Testimony on Behalf of Citigroup

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Model Notices and Plan Sponsor Education on Lifetime Participation

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Citigroup Testimony

Citigroup sponsors approximately 200 defined benefit and defined contribution plans globally for the benefit of our employees and former employees. Globally, we employ 240,000 employees and in the U.S. 80,000. Our U.S. defined contribution plan, the Citigroup 401(k) Plan, has almost $12 billion in assets and 150,000 participants.

Since 2004, I have been in the role of Director of US Retirement. As such, I am responsible for the design and administration of the Citigroup 401(k) Plan. Additionally, I and my team are responsible for all participant communications including any and all legally required notices.

In 2008, Citi consolidated three separate retirement savings vehicles into a single program, the 401(k) plan. We discontinued a legacy equity program, froze the pension plan to new accruals, and now offer a competitive matching contribution in our 401(k) plan of 100% of the first 6% contributed. Additionally, our 401(k) plan offers non-matching contributions of up to 2% for employees earning $100,000 or less.

Citi was an early adopter of automatic enrollment and automatic escalation to ensure new hires can take advantage of the plan's savings opportunity.

My testimony will focus on

1. Participant engagement
2. Automatics for lifetime participation
    a. Lifetime Income
    b. Cashouts
    c. Communications
3. Recommendations

Participant Engagement – Making It Real

"Participant engagement" are buzzwords and a goal of plan sponsors that I have heard since long before I started in my role at Citi. I certainly agree with the principles and the goals of engagement. Naturally, if a participant is educated in the basics of investing philosophy and understands the impact that their decisions today have on their future retirement income, they tend to make informed and sound decisions and have a higher likelihood of long-term success.

The problem, as I see it, is that plan sponsors will never be able to achieve 100% engagement. People are busy and focused on today's problems. Behavioral economics demonstrates that it is the rare individual who can forego satisfaction today in order to attain a goal that is decades in the future. This is true even of people who understand investing principles. If the population in question is less sophisticated and doesn't understand the basics of investing the additional hurdle of education can make true engagement daunting.

The trend of "DB-ing" the DC plan that began with automatic enrollment and automatic escalation is critical to ensure the long term success of the US employer sponsored retirement plan system. Plan sponsors should be encouraged to enable participant success without any action by the participant. If a participant takes proactive action (e.g., selecting certain investments, changing their contribution levels), that is their prerogative, as a plan sponsor does not have insight into the individual's personal finances. No one argues that participants should be forced into a specific savings strategy. However, plan sponsors should be made to feel comfortable nudging participants into successful savings actions without fear of running afoul of ERISA's fiduciary rules. These "nudges" would include automatic enrollment, automatic escalation of contribution percentages, automatic reinvestment allocation (e.g., to the plans qualified default investment option, normally target date funds), and/or default advice tools.

As plan sponsors, we must all continue to try to engage our employee and plan participants. This is why Citi offers a suite of education and advice tools because we recognize that one size does not fit all.

However, there must be a recognition that participants will not engage until they are ready to engage. Most people will choose not to read lengthy notices about topics that are not critical to the individual at the moment. I firmly believe that the best chance of success in engaging employees in education and/or advice is to make that education (or notice) not just available, but front and center – but only at the critical moment when the individual is at a decision point.

Automatics for Lifetime Participation

In order for plan sponsors to take advantage of the various automatic or default design features now trending, we must feel as if government regulators are encouraging plans to do so and protecting plan sponsors who choose to use these tools. Setting up best practice guidelines could demonstrate that the DOL supports various lifetime participation initiatives while not mandating their use. Three key areas that would benefit from strong yet flexible guidelines include:

1. Lifetime income solutions
    a. Managed drawdown assistance (e.g., Financial Engines' Income + solution)

    b. Annuity purchase assistance
2. Cashouts – Permit the rollover of a DB cashout to the 401(k) plan of that employer, and if there isn't one, to an IRA as both preserve tax advantaged treatment of these funds.
3. Participant communications – when and how to communicate the benefits of continued participation in ERISA plans, including investment information and tools that are useful to the participant and provide him/her with the financial assistance they need and want.

Lifetime income

When 401(k) plans were originally conceived, the intention was to provide a savings vehicle in addition to a traditional DB pension plan. As 401(k) plans have gained prominence and companies adopted them as the primary or only retirement vehicle, we need a reasoned approach to assist participants with how to draw their money out of the plan. Supplying a large lump sum at retirement with no guidance or assistance leaves the individual vulnerable to making mistakes which can jeopardize their ability to secure retirement income for life.

I would argue that simply providing guidance and assistance within the ERISA plan is not enough. Many plans currently offer guidance and assistance in various forms with varying degrees of success. Again, the goal should be to enable the participant to be successful even if they take little or no proactive action. One such way would be to permit a sponsoring employer to default a new retiree who does not make an election otherwise into a program that will manage the drawdown of their 401(k) plan balance, resulting in an expected stream of income payments for life. This approach would ensure the greatest success for those plan participants who do not, for whatever reason, take action when they become retirement eligible and have balances remaining in the 401(k) plan. For our plan, this default could be one of several options including our current offer of Financial Engines' Income + solution, or an outside the plan annuity purchase as seen with Heuler Associates.

Cashouts

DOL guidance from 2005 provided that plan sponsors could automatically cash out small balances (under $5,000) from DB or DC plans. While this was welcome guidance on the surface, for those plans that provide for cashouts of small balances, balances between $1,000 and $5,000 were generally not permitted to be paid in cash and instead must be rolled over to an IRA. Although plan sponsors could amend their plan to eliminate the cashout provision or lower the cashout amount, for administrative reasons many do not wish to do so. While the intent of the provision, to keep retirement assets targeted to retirement needs, is appropriate, in retrospect the requirement that the distribution be deposited into an IRA has resulted in unintended consequences.

For instance, the plan sponsor has a choice of which IRA to deposit the 401(k) account balance into. In some cases, the financial institution chosen by the plan sponsor isn't the same financial institution where the participant has his/her savings, resulting in multiple small IRA account balances with one or more financial institutions. To avoid this unintended consequence, some employers would prefer the ability in their cashout provision to roll accrued benefits in the plan sponsors DB plan into the participants' existing account in that employer's DC plan. Permitting rollovers from the plan sponsors' DB plan into its DC plan would permit consolidation of a former employee's retirement benefits at that employer, making it easier for the participant to keep track of his/her retirement savings. This approach may also increase the participants defined contribution plan account balance above the cashout threshold established by the employer in its DC plan.

Further, I would argue that the current $5,000 threshold for cashouts for terminated participants in a DB plan should be increased to $10,000 or even $20,000. A 45 year old who has a $20,000 present value in a DB plan can anticipate approximately $4,000 in annual retirement income at age 65. In my experience, this small benefit is forgotten by many former employees, especially those with 10 or more years between termination and retirement, even though statements and notices are sent to them regularly. If this amount were permitted to be consolidated with an existing 401(k) balance with the same sponsoring employer, the former employee would not be trying to keep track of small balances in an IRA account at a financial institution that doesn't hold his/her other savings. Likewise, this individual may have greater incentive to take advantage of the investment options and investment advice tools many 401(k) plans offer today and may serve as the needed wakeup call for participant engagement. Further, if the default into lifetime income solutions is utilized, the participant may have sufficient retirement savings to provide him/her with financial security while he/she exerted minimal effort in getting there.

If the de-risking activity of DB plans is causing concern that retirement savings will be leaving the employer sponsored ERISA retirement system, I would argue that we could take this concept one step further by allowing for the rollover of DB distributions into DC plans *while the participant is still actively employed* if the DB plan is frozen to new accruals. In this situation, I propose that distributions to actively employed DB participants should be limited to those that are rolled into that employers DC plan and not an IRA. This is because of the distribution restrictions imposed on tax-qualified retirement plans and not IRAs, thereby reducing the concern that these funds would not be used at retirement. I have personally fielded this question numerous times from Citi employees who feel it is a natural progression of what Citi's redesign in 2008 achieved and it is something Citi would consider doing if it were permitted to do so. Studies have shown that employees do not fully appreciate the benefit provided by a DB plan, are confused as to how their DB plan benefit is calculated, and find the choices they have in how their benefit will be paid difficult to understand. This is especially true of participants who have a frozen, and therefore, relatively smaller DB benefit. If their benefit could be rolled into a DC plan, these issues would be reduced, if not eliminated.

In addition to the requirements noted already, I further recommend that this provision be allowed only at the participant's direction and be permitted for any DB amounts that are otherwise available as a lump sum if the employee were terminated instead of actively employed, including automatic cashouts.

Participant communications

In today's smartphone-based world, the most effective way to communicate with participants is not through an annual paper mailing that is easily ignored and discarded. Instead, point in time, or just-in-time electronic communications should be our focus as we move into the future. An event in a participant's lifecycle will generally trigger the need for specific communications. For example, if a participant is in the process of requesting a loan, or requesting a reduction to their deferral rate, this is a prime opportunity for a plan sponsor to step in and educate the participant of the impact of their decision on their eventual retirement income – through a web pop-up message or a text message on their smart phone, perhaps.

The most critical participant decision point is upon termination of employment. It is at this point that many participants are considering whether to roll over their 401(k) balance into a successor plan or into an IRA. Again, a just-in-time communication can be an extremely effective disclosure to ensure that participants have considered all the features of the options available to them, including fees, investment line-up, timing of distributions, investment related advice and tools, and the availability of investment advice services.

If plan sponsors are given the guidance and discretion to provide this type of communication in the most effective way for their participants, the likelihood of success may increase significantly. For example, a plan sponsor that has 80% of transactions occurring on the administrator's website will see the best results with a simple pop-up box that may have only 2 lines in it: "Have you considered how your rollover/distribution request may reduce your retirement income? For information on how this may impact how much you have at retirement, click here." Other plan sponsors may wish to empower their phone representatives to step in at these critical participant decision points and provide a similar message. Still other sponsors will recognize that their populations will respond best to a paper mailing, e-mail, or text messaging. Some sponsors may know their employee and retiree population will prefer individual employee meetings. In these instances, I anticipate that these types of participant communications will be general in nature and would be intended to provide education and not investment advice.

One size does not fit all when it comes to participant communications. If the DOL demonstrates and encourages the various ways that plan sponsors can communicate with their employees, former employees and retirees, plan sponsors will have the appropriate guidelines needed to tailor their communications in an effort to ensure the highest level of success in reaching their employees, former employees and retirees.

Recommendations

The Council and the DOL have an opportunity to assist plan sponsors and plan sponsors, in turn, to assist employees, participants, former participants and retirees. Guidance that plan sponsors could rely on in the following three areas below would be helpful in promoting lifetime plan participation.

1. Encourage default arrangements for lifetime income solutions.
2. Allow flexibility in automatic rollover requirements.
3. Mandate the types of messages to communicate, but leave the content and delivery methods up to the plan sponsor.

Guidance, with flexibility, would enable plan sponsors to have a comfort level that their plan offerings are in line with DOL objectives and allow plan sponsors to determine how best to benefit their employees, participants, former participants and retirees.