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**Increasing Participation:  
Auto Enrollment, Matches and  
Communications**

Moderator:  
Anthony Ross, City of Austin (TX)

Speakers:  
Ronald Campana, ING  
Alex Hannah, ICMA-RC  
Rick Rodgers, Innovest Portfolio Solutions

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**The Contemporary American  
Retirement System**

Rick Rodgers, CRC® | Principal  
InSight Employee Benefit  
Communications

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## Contemporary American Retirement System

- ▶ Transition from defined benefit retirement plans to defined contribution plans
- ▶ More mobile workforce
  - Sharp decline in average tenure with a single employer beginning in 1970s
  - Average tenure today:
    - Public Sector: 7.1 years
    - Private Sector: 3.6 years
- ▶ Greater necessity for voluntary supplemental savings

Austin © San Antonio



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## Individual Responsibilities

- ▶ Greater Flexibility & Control
  - Timing, method, amount of distributions
  - Investment control, opportunity
- ▶ Greater Responsibility
  - Must periodically calculate amount needed to accumulate for retirement income and monitor progress
  - Investment selection and management
    - Structured, deliberate, disciplined approach
  - Understand tax deferred benefits to help improve outcome

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## Observations: Savings

- ▶ Not saving enough
- ▶ Have not established a retirement income objective
  - Have unrealistic expectations concerning withdrawal rates
- ▶ Don't understanding the funding requirements
- ▶ Fail to periodically calculate progress

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## How Much Will You Need To Live?

Your annual salary	15 years until retirement	20 years until retirement	30 years until retirement
\$30,000	\$298,500	\$363,100	\$537,500
\$50,000	\$605,700	\$736,900	\$1,090,800
\$80,000	\$1,176,200	\$1,431,100	\$2,118,400

Assumes you are single, 4% annual pay increase, 8% rate of return (not guaranteed), need 80% of current salary, live 25 years in retirement, and receive Social Security benefits of \$13,800, \$19,300, and \$23,800, respectively. Hypothetical illustration does not represent the return of any particular investment.

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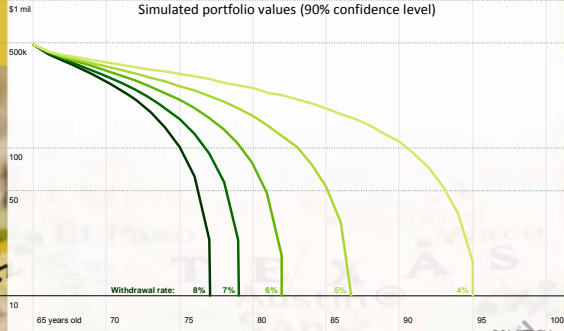
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## High Withdrawal Rates Will Quickly Deplete Assets



IMPORTANT: Projections generated by Morningstar regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results may vary over time and with each simulation. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2009 Morningstar, Inc. 12/2009

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## Observations: Investing

- ▶ Don't understand fundamentals
- ▶ Choose inappropriate beginning portfolio or investment mix
  - 4 or 5 funds with strong short-term performance
  - 1/n
  - Misunderstood investment objectives
- ▶ Fail to manage allocation over time
- ▶ Fail to rebalance
- ▶ Make classic mistakes

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## Common Mistakes

- ▶ Forgetting long-term investing fundamentals
- ▶ Missing Opportunity: Changing investment allocation of future contributions to more conservative
- ▶ Missing Buying Opportunity: Reducing or stopping contributions
- ▶ Market Timing: Attempting to manage short-term volatility in a long-term portfolio




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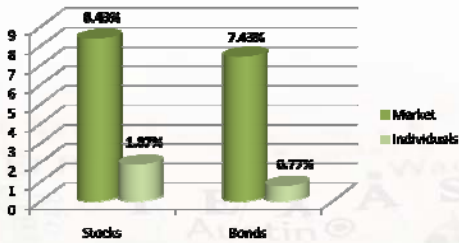
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## Individual Investors vs. The Markets 20-Year Historical Average Annualized Performance



Source: DALBAR, Inc. Market performance of Stocks based upon S&P 500 Stock Index; Bonds based upon BC Aggregate Bond Index for 20 year period ending 12/31/08.




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## Probability of Meeting Income Needs

Various withdrawal rates and portfolio allocations over a 25-year retirement

Withdrawal Rate	100% Bonds	75% B 25% S	50% B 50% S	25% B 75% S	100% Stocks
4%	83%	97%	96%	94%	92%
5%	30%	72%	82%	83%	82%
6%	3%	29%	57%	66%	66%
7%	0%	6%	30%	47%	54%
8%	0%	0%	13%	31%	41%

**IMPORTANT:** Projections generated by Morningstar regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not a guarantee of future results. Results may vary over time and with each simulation. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2009 Morningstar, Inc. 1/1/2009




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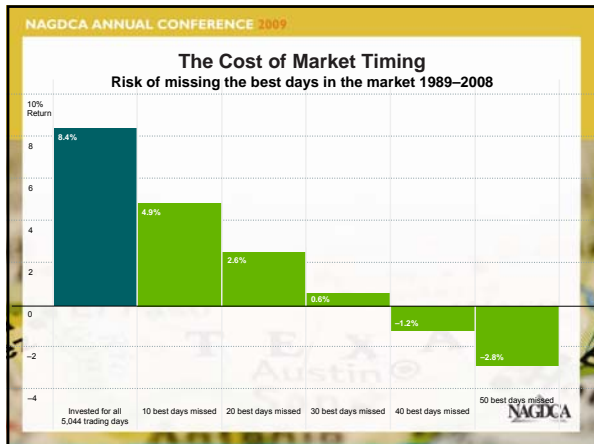
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### Summary

- ▶ Participants want and need help with *calculation/funding and investment management* responsibilities
- ▶ Automated and professionally-managed options are improving the participant experience
  - ▶ Early results indicate the outcome is improving too
- ▶ Similar professionally-managed and automated solutions will be necessary for success in the distribution phase

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### The Evolution of Education and Communication In the Retirement Savings Arena

Ronald Campana, ING

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## Elitist

We have been lulled into thinking that because of our subject matter somehow the rules of Marketing and Education do not apply.

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## Industry Material Has Become (or always has been)...

- Heavily laden with complex terms
- Extensive use of concepts born in the financial markets
- Little or no clear call to action
- Fear based
- Full of assumptions we have made as Communicators for the past 10 or 20 years

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***“ If we get the information in the right hands, people will act using their head instead of their emotions when it comes to financial matters.”***

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## Some good has developed

- Use of logo and design
- Use of different channels of media
- Frequency of messaging
- Targeted messaging based on demographics

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## The response....Ho Hum

*Overall participant Behavior characterized by...*

- Failure to participate at all
- Not maximizing contributions
- Not increasing contributions over time

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## Small successes.....sure

### But, can we do better????

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**Maybe we should consider using the same techniques Industry uses to sell items like toothpaste to our Marketing and Communication campaigns**

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**As human beings we make decisions based on emotional reaction to messaging and stimuli.**

**Let's use that knowledge to affect behavior in the Retirement services industry**

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**Examples of emotional triggers affecting behavior...**

- Affordability
- Procrastination
- Inertia
- Information overload
- Too much choice
- Overconfidence
- Familiarity bias

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## A Shift to Affective Communication

"The human imagination is much more capable than it gets credit for."  
-Mark Twain's Notebook

**Past**

Communicate based on demographics

- Age
- Gender
- Job classification
- Salary

**Present**

Use psychological triggers to drive behavior

- Affordability
- Procrastination
- Inertia
- Information overload
- Too much choice
- Overconfidence
- Familiarity bias

**Future**

Real results

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### Affordability

- More pressing demands on income
- Mental compartmentalization of financial decisions

### Procrastination

- Good intentions about enrollment but failure to act
- Retirement may be a long way away

### Inertia

- Failure to act in anyway not entirely convenient

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### Information overload

- Too many decisions to make
- Too many options to choose from and too confusing
- It's easier to do nothing

### Too much choice

- Makes participants tend to gravitate toward extremes  
i.e. purchasing individual stock or choosing a safe Stable Value route

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### Overconfidence

- Attempting to time markets
- Failing to consider the long term nature of retirement
- Investing

### Familiarity bias

- An inertia hybrid, only acting upon comfortable calls to action

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### Research Case Study

#### Emotional factors affecting women and investing

*Much has been written lately stating that men and women are completely different psychologically.*

*Recent research has found, however, that they are essentially the same with some differences that may help affect behavior*

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### Communicating with and Reaching Women

- Consider generational, cultural, circumstantial and other differences when crafting and designing tools and messages for women
- Themes such as empowerment, taking care of one's self resonate
- Women are more likely to seek advice than men
- Women are brand loyal
- Women are much more multi tasking and need solutions to make life easier
- Women tend to gather more information than men
- Women like to be interactive

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**Keep the faith**

**It is important work!!!**

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**It Pays to Save Initiative**

Alex Hannah  
ICMA-RC  
Vice President, Education & Communication

AC 0709-3330

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***It Pays to Save Initiative***  
**Goals & Objectives**

- Broaden plan participation
- Improve communication with lower wage earners
- Simplify the enrollment and savings process for employees

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## Market Research Methodology

- Five research phases
- Completed by independent consultant
  - Field associates
  - Regional focus groups
  - Non-Saver phone interviews
  - Current-Saver phone interviews
  - Assessment of plan sponsor support
- Research challenge: reaching and motivating non-saver public employees

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## Market Research Process

- Reviewed and measured reaction to twelve different "savings messages"
- Research participants asked to evaluate messages for:
  - Overall appeal
  - Importance of the message
  - Motivational power

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## Key Findings

- Many non-savers consider their pension fund to be sufficient for retirement (although very few can explain their benefit)
- Retirement is low-priority for non-savers but reached an elevated importance for those who have enrolled, despite facing the same economic challenges
- Employer support has a strong impact on plan participation

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### Key Findings

- Many non-savers are not aware of the 457 benefit (especially among larger employers)
- Many non-savers perceive saving to be out of their reach
  - But research also indicated that perception can be overcome
- Visuals and real examples motivated non-savers

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### Savings Messages

- Key savings messages that most motivated non-savers include:
  - Start small
  - Make it fast and easy
  - Knowing personal help is available
  - Investing can be made simple

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### Savings Messages

- Themes with lower motivational factor were:
  - Tax deferral benefits, especially among the younger group
  - Negative tones or scare tactics
  - Greed or focus on self-interest
  - Messages perceived as vague

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## Measuring Plan Sponsor Impact

- Assessed 457 participation rates among 85 plans with over 56,000 eligible investors
  - Plans of multiple sizes and across all geographic regions
  - Focused on sole-provider cases
- Plan sponsor support was rated as either:
  - Non-supportive and disengaged
  - Cooperative but little initiative
  - Highly supportive and actively involved

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## Plan Sponsor Impact

- Results indicate a strong correlation between plan sponsor support and 457 plan participation rates

Plan Sponsor Support	Average Participation Rate
Non-supportive and disengaged	25%
Cooperative but little initiative	41%
Highly supportive and actively involved	54%

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## Impact of Employer Matches

- Normally, plan participation among the upper 1/3 wage earners measured higher by 15%–35% over the lower 2/3
- Employer matches crossed the barrier to the lower wage earners
  - 457 plan participation rates as high, or even higher, among the lower 2/3 wage earners when some kind of match was included
- Multiple approaches to an employer match, to control cost
  - Temporary or introductory period
  - Minimal level
  - Lower-wage group (as defined by employer)
  - Group-specific

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## Research Outcomes

- Modified communications
  - Simple messages
  - Noticeable graphics
- Consistent with the most motivational savings concepts
- Preceded by City Manager or Mayor letter in support of personal saving



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## Research Outcomes

### quick|enrollment

- Removes a major new enrollment barrier: selecting a fund allocation
- Defaults to age-appropriate life-cycle fund
- Not "auto"-enrollment;
  - still includes a decision to enroll



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## General Results

- Currently rolling out
- Savers campaigns
  - Enrollment campaigns have achieved measured success
  - Initial savers test postcard received Silver Communicators Award
- Quick|enrollment tactic
  - 21% of enrollments for participating plans

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### Launching a Saver's Campaign

- Gain senior leadership support
- Implement a quick enrollment type process for all new hires and enrollment meetings
- Sell to department heads for broader support
- Assist in departmental participation analysis, to increase enrollment focus

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### Launching a Saver's Campaign

- Distribute enrollment communications electronically and by other means throughout work force
  - Provide talking points to manager
- Encourage peer to peer discussion and reinforcement of benefits
- Facilitate Savers presentations, including off-site locales

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### Conclusion

- Documented research, supported by public employers
- Confirms the importance of plan sponsor support for a savings initiative
- Simple focused messages are the best to reach and motivate non-savers
- Action-oriented focus

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## Additional Information



Research overview and samples available at [www.icmarc.org/savers](http://www.icmarc.org/savers)

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