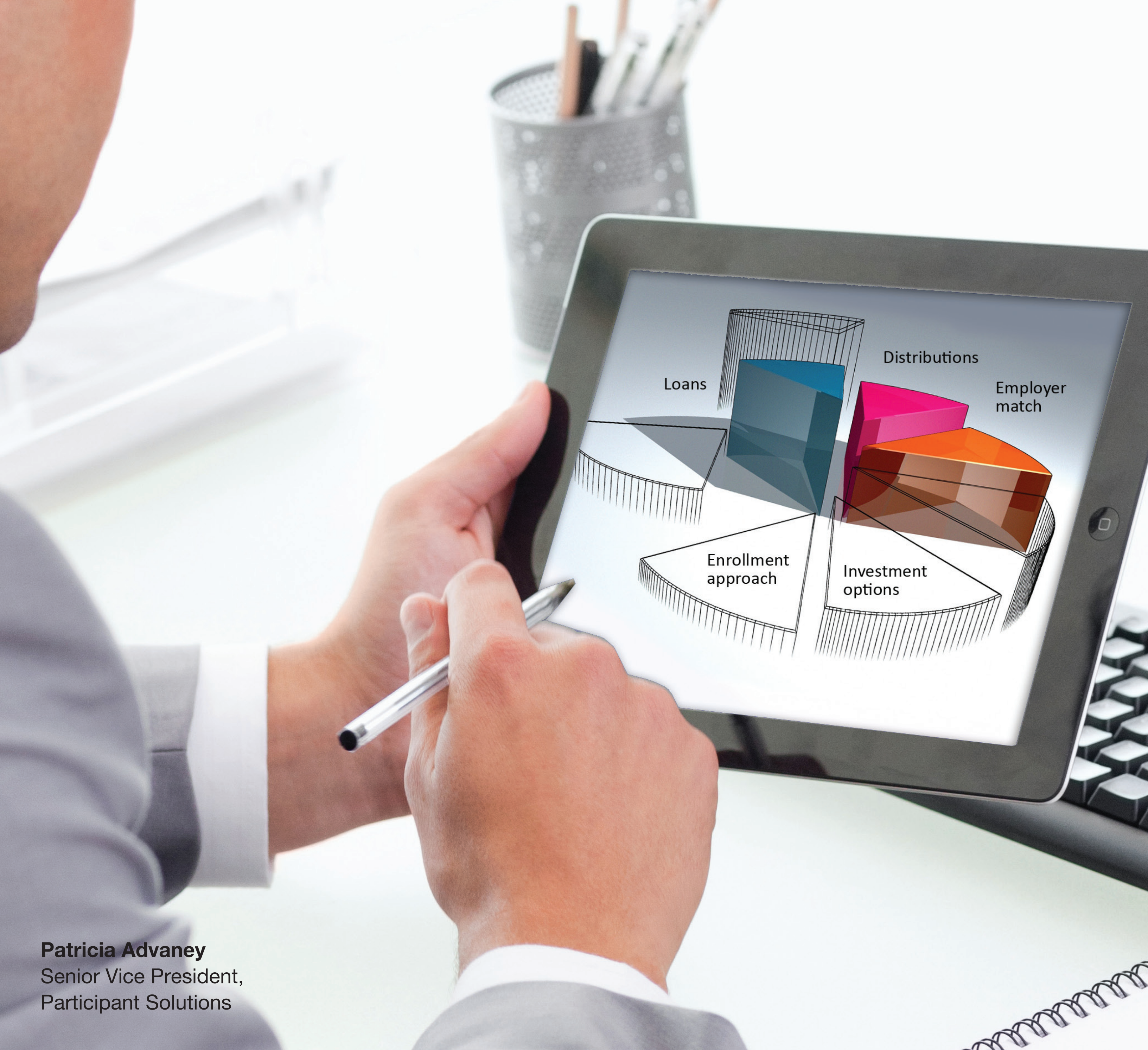
TRANSAMERICA®
Retirement Solutions

# EFFECTIVE COMMUNICATION BEGINS WITH PURPOSEFUL PLAN DESIGN

*A White Paper Prepared by Transamerica Retirement Solutions*





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### About the author

**Ms. Advaney** is senior vice president of Participant Solutions, and a member of Transamerica's senior leadership team. With more than 20 years of experience in the investment and retirement plan industry, she is responsible for overseeing all participant-facing activities.

### *Plan design is the basis for plan success*

As a plan sponsor, your success in helping your participants prepare financially for retirement starts with the careful and thoughtful review of your plan design. Your ability to influence your participants' behavior so that they are more likely to achieve their retirement-readiness goals is predicated on having not just effective communications, but purposeful plan design as well.

Make sure your plan's features and design don't unintentionally impair—or even sabotage—the very behavior you wish to encourage! This is especially important when you work with your plan provider on developing a communication and education program. Not even great communications can make up for counterproductive plan design. Participant communications and other education materials need to support plan objectives, which should be considered first and foremost in the context of how the plan currently works.

Before delving into the development of communication materials, spend time to determine your communication goals, and then take a hard look at the plan itself. Is your design inadvertently generating the need for inefficient and broad-based communications—time and energy that could be better spent on targeted messaging?

Maximize every opportunity to affect behavior so that your employees have the best chance of having a well-funded retirement. But start with a solid foundation built on thoughtful, effective plan design. Make sure every business decision about your plan is considered in light of the effect it will have on participant behavior. And conversely, be sure every desired change in participant behavior is addressed through business decisions about your plan, including the thoughtful addition of well-crafted service features.

## Enrollment methodology impacts participation

If a healthy participation rate is the way you measure the success of your retirement plan—and if increasing plan participation is one of your primary business goals—then automatic enrollment is certainly the way to go. But be sure to implement automatic enrollment in a way that optimizes its benefit for participants. Today, more than half of all plans that automatically enroll employees use a default deferral rate of 3% or less.[1] However, the average opt-in deferral rate is significantly higher—9%! So in trying to do the right thing, there is a real danger that sponsors might be doing participants an unintentional disservice by automatically enrolling employees at a default deferral rate that is way too low.

And while plenty of evidence exists to demonstrate that opt-out rates do not increase significantly with default deferral rates, auto-enrolling employees with a rate that is too low may in fact do just that—because employees don't find the contribution meaningful enough! So don't follow the crowd. Carefully consider setting a default rate that is appropriately positioned to help you meet your business objectives. Set your default rate at least as high as your current opt-in rate, and be sure to integrate automatic escalation to improve participants' retirement preparedness over time. And here's proof: The average account balance in plans with automatic escalation is $43,042, compared to $28,234 in plans without this service feature.[2]

## Design employer contributions to maximize your plan objectives

Studies have clearly shown the impact of matching contributions on savings rates and account accumulation, and matching contribution formulas certainly run the gamut. However, many sponsors default to "standard" formulas such as 100% up to 3% of pay, or 50% up to 6% of pay. Though these standard formulas might work well for some plans, if increasing the average participant contribution rate is a top goal for you, why not consider extending your match? Instead of matching 100% up to 3%, or 50% up to 6%, why not match 25% up to 12% of pay?

Messages that tell participants to "maximize your match" are so effective that in many plans the rate at which the match is maximized is the most commonly chosen participant contribution rate. So stretching your matching incentive will likely result in higher savings rates and account accumulation.

And don't forget how participants respond to other (non-matching) employer contributions. If joining the plan is the behavior you wish to influence most of all, consider an arrangement that incorporates a fixed-dollar employer contribution. Plans with a matching contribution may have higher deferral rates, but plans with a fixed-dollar employer contribution have an edge in participation rates. In plans with an employer match, 69% of employees participate, but when a fixed-dollar employer contribution is offered, participation jumps to 83%.[3]

Finally, carefully evaluate the wisdom of allowing participants the option between contributing on a flat-dollar basis versus a percentage basis. While participants may have a preference for one alternative over another, remember that inertia is a powerful force when it comes to retirement savings plan decisions. Participants who contribute a flat-dollar amount are likely to remain at that level for many years to come, while those contributing on a percentage basis will be adding more dollars to their account with each salary increase.

## Investment options: more is not always better

When it comes to the number of investment funds offered, less is often more. Research shows that the number of available investment options is directly related to participation. Plans that offer 10–14 funds have the highest participation rates, but participation rates decline as more funds are added.[4] Further studies show that for every 10 funds added, participation actually declines by 1.5–2.0 percentage points.[5]

Why is this? For participants, more funds implies more research, more thought—in short, more work—and all of a sudden joining the retirement plan becomes overwhelming. Additionally, the number of funds impacts participant investment selections: With more options, the likelihood of a participant choosing the most risk-averse option increases.

But before you try to sort it out for your participants by distributing long communications about fund objectives, fees, and performance, consider simply narrowing down the number of funds offered to a more manageable array. Are there similar, or even duplicative, funds that could be eliminated? Your plan provider can help you think through smart ways to streamline your fund lineup so your participants step forward instead of sitting on the sidelines.

## Beware overlapping investing “solutions”

And what about those investing solutions that offer prepackaged, pre-diversified ways for participants to allocate their savings? These are wonderfully effective ways to simplify the investing decisions for participants, but does your plan offer in fact too many “solutions”?

Quite often, overlapping solutions come about when organizations merge and each organization wants to maintain its existing plan provider’s fund lineup. One can also end up with too much overlap when an organization changes plan providers but is reluctant to take away investing solutions that had been previously offered.

Unfortunately the end result can be intimidating for participants and counterproductive for plan success. Retirement professionals presumably understand and perhaps appreciate the subtle differences among asset allocation funds, target date funds, and one-decision investing solutions—even investing options outside the plan—but the average participant typically does not.

Plans that offer overlapping investment approaches often then require additional communication time, effort, and money to explain the differences between approaches for participants. Resources spent explaining the finer details could be better spent on targeted communications that help participants close their retirement savings gaps. Here again, less is often more.

## Could plan loans be to blame?

Eighty-seven percent of all retirement plans offer loans, and 47% of plans offer multiple loans. In plans that offer loans, 23% of participants have taken at least one loan.[6] If retirement preparedness can be measured by account accumulation, and your plan is falling short on average balances, loan activity is likely to be at least partly to blame.

Many retirement professionals consider plan loans to be a serious detriment to retirement preparedness—and all too convenient for participants. If improving account accumulation and participants’ retirement readiness are business goals for your plan, before you begin creating participant communications about the downside of plan loans, why not consider a change to your plan design to eliminate plan loans—or at least limit loans to only one existing loan at a time? Yes, it’s less convenient for participants perhaps, but much more effective in terms of retirement preparation.

## Are all of your retirement plans working in tandem?

Sometimes having multiple retirement plans can be the culprit, when one plan unintentionally defeats the purpose of the other. Is the low participation and/or average contribution rate in your 401(k) plan attributable to the existence of a robust profit-sharing plan? Far from not being engaged, your participants may well recognize the value of their profit-sharing plan—so much so that they are disinclined to contribute much more, if anything, on top of that.

In such a case, continuing to communicate the benefits of the 401(k) plan will likely prove futile in getting employees to participate and/or increase their contributions. You would be much more likely to achieve the results you’re seeking by using part of the profit-sharing contribution as a matching incentive in your 401(k) plan—without substantially increasing costs to your organization. If increasing participation in your voluntary plan is a goal, then make sure other programs don’t make participation less urgent.

## Add and promote options that help participants convert savings to retirement income

Are your pre-retirees routinely electing lump sum distributions? Are in-service withdrawals becoming common for your age 59½ and older participants?

In addition to helping pre-retirees understand their options and make wise decisions as they transition to retirement, consider adding and promoting alternative distribution options that encourage participants to stay invested in their financial futures. Traditional annuities and systematic withdrawals are two such options. Even better are newer in-plan options that not only address some of the historical objections associated with traditional annuities, but that also combine accumulation with guaranteed lifetime income.

Look at the options you're putting in front of participants, especially your pre-retirees whose short-term decisions can have such a critical and lasting impact on their retirement outcomes. Does your plan design encourage the best long-term behavior?

## Communicate with purpose

Plan design is a moving target—and that's a good thing. No need to assume that plan design is fixed. Consider plan design to be fluid, and as such open to ongoing scrutiny as your operating budget and department staffing. Does your plan design help your participants save and invest wisely for retirement, or does it actually impede the participant behavior that you most want to see?

Before preparing communication materials, spend time with your plan provider to determine your communication goals. What participant behaviors do you wish to influence? Transamerica's OnTrack® reports and other insightful business intelligence examine a variety of plan metrics, such as age, location, division, savings rate, diversification, and other important data, so that communications can be truly targeted to alter the behavior that needs changing.

And most importantly, remember that not even great communications can make up for counterproductive plan decisions. Make sure your plan features support the direction you want to go—then prepare communications to accelerate the change.

[1, 3, 4] Report on Retirement Plans – 2011, Transamerica.
[2] Retirement Plan Trends in Today's Healthcare Market – 2011, Transamerica.
[5] Plan Design and 401(k) Savings Outcomes, December 8, 2011, **www.nber.org**
[6] 54th Annual Survey, 2011, **www.psca.org**

## About Transamerica Retirement Solutions

Transamerica Retirement Solutions (Transamerica) is a leading provider of customized retirement plan solutions for organizations of every size.

Transamerica partners with financial advisors, third party administrators, and consultants to cover the entire spectrum of defined benefit and defined contribution plans, including: 401(k) and 403(b) (Traditional and Roth); 457; profit sharing; money purchase; cash balance; Taft-Hartley; multiple employer plans; nonqualified deferred compensation; and rollover and Roth IRA.

Transamerica helps more than three million retirement plan participants save and invest wisely to secure their retirement dreams. For more information about Transamerica Retirement Solutions Corporation, please visit **www.trsretire.com**.



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