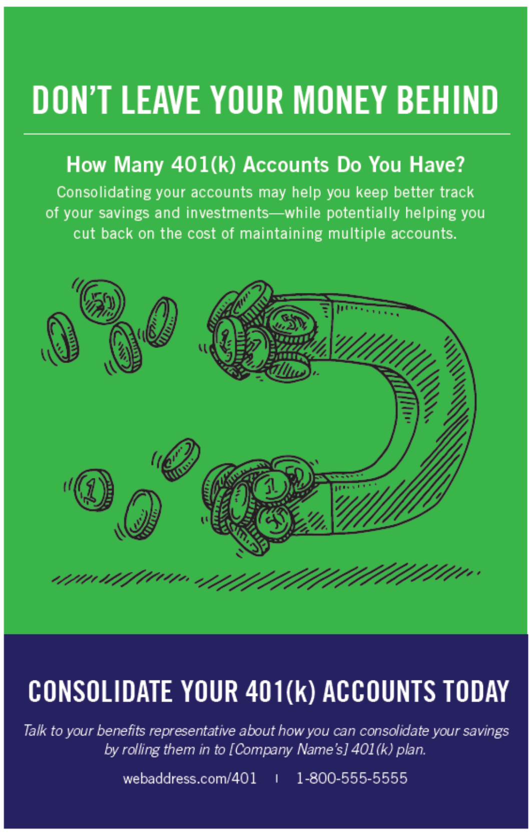
- **Framing the options available to departing employees with regard to their workplace savings retirement accounts in the following order:**
    1) **Roll it into your new employer’s plan**
    2) **Keep it in your existing plan**
    3) **Roll it over to an IRA**
    4) **Cash it out**

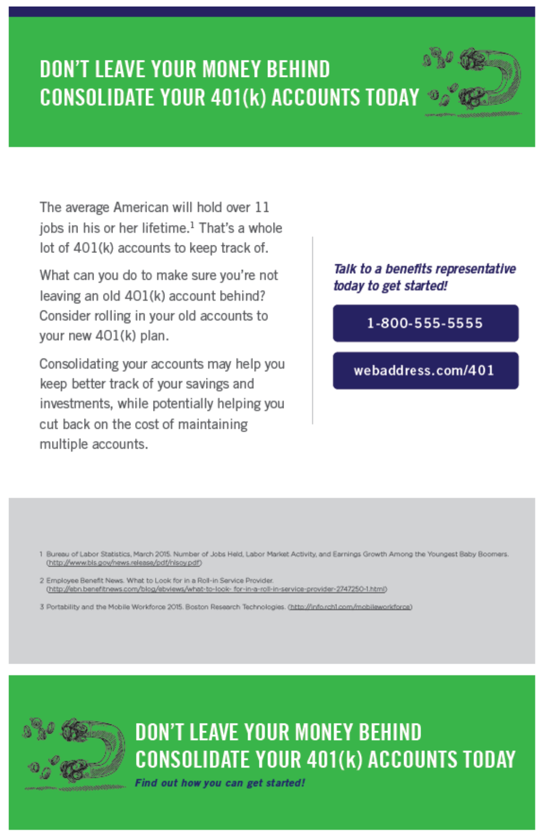
Meta-nudges — that is, describing the potential consequences of each decision — should be included in this notice. For example, an outline of the cost of cashing out — both the tax penalties and lost potential income — as an illustration.

- **Proactively notifying existing employee participants about the option to roll in existing retirement savings from previous plans**

  This notification should outline the potential benefits of rolling in outside retirement savings and offer application assistance (if the process is not automated) through illustrative "how to" guidance or personalized assistance via the plan's call center.

  To give you an example of sample participant communications that utilize current marketing and communications best practices to help drive awareness of rolling in savings to a new employer's plan, consider the following:





Source: SSGA

To reiterate our recommendations, we urge the Council to consider:

1. **Making portability easier for participants**
2. **Providing safe harbor protection to plan sponsors who proactively encourage, promote and accept roll-in savings from an employee's previous 401(k) plan, IRA or both**
3. **Providing safe harbor protection to allow plan sponsors to proactively promote the selection of the plan's default fund**

Conclusion

Thank you again for including State Street Global Advisors in this discussion and for being receptive to bold recommendations. At SSGA, we believe that "Together, we can make retirement work," and we support all efforts to make saving for retirement more accessible, straightforward and achievable for Americans of all backgrounds and income levels. Thank you.

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[i] Douglas T. Hall, "Protean Careers of the 21st Century," *The Academy of Management Executive (1993-2005)* 10, no. 4 (November 1996): 8–16, http://www.jstor.org/stable/4165349.

[ii] Ibid.

[iii] Ibid.

[iv] John Marshall and Graham Ritchie, *Welcome to the Human Era* (Lippincott and Hill Holliday, 2013), http://www.lippincott.com/files/documents/news/perspective_Welcome_to_the_human_era_031914.pdf.

[v] Ibid.

[vi] Rob Austin, Amy Atchison and MacKenzie Lucas, *2016 Hot Topics in Retirement and Financial Well-Being* (Aon Hewitt, 2015), http://www.aon.com/attachments/human-capital-consulting/2016-hot-topics-retirement-financial-wellbeing-report.pdf.

[vii] Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (New York: Penguin Books, 2008).