ERISA Advisory Council
"Successful Retirement Plan Communications for Various Population Segments"
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Testimony: Tom Ryan, Fidelity Investments

<u>Introduction / Opening Statement</u>:
Thank you for the opportunity to participate today. My name is Tom Ryan, and I am a Senior Vice President with Fidelity Investments within our workplace investing business. Fidelity has the privilege of providing Defined Contribution, Defined Benefit, Health & Welfare, Non-Qualified, Stock Plan and Health Savings Account recordkeeping and administrative services to more than 22,000 plan sponsors and nearly 16 million plan participants.

I oversee the Communications and Education (C&E) group which works with our plan sponsors to design, develop, and deliver communications programs for their plan participants. The goal of our C&E offering is to drive better outcomes for participants through programs that engage, education, and spur action towards savings goals.

I am eager to participate in this discussion about how service providers, like Fidelity, and the government can better partner to provide participants with successful retirement plan communications.

<u>Summary</u>
Fidelity's communications and education (C&E) programs are intended to engage participants for better decisions and outcomes. We have found C&E materials to be most effective when they utilize simplified language, address personal needs or situations, and offer a clear "best next step" to take. Fidelity segments population groups for communications based on a number of factors, and we work with plan sponsors to develop custom programs for specific groups. Technology is changing the paradigm for how people prefer to receive and use information, and retirement plan communications are no exception. C&E needs to continue to evolve not only in its method of delivery (i.e., direct mail to email) but also in the way it engages participants (i.e., personalization, "gamification"). Similarly, required notices and disclosures need to use simplified language and modernized delivery models to ensure the effectiveness of these important materials.

I. Fidelity's communications and education (C&E) programs are intended to engage participants for better decisions and outcomes.

<u>Key Data</u>:

- 33% of participants in the plans Fidelity recordkeeps do not contact us over the course of a year
- Participation in company 401k plan rises steadily among age groups, from 42% for 20-24 year olds to a high of 74.5% among 55-59 year olds
- Total savings rate (employee & company contributions) also rises steadily among age groups, from 8% for 20-24 year olds to a high of 15.4% for age 70+
- Conversely, the percentage of participants with an age-appropriate allocation mix drops steadily, from a high of 78.6% for 20-24 year olds to a low of 18.4% for ages 70+
- Fewer than half of participants making less than $40k in compensation enroll in their workplace savings plan unless they are auto enrolled
- It is projected that 20% of retirees will exhaust their savings within 10 years of retirement

Fidelity's C&E programs help participants achieve retirement readiness by providing information and financial education about maximizing their workplace savings plan. The "better outcomes" we hope to drive result from participants making sound, informed decisions about financial planning. The most important determinants of retirement readiness include: participation, sufficient saving, and appropriate asset allocation. Helping participants overcome the inertia and uncertainty that impedes adequate retirement planning can be accomplished through effective C&E programs that get them engaged in their plan and keep them engaged throughout their working years.

Once the first hurdle of getting a participant actively enrolled in their plan is overcome, the focus shifts to keeping them engaged through communication, education and guidance. The better educated plan participants are, the less likely they will be to withdraw assets prior to retirement through loans, hardship withdrawals, or cashouts. Increasing participant engagement, on the internet, the phone, or in-person, is one of Fidelity's goals. One out of every three participants in the plans we recordkeep does not contact us via phone or internet over the course of a year. Of those, more than 70% neglect to engage with us in two years. This is not unique to Fidelity; it is an industry-wide phenomenon and a primary reason I am here today.

Our C&E programs are therefore intended to:

- Help participants understand their current situation in a simple, personalized way
- Assist them in establishing a retirement plan with appropriate goals
- Present them with their available options
- Provide guidance on their "best next step"
- Promote regular check-ups using simplified "on the path" checkpoints
- Drive better outcomes that ultimately lead to retirement readiness

II. Fidelity's C&E programs are designed to be simple, personal, and action-oriented.

There are a number of factors that contribute to the inertia that sets in with employees who fail to enroll in their workplace plans or don't actively participate in preparing for retirement. Some of the most common reasons for this inertia are: the belief that "retirement" is unattainable, competing professional and personal demands, near-term financial priorities, financial illiteracy, as well as uninteresting, generic communications.

In designing our communications, we seek to combat this inertia by helping participants with answers to some basic questions: What are your needs? How do you compare to your peers or benchmarks? What are the solutions available to you?

Fidelity's approach to segmenting populations for communications is to focus on the greatest determinants of retirement readiness: age, participation, savings rate, and asset allocation. We find these determinants to be universal across population segments. Based on this data, we further segment into "needs based" profiles depending on a person's lifestage needs. We have also worked with plan sponsors to develop programs for specific groups such as female employees or young investors, though the principles of our message remain consistent.

We personalize communications based on specific situations, using simple language rather than complex legal terms. For example, a participant may receive a different message depending on their age, assets, portfolio mix, recent interactions or transactions, or whether they have opened a certain type of account. We then include a clear call-to-action ("best next step") such as increasing the contribution rate or initiating a session with a guidance resource or tool.

Fidelity does not create uniquely tailored calculators or tools for different plan sponsors or population groups. Fidelity's approach is to provide best practice tools and resources that have a simple, engaging user interface that masks the sophisticated methodology underneath. For example, Fidelity's Income Simulator allows users to calculate their projected monthly income in retirement by aggregating their accounts. This involves highly complex calculations, but the user makes only a few simple inputs to generate the result. Then, the tool offers one-click access to make appropriate adjustments to deferral rates, asset mix, and other options. The result is a more engaging experience that is simple, personalized, and which facilitates action. Additionally, best practice tools like Income Simulator have the advantage over custom tools by better enabling benchmark comparisons across all users. We certainly can, and do, customize communications and resources, but our plan sponsors are more receptive to our best practice offerings for the reasons stated above.

Fidelity continues to incorporate insights from behavioral economics and usability studies. For example, in the design of our new Personal Progress Report, we have experimented with various visual icons to see which ones resonated with participants and were most likely to spur action. Additionally, we are testing language across age groups to see what wording is most effective in our communications. Recently, we experimented with participant decision-making about savings rates, and we witnessed a phenomenon called "anchoring" that has tremendous significance for how we design communications. When we gave test subjects three standard options for contributing to their workplace savings plan (i.e. 3%, 6%, 10%) along with the ability to determine their own level, the most common selection was the lowest choice. When we then increased each of the options (i.e. 6%, 10%, 15%), the most common selection was still the lowest choice, but by virtue of increasing each of the standard choices, the end result was the subjects were all choosing to save at a higher rate, a "better outcome."

To improve the engagement of younger age groups in their retirement plans, Fidelity has researched the tendencies and preferences of Gen Y, also known as the Millennials (age 25-29). This group affirms the benefits of simple, personalized, and action-oriented communications. They prefer "friendly" online tools, "personalized guidance and financial education," and human contact for complex tasks. Millennials serviced by Fidelity have the lowest 401k participation rate at 58% compared to 67% for all other populations. They rely heavily on the internet to interact with Fidelity, though they are the least engaged segment in terms of frequency of contact. To combat the potential inertia caused by competing financial priorities, such as student loan debt, we need engage to Millennials according to their preferences. Communications with this group should focus on mobile delivery, include social collaboration and benchmarking, provide "one click" transactions, and incorporate elements of "gamification." We are already seeing movement amongst young investors with our new web and mobile experience. The design changes we've made to simplify life events online and offer "best next step" options have driven a 40%+ increase in web utilization by this group.

III. Though the most dramatic results tend to be driven by plan design features, C&E programs can also significantly influence participant behaviors.

<u>Key Data</u>:

- Fidelity's targeted email campaign to encourage participants to review their asset allocation generated 5x the response rate of direct mail
- Fidelity's targeted email campaign to increase contribution levels generated 3x the take action rate compared to direct mail
- Participants who engage in an online retirement planning session increase their deferrals by an average of 5 percentage points (8% to 13%)
- Participants who engage in a retirement planning session with a telephone representative increase their deferral rate by an average of 6 percentage points (3% to 9%)

We find the most effective communications to often be the simplest: simple language, easy-to-follow layouts, and personalized to the participant with a clear call-to-action. For example, when we experimented with putting a simple call-to-action and phone number in the subject line of an email (i.e. please call to discuss your account) to participants whose asset allocations were off-target, we saw double the open rate for the email and a tenfold increase in response rate. This was impressive, but also important, because many of those participants who needed to update their asset mix may not have taken that step otherwise.

One objective of our C&E programs is to inspire participants to engage in a guidance interaction with us in their channel of choice (web, phone, in-person). We offer in-person planning sessions as well as online planning tools. Participant feedback indicates they prefer human interactions for more complex situations like planning because representatives are able to simplify the situation for them, offer personalized guidance, and facilitate the next best step.

Fidelity continues to invest in making all channels as accessible and effective as possible. As noted above, email communications have generated higher response rates than direct mail. Fidelity has also noted a cultural movement away from long textual content to more engaging delivery via video and animation. Another clear trend is that mobile phones and tablets are becoming a preferred communications vehicle for participants in virtually every age category. For communications to be effective on mobile, they have to fit the same paradigm I've mentioned: simple, personal, actionable.

IV. Plan communications, especially required notices and disclosures, need modernized delivery models.

<u>Key Data</u>:

- 17 million participant disclosure statements delivered by direct mail generated only 1,332 phone calls
- Fidelity delivers 80% of its C&E via email

One of the questions I was asked to address in my testimony was, "What can the Department of Labor do to help plans achieve more effective communications to eligible participants?" As I've mentioned, communications to plan participants need to use simple language to be most effective. Notices and disclosures, in particular, can be dense and confusing, leading participants to disregard them. Even required notices and disclosures should be treated as an opportunity to engage, not just an obligation to inform.

The need for simplification of required disclosures can be seen in Fidelity's compliance with required disclosures under Sec. 404A-5, otherwise known as participant disclosure. In 2012, Fidelity distributed close to 17 million statements during the April-August time period, and we received only 1,332 phone calls about the new disclosure. This was a missed opportunity for engagement that could have been seized with simplified language that facilitated comprehension and interest. Notices and disclosures should avoid "legalese" in favor of terms and concepts easily grasped by most readers. Additionally, eDelivery can help us better determine whether recipients even open the communication.

Additionally, Fidelity urges the ERISA Advisory Council to support eDelivery as the default method of distribution for plan notices and disclosures. Fidelity's online benefits site, NetBenefits, receives more than 16 million logins on a monthly basis and over half a million daily visits. The site is one of the primary ways that Fidelity delivers education and guidance, with over 200,000 participants using online tools and calculators each month. eDelivery, through websites like NetBenefits or via email, presents greater opportunities for engagement such as interactive infographics, simulations, video, and one-click access to phone or online support.

Increasingly, every demographic group is using the internet via home computer or mobile device as a preferred source of information. A Deloitte study from 2012 found 93% of Americans place internet access as the most valued household subscription (Deloitte 2012 State of the Media Democracy Survey). 54% of Americans own smartphones, and the rate is growing 29% each year (comScore Mobilens, Dec 2012). Even among older populations, mobile phone usage is becoming commonplace. One out of three Americans age 50+ have downloaded an app to their smartphone; 28% check their bank accounts via smartphone (Pew Internet, Mobile Study, Cell phone activities 11/25/12). Plan communications should utilize eDelivery as the default delivery method with an opt-out alternative for people who prefer print delivery.

Thus, Fidelity urges the Department to revisit the current regulatory protocol ("2002 Safe Harbor") for notices and disclosures under ERISA and allow for more, not less, e-delivery of required notices and disclosures in its future rule-making. As for approach, we would suggest alignment with the interim rule for quarterly benefit statements established by the Field Assistance Bulletin of 2006-03. We have been using this method of disclosure for nearly seven years and it appears to be effective.

V. Closing

On January 31 of this year, Julia McCarthy, Executive Vice President of Fidelity Investments, testified to the Senate Committee on Health, Education, Labor and Pensions (HELP). In her testimony, she articulated the optimal behaviors of 401k participants: "The steps are straightforward, enroll in your workplace plan – the earlier, the better, save at the highest levels possible, increase your deferral rate periodically as your salary grows, invest in a diversified asset mix, and, finally, own your plan, stick with it, stay engaged, and avoid taking out loans or cashing out when you change jobs."

Retirement plan communication and education programs can help drive these optimal behaviors so participants experience better outcomes. Two of Ms. McCarthy's specific recommendations to the Senate Committee were "protect and promote the availability of education and guidance by service providers and recordkeepers," and "modernize and simplify the current regulatory framework to allow innovation in plan design and participant communications."

Financial education is evolving as fast as the technology that supports it - from paper to phones, then to internet and mobile, and now social communities and gamification, all as methods of driving engagement and education. There is a clear expectation from participants that we should deliver meaningful education and guidance in the ways they prefer. Our laws drafted many years ago defined the communication methods for participants; now they are defining the communication methods for us, thus requiring modernization of our rules.

As a leading provider of workplace savings and benefit plan recordkeeping services, Fidelity welcomes the opportunity to partner with the ERISA Advisory Council and the Department of Labor to help maximize the effectiveness of retirement plan communications for all population segments.