PARADIGM SHIFT AHEAD:
Retirement plan communication in an auto features world

Co-sponsored by Lincoln Financial Group and Retirement Made Simpler
Executive summary

Automatic features have become mainstays of many employer-sponsored retirement plans and represent a true paradigm shift in retirement plan design. Employers who have implemented automatic features—including automatic enrollment, automatic escalation and Qualified Default Investment Alternatives (QDIAs)—generally find them to be successful in driving higher participation and deferral rates, as well as better investment performance. Indeed, this study suggests the longer automatic features are in place, the better the results.

Of primary interest to study sponsors, Lincoln Financial and Retirement Made Simpler, was to what extent communication strategies changed, or are likely to change, as a result of the shift to automatic features. In short: Have communication strategies undergone an evolution similar to that of plan design? Findings indicate that the evolution of communications has not kept pace with the evolution of plan design. In fact, the more automatic features organizations have implemented, the more strongly they believe participant communication has not evolved accordingly.

Compared to plan sponsors who have implemented only one automatic plan feature, those who have implemented the complete bundle of all three auto features are 56% more likely to feel that communication strategies have not kept pace with the evolution in plan design. That said, plan sponsors are divided as to whether, or how much, communication should be retooled for plans with auto features in place. This divide may reveal the next big communications opportunity for plan sponsors.

There is greater consensus around the belief that the substance of communication ought to shift significantly upon adoption of automatic features. Respondents see a move away from process-focused messages (e.g., how to enroll, plan mechanics, investment selection) to richer conversations around the projected outcomes of a participant’s savings behaviors and strategies (e.g., future monthly retirement income, spending power and retirement lifestyle).

This shift will likely require more two-way communication, as well as the use of tactics and strategies that give participants a picture of what retirement will really look like. Automatic features help participants build a suitable retirement savings base. Appropriate communication themes that complement automatic features and that go beyond the usual retirement-related topics can help participants become more capable stewards of their assets. Together, outcomes-focused plan design and outcomes-focused communication offer a blueprint for building retirement readiness.

Research questions
1. How do plan sponsors feel about the efficacy of automatic features?
2. To what extent have automatic features impacted communication strategies?
3. Do plan sponsors believe communication has kept pace with plan design?

Key findings
1. Plan sponsors who use automatic features consider them to be effective and successful.
2. Communications and education have not kept pace with automatic plan design.
3. On the communications front, plan sponsors agree on some themes to change the conversation from process-focused to outcomes-focused.
This study is jointly sponsored by Lincoln Financial and Retirement Made Simpler, a coalition formed by AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP). Together, we set out to discover plan sponsors’ perspectives regarding participant education and communications in a post voluntary-enrollment world. The research explores this topic from the vantage point of plan sponsors who have implemented one or more automatic plan features, including QDIAs, automatic enrollment and automatic escalation. Refer to the end of this paper for the complete study methodology.

The past: Evolution in plan design

Retirement plan history in America now spans several decades and numerous milestones.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1950s</td>
<td>Introduction of Cash or Deferred Arrangement (CODA)</td>
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<tr>
<td>1958</td>
<td>403(b) programs established</td>
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<tr>
<td>1974</td>
<td>Employee Retirement Income Security Act (ERISA)</td>
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<tr>
<td>1978</td>
<td>Revenue Act creates Section 401(k)</td>
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<tr>
<td>1981</td>
<td>IRS proposes regulations for 401(k)</td>
</tr>
<tr>
<td>1986</td>
<td>457(b) plans established</td>
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<tr>
<td>1992</td>
<td>Department of Labor releases Final 404(c) regulations</td>
</tr>
<tr>
<td>2001</td>
<td>Economic Growth and Tax Relief Reconciliation Act (EGTRRA)</td>
</tr>
<tr>
<td>2006</td>
<td>Pension Protection Act (PPA)</td>
</tr>
</tbody>
</table>

Data sources:
A short history of 403(b) plans, Pensions & Investments, pionline.com, 2012.

November 2011 marked the 30th anniversary of the 401(k). Looking back over the years, retirement savings plans have undergone significant changes on many fronts. Changes included the introduction of catch-up contributions, increased rollover opportunities between plans, new investment options, including life cycle and target-date funds, the Roth option, and, of course, automatic features. Together, these changes represent a paradigm shift in plan design and the ways in which plan participants can save and invest.

Yet, some things haven’t changed. Although new communication channels have emerged, the education model and core messages delivered to retirement plan participants have remained relatively unchanged over the past 30 years. Plan sponsors may note subtle changes, but not an evolution.
The present: Automation and autopilot

Finding: Plan sponsors who offer auto features consider them to be effective and successful.

This study shows that automatic features are well regarded by plan sponsors who implement them, and that the automated model works. Plan design can drive better retirement outcomes in terms of participation and deferral rates, as well as potential for better investment performance. These results become more pronounced over time.

Overall, plan sponsors recognize the success of automatic features. Automatic enrollment garners the highest scores in terms of perceived success, followed by QDIA and automatic escalation.

Success of automatic features

Among those who have the feature shown

How successful would you say (automatic enrollment/automatic deferral rate escalation/QDIA) has been (in increasing the participation rate in your plan/in increasing the deferral rate in your plan/when it comes to offering participants better investment performance than they would achieve strictly on their own)?

Not surprisingly, plans that offer automatic enrollment achieve higher participation rates (78% on average) compared to plans with automatic features overall (74% on average). Likewise, the use of automatic escalation corresponds to a higher average deferral rate (8.3% compared to 6.5%). It is worth mentioning that the average participation rate among all plans is 75%* and the average deferral rate is 4% or less* for the majority of plans.

*Plan Sponsor Council of America.
Communication has changed, but not evolved

Finding: Communications and education have not kept pace with automatic plan design.

Plan sponsors have not reframed participant communication, generally focusing on the same topics in the automatic environment as they did pre-automation. More than two-thirds of plan sponsors report placing the same emphasis on topics, such as where to get investment advice, selecting investments, and monitoring investment performance and asset allocation. Among the few changes, plan sponsors placed greater emphasis on the advantages of enrolling—presumably in order to reinforce their decision to automate the process and thereby gain greater buy-in from their participants. One possible explanation for this is that those who use automatic features may be so content with the results that they put their communications on autopilot—making only a few, necessary changes, but not changing their participant education offering significantly.

Of course, auto solutions do trigger some necessary, and in some cases quite significant, changes to communications. Plan sponsors say their providers modified communication in some key areas: About half (51%) of plan sponsors say their providers greatly or completely customized participant communications since the introduction of automatic features. Half (50%) greatly or completely revamped communication material, and nearly half (44%) greatly or completely changed their participant website.

However, many plan sponsors seem unsure to what extent their providers made other changes:

- Only 26% say providers retrained call center representatives completely or a great deal
- Even fewer (23%) say providers significantly retooled or customized participant collateral
- A mere 19% say providers redesigned communication “from the ground up”

Communication tactics and topics changed, as needed, to accommodate the adoption of automatic features. But to understand the extent of the change, we wanted to know if plan sponsors felt there had been an evolution in participant communication. What we found was ambiguity, or perhaps ambivalence. Plan sponsors haven’t yet recognized the opportunity to step back and reframe the conversation.

Plan sponsors are about equally divided as to whether communication has evolved with plan design. Researchers asked plan sponsors to react to the statement: “With the introduction of automatic features, defined contribution plans have evolved, but participant communication has not.” About half of those surveyed (52%) agree; about half (48%) disagree or are unsure. Many of these respondents are on the fence, only agreeing or disagreeing “somewhat.”
Evolution of participant communication
Among plan sponsors who have at least one auto feature

To what extent do you agree with the following statement: “With the introduction of automatic features, defined contribution plans have evolved but participant communication has not” — do you agree completely, agree strongly, agree somewhat, disagree somewhat or disagree strongly?

Responses to this question vary by the types and numbers of automatic features implemented. Compared to plan sponsors who have only adopted QDIAs, those who have automatic escalation are 50% more likely to agree strongly or completely that communication hasn’t evolved. Compared to plan sponsors using only one automatic feature, those with the complete bundle—all three automatic features—are 56% more likely to agree strongly or completely that communication hasn’t evolved. In short, the greater the commitment to automatic features, the greater the conviction that communications strategies have not kept pace with automatic plan design.

The future: Shift from process to outcomes
Finding: Plan sponsors agree on some themes to change the conversation from process-focused to outcomes-focused.

Plan sponsors agree that participant-level messages should center on certain themes that can be categorized as either outcomes-focused or process-focused.

Changing the conversation

<table>
<thead>
<tr>
<th>Process-focused themes</th>
<th>Outcomes-focused themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment product selection</td>
<td>Tools and calculators to help participants plan their retirements</td>
</tr>
<tr>
<td>Accumulation</td>
<td>Retirement outcomes</td>
</tr>
<tr>
<td>Savings process</td>
<td>Savings objectives</td>
</tr>
<tr>
<td>Preaching about savings</td>
<td>Helping employees envision their retirement</td>
</tr>
<tr>
<td>How to invest</td>
<td>Starting early and sticking with it</td>
</tr>
<tr>
<td>Investment advice</td>
<td>Encouraging higher savings</td>
</tr>
<tr>
<td>Plan mechanics</td>
<td>Retirement income</td>
</tr>
<tr>
<td>How much participants save</td>
<td>How to free up income to invest</td>
</tr>
</tbody>
</table>
Shifting the focus of communication and education would require plan sponsors to make trade-offs—if not in terms of hard dollars and cents, then at least in terms of time and energy. So the research team asked plan sponsors where they would be willing to spend more time, and where they would be willing to spend less time regarding these communication themes.

Plan sponsors generally recommend a shift from process-focused themes, such as how to invest, to outcomes-focused themes, such as helping employees envision their retirement. This is especially true among plan sponsors who agree communication has not evolved.

Plan sponsors with an appetite for evolution feel strongly about spending more time communicating about outcomes and less time communicating about processes.

### Trade-offs in communication themes
Among those who agree that communication has not evolved

#### Process-focused themes
- Spend less time on plan mechanics: 55%
- Spend less time on savings process: 44%
- Spend less time on preaching about savings: 44%
- Spend less time on accumulation: 39%
- Spend less time on investment advice: 34%
- Spend less time on how much participants save: 28%
- Spend less time on investment production selection: 27%
- Spend less time on how to invest: 27%

#### Outcomes-focused themes
- Spend more time on retirement income: 97%
- Spend more time on starting early and sticking with it: 96%
- Spend more time encouraging higher savings: 94%
- Spend more time on retirement outcomes: 90%
- Spend more time on savings objectives: 90%
- Spend more time on helping employees envision their retirement: 85%
- Spend more time on how to free up income to invest: 71%
- Spend more time on tools and calculators to help participants plan their retirements: 70%
Perspectives and implications

Lincoln Financial and Retirement Made Simpler believe the emerging communication blueprint represents a positive trend for the retirement plan industry, and one that can be mutually beneficial for plan providers, plan sponsors and especially plan participants. We believe this change can help foster retirement readiness with three advantages over today’s communication model: it is more appropriate, more personal and more motivational.

More appropriate
We believe the communication paradigm shift on the horizon would complement the ongoing evolution in plan design, which has already moved from process-focused to outcome-focused (i.e., automatic features that reduce the need for process work on the part of the participant).

More personal
If participant communication and education were to evolve along this path, we would be able to change the retirement planning conversation to become more relevant and more meaningful to each participant at a personal level, as outcomes are inherently individualistic. Appealing to participants on a more personal level would likely increase their overall engagement and interest in the retirement benefit.

More motivational
Outcomes-focused communication themes are naturally more optimistic and action-oriented; and both of these qualities inspire motivation. New messages would focus on benefits to the participant, rather than features of the plan, investment, etc. Traditional retirement plan communication tends to answer the question, “What is it?” But as this study shows, we have the opportunity to answer a more impactful question: “What’s in it for me?” The right answer can be a powerful motivator.
Helping participants take charge

Participants don’t have to learn all about investments, financial markets and retirement plan mechanics, as an aspiring money manager might. However, we believe participants will embrace the notion that, when it comes to their financial future, they are in charge. To take charge, participants will want to have easy, intuitive access to practical communication and education related to their retirement plans, and any advice they receive in their plans.

The emerging communication blueprint goes beyond traditional financial literacy to build a foundation for financial capability. Communications programs may move away from education for the sake of education in a purely academic sense, and instead provide education for the sake of retirement readiness. This paradigm shift has the potential to yield a more satisfying experience for plan sponsors and participants alike.

Automatic features take care of the details, so participants can take charge of the big picture. They enable employers to devote less time to explaining plan mechanics, freeing up more time for conversations about what really matters: the ability to generate reliable retirement income and live comfortably on it. Industry leaders and plan sponsors can work together to seize this timely opportunity.

The goal is to make retirement planning simpler and easier for both plan sponsors and participants, but we are dealing with complex issues and complex logistics. To strive for better outcomes, participants will have to address this complexity. They will have different questions than they had before entering the auto-solutions world, but they will have questions nonetheless. Retirement plan providers, financial educators and other financial professionals will play an important role in the conversation. Financial advice will become a highly valued input to outcomes-focused communication, and will have to be tailored and delivered on a personal level.

We suggest that plan sponsors and providers take a holistic approach, completing the promise of auto plans. In the next phase of evolution, forward-thinking plan sponsors and providers will shift their focus to outcomes, giving participants greater insight into how their actions today can help drive future retirement readiness. Because of the complex and personal nature of this conversation, one-on-one, face-to-face communication may turn out to be the most powerful means by which to deliver outcomes-focused messages. We see one-on-one communication as a true enabler, and a way to empower sponsors and participants by working with them directly. It is a model that has already shown positive results, and we believe its popularity can only grow in coming years.

Consistent with this shift, education will also help participants better understand how to apply financial advice and information. For example, in this new paradigm, not all participants need to know how to translate retirement savings into retirement income per se, but all of them may want to know how to use calculators and other tools, and how to identify and work effectively with advisors who can help accomplish this goal. Therefore, future educational initiatives could focus on what to expect when working with financial advisors, costs associated with financial advice, and how to avoid scams and financial fraud. Financial information may become more accessible and more relevant—empowering better decision making, and in turn, better outcomes.
Recommended action steps

For plan sponsors who have not yet implemented automatic features, we recommend a bundled approach, which would mean fully implementing all three automatic features explored in this study—auto enrollment, auto escalation and use of QDIAs. The transition to the auto-solutions world is indeed a paradigm shift, and to do it piecemeal or hesitantly (setting low deferral rates to “test the waters,” for instance), may limit or delay the potential for desired plan-level results.

We see immense opportunity to advance communication and education programs in tandem with plan design. Plan sponsors who work closely with their plan providers on both of these fronts are likely to see the greatest gains.

Whether you choose to overhaul your communication and education program from the ground up, or start with a few select opportunities, we suggest sharpening your focus on outcomes.

Here are some high-level tips for rethinking your communication program:

**Begin with the end in mind**
This idea is the essence of an outcomes orientation. New communications should follow the saving story all the way to the end, meaning not just the final accumulation number, or even the projected retirement income number, but potential future buying power. Encourage participants to think about retirement in tangible terms (such as monthly spending). Give relevant examples to help participants connect the dots along the way—showing incremental progress based on their personal accounts rather than “generic,” or static data.

**Foster one-on-one communication**
An outcomes-focused approach invites more complicated questions and considerations, and leads to two-way dialogue. That’s why an outcomes-focused approach cannot easily take place through mass communication (in print, online or via group seminars). More sophisticated, robust communication about outcomes may be most effective. We believe one-on-one conversations can be extremely powerful in reaching better outcomes.

**Focus your evolution on content**
In the world of 24-hour news cycles, not to mention Web-based retirement plan education, content is king. Meanwhile, rapidly evolving technology can tempt plan sponsors to explore new communication channels without updating their messages. Balance freshness and relevance of communication content with outcomes-focused messages, not just new channels. With the one-on-one model in mind, find ways to personalize messages even if they cannot be delivered in person.

**Take inventory**
Once you have a holistic, outcomes-focused approach in place, revisit both automatic features and communication strategies annually. Involve the investment committee, human resources, benefits managers, communicators and other decision makers to ensure you’re considering all the angles.
From automation to activation

We believe the retirement services industry can implement simple, yet significant, changes to help reframe participant communication. Since plan design has already shifted to automatic features, a shift in communication themes would be the final piece in an overall paradigm shift from process-focused to outcomes-focused offerings.

The paradigm shift will not happen in a day, but may result in dramatic changes for retirement savers and employers in the long term. Plan sponsors who have implemented the complete bundle of automatic features are in the best position to influence this change. They are the transformative leaders of the auto-solutions world.

As the paradigm shift becomes reality, the potent combination of outcomes-focused plan design plus outcomes-focused communication has the power to make retirement planning and saving more meaningful and tangible—and, in turn, may lead to better outcomes.

Embrace the paradigm shift

For more information, visit LincolnFinancial.com/RetirementPower and RetirementMadeSimpler.org.

Look for new Automatic Features Study white papers coming soon!

Study methodology

The Automatic Features Study is based on research among plan sponsors conducted by Brightwork Partners, LLC for Lincoln Financial and Retirement Made Simpler. Researchers administered the survey by phone from February 8, 2012 to March 8, 2012. The research explored automatic retirement plan features from the perspective of 201 executives and managers responsible for managing 401(k) and 403(b) retirement plans with assets of $10 million or more. Nonprobability quota sampling was used to obtain the sample. Respondents had to have implemented at least one automatic feature, including: QDIAs, automatic enrollment and/or automatic escalation. The survey sample is nationally representative of all 401(k) and 403(b) retirement plans with assets of $10 million or more offering at least one automatic feature (approximately 12,000 plans). The sample was weighted on asset level and plan type—403(b)/401(k).
About the co-sponsors

Lincoln Financial
A leader in retirement plan services for more than 60 years, Lincoln Financial implements both proprietary and third party research to refine our participant experience, explore new ways to enhance our services, and add value for our intermediary partners and plan sponsor clients. We are especially interested in identifying what motivates individuals to participate in employer-sponsored retirement plans and take positive actions to help achieve their retirement savings goals. We are always looking for innovative ways to drive better retirement outcomes and help you turn insight into action.

Retirement Made Simpler
Retirement Made Simpler is a coalition formed by AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP). The coalition was created specifically to inspire and support employers who want to help their employees save more for retirement. By providing companies with the tools and information they need to automate their retirement plans, more Americans will achieve a safe and secure retirement. For more information, visit RetirementMadeSimpler.org.

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