

SUMMARY OF PROJECT - 2020 NAGDCA LEADERSHIP RECOGNITION AWARD
PLAN DESIGN & ADMINISTRATION

**COMMONWEALTH OF MASSACHUSETTS – SMART PLAN ACTIVE CHOICE ENROLLMENT FORM WITH
AUTO-INCREASE OPTION**

The Massachusetts Deferred Compensation 457 SMART Plan, in collaboration with the Massachusetts State Retirement Board (MSRB), sought to increase participation and streamline enrollment by incorporating behavioral economic principles through its SMART Plan Active Choice Enrollment Form.

Since the original launch in 2016, the results demonstrate the success of active choice questions to begin retirement saving through a simplified enrollment form, with more than 3,400 employees choosing to enroll and make contributions to the Plan in a three-year span beginning April 2016.

Building on the success of the original Active Choice Form, beginning in March 2019, the SMART Plan adopted a new option for enrollment in the SMART Plan – incorporating an automatic increase feature.

The goal was to promote a gradual annual deferral increase, which would provide supplemental savings for participants and demonstrate how even a one percent annual deferral increase can have a substantial impact on long-term retirement savings compared to a static deferral rate.

The Active Choice Form was updated to include a default pre-tax salary deferral of three percent with an annual automatic increase of one percent to a maximum six percent (“auto-increase”); a write-in pre-tax salary deferral percentage; or a decline of participation.

If making a positive election, the participant would enter some basic personal information and be automatically enrolled in a SMARTPath Target Date Fund based on their date of birth and assumed retirement age. This provided new employees the opportunity to begin accruing as soon as possible while also placing them in an age-appropriate target date fund. Participants electing the auto-increase option would also experience an annual one percent escalation in their deferral rate automatically for the following three years after enrollment.

Once the Active Choice Enrollment Form was updated with the option to include an auto-increase feature, promoting a gradual one percent annual deferral escalation for supplemental participant retirement savings, we noted an increase in participants making the election to utilize the option. In less than a full year (March 2019 through December 2019):

- 1,036 new employees elected to begin deferring salary towards their SMART Plan account.
- 74% of new employees elected the default pre-tax deferral of three percent with auto-increase.
- 91% of new employees elected to contribute three percent or greater.

Additionally, SMART Plan representatives worked to educate the HR/Payroll partners about the ease of using the Active Choice form and explained the benefits of the form when provided to a new employee.

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History

All new full-time Commonwealth of Massachusetts employees are required to complete forms to enroll in the Massachusetts State Employees' Retirement System (MSERS) to be eligible for a pension and other potential retirement benefits. Prior to 2016, new employees were informed of their eligibility to join the Massachusetts Deferred Compensation 457 SMART Plan, but no enrollment forms were universally provided. New employees would typically need to attend a meeting or appointment with a SMART Plan representative to enroll.

After productive conversations with MSERS, and beginning in April of 2016, the new SMART Plan Active Choice Enrollment Form was attached as a supplement to mandatory MSERS forms. While not required, providing the new Active Choice Form helps to increase awareness of the SMART Plan, emphasize the importance of participating in SMART Plan retirement saving and highlights the challenges that may arise for those who choose not to enroll.

Form Content

The new Active Choice Enrollment Form is three pages related to the SMART Plan. On the first page, SMART Plan contact information is provided; the Active Choice Form itself is found on the second and third pages. At the top, it prompts the employee to make an active choice by selecting one of three options. The first option enrolls the participant at a pre-tax salary deferral rate of three percent with an annual increase of one percent up to a maximum six percent. For employees that choose to contribute more or less than the default rate, the second option allows them to write their requested pre-tax deferral rate percentage. The third and final option, if selected, confirms that the employee does not want to contribute to their deferred compensation plan. This option also clarifies the 10-year vesting period of service required to receive a state retirement pension and that state employees are exempt from contributing to Social Security.

Following this, participants making an election must then complete a few lines of basic personal information. Participants are asked whether they have previously had any other retirement accounts and if so, whether they elect to consolidate their accounts into the SMART Plan. Those selecting "Yes" will soon be contacted by a SMART Plan Representative to facilitate the consolidation process.

The Active Choice Form with Auto-Increase also includes information regarding their initial SMART Plan account setup. This informs participants of default account settings which will take effect upon enrollment. The default investment fund for all participants is a SMART Plan target date fund option, or SMARTPath Fund. Based on the date of birth listed by the participant, they will be enrolled in the SMARTPath Fund that most closely aligns with their projected retirement date. The final page of the Active Choice Form displays a chart that lists which SMARTPath Retirement Fund a participant will be placed in based on their information. Deferrals will continue to accrue in the participant's SMARTPath Fund until the participant actively changes their investment(s) via their account online or by phone.

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Results

Overall, the SMART Plan has witnessed a **27%** increase in enrollments through calendar year ended December 2019, when compared to the calendar year ending 2018. The addition of the auto-increase election to the Active Choice Form resulted in a **215%** increase in participants utilizing the auto-increase feature when compared to the prior year.

- **1,036** new employees have elected to begin deferring salary toward their SMART Plan account using the Active Choice Form with Auto-Increase.
- **771** new auto-increase elections from the form alone. (Highlighted below in **Green**)
- **74%** of new employees elected the default pre-tax deferral of three percent with auto-increase.
- **91%** of new employees elected to contribute three percent or more. (Highlighted below in **Blue** and **Green**)

Results show that Massachusetts state employees are strongly interested in enrolling in the SMART Plan when asked to make an active choice to participate, and more specifically, overwhelmingly interested in participating with an annual auto-increase to their retirement savings. The updated Active Choice Form with auto-increase has led to nearly three in four new employees (771 total) selecting the default three percent deferral with auto increase.

Active Choice 2019	Option 1	Option 2				Option 3	Total	
	3% with Auto-Increase	<3%	3%	>3%	\$Amt	Total Fill-In Deferral	Declined	Total
January								
February								
March	23	7	1	3	5	16	0	39
April	71	12	4	8	3	27	1	99
May	58	4	6	9	3	22	0	80
June	64	3	4	3	0	10	0	74
July	73	5	4	5	3	17	0	90
August	100	6	7	18	0	31	0	131
September	109	1	23	2	0	26	0	135
October	98	7	11	17	3	38	0	136
November	90	13	12	12	2	39	0	129
December	85	12	13	13	1	39	0	124
Total	771	70	85	90	20	265	1	1037

In addition, one in four new employees elected to fill in their own contribution rate, with two-thirds of this group entering a deferral of three percent or higher. When combined with the new employees electing the default three percent deferral with auto increase, nine in 10 (946 total) employees using the Active Choice Form with Auto-Increase elected a percentage deferral of three percent or higher overall.

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Conclusion

First, we observe the continued success of incorporating behavioral economics via active choice into this enrollment method. As a result, it is more likely new state employees will choose to enroll earlier in their career. Additionally, one-on-one meetings between SMART Plan representatives and these participants can now focus on education and more advanced discussions about optimizing the default enrollments, as well as whether their contribution amount is sufficient and whether the default Target Date Fund is likely to meet their needs. The high rate of participants selecting either the default deferral rate with auto-increase or a higher deferral percentage clearly suggests that many participants intend to save for retirement, but oftentimes need guidance on an appropriate starting deferral rate.

Second, incorporating an auto-increase feature to the active choice option has demonstrated that a majority of participants, when presented with the option, are willing to gradually increase their deferral percentage annually. Participants learn of the importance of increasing their deferrals and the long-term impact it can have on their savings. From a Plan perspective, it also provides further evidence of participant preference for automatic features. Similar to the SMARTPath target date funds, providing a diversified, managed portfolio all in one fund, auto-increase helps participants supplement their retirement savings with an automatic one percent deferral escalation annually.

As the topic of retirement readiness remains eminently important, it highlights the significance for plan sponsors to increase awareness, participation and education in their retirement programs and retirement saving. The new SMART Plan Active Choice with Auto-Increase Form was implemented to achieve these goals of awareness and participation while educating participants on how small, automatic increases in deferral percentage today can have a significant impact on long-term retirement savings.

Feasibility of Use by Other Governments

This approach can easily be integrated into similar supplemental benefits enrollment programs already established by other governments. By fostering similar relationships between individual retirement boards and their respective deferred compensation plan, states can work to integrate a voluntary election via active choice into required paperwork, thereby potentially increasing the number of those saving in a supplemental plan.

**SUPPORTING DOCUMENTS - 2020 NAGDCA LEADERSHIP RECOGNITION AWARD
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Massachusetts Deferred Compensation
SMART Plan

**QUICK ENROLLMENT FORM
GOVERNMENTAL 457(b) PLAN
98966-01**

PARTICIPANT INFORMATION PLEASE SELECT ONE OPTION

- 1) YES, I would like to contribute 3% of my salary on a pre-tax basis with annual increases of 1% to a maximum 6% to the Massachusetts Deferred Compensation SMART Plan to supplement my retirement benefit.*
- 2) YES, I would like to contribute _____% of my salary on a pre-tax basis to the Massachusetts Deferred Compensation SMART Plan to supplement my retirement benefit.*
- 3) NO, I do not wish to supplement my retirement benefit by contributing any portion of my salary to the Massachusetts Deferred Compensation SMART Plan at this time. I understand there is a ten year creditable service vesting period for members of the separate state retirement system and I am not contributing to Social Security as a state employee.

*If you elect to supplement your retirement benefit you will be defaulted into a SMART Plan custom target date fund based on your date of birth and an assumed retirement age of 65. (See the chart at the end of this form.) Additional information about the SMART Plan and options available to you can be found at www.mass-smart.com.¹

<table border="0" style="width: 100%;"> <tr> <td style="width: 33%; border-bottom: 1px solid black;">Last Name</td> <td style="width: 33%; border-bottom: 1px solid black;">First Name</td> <td style="width: 33%; border-bottom: 1px solid black;">MI</td> </tr> <tr> <td colspan="3" style="border-bottom: 1px solid black;">Address - Number & Street</td> </tr> <tr> <td style="border-bottom: 1px solid black;">City</td> <td style="border-bottom: 1px solid black;">State</td> <td style="border-bottom: 1px solid black;">Zip Code</td> </tr> <tr> <td style="border-bottom: 1px solid black;">() Home Phone</td> <td colspan="2" style="border-bottom: 1px solid black;">() Work Phone</td> </tr> <tr> <td colspan="3" style="border-bottom: 1px solid black;">Payroll Center Name & Number</td> </tr> </table>	Last Name	First Name	MI	Address - Number & Street			City	State	Zip Code	() Home Phone	() Work Phone		Payroll Center Name & Number			<table border="0" style="width: 100%;"> <tr> <td style="border-bottom: 1px solid black;">Social Security Number</td> </tr> <tr> <td style="border-bottom: 1px solid black;">E-Mail Address</td> </tr> <tr> <td> <input type="checkbox"/> Married <input type="checkbox"/> Unmarried <input type="checkbox"/> Female <input type="checkbox"/> Male </td> </tr> <tr> <td> <table border="0" style="width: 100%;"> <tr> <td style="width: 33%;">Mo Day Year</td> <td style="width: 33%;">Mo Day Year</td> </tr> <tr> <td style="border-top: 1px solid black;">Date of Birth</td> <td style="border-top: 1px solid black;">Date of Hire</td> </tr> </table> </td> </tr> <tr> <td style="border-bottom: 1px solid black;">Division Name & Number</td> </tr> </table>	Social Security Number	E-Mail Address	<input type="checkbox"/> Married <input type="checkbox"/> Unmarried <input type="checkbox"/> Female <input type="checkbox"/> Male	<table border="0" style="width: 100%;"> <tr> <td style="width: 33%;">Mo Day Year</td> <td style="width: 33%;">Mo Day Year</td> </tr> <tr> <td style="border-top: 1px solid black;">Date of Birth</td> <td style="border-top: 1px solid black;">Date of Hire</td> </tr> </table>	Mo Day Year	Mo Day Year	Date of Birth	Date of Hire	Division Name & Number
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Do you have a retirement account with a previous employer or an IRA? Yes No

Would you like help consolidating your other retirement accounts into your SMART Plan account?* Yes, I would like a representative to call me at phone # _____ to review my options and assist me with the process. The best time to call is _____ to _____ A.M./P.M. (circle one - available 8:00 A.M. to 6:00 P.M. EST). *Rollovers are subject to your Plan's provisions.

Investment Option: Understand that this form is my election to enroll in the Plan. By signing this form, my contributions will be allocated to the Plan's