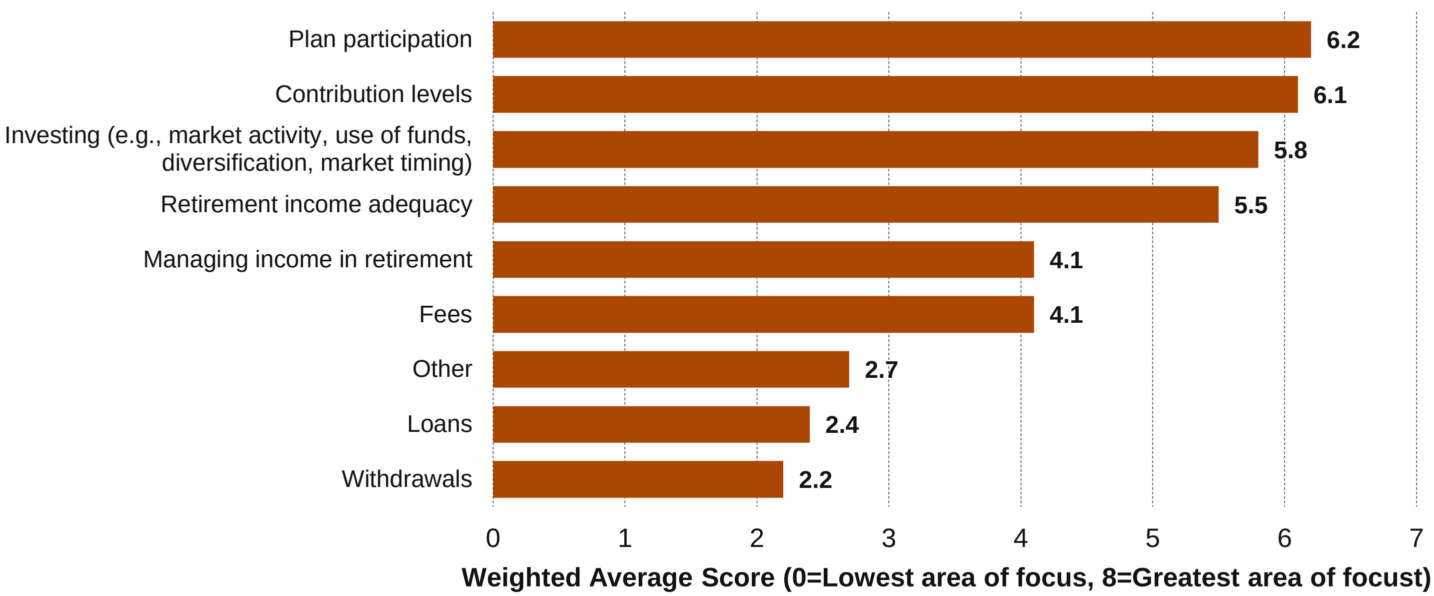
2013 ERISA Advisory Council

Working Group Examining Successful Plan Communications for Various Population Segments

I am Lori Lucas, Defined Contribution Practice Leader at Callan Associates, one of the largest independently owned investment consulting firms in the country. I am pleased to appear before the ERISA Advisory Council's Working Group Examining Successful Plan Communications for Various Population Segments. I have studied the issue of effective DC plan communication for well over a decade in my capacity at Callan Associates and other organizations. The topic being addressed by this working group is a very important one, and may affect the retirement success of millions of Americans.

In a recent Callan Associates survey, plan participation was given as the number one area of communication focus by DC plan sponsors for 2013, while contribution levels ranked as the second highest communication priority (Exhibit I).[i] Yet, successful communication that changes behavior remains elusive. One plan sponsor I worked with phrased the DC communication dilemma perfectly a few years ago when he said: "In the U.S, we have spent the last 15 years educating the same 20 percent of our employees who 'get' investing for retirement. It's the other 80 percent who are clueless that we are worried about." These hard-to-reach groups are our youngest workers who are furthest from retirement, low-paid workers, minorities, and female workers. What all of these demographic groups have in common is that the traditional approach to communication, which involves detailed brochures explaining the intricacies of 401(k) plan investing, tends to have little impact on changing behavior. Instead, successful communication to these demographic groups must:

Exhibit I
Which areas of communication will you focus on in 2013?



- Engage the specific demographic groups by taking into account their unique ways of relating to saving and investing.
- Effectively employ the latest technology to tailor communication and make it scalable and cost effective.
- Be facilitated and supported through effective plan design and delivery features.

In my testimony, I will describe learnings from behavioral finance about effective retirement communication to various demographic groups. I will also cite several strategies that have been employed by DC plans to successfully increase participation and savings rates. My testimony will conclude with the importance of robust implementation of default strategies in changing participant behavior among hard-to-reach demographic groups. Indeed, I will argue that while there are certainly communication strategies and techniques that can reach low-saving workers and improve savings behavior, few communication strategies can match the truly transformative effect that we see with automatic features. There is evidence that properly implemented, automatic features in DC plans can dramatically improve savings outcomes across demographic groups. I'll conclude with a call to action for improved support on both the communication and the auto feature fronts by regulators.

Understanding and Bridging Differences in Demographic Behavior

An example of variances in ways that demographic groups relate to investing is demonstrated by research I performed several years ago on the impact of gender differences on investment behavior. In an analysis of more than 730,000 eligible employees and 500,000 active participants, my research found that, even after holding equal differences in salary, age, etc., women exhibit quite different saving and investment behaviors than men. The research found that male employees are more likely to participate in their 401(k) plan than female employees. However, once in the plan, female employees tend to contribute more than male employees.[ii]

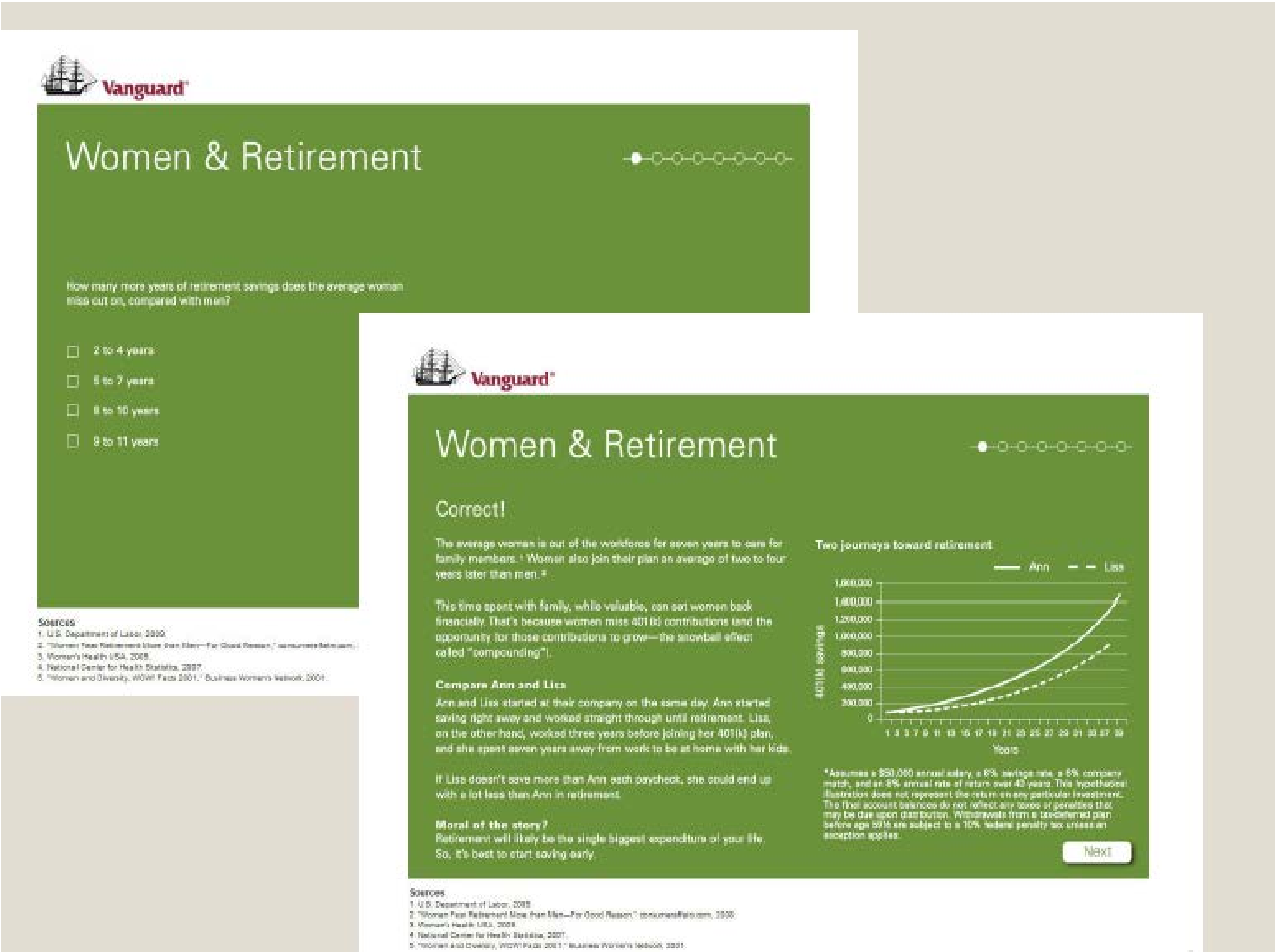
In terms of managing their investments, women are more conservative and less interactive investors than are men. Because of these behavioral differences—particularly the delays in participation by women—male employees are likely to have a higher total plan balance than female participants at retirement. This is particularly troubling because women are likely to live longer in retirement due to their greater longevity than men. Indeed, the Employee Benefit Research Institute (EBRI) finds in its Retirement Confidence Survey that men are significantly more likely than women to feel very confident about having enough money to live comfortably throughout their retirement years and having enough money to take care of basic expenses.[iii]

Engaging women earlier and more fully in the investment process involves more than simply putting pictures of women on the cover of traditional retirement investing brochures. Instead, what seems to make a difference is speaking directly to women's unique savings and investment situations.

One case study demonstrating this comes from Vanguard, which recently performed a communication campaign on behalf of a client, Boston Scientific. Vanguard created an online quiz that sought to educate female employees at Boston Scientific on retirement topics and ultimately increase their deferral rates. Vanguard's stated goals were to make the solution both scalable and reusable with other DC plans.

The educational campaign started with a simple email that was sent to female employees, entitled: "Women face unique financial obstacles: Learn to overcome them." In it, a brief online quiz sought to engage the female employees by probing their knowledge of investment and retirement issues specific to them (Exhibit II). Examples of the questions included: "How many more years of retirement savings does the average woman miss out on, compared with men?" The women were provided with feedback, including 1) whether their response to the question was correct, 2) why women may face certain obstacles to overcome in saving for retirement (such as time spent out of the workforce to raise their family), and 3) ways to overcome those obstacles (such as ratcheting up savings to compensate for lost savings years).

Exhibit II



In all, 3,658 participants were included in the campaign. Vanguard reported that 8% of the women increased their savings rate as a result of the campaign. In a follow-up survey, the majority of those who responded said that the quiz was helpful and that they would like to continue to have women's only education to help them with their retirement saving.

Verbatim comments from survey respondents included:

- "Women should be educated about their unique financial risks so they have the power to react and plan for their future."
- "Didn't know that there was a big difference between men and women—and that women's issues do affect retirement savings."
- "This is not always an area of focus for women. The survey helps draw attention to that."

Vanguard reported that the female-specific intervention was more cost-effective than personalized profiles, and resulted in a greater proportion of participants taking action by saving more for retirement. Still, Vanguard notes that the employees at Boston Scientific were somewhat engaged to begin with, so this must be taken into consideration when potentially extrapolating the results to other companies.

Reaching the Least Engaged: Young Workers

One of the toughest-to-reach, least-engaged demographic groups when it comes to saving for retirement is, arguably, very young workers. In a study I performed on generational differences, it was found that just 31% of Generation Y employees voluntarily participated in their 401(k) plan (Exhibit III), and that the average Generation Y participant contributes less than 6% of pay—an amount that is often insufficient to obtain the full employer matching contribution. A companion survey to the empirical research[iv] found that more than a quarter (28%) of Generation Y workers didn't know if they were saving enough in their plan, while 63% said they didn't have enough information on the topic and really didn't know what to do.

Exhibit III

Participation Rate

Generation	Participation Rate
Generation Y	31.3%
Generation X	63.1%
Baby Boomers	72.0%

Only 13% said they thought about retirement savings a great deal. Lack of urgency and other priorities topped the list of obstacles to saving for these workers, including day-to-day needs and lifestyle purchases (Exhibit IV).

In comparison, 63% of Generation X workers and 72% of Baby Boomers voluntarily participate in their savings plan. One fifth of Generation X workers said they thought about retirement savings a great deal, while 40% of Baby Boomers said they did so. Obstacles differed as well. Like Generation Y, the older generations also cited day-to-day needs as an impediment to retirement savings. But, unlike Generation Y, Generation X did not struggle as much to save for retirement because lifestyle purchases got in the way. Instead, this generation cited saving for children as being high on the list of obstacles. For their part, Baby Boomers noted that saving for emergencies was one of their greatest obstacles to retirement saving.

Exhibit IV

What Gets in the Way of Retirement Savings?

	Baby Boomers	Generation X	Generation Y
Day-to-day needs	67%	71%	78%
Lifestyle purchases	40%	46%	61%
Saving for home purchase	15%	31%	45%
Saving for emergencies	47%	49%	38%
Saving for children	40%	53%	21%
Saving for other investments	24%	30%	23%

How can retirement savings be made a high priority for young workers? Part of the answer lies in intelligent use of technology—including something as simple as incorporating electronic tablets into retirement education meetings. More complex strategies include leveraging social networking and harnessing behavioral finance to change savings attitudes through online applications.

For example, Putnam Investments documents an educational campaign where primarily Gen Y employees at a company were encouraged to interact in retirement savings meetings by bringing their iPads to the meetings, and logging onto the benefits website when the meetings were in progress so that workers could take immediate savings action. Putnam also simplified the saving message to focus on tangible rewards of participation, such as impact of decisions on monthly income replacement.

As a result of this communication strategy, Putnam reported 355 deferral increases within the first 90 days (approximately 40% of those attending).

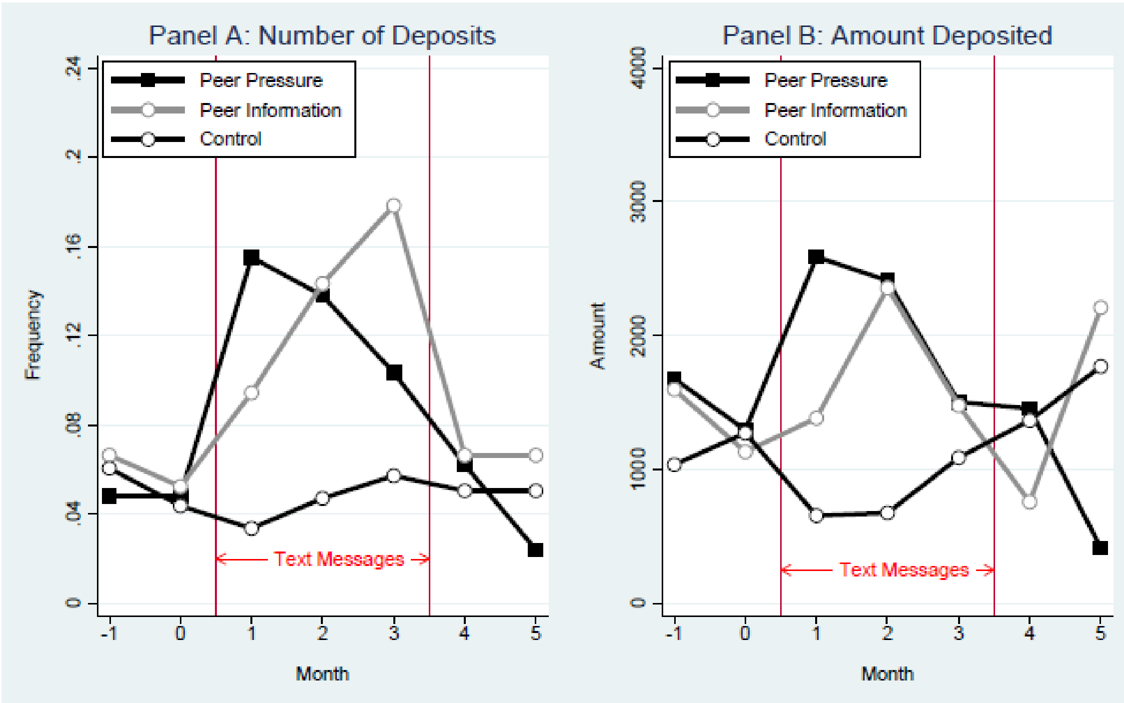
Support for incorporating such technology into the communication equation also comes from a recent survey by SSgA, where 53% of 24-32 year olds say they know more about their iPod than they do about saving and debt.[v] The survey also suggests that social networking may be an important avenue for reaching these younger workers. According to the survey, workers 25 years of age and younger were more than twice as likely as workers in general to favor a Facebook page that regularly posts reminders, videos, and other employees' comments on how to save more; a similarly high proportion favored an employer-sponsored buddy program that encourages people to help other people save more or regular postings on a blog that encourages employees to join the conversation about saving.

The Buddy System

Kast et. al. explored the impact of the buddy system on savings behavior in a recent white paper.[vi] Chilean workers were sent weekly emails that documented and reported to a Savings Buddy whether the individual had saved according to his or her plan or not. For example, the emails might read: "Congratulations! Last week you made your weekly deposit and we just informed your Savings Buddy of your achievement." Or conversely they might read, "Ooh! Last week you did not achieve your weekly deposit and we just informed your Savings Buddy." The researchers found that the use of feedback messages and peer pressure/support not only led to a significantly increased number of deposits, but higher savings balances.

Surprisingly, however, the researchers also found that even without a buddy system, a feedback message that simply informs participants of their own achievement and the success rate of other participants was equally effective (Exhibit V). (e.g., "Congratulations! Last week you made your weekly deposit. X% of other participants similar to you made a deposit.") In other words, the Savings Buddy wasn't necessary to move the dial on savings behavior. This is important because it shows that simple technology in the form of text messages or other feedback devices may render the accountability mechanism of peer groups more scalable and potentially attractive to large, diverse populations.

Exhibit V



Hyperbolic Discounting

One major issue that younger workers have in saving for retirement is their inability to appreciate the value of sacrificing today (e.g., saving in a DC plan instead of spending) for a payoff that is so far into the future (a retirement that is decades away). Indeed, it is a reasonably common practice for companies that communicate with young workers to frame DC savings as "saving for financial security" as opposed to "saving for retirement"—with the theory being that retirement is such a foreign concept to workers in their 20s that it simply will not resonate.

Behavioral research calls this "hyperbolic discounting." Simply put, this is the phenomenon whereby the human brain weighs immediate gains much more heavily than gains that will accrue to the future, resulting in decisions that favor the near term. In other words, it is the reason that eating a dessert at lunch is so much more appealing—and easy—than going on a diet that may improve one's overall health in the long term.

In their white paper "Increasing Saving Behavior Through Age-Progressed Renderings of the Future Self," Al Hershfield et. al found that there are several types of strategies that counter hyperbolic discounting, including precommitment strategies and communication strategies that sensitize people to the needs of their future selves.[vii]

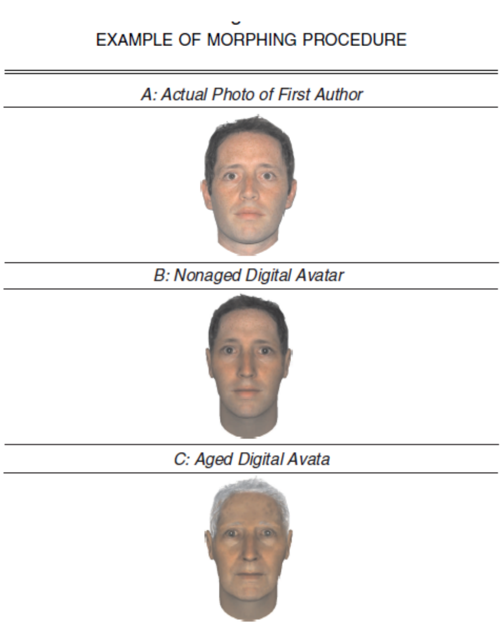
Regarding precommitment strategies, Shlomo Benartzi of UCLA and Richard Thaler of Northwestern University have shown that individuals who are unwilling to save today may be willing to commit to saving in the future—for example,when they receive their next pay raise. Thaler and Benartzi created a "Save More Tomorrow" program for employees at a 300-person firm in which they were given the option of signing up to have their DC plan contribution rates increased each year. The researchers reported that over 160 people signed up for the Save More Tomorrow plan. After three years, the individuals who signed up for and stayed with the Save More Tomorrow program experienced a dramatic increase in their savings rates—from 3.5% before the plan began, to 11.6% after. While effective, however, Save More Tomorrow precommitment strategies can be said to fall more under the category of plan design and delivery than communication.

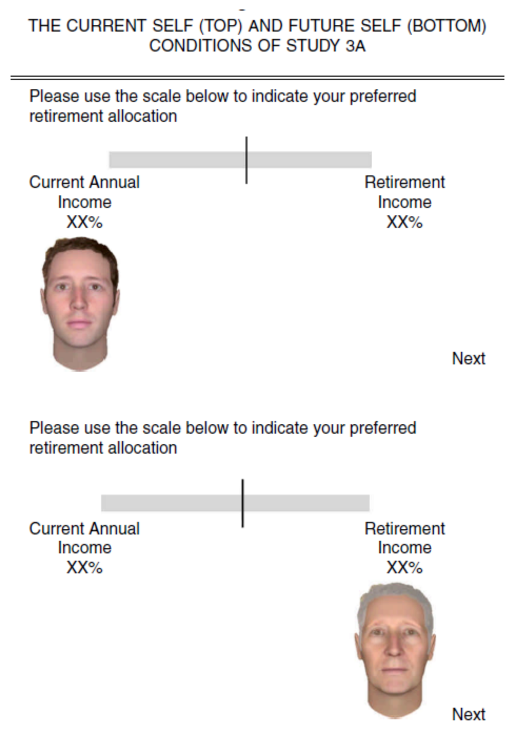
Exhibit VI

	Participants who did not contact the financial consultant	Participants who accepted the consultant's recommended saving rate	Participants who joined the SMT plan	Participants who declined the SMT plan	All
Number of participants	29	79	162	45	315
Pre-advice	6.6%	4.4%	3.5%	6.1%	4.4%
1st pay raise	6.5%	9.1%	6.5%	6.3%	7.1%
2nd pay raise	6.8%	8.9%	9.4%	6.2%	8.6%
3rd pay raise	6.6%	8.7%	11.6%	6.1%	9.8%

An educational strategy to address hyperbolic discounting that Hershfield et al explored involved sensitizing younger people to the needs of their future, aged selves. The researchers posited that, to the extent that people can feel more connected with a vividly imagined future self, they should be motivated to save more money for the future. Accordingly, they presented people with morphed images of their future selves made with the help of age-progression algorithms that forecast how physical appearances might change over time (Exhibit VII). In one study, the researchers had individuals interact with their aged virtual selves in a collaborative virtual environment. They found that participants who were exposed to their "future selves" in a virtual reality setting allocated more than twice as much money to their retirement account as participants who were focused on their current selves. The researchers concluded that the moment a person makes an intertemporal choice such as between spending today and saving for tomorrow is arguably the most important time to consider the interests of the future self.

Exhibit VII and Exhibit VIII





Of course, exposing large populations to virtual reality settings is not very practical, which the researchers concede in their paper. However, face rendering technologies are becoming more readily available and researchers point out that the "notion of people's interacting through avatars with their...financial planners is not an outlandish one." For example, the researchers demonstrated that a more scalable slider mechanism could also be used to improve future savings levels. The slider mechanism shows a current and a future self: the more money allocated to the future self, the happier the expression of the future self would be. As with the virtual reality approach, the researchers found that participants using the slider allocated a significantly higher percentage of pay to retirement (Exhibit VIII). It is important to keep in mind that a slider mechanism requires active participation in the educational process; historically it has proven very challenging to coax workers into using online tools. Take-up rates for online advice tools, for example, tend to range from 3% and 13% depending on the plan sponsor.[viii]

Supporting Behavioral Change through Plan Design and Delivery

The research and case studies cited above show that techniques from behavioral finance, such as creating relevance to a demographic group through quizzes, age-progression, and feedback messages can move the dial on savings and investment behavior. However, the challenges of such communication include:

- *Cost.* Creating communication campaigns that target specific demographic groups can be expensive both in terms of actual dollar costs and in terms of resources employed.
- *Regulation*. Plan sponsors may be hesitant to communicate differently to protected groups for fear of running afoul of discrimination regulations or inadvertently providing advice.

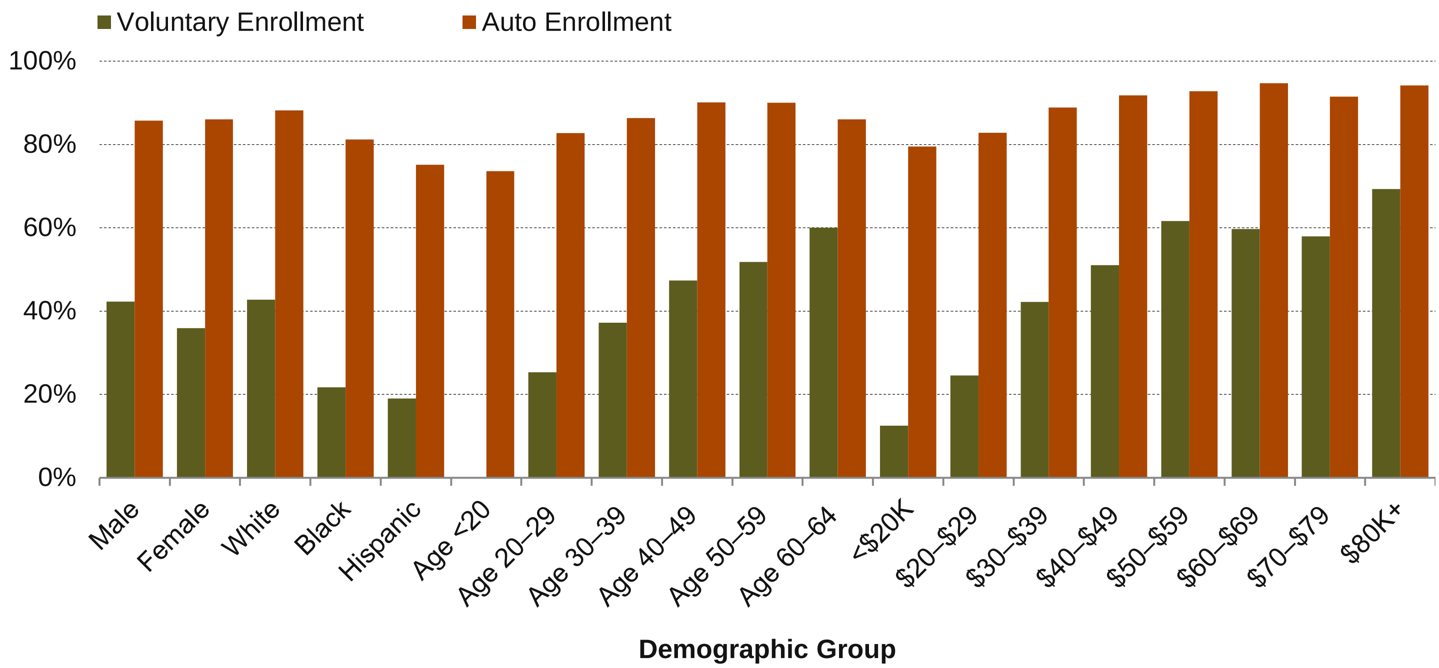
- *Priorities.* Plan sponsors often find that they already have their plates full in communicating with employees about their DC plans just in terms of meeting regulatory requirements. They, and their participants, may not have the bandwidth to support additional communication.

As such, plan sponsors have increasingly turned to plan design and delivery in order to facilitate improved plan utilization. Half of DC plan sponsors now offer automatic enrollment, and nearly that amount offer automatic contribution escalation.[ix] A study by Brigitte Madrian and Dennis Shea noted the dramatic, positive impact of automatically enrolling workers across demographic groups.[x] Indeed, what Madrian et al found was that automatic enrollment has the effect of *equalizing* participation rates across demographic groups. "The effects are largest among the groups with the lowest participation rates under the previous regime of affirmative elections: blacks and Hispanics, the young, and employees with low levels of compensation," according to the paper.

Madrian et al studied a publicly-traded Fortune 500 company in the health care and insurance industry, using employee-level data. The company went from a regime where employees were required to proactively enroll in their 401(k) plan, to one in which newly hired employees were automatically enrolled into the plan with a 3% contribution rate. Overall participation in the plan under scrutiny went from 37% at low tenure levels (3-15 months) before automatic enrollment was in place, to 86% when automatic enrollment was implemented. Strikingly, participation for this cohort under automatic enrollment is roughly the same regardless of gender and age. Prior to automatic enrollment, six percentage points more male workers participated in the plan than female workers at the 3-15 month tenure level. After automatic enrollment was implemented, female workers' participation was actually marginally higher than that of male workers (86% and 85.7% respectively). Participation among younger and older workers experienced a similar convergence. Prior to automatic enrollment, at low tenure levels, only 26% of workers aged 20-29 participated in the plan, while 52% aged 50-59 did so. After automatic enrollment, that 26 percentage point differential in participation dropped to 7 percentage points, with younger workers' participation rate climbing to 83%, while the older workers' participation reached 90% under automatic enrollment. In fact, as Exhibit IX shows, all demographic groups showed dramatic improvements in plan participation under automatic enrollment.

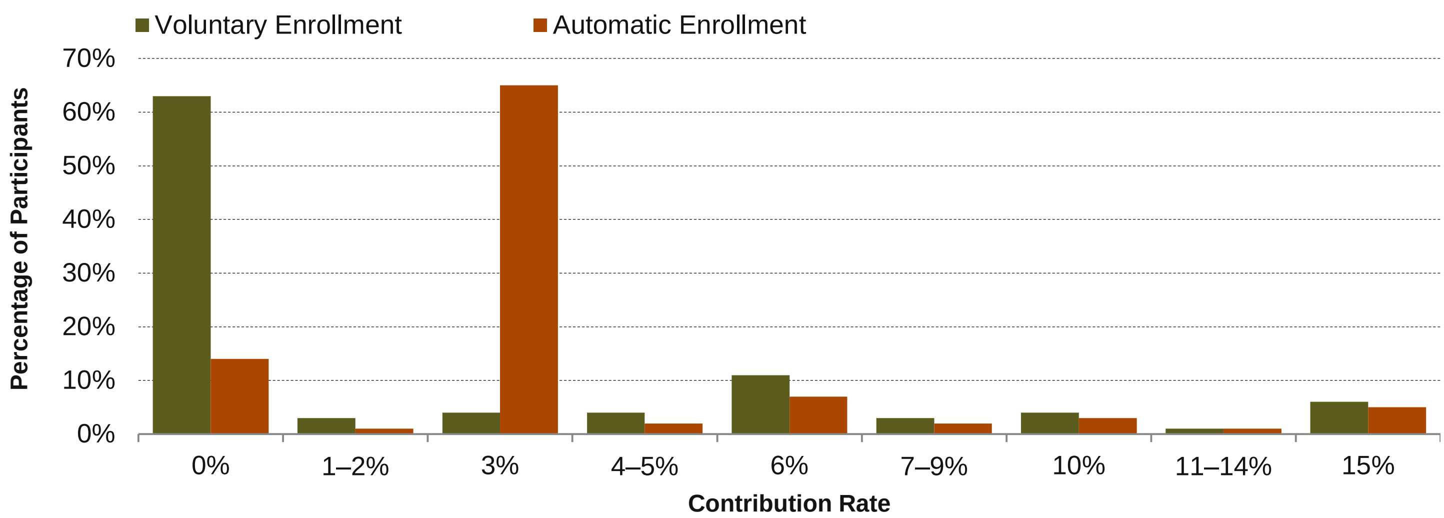
Interestingly, in the SSgA survey, 50% of workers aged 25 and younger responded that employers should "stop trying to communicate; instead, automatically enroll me with a high enough savings rate so I don't have to think about it." This compares to 39% of the general population.

Exhibit IX



So the good news is that automatic enrollment dramatically increases DC plan participation, even among the hardest-to-reach demographic groups. The bad news, as Madrian et. al. found, was that, because of inertia, the default contribution rate under automatic enrollment proves incredibly sticky. Specifically, the researchers found that under proactive enrollment, the most frequently chosen contribution rate was 6% of pay, with slightly more than a third of all participants at this rate. After automatic enrollment, by contrast, the most prevalent contribution rate was 3%, the default contribution rate, with 76% of 401(k) participants contributing at that rate (Exhibit X).

Exhibit X
Contribution Rates



Numerous other studies have documented this phenomenon: the very factor that causes increased participation under automatic enrollment—inertia—can also depress deferral levels when low default contribution rates are used. Unfortunately, low default deferral rates are the norm, not the exception under automatic enrollment. A 2012 Defined Contribution Institutional Investment Association (DCIIA) survey found that more than 50% of plans with automatic enrollment set their default deferral rate at 3% or less—despite the fact that most plan sponsors believe that annual retirement savings should be at least 10% of pay.

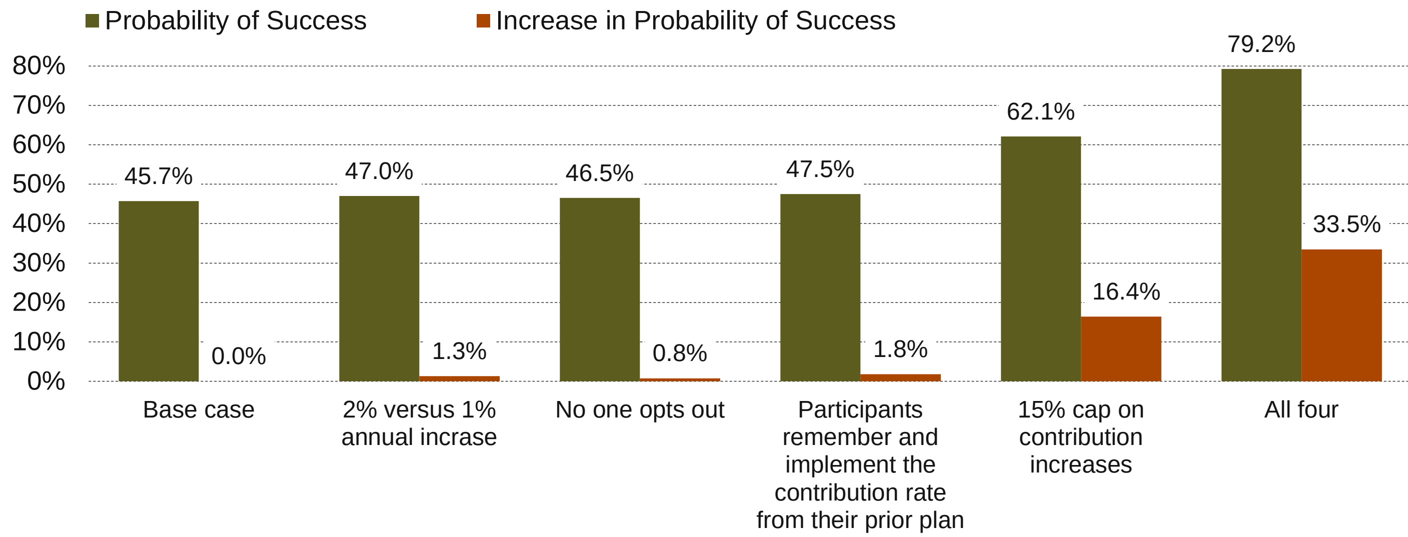
A Better Auto Features Formula

In 2010, DCIIA and EBRI examined the impact of different auto feature assumptions on projected DC plan retirement income replacement rates.[xi] Looking at the lowest income quartile of current DC participants in plans with automatic enrollment and automatic contribution escalation (which is similar to the Smart Retirement Plan), the study defined "retirement success" as the ability for participants to replace 80% of income in retirement through a combination of 401(k) accumulations and Social Security.

EBRI and DCIIA found that when plans implement auto features in a very conservative way—for example, with a 3% deferral rate and a 6% cap on automatic contribution escalation—the model projected that fewer than half (46%) of low-income workers were expected to successfully replace 80% of their income in retirement.

EBRI and DCIIA then turned to a scenario in which plans implemented automatic features robustly—for example, with contributions automatically escalating by 2% instead of 1% of pay annually, and with contribution escalation capped at 15% of compensation instead of 6%. Under the "robust" scenario, the probability of lower-wage workers replacing at least 80% of real income in retirement soared by more than 33 percentage points, from 46% to 79%. In other words, as the result of changing the defaults under auto-enrollment and auto-escalation, retirement income replacement potential in DC plans went from mediocre to reasonably healthy.[xii]

Exhibit XI:
Probability of Replacing at Least 80% of Income in Retirement with Various DC Auto Feature Assumptions (Low Earners)



An EBRI research note titled, "Increasing Default Deferral Rates in Automatic Enrollment 401(k) Plans: The Impact on Retirement Savings Success in Plans With Automatic Escalation," shows how much better participant outcomes can be if plan sponsors simply use a default contribution rate under automatic enrollment of 6%, instead of current, typically lower, default contribution rates. EBRI found that simply by moving all plans to a 6% default contribution rate, the probability that low-wage employees would replace most of their income in retirement increased from 62% to 72%. Among high-wage employees, the probability increased from 41% to 52%. EBRI concluded: "In other words, more than a quarter (26%) of those in the lowest-income quartile who had previously NOT been successful (under the actual default contribution rates) would then be successful as a result of the change in deferral percentage."

Call to Action

There are several steps that the Department of Labor could take to improve participation in DC plans by hard-to-reach segments of the workforce.

- *Address cost issues by facilitating the use of electronic communication for required disclosures.* For example, recordkeepers may waive fees for required participant disclosures that are sent electronically, while charging for those that must be fulfilled by paper mailings. To the extent that company resources are sapped by the need to manually fufill and mail required disclosures, there may be little budget left for special communications encouraging participation by hard-to-reach demographic groups.
- *Streamline required communication to reduce the volume that may be overwhelming workers.* There is considerable behavioral research showing that individuals are overwhelmed by too much information. If workers are receiving mailing after mailing regarding their DC plan, they may begin to disregard these communications altogether.
- *Encourage use of segmented communication by making examples available.* Smaller plans in particular may not have the resources available to create the targeted, personalized campaigns by segments that I've described in my testimony.

- *Clarify the extent to which certain communication may be construed as guidance and education versus advice.* This is particularly important when it comes to retirement income projections geared to help employees understand how much monthly income their savings might translate into at retirement, such as the ones described in the Putnam case study.
- *Encourage employers to implement auto features.* Half of DC plans do not offer automatic enrollment, and even more have yet to adopt automatic contribution escalation. In some cases, plan participation may already be so high that auto features aren't necessary. However, some plan sponsors may hesitate to implement automatic features for other reasons, such as concerns about palatability to employees, cost considerations, or lingering concerns about potential fiduciary minefields. To the extent the Department can promote the use of auto features and quell fears about fiduciary minefields (such as whether certain deferral levels are appropriate or not) more DC plan sponsors may be willing to incorporate auto features into their plan.
- *Emphasize to employers the importance of robust deferral rates under automatic enrollment.* In some cases, plan sponsors appear to be confused about what an "acceptable" default deferral rate may be. Some have taken the position that since 3% has been featured in past examples of automatic enrollment and is required as a minimum starting point under the Pension Protection Act's non-discrimination testing safe harbor, that 3% is an appropriate default deferral for ALL automatic enrollment arrangements—even those not adopting the non-discrimination testing safe harbor. It would be very helpful for the Department to clarify that a 3% default deferral level--outside of the non-discrimination testing safe harbor—is neither a required, nor necessarily a recommended default contribution rate, and that more robust defaults are not only acceptable, but may be more appropriate in order to ensure that workers reach their retirement income replacement goals.

Conclusion

It is clear that by leveraging lessons from behavioral finance, harnessing technology, and carefully targeting communication, it is possible to reach low-saving workers and transform behavior. The power of plan delivery in the form of automatic features, however, should not be underestimated. Inertia cuts both ways—keeping people in the DC plan, but also tethering them to default savings levels. As such, robust implementation of auto feature defaults is essential in facilitating adequate retirement savings.

DOL Questions

1. **To the extent you can provide, what are the current participation, savings rates by industry, age, gender, income-level, marital status, education-level, ethnicity, and race?**

   Covered in comments.

2. **What are we learning from behavioral economics that would encourage plan participation and increased retirement savings?**

   Covered in comments.

3. **What are we learning from segmented communication:**
   - Does the number of channels used to communicate increase effectiveness? What channels are the most effective? What channels are preferred by various population segments?
   - What are the results from communication that is targeted to a particular population segment? Are those results worth the time and effort needed to do effective communications?
   - Are there techniques from consumer targeting that can be applied to participants in retirement and savings plans?

   Covered in comments.

4. **4.What strategies have been employed by those who have been successful in increasing participation and/or savings rates?**

   Covered in comments.

5. **What segments have been most successful in preparing employees for retirement?**

6. **What distinguishes those segments that have been successful from those who have not?**

7. **What incentives do employers have to increase plan participation, savings, and/or annuitization rates? Are these incentives appropriate and adequate?**
   At the most basic level, plan sponsors are incentivized to increase plan participation and savings rates to pass non-discrimination testing requirements. However, it is my experience that many plan sponsors offer DC plans with a goal of significant participation as part of the company's approach to attracting and retaining talent, and providing for workers' financial security. Among large plans, high participation is a common goal—with the only obstacle being the cost of achieving high participation. This may come in the form of the resources required to promote the plan, or it may come in the form of employer matching costs that may increase materially when successful interventions such as automatic enrollment are put into place. A program to help plan sponsors understand ways to restructure matching contributions so that the cost of increased participation is not prohibitive would be useful in helping plan sponsors overcome the cost obstacle of high participation in their DC plan.

8. **What are the best practices employers have used to ensure full participation, adequate savings by retirement plan participants? Please provide examples.**

Covered in comments.

9. **Are many companies providing individually-tailored calculators to help their employees know how much to save?**
   - What has been the experience with them? Are they costly? Are they helpful? Are they successful at increasing savings rates to appropriate levels?
   - Should they be required or encouraged with tax incentives or relaxed regulations?
   - How should they be designed? Please provide examples of designs that have resulted in increased participation and/or savings.

According to the Plan Sponsor Council of America's 55th Annual Survey, retirement gap calculators are made available by 39% of plans—51% of plans with over 5,000 participants. Utilization of online tools tends to be low. According to a report by Financial Engines, between 3% and 13% of workers with access to online advice use the service, depending on plan sponsor.[xiii] Those who use online advice tend to be younger, higher-wage workers.

There is evidence, however, that retirement income projections that are pushed to workers through statements can have a positive effect on savings levels. A study by Gopi Shah Goda et. al.[xiv] found that providing income projections along with general plan information and materials assisting people through the steps of changing contribution rates resulted in a 29% high probability of a change in contributions relative to a control group over a six-month period. The study found that individuals who were sent either no income projections or incomplete income projections (i.e., projections of balances in retirement only/no income projection), generally did not have statistically different outcomes relative to the control group, suggesting that full income projections drive the observed positive effects.

Plan sponsors who forgo offering retirement income projections often do so because of concerns of potential fiduciary liability associated with what may be perceived as advice or a guaranteed outcome. Guidance by the Department that such projections fall under the rubric of education, not advice, would go far in encouraging use of retirement income projections by plan sponsors within their education efforts.

10. **What gaps exist in communication that is impacting retirement planning? How do we improve communication and plan design to ensure maximum plan participation and retirement outcomes?**

One area where there tends to be gaps in communication impacting retirement planning has to do with plan leakage. According to Callan's 2013 DC Trends survey, just over half of plan sponsors have a policy for retaining retiree/terminated assets in the plan. Among plan sponsors that have a policy, the vote is split as to whether it is desirable to retain such assets.

Clearly, asset retention and plan leakage is not a high priority for many DC plan sponsors. They may be so focused on participation and deferral levels, that they do not prioritize plan leakage. Alternatively, they may shy away from extensive communication around maintaining monies within the retirement system for fear of crossing the line from education into providing advice. Guidance by the Department that such communication falls under the rubric of education, not advice, would go far in encouraging plan sponsors to adopt communication to prevent plan leakage and to encourage retention of assets in the plan.

11. **What created the gaps in communication and retirement readiness for genX/millenials/minorities? Are there any differences in the gaps that exist between these groups?**

    Covered in comments.

12. **What are the potential legal issues for plan sponsors, such as utilizing plan assets, privacy, discrimination for analysis and communication segmented to a portion of the plan's population? Is the use of plan assets for the data collection an appropriate use of plan funds?**

    Covered in comments.

13. **What can DOL do to help plan achieve more effective communications to eligible participants?**

14. **What additional guidance would help plan sponsors in collecting and utilizing data by age, gender, income-level, marital status, education-level, industry, ethnicity, and race? Are there any concerns about collecting this data? What are the proposals to mitigate these concerns?**

    There is a great deal of concern about such data collection, especially when it involves a third party (who may be providing the communication). Plan sponsors are especially sensitive that such data collection might be perceived as an invasion of privacy, or lead to security breaches. For example, if enough data is provided about an individual, that individual's identity might be ascertained, leading to a security breach.

15. **What are the barriers to this collection and potential publication of this data?**

    Certain of this data is not commonly available, or may not be reliable. For example, ethnicity, race, and education level are not common data elements within DC recordkeeping platforms. Plan sponsors are likely to be most comfortable with participants' opting-in to providing such data through an online interface such as the Benefits Web Site. While the opt-in approach may be more appealing from a privacy perspective, it is likely to have low adherence by employees.

16. **Are there educational opportunities that should be implemented or enhanced to address this issue?**

    Plan sponsors might welcome input from the Department on proper data collection approaches and techniques.

    Plan Design

17. **Are there plan designs that make it easier to communicate retirement plans to employees?**

18. What plan designs have been most successful in encouraging employee participation, adequate savings? Are certain designs (e.g., automatic/mandatory or default features) more effective for various population segments?

Covered in comments.

19. What role would annuitization or the available of an annuity option play in better preparing employees for retirement?

A number of plans offer annuities as a form of payment, or access to fixed annuities through products such as Hueler Income Solutions. However, take-up rates are very low (e.g., 2-3%), as participants prefer lump sum distributions.

20. Are there potential legal changes to plan designs, especially in the 401(k) world that would make it easier for employers and encourage plan participation, adequate savings and/or annuitization?

A DCIIA white paper finds that 401(k) plan cashouts reduce the probability of successfully replacing the majority of income in retirement within the 401(k) environment by more than 5 percentage points. During their working lives, individuals are likely to have many jobs—and therefore many terminations—prior to retirement. This provides numerous opportunities to access 401(k) money in the form of cash-outs upon termination. One potential legal change to consider is limiting access to 401(k) money prior to age 59 ½ for terminating workers.[xv]

21. What gaps exist in plan designs that are impacting retirement planning?

Covered in comments.

22. Are these gaps industry specific or across the board? For example, do these gaps exist in for-profit and non-profit equally?

Covered in comments.

23. What is the potential impact to society if these gaps are not closed? If they are closed?

Covered in comments.

24. What do you think the Department of Labor's role should be in addressing this problem?

Covered in comments.

25. Are there plan designs that positively or negatively impact the desired outcomes? Please provide examples.

Covered in comments.

26. What other studies or actions do you recommend?

Appendix

Conservative versus Robust Implementation of auto features:

A "conservative" implementation of automatic features includes:	A "robust" implementation of automatic features includes:
• Capping automatic contribution escalation at 6% of compensation.	• Capping automatic contribution escalation at 15% of compensation.
• Implementing 1% annual increases in contributions.	• Implementing a 2% annual increase in contributions.
• Assuming participants opt out of contribution escalation at rates similar to past experience.	• Successfully preventing participants from opting out of automatic contribution escalation.
• Defaulting participants at current, generally low initial automatic enrollment contribution rates.	• Where applicable, successfully encouraging employees to make contributions at a level comparable to their participation in a prior employer's 401(k) plan.
• No effort to encourage employees to make contributions at a level comparable to their participation in a prior employer's 401(k) plan.	

About Callan

Founded in 1973, Callan Associates is one of the largest independently-owned investment consulting firms in the country. Headquartered in San Francisco, California, the firm provides research, education, decision support and advice to a broad array of institutional investors through four distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group, and the Trust Advisory Group. Callan employs more than 170 people and maintains four regional offices located in Denver, Chicago, Atlanta, and Summit, New Jersey.

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[i] 2013 Callan DC Trends Survey

[ii] Gender Differences in 401(k) Investing. AonHewitt 2002 white paper.

[iii] 2013 EBRI Retirement Confidence Survey Fact Sheet.

[iv] AonHewitt Employee Perspectives on Retirement Saving and Investing.

[v] SSgA DC Investor Survey. January 2013.

[vi]Under-Savers Anonymous: Evidence of Self-Help Groups and Peer Pressure as a Savings Commitment Device. Felip Kast, Stephan Meier, and Dina Pomeranz of Harvard University October 2, 2012 Working Paper

[vii] Increasing Savings Behavior Through Age-Progressed Renderings of Future Self. Hal Hershfield, Daniel Goldstein, William Sharpe, Jesse Fox, Leo Yeykelis, Laura Carstensen and Jeremy Bailenson. Journal of Marketing Research. November 2011.

[viii] Helping in Defined Contribution Plans: Is It Working and for Whom. Financial Engines. September 2011.

[ix] 2013 Callan DC Trends Survey.

[x] The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior. The Quarterly Journal of Economics. November 2001.

[xi] The Impact of Auto-enrollment and Automatic Contribution Escalation on Retirement Income Adequacy. Jack VanDerhei, Employee Benefit Research Institute, and Lori Lucas, Callan Associates and DCIIA. 2010.

[xii] See Appendix for complete description of conservative versus robust implementation of auto features.

[xiii] Helping in Defined Contribution Plans: Is It Working and for Whom.

[xiv] What Will My Account Really Be worth? An Experiment on Exponential Growth Bias and Retirement Saving. Gopi Shah Goda, Colleen Flaherty Manchester, Aaron Sojourner, NBER Working Paper 17927. http://www.nber.org/papers/w17927

[xv] Plug the Drain: 401(k) Leakage and the Impact on Retirement. DCIIA White Paper. Lori Lucas, Callan Associates. 2011.