Testimony on Behalf of Benz Communications
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Successful Retirement Plan Communications for Various Population Segments

Thank you for the opportunity to appear before you today and discuss this very important issue: Effective retirement communication. I am Jennifer Benz, founder and CEO of Benz Communications. We are an award-winning firm specializing in employee benefits communication. Our clients include Pitney Bowes, Danaher and others among the Fortune 500 and 100 Best Companies to Work For in America. We help employers get their employees engaged around complex subjects like health care and retirement. One of those complex issues, for all of us, is funding a secure retirement.

It's clear—statistically and anecdotally—that Americans don't understand the issues surrounding financial security and, therefore, are unable to take clear, decisive and effective actions to achieve it.

2012 data from the Employee Benefit Research Institute reveal a troubling picture: that retirement confidence is at an all-time low. In its annual Retirement Confidence Survey, the longest-running survey of its kind, EBRI reports that 28%—the highest level in the survey's history—are not at all confident about being able to afford a comfortable retirement. Barely one-fifth (18%) of current retirees say they are very confident in being financially secure, a record low.

Despite employers' efforts to simplify retirement saving through automated plan features, few people fully understand their retirement accounts and how to properly manage them. Few people are saving what they should be. Even the most educated individuals, myself included, make mistakes with planning for and managing their retirement accounts—mistakes that can be incredibly costly when compounded over decades. And, for many Americans, baseline financial literacy and the basics of proper budgeting and saving are far out of reach. We have to solve those problems before we can fix retirement.

Achieving financial security for all Americans is not a one-time effort. It is not a set-it-and-forget-it proposition. It requires a change of mindset and our culture—and the systems that support it.

To that end, I want to address three key points:

1. **First, we know what makes retirement plans and communication effective.** I'll cover briefly how a combination of smart plan design and robust communication can get people on a path to a secure future. We know how to do this, and the standards have been set.

2. **But employers have very limited capability and capacity to orchestrate ongoing communication the right way.** I'll share results of a survey we conducted last year about benefits communication and share some stories from our own client work. I do believe most employers want to do the right thing for their employees—but they face major barriers. And individuals do not stay with an employer their whole careers. So, they must knit together a picture for themselves and take action on it. We see some ways the Federal Government can assist here.

3. **And, finally, we must change the dialog about retirement all together**. Employers cannot be the sole source of participant-centric financial information, and they cannot be solely responsible for people's personal financial educations. We believe the DOL can take actions that would change the dialog in our country on two topics: First, basic financial literacy for all Americans. And second, empowering and pushing people to save for their futures from the moment they start working.

1. We know what makes retirement plan design and communication work.

There are two conflicting realities that come into play when we consider saving for and communicating about retirement through the workplace: The first is that for many employees—the 78 million members of Generation Y—retirement is more than 50 years into the future. Andrew Gold, Vice President, Total Rewards at Pitney Bowes, said it well: "To get people to focus on the long-term future is very difficult. People discount the future. So, just getting anyone to pay attention to it is a major challenge. Plus, what we're asking them to do is time consuming, confusing and doesn't leave you feeling good."

Even if employees could conceive of what their lives could look like decades from now, our spend-now-save-someday culture doesn't promote that long-range thinking.

The second is that statistics tell us that most Americans will only stay with their current employer one-tenth of that time, an average of 5.2 years, according to EBRI data. That long timeline combined with short tenure make it difficult to capture employees' attention and make meaningful inroads on retirement communication.

Still, smart plan design that uses everything we know about human nature and the lessons of behavioral economics can pierce both employee inertia and transience.

Automatically enrolling employees into retirement accounts is a proven strategy to putting Americans on firmer financial footing. A joint survey from the American Benefits Institute and WorldatWork finds that close to 40% of employers that use auto-enrollment in their retirement plans achieve up to an 89% participation rate among eligible workers. This compares to half as many (21%) of employers who can claim the same participation levels without auto-enrollment.

Auto-escalation goes hand in hand with auto-enrollment. In fact, behavioral economics research indicates that auto-enrollment can be a double-edged sword, because although it gets people into a savings plan, inertia takes over and tethers them to a deferral rate (generally around 3%) that is nowhere near high enough to produce sufficient wealth accumulation. According to a white paper from DCIIA, "auto enrollment … without auto escalation can actually *reduce* accumulation amounts for workers who would have enrolled in the plan proactively at a higher rate."

However, for automated features to be most effective, default percentages first must be set at meaningful levels. Although most employers auto-enroll employees at or about 3% of pay—in line with a safe harbor rule from the 2006 Pension Protection Act that allows employers to draw that minimum amount from employee pay into a retirement plan—financial experts are nearly unanimous in their belief that individuals need to set aside at least twice, perhaps up to four times, that amount to achieve a secure retirement. EBRI analysis concludes that setting default enrollment rates at 6% can help a majority of employees achieve the 80% of salary needed to retire comfortably.

Strategic default rates must go hand in hand with employer matching contributions. Just a couple weeks ago, I led client focus groups where employees told us, “If my company isn’t matching my contribution, I assume I don’t need to be contributing myself.” It is amazing how quickly a precedent is created, and employer matching is another “default” that can work for or against savings rates.

Recommendation: In an ideal world, every employer would offer plans that follow these best practices. However, that is not feasible for many organizations, and requiring it would discourage many from offering retirement plans in the first place. Still, we believe showcasing the exemplary case studies will help other companies be successful. Further, having clear examples of how to make this work would help companies of all sizes. The consultants and financial services industry shouldn’t be the only ones who control this knowledge.

A big part of success at any company with exceptional participation rates is effective communication. With sound plan design as the foundation, employers can help build workers’ financial savvy through simple, consistent, ongoing, meaningful communication. Again, retirement is not a set-it-and-forget-it proposition, and employers need to have an ongoing dialog with employees about their financial security and savings.

Employers who do this really well invest tremendous resources—robust websites, online tools, smart and creative marketing. They use every channel at their disposal—from print to external marketing websites to social media. I was delighted to see TIAA-CREF on the agenda today, because they are an excellent example of an organization that uses these new tools and creatively talks about retirement and savings.

Using a wide array of channels allows companies to make the communications more accessible, because we know that people learn, absorb and prefer information in so many different forms. While there are trends, we can’t make blanket assumptions about demographics or psychographics and how people prefer information or what will make them react. We can definitively say that simple, consistent and ongoing messages must funnel individuals into a personalized system—once engaged, an employee must quickly be pointed to their next (simple!) action step, based on their life circumstances. And because life changes, that system must be sophisticated enough to address various scenarios.

I can also tell you that social media and new communication tools lower the cost of ongoing communication while giving people more ways to interact with the information. We started advocating for social media many, many years ago and, in 2010, published a comprehensive how-to guide called the Social Media Starter Kit. This guide has been widely distributed and co-branded by UMB Healthcare Services and SSgA. Every company we have seen that invests in social media and ongoing communication sees good results.

However, many companies are still shy about using new tools and channels and continue to let legal compliance set their communications strategy. Although we have been using social tools for quite some time, very few companies use them for benefits. This is an area where the DOL could help.

***Recommendation*:** There's still a lot of concern among employers about the legal use of new tools like social media, which includes simple channels like blogs and microblogs that have no more risks than traditional methods. The DOL could help further the creative—and effective—use of these channels by encouraging their use and issuing common sense guidelines, similar to ones that currently exist regarding investment advice.

2. While most employers have the capacity to create smart plan designs, they have limited capacity to do the ongoing communications and marketing.

As I mentioned in our introduction, I do believe most employers want to do the right thing for their employees. I certainly do for my team, and the same is true of large employers. But when it comes to the sophisticated communications and marketing required to change people's financial behaviors, employers are working against two powerful forces: 1) a financial services industry that takes advantage of individuals by making debt seem inconsequential and by hiding fees and other penalties; and 2) a consumer-spending machine that makes buying more desirable than saving. This is not a battle that can be waged without major resources, but that's what most employers are up against.

Last year, we surveyed nearly 300 HR and benefits professionals about their communications efforts. We found that despite their best intentions and desire to engage employees throughout the year, the vast majority of respondents were failing to implement simple, proven communications best practices that could help them get the most value from their investment in benefits. This was true across employers of all sizes and industries.

For example, 78% of employers said engaging employees year round was one of their top challenges, yet less than a third (28.9%) are actually communicating with employees year round. Further, nearly half (45.4%) are dissatisfied with their current communications strategy, and 41% said they aren't sure if their benefits communication efforts are helping to meet their goals.

This lack of strategy and satisfaction is particularly concerning when you consider that professionals told us that their companies' top goals include increasing workers' use of preventive health care services (48%) and increasing employees' 401(k) savings. Fewer than a quarter (24%) said they met these goals last year.

However, it's difficult for employers to do their best work when they are hamstrung by insufficient budgets. More than two-thirds (68.3%) report budgets of less than $25,000 for benefits communication; 10.1% report budgets between $25,000 and $75,000. Never mind that such budget lines don't support a truly comprehensive communications effort; the majority of these budgets aren't being spent strategically. For example, two-thirds (66%) report print and postage costs (one-time, non-renewable expenses) as consuming most of their budget. And, while using new media, social media and mobile channels would be a more strategic and effective use of employers' limited resources, our survey also found that adoption of such tools is extremely slow.

Despite such limitations, we believe employers *know* they should be communicating more effectively. They *want* to do it. They know *how* to do it. Yet, they don't. Why not? I think it comes down to three reasons: bandwidth, compliance and expertise.

Bandwidth: HR/benefits leaders compete for “airtime” with other business critical functions. That means the overall benefits message is competing with all the other business communication. And, even within the benefit categories, HR teams must prioritize high impact messages with compliance. The Affordable Care Act creates tremendous complexity and change for employers. They are struggling to keep up with it. The most sophisticated will use this opportunity to tie health care and retirement messages together. But, for the vast majority, retirement education will take a back seat to health care changes for many, many years.

Compliance: The compliance must-do’s take priority over the should-do’s, and this is the reality for many benefits teams. If they could streamline compliance communication and direct those resources to strategic behavior-changing communication, we would be making tremendous progress. “Compliance communication just adds to the noise and confusion. The information is too much for anyone to understand and doesn’t get to what people actually need to know or do. If they can’t use and act on the information, we shouldn’t be sending it,” explained Mr. Gold.

Recommendation**:** The DOL also can use its influence to push employers to adopt more accessible online channels, make electronic distribution of compliance materials the norm, and shift resources toward strategic communications rather than compliance.

Expertise: The type of audience segmentation and targeted messaging that make a true and lasting impact require sophisticated marketing tools and strategy. Data-driven communication enables messages to be truly specific about tactical next steps, so that employees can map out a personalized action plan rooted in realistic scenarios and financial knowledge. HR pros have experimented with this for over a decade, and it yields results. There are countless ways to make key messages more meaningful through thoughtful segmentation. This is the most effective way to manage communication—particularly to move people along in financial education and action.

Yet few employers have the data, resources or expertise to do this effectively. Even for companies whose bread and butter is communication technology, strategic and segmented communication requires a significant investment.

For employers, this is too heavy a burden. No amount of regulation, case studies or advice will turn every company in America into an expert retirement educator in the timeframe we need to make progress. To make progress quickly, we need to remove a large portion of that burden from employers.

3. We need to change the dialog overall

This speaks to the biggest issue—and opportunity—we see. We need to change the overall dialog in our country about retirement, financial security and saving money. We need to change our culture from one of spending and buying to saving and, simply, not buying so much stuff. And we need to talk about what most people are afraid to say: that, for most Americans, you and your savings will be the source of your income for your whole life.

Basic financial literacy is one of the biggest stumbling blocks to planning a secure retirement. A recent study from Allstate Insurance tells us that 41% of Americans are living paycheck to paycheck—just one emergency away from financial ruin. Credit card debt, lack of basic budgeting skills, and insufficient emergency savings are additional strikes against people being able to ascertain—let alone adopt—sound financial planning.

“If we really want to change people’s habits and set them up for success, a financial education needs to be taught at an early age,” Mr. Gold said. “Once you’re an adult, there are very few sources of unbiased financial advice. And it is very expensive for an employer to provide unbiased resources. We do it because it is the right thing to do but I’m not sure many can justify the expense.”

However, even with sufficient resources, the current retirement dialog skips over baseline fundamentals and jumps to asset allocation and risk and portfolio management. We’re asking people to drive the Indy 500 before they’ve got their learner’s permit. Let’s take the burden off the employer and help all individuals get better educated.

Over the course of their working lives, most Americans have heard a patchwork of financial and retirement messages and had inconsistent access to planning tools. If you’re lucky enough to start your career with a company that has robust education, you may be off on the right foot. If not, you could lose a decade before you figure it out. Yet, figuring it out could be as vague and unplanned as having several “orphaned” 401(k) plan accounts, a hope that your primary residence is worth something, and a prayer that Social Security will still provide benefits despite the public dialog.

This is where we see unlimited opportunities for the DOL to work together with Social Security, Treasury and the IRS to provide tools, education, games and resources for the benefit of all employers and all Americans.

- ***Recommendation:*** We need a national message on financial literacy. We’re in favor of the AARP proposal to create an info-graphic much like the nutritional pyramid generated by the USDA. While such an endeavor is fraught with competing private interests, the result—a simple, clean message that all employers can use—could support Americans along all levels of financial fluency. Such a tool can even be introduced in schools along with other critical life skills.

- ***Recommendation:*** We also mentioned that individuals need a place that pulls it all together—in a personalized, this-is-my-life-right-now way. The government has the data on orphaned plans and Social Security. It also has a foundation in *mymoney.gov* to provide detailed supporting education. These ingredients are ripe for a modern, multimedia online tool or game that could help Americans across the spectrum of financial literacy. As one client said: “Financial literacy should start in the school system. It is tough for an employer to build basic financial literacy skills. I’d like to see the DOL create a game and let gaming be the way to teach Millennials and Gen X what they need to do. Put it out on iPads and mobile phones, like Angry Birds. The DOL has the critical mass to justify a big investment like that.”

- ***Recommendation:*** Finally, Social Security knows the minute you start getting a paycheck, and every pay increase from that point forward. What kind of compelling, simple education could be provided the minute you start paying into the system? How could the government’s size and scale be used to get people the personalized, targeted, simple education they need?

Conclusion

Thank you again for the time to share our thoughts. I am delighted that you are investigating the topic of effective plan design and communication. We have the opportunity to really change the dialog for our country and help more Americans live happy, successful, financially secure lives. Employers certainly have a big role to play in that. But employers alone are not the solution. Strong action from the DOL and big investments in education for all Americans will help us create a better future for all of us.