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Testimony on Behalf of MassMutual Retirement Services

By

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Before

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Advisory Council on Employee Welfare and Pension Benefit Plans  
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# **Introduction**

Hello, I am Hugh O'Toole, Senior Vice President of Sales and Client Management for MassMutual Retirement Services. On behalf of myself and my colleague Kris Gates I want to thank you for the opportunity to speak with you today on the topic of retirement plan communications.

## **What We Won't Be Discussing Today**

Our time today is valuable, so I thought I would start out by telling you what we won't be discussing. I would suspect that every retirement plan provider or expert who has testified before you has opened with statistics about the dire state of retirement preparedness for Americans. We all have our stats; and as experts in this subject, you probably have many of your own. We all know there is work to do, so I won't start today with how badly off many are. Instead I want to talk to you about the hope and promise we see at MassMutual because of the approach we are taking. So let's get started.

## **Today's Testimony**

Today we are going to talk to you about the promising results we are seeing by combining several powerful concepts together to drive employee action in the retirement plan and employer understanding of what employers can do to simply make the plan work better for their respective employees. To do this, let's break the discussion down into some easily digestible sections:

1. Measurement matters
2. The two levers we can use to drive outcomes
3. Behavioral finance and its power in plan design
4. Data and its application in consumer marketing
5. Creating motivated moments for employees
6. The future – providing prescriptive total benefits solutions to individual working Americans
7. Resources matter

# Measurement Matters

A wise mentor of mine once told me that, “If you can’t measure it, you can’t manage it.” The American defined contribution retirement system has simply been measuring the wrong things for 30 years, if the aim is to actually drive outcomes for working Americans.

The focus has been on activity-based measures such as participation rate, average deferral rate and which investments are most prevalently selected by participants in the plan. How do these measures give direct line of sight into whether someone is actually going to have enough replacement income in retirement? It is comparable to trying to guess the score of a football game by looking at stats like total rush yards or turnovers. They are activities of the game, but don’t indicate the final score.

I’m talking about measuring tangible dollars that will decide how a person will experience life after work; where will they live? Will they be able to go out to dinner, or see a movie? That is where the measurement needs to start. MassMutual believes in that so much that in 2010 we invested millions of dollars in the technology to totally reframe how we measure if the retirement plan is working – we call it Plan Health.

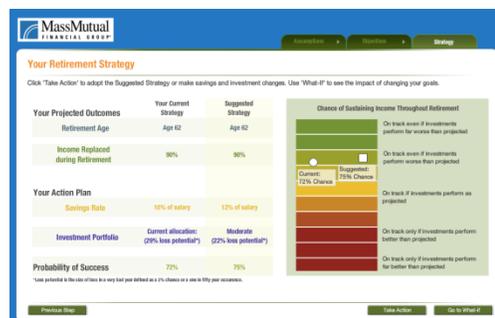
The power of Plan Health is that it first only measures the most important metric, the likely replacement income in retirement. Secondly, it connects the individual results of each employee in the retirement plan to a summary of the percentage of employees who are on track using powerful Monte Carlo simulations. For the first time a Plan Sponsor has direct line of sight into what percentage of employees are on track for replacement income. At MassMutual we use 75% replacement income at age 67 as our benchmark. Here is how our Plan Health apparatus works:

## The Individual Employee

Each plan participant sets priorities and – in a matter of seconds – thousands of complex calculations produce the likelihood that he or she will replace 75% of income at age 67 with his or her current strategy. Our Plan Health tool also suggests actions to improve their likelihood and with one click of a button the improved strategy can be implemented. This experience is offered online, via our call center or in one-on-one guidance sessions at the workplace.



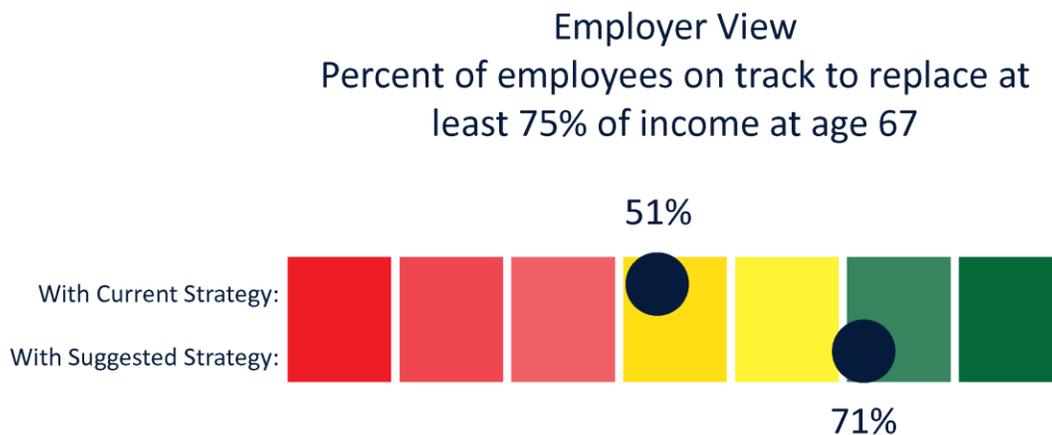
Set Priorities



Report on Current and Suggested Strategy

## The Employer Plan Health View

For the employer, all of those individual results are aggregated so the employer can see a total percentage of employees on track. This information is broken down by age, investment selection, etc. Using real data from each individual, the employer gets an aggregated view of employee outcomes that can't be matched. As we'll address in a moment, this line of sight on aggregated retirement income is crucial to outcomes.



## Plan Health Findings Two Years In

We've been on our Plan Health journey, measuring true outcomes for two years now. I am pleased to report some key findings:

1. Over **400,000** American employees are in the MassMutual Plan Health program across **455** plans sponsors, representing **\$13.7 billion** in retirement assets under management.
2. Approximately **55%** of those employees are on track for sufficient replacement income in retirement based on their current strategy.
3. If each employee in a MassMutual sponsored retirement plan actually implemented their suggested Plan Health strategy, **71%** of respective employees would be on track.
4. **87%** of employees 26 to 44 and **100%** of employees under 25 in the MassMutual plan health program *could* be on track for proper replacement income if they implemented their suggested strategy. This is due to the many years these employees have left in the workforce.

## **A Key Finding: Retirement Plan Coverage Is Not the Main Issue**

All of these findings are of course interesting, but there is one I want to highlight specifically since it has been a topic of great discussion here in Washington and in state governments alike. That is the issue of coverage. We have states thinking about implementing state run defined contribution plans. At MassMutual we believe that data trumps opinion. The reality is that most low income employees will get a majority of their replacement income from Social Security. In fact, for employees who make \$50,000 or less, Social Security will generally provide enough replacement income to maintain their standard of living in retirement. Think about living on that income in America today. You would truly be living on a cash flow basis, paying your bills in a cadence with when the money comes in. It is a monthly dance just to get by. Auto enrolling someone at this income level in a DC plan is simply taking income needed to pay monthly bills. It is more than likely that they will make up the difference on a credit card.

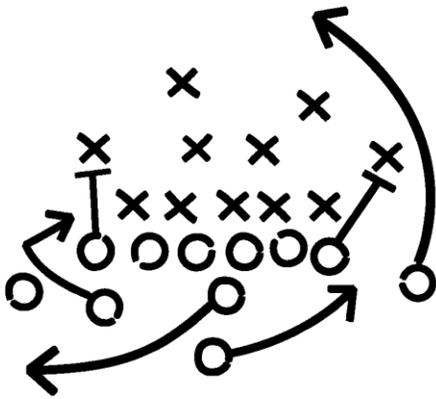
Let's take food service employees for example. We have many in our Plan Health program. 81% of their income replacement in retirement will come from Social Security based on our most current metrics. It makes me think about one of our clients, a retail chain of clothing stores targeted at teens and young adults. Most employees make between \$8 and \$12 an hour working retail in the stores. When we ran our employer level plan health report for this client, over 90% of employees were on track for retirement replacement income before we had even started to do anything with the plan. Why? Social Security covered it.

The reality is that it is the middle class who need more help. Most middle income earners already have access to a qualified defined contribution plan. I am happy to share more data with you on this point, but I hope this provokes a more balanced discussion on coverage within our political system.

## The Two Levers to Drive Outcomes

Now that we've got the foundational measurement in place, how do we go about improving outcomes? There are really only two ways to do that, or two levers to influence the plan.

### Working with the Sponsor on Plan Design



### Driving Employee Action



We find that approximately two-thirds of improved outcomes come from plan design, while the remaining third comes from a robust employee action program. We will now delve into each of those subjects more deeply.

# Behavioral Finance and Plan Design

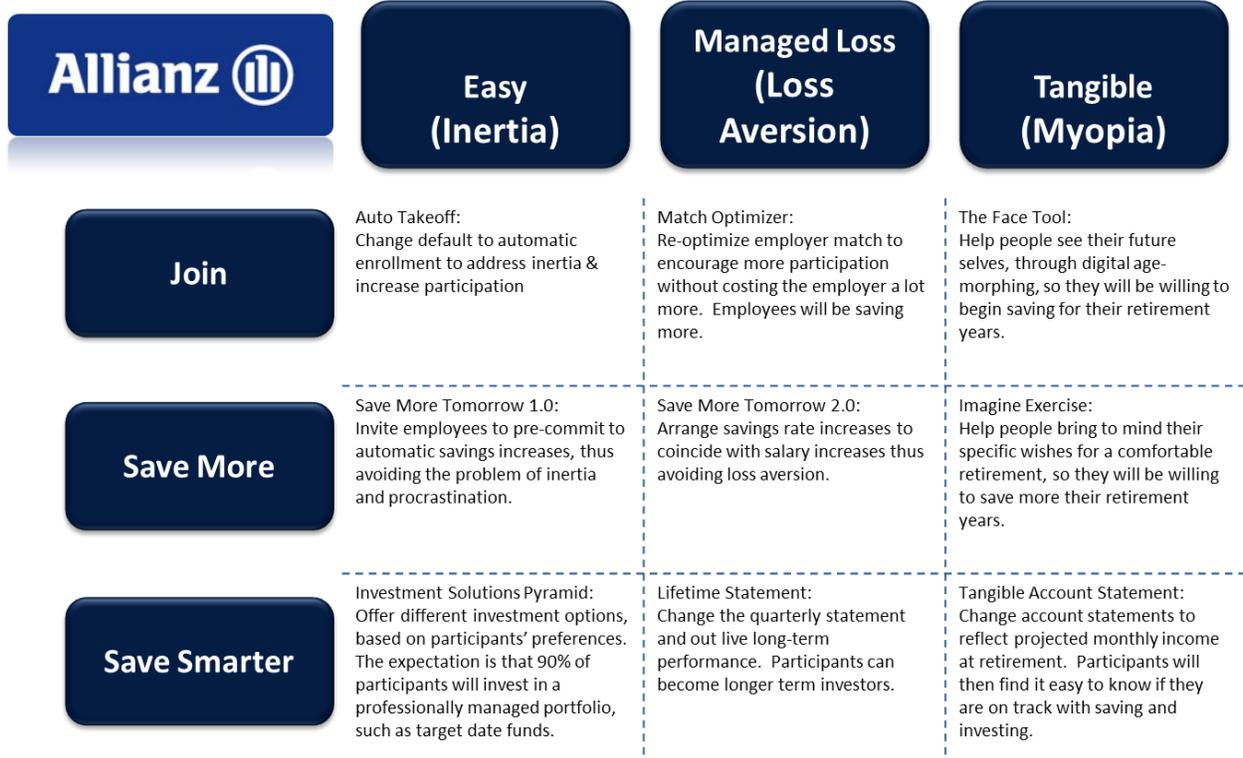
Now let's talk about plan design and the MassMutual perspective on how to use it effectively to drive outcomes. As I've said, in our experience two-thirds of outcome improvement comes from actions taken at the plan level. Plan design really blossoms when the Advisor on the plan and the Relationship Manager on the plan apply behavioral finance techniques to optimize the plan. Then you have a plan set up to drive outcomes before the individual has to make any decisions at all.

We have worked closely with the Allianz Center for Behavioral Finance to better understand how to use the human psyche to our advantage in designing retirement plans. I would recommend reading the book *Saving for Tomorrow* by Shlomo Bernartzi, the esteemed UCLA professor and expert in behavioral finance. This subject in itself could take up hours of discussion. Instead, I'd like to show you how we have taken the theory and applied it to real world clients. We call it the "Nine box". This tool from Allianz takes three of the most effective behavioral finance techniques and applies them to three of the most salient actions in the retirement plan, to drive effective plan design. You can see the 9 box in the exhibit below.



There are prescriptive solutions for each combination of the nine boxes to apply to plan design based on the aspects of the plan. We have just about 100 Relationship Managers in the field today serving customers and they have all been trained on how to use the nine box effectively to customize plan design for a given client.

The exhibit below shows you the many tactics that can be used within the nine box.



Again, a discussion the full nine box could take hours, but I'd like to highlight a few prescriptive plan design tactics to be more illustrative.

### Match Optimizer

Behavioral finance or BeFi, tells us through the concept of loss aversion, that the psychological effect of loss is much greater than that of gain. A person will avoid loss if possible. At the same time, plan sponsors are looking for ways to drive more savings without adding to the total cost of the plan. This intersection gives us the match optimizer. Simply put, if a sponsor "stretches the match" from say dollar for dollar for the first 3% to \$0.50 on the dollar for the first 6%, employees are more likely to save the 6% to avoid losing the full match. This is a great example of BeFi in action.

**Employer Match  
Dollar for Dollar on the First 3%  
Saved by the Employee**



**Employer Match Using BeFi  
Loss Aversion**

**\$0.50 on the Dollar for the First 6%  
Saved by the Employee**



## Behavioral Time Machine

BeFi also tells us that things need to be tangible for a person to react. The behavioral time machine is a BeFi technique to make aging tangible, especially for younger employees. It helps one imagine oneself in retirement years. We have this technology available today.



Plan design combined with a robust employee action program is the powerful combination we use at MassMutual to drive outcomes. I would like to turn the testimony over to my colleague Kris Gates at this point. Kris is an expert on using the best ideas available in behavioral finance, consumer data, personas and consumer marketing techniques to drive employee action in retirement plans.

# Data and Its Application in Consumer Marketing

Hello esteemed panel. I'm Kris Gates and I truly appreciate this opportunity to speak to you today. As Hugh has so vividly portrayed, we are making a difference and driving outcomes for American employees. In fact, the three million American employees who belong to retirement plans provided by MassMutual are my only customers. I think of them every day.

And when I think of them, it is not through the lens of a financial services provider. The reality is that every dollar an American makes is being competed for by any product or service offered to that consumer. MassMutual is competing with Coca-Cola, Levi Strauss, Apple and Chevrolet every day. Those companies have refined their marketing techniques and the data supports their marketing for decades. We need to catch up and market to consumers in the same way if we are going to drive action in the retirement plan. At MassMutual, we have the resources and the focused purpose to do just that. I want to spend the next several minutes talking to you about how we are using consumer marketing techniques to drive real outcomes for American employees.

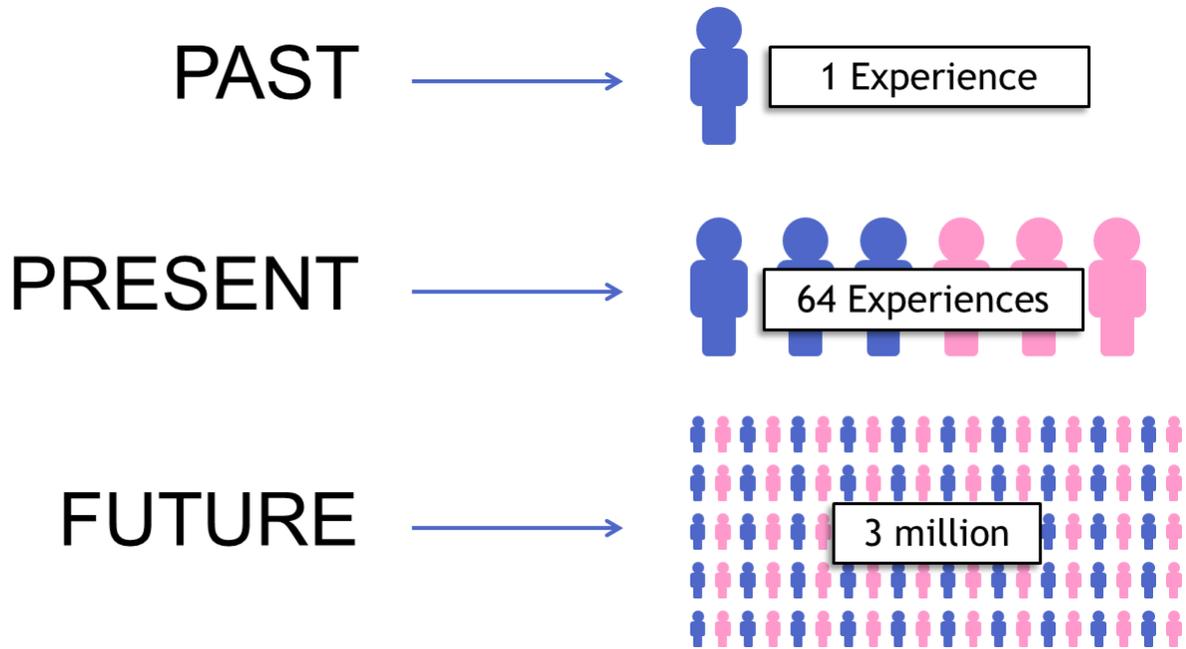
## It Starts with Data

Would you be surprised if I told you that the Macy's weekly shopper insert has over 200,000 versions based on the preferences and personas of each individual Macy's customer? This is just one example of how retail firms are using "big data" to refine their marketing and create individual experiences for each customer. We are doing the same at MassMutual to drive action in the retirement plan. Our journey started in 2009. Like most other plan providers we had opt in mail campaigns that really didn't target an individual based on a specific need. We would send out 30,000 enrollment fliers, when some of the people receiving them may already have been enrolled in the plan. That wasn't good enough so we went to work.

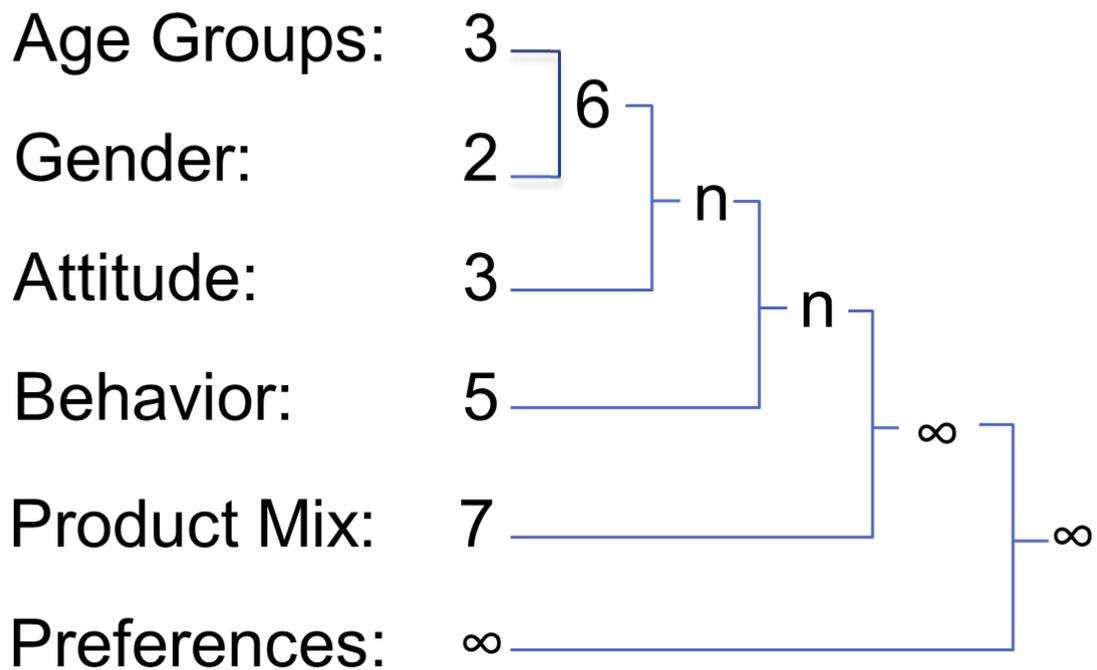
In 2009, we used a BeFi technique and moved from an opt-in approach to receiving information about campaigns, to an opt-out approach. Now all customers would be included in employee action campaigns via mail or email, and would have to "opt-out." This move alone made a huge difference. When using "Opt In", only 50% of customers signed up to receive information. When using Opt Out, only 5% of customers did so, leaving 95% of customers who received information.

We then used our CRM system to target each individual with their "next best step" toward a more secure retirement and sent targeted messages just for that action (e.g. enroll, save more etc.). In 2010 we further refined our messaging by applying age and gender attributes. We began to rigorously test our creative concepts and messages to optimize the actions taken.

In 2012, we commissioned a vast voice of the customer study across our millions of participants. From this rich data source, we began to apply attitude to our marketing messages. We have gone from one experience for all participants in 2009, to 64 distinct experiences today based on gender, age and attitude. In the future we'll have distinct experiences for each individual when we add in the preferences. This is retail-style marketing applied to financial services. It is the only way to truly drive outcomes.



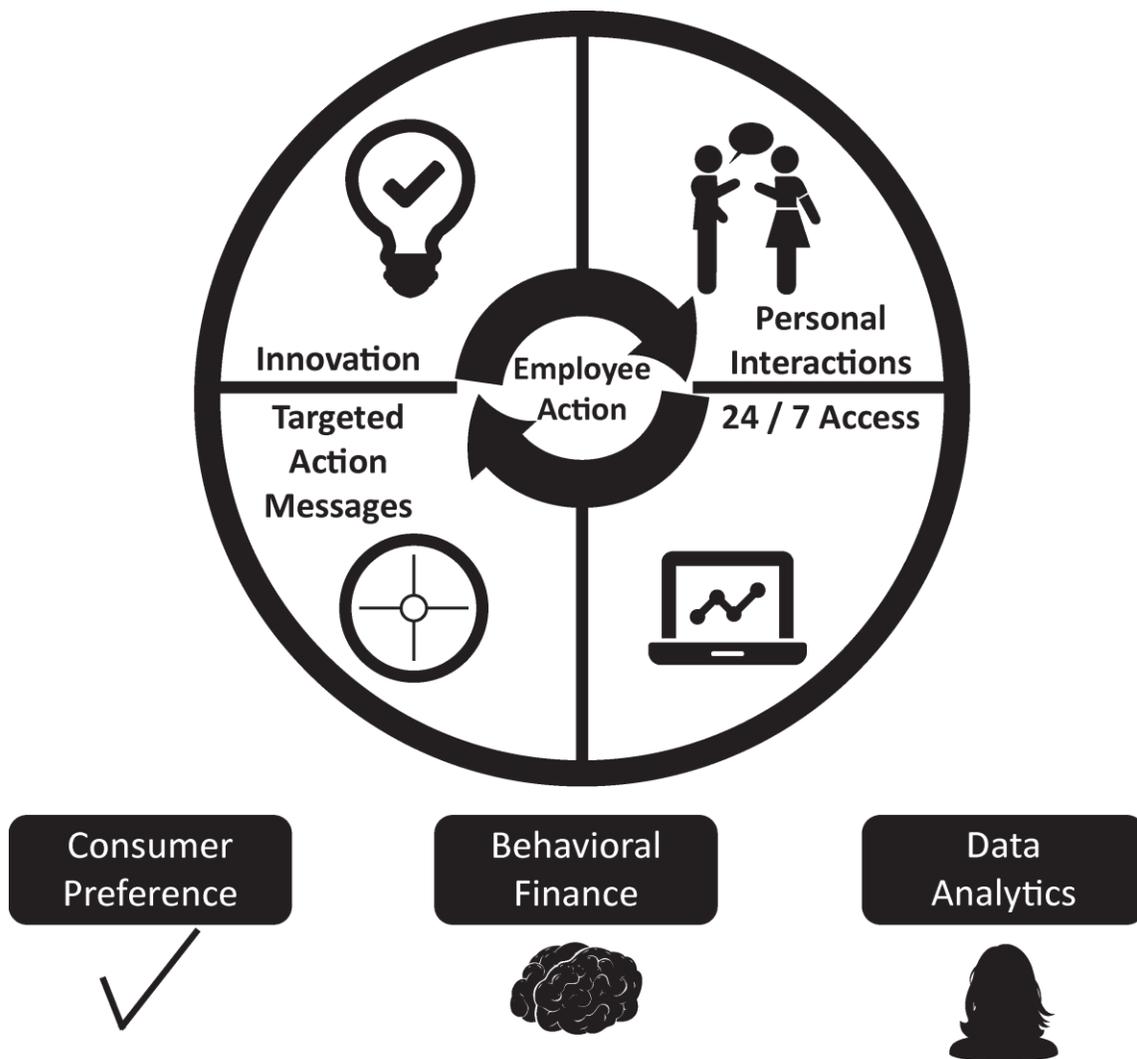
## Targeting for Relevancy and Engagement



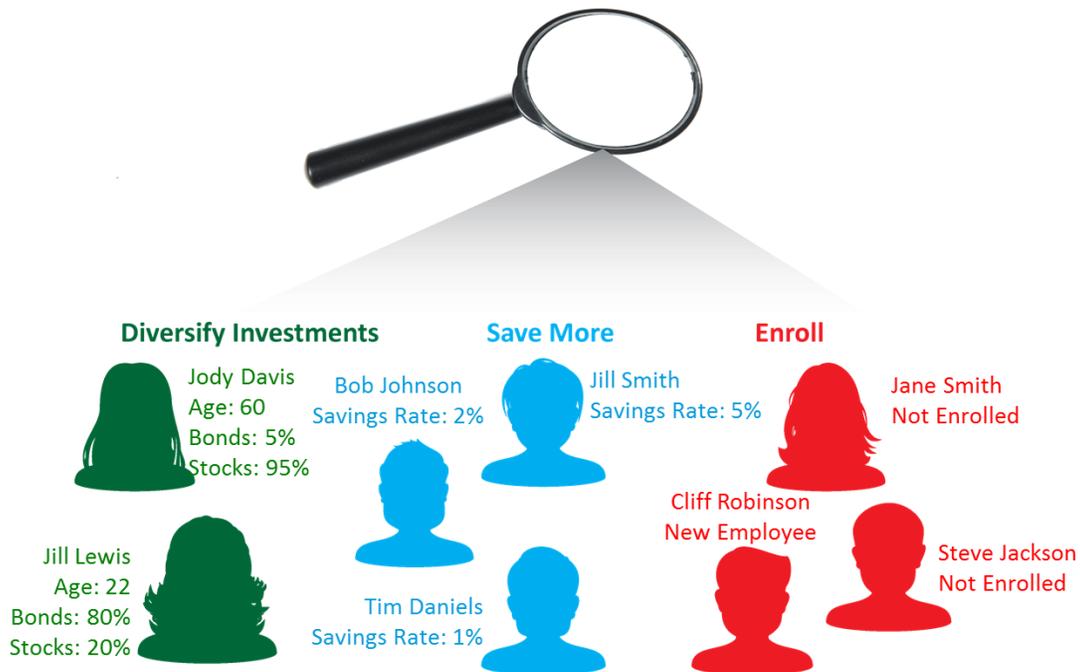
## Creating Motivated Moments for Employees

Now that we have talked about how data matters, how do we apply that data? A robust and sustained employee action program is the answer. I know you are interested in which mediums are most effective to drive action in the retirement plan. I would respectfully challenge if that is even the right question.

We are channel agnostic at MassMutual. We believe that a provider must invest in every channel of communication to meet the personal preferences of three million people. I am a realist. I know people hardly ever think about their retirement plan. When they do, we need to be ready in the time and the medium they prefer to create what I call a “motivated moment” – that split second when they are focused to enroll in the plan, or save more. Here is a visual interpretation of our employee action program. It is a tipping point approach using every medium of communication. We affectionately call this our “Wheel of Awesomeness.”



As you can see, our foundation is in data, BeFi and consumer preferences. From there, we can create personas used to inform specific marketing executions and apply those personas across all communication mediums.



It simply isn't enough to create a flashy website and think that everyone is going to use it. You need to be in every channel. We do see different success rates across our varying channels, but it is the power of being in all of them that matters. Here is a summary of our findings:

1. The best action rates come in face-to-face meetings
  - a. In 2012, we spoke to 150,000 people face- to-face
  - b. 46% of them took a measurable action to improve retirement readiness
  - c. In one-on-one meetings, 75% of employees took action
2. The call center is also very effective:
  - a. Over 1.2 million customers served in 2013 with over 20% of them taking a positive action
  - b. 54% of calls are from employees with low balances (between \$0 and \$5,000)
3. Innovation helps
  - a. We offer enrollment and savings increases using iPod Touch devices in group meetings
  - b. Action rates using this innovation are 85% to 90%
4. Targeted and tested mail and email campaigns
  - a. \$150 million in new deposits over three years
  - b. 3.9% action rates

- For the first six months of 2013, the data shows that participant need for education and guidance continues to outpace a preference to complete transactions within the online channel. Once signed on to their account, obtaining account balances remains the most popular participant behavior.

We have also seen other positive results from our marketing approach. Based on MassMutual's most current participant data:

- Average balances have grown 5.16% in 2013.
- Average balances for women are above \$30,000 for the first time ever.
- We've seen the lowest percentage of loans taken in the first quarter of 2013 since we began measuring this in 2007.
  - Only 1.16% of participants took loans

At MassMutual, we are investing \$80 million in new technology that will allow us to refine our marketing data, personas and executions. We are now designing even more robust inbound and outbound experiences for the American employee.

## Outbound Experience

The image displays a central photograph of a woman in a professional setting, smiling while working on a computer. Surrounding this central image are several examples of marketing materials, each labeled with a channel:

- Booklet/Postcard Mailings:** Includes a booklet titled "Feel good moment #12 Finding a way to change your future's outlook" and a postcard titled "Feel good moment #13 Having the freedom to choose where you'll go."
- Transactional Mailings:** Shows various forms and documents, including one titled "Start the year right" and another titled "Tax Strategies for 2013."
- Webinars:** Features a slide titled "Retirement Goal - It's more than a number" and another titled "Webinar on 401(k) Plan."
- Web Banners:** Displays a banner for "Retirement Goal - It's more than a number" and another for "Webinar on 401(k) Plan."
- Group Meetings:** Shows a person presenting to a group of people in a meeting room.
- Phone Calls:** Includes a photograph of a call center agent wearing a headset.
- Emails:** Shows several email newsletters with various layouts and content.

# Inbound Experience

**QR Codes**

**One-on-One Meetings**

**Social Media**

**Mobile**

**Website**

**Chat**

**Call Center**

**IVR**

The collage features a central image of a woman in a business suit sitting at a computer. Surrounding this are various digital and physical touchpoints: a QR code, a laptop and tablet displaying the RetireSMART website, a man and woman in a meeting, a Facebook page for RetireSMART, several smartphones, a desktop monitor, a chat window, a call center with agents, and a multi-line office phone.

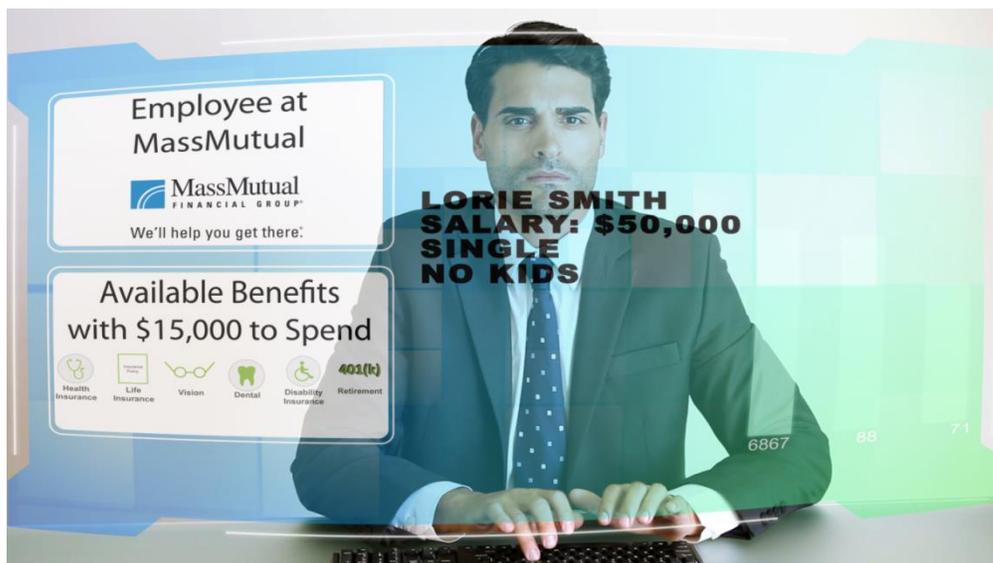
Thank you for your time today. I'd like to hand over the remainder of our testimony to Hugh.

# The Future

I want to share one final thought with you today. It has to do with the future of consumer benefits for the American employee. At MassMutual we see continual and gradual shift from the employer being the provider and funder of benefits, to the enabler of benefits.



This will mean providing individual prescriptive total benefits solutions to American employees. We are now just beginning to talk to our Advisor community about what their future could look like – a time when they will be solving for all benefits based on an individual’s persona.



## **Resources Matter**

We have covered a lot of ground in a short time today, but I wanted to end with one final thought. It is that resources matter. We are, after all competing with every other product or service on which an American can spend his or her income. The only way to compete is to have the technology, data capability, consumer marketing prowess and passion that those firms have. It is only the financially strong providers with the proper focused purpose that will be able to invest in the resources to drive outcomes.

We would encourage the ERISA Advisory Committee to join us in urging the Department to issue regulations that would encourage electronic delivery of notices, statements and disclosures. We also encourage the Committee to consider how enhanced protections for fiduciaries would facilitate their provision of valuable education to participants in both in the accumulation and decumulation phases.

Thank you very much for this opportunity. Kris and I will take questions now.

# Appendix

## Hugh O'Toole Biography



Hugh O'Toole is Senior Vice President, Sales and Client Management, for MassMutual Retirement Services. Hugh has more than 20 years of experience in the retirement and benefit solutions industry. He is a former partner of Professional Pensions, Inc., which was sold to Principal Financial Group in 1999. As part of the sale, Hugh was retained by Principal Financial Group, where he served as Corporate Vice President of Non-Profit Solutions, responsible for growing Principal's non-profit business. Once that mission was accomplished, he moved on to build out both their registered retirement product and worksite solutions. Hugh joined MassMutual in December 2007, as Vice President, Northeast Division Sales Manager and National Non-Profit Market Leader. In April 2008, he was promoted to Senior Vice President, Sales and Client Management, reporting to Elaine Sarsynski, Executive Vice President, Retirement Services Division. Hugh graduated from the State University of New York at Oneonta with a B.A. in Psychology. He is very active in his church and golf club, and is on the board of Madison Youth Lacrosse. Hugh lives in Madison, Connecticut, with his wife, Julie, and their three children, Ryan, Ian and Emma. Hugh is a Registered Principal of MML Investors Services, Inc.

## Kris Gates Biography



Kris Gates joined MassMutual in 2006 and is currently Vice President of Marketing for the Retirement Services Division. His current responsibilities include developing and executing strategy for the customer experience, as well a strategy and content for client-facing web portals. Prior to assuming his current role, Mr. Gates served in a managerial role focused on distribution and B2B experiences for MassMutual's marketing area.

## **About MassMutual**

Since 1851, MassMutual has grown and thrived - surviving wars, depressions, recessions and changing market conditions. Throughout, our main focus has never wavered. We help people like you take the next step toward a more secure financial future.

Today, MassMutual ranks in the Fortune 500 and was listed as one of the nine most admired life and health insurance companies in the world in the March 21, 2011 issue of FORTUNE. Our network of trained Financial Professionals includes thousands of representatives located across the United States. They work hard to get to know you and your unique financial goals – and they strive to maintain a long-term relationship with you, helping you adapt and refine your financial strategies as you move through life.

While whole life insurance continues to be MassMutual's foundation, MassMutual and its affiliated companies offer a broad array of insurance and investment products for individuals, families and businesses. We also provide retirement services for institutional investors and corporate, union, nonprofit and governmental employees' defined benefit, defined contribution and nonqualified deferred compensation plans.

MassMutual Financial Group is a marketing name for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliated companies and sales representatives. MassMutual is headquartered in Springfield, Massachusetts and its major affiliates include: Babson Capital Management LLC; Baring Asset Management Limited; Cornerstone Real Estate Advisers LLC; The First Mercantile Trust Company; MassMutual International LLC; MML Investors Services, member FINRA and SIPC; OppenheimerFunds, Inc.; and The MassMutual Trust Company, FSB.

## **About MassMutual Retirement Services**

For over 160 years, MassMutual has been meeting – and exceeding – the expectations of our customers. Our mutual structure, where we are owned by our participating policyholders, allows us to take a long-term view of your retirement plan. MassMutual is not beholden to the short-term thinking that comes with quarterly earnings calls from Wall Street. This, coupled with high financial strength ratings, is a rare combination that serves the retirement plans of American employers and employees well.

MassMutual offers products and services suited for a range of plan asset sizes across many markets. We provide expert plan administration to employers both large and small. MassMutual Retirement Services has been providing retirement plan products since the beginning of defined benefit- plans, several decades ago. Highlights include:

1. More than 65 years in the retirement plan business
2. Over \$120 billion in assets under management
3. More than 41,500 plans representing more than three million participants