High on the International Foundation’s priority list in 2015 and the years that follow is an initiative to help plan sponsors help participants and their families achieve a secure retirement. This article is the third in a series of six that will be published in Benefits Magazine during the first half of 2015. It shares what the Foundation has learned from research on this topic. Visit www.ifebp.org/RetirementSecurity for a copy of the full report, as well as other information and resources.
With so many factors contributing to the retirement crisis, it should come as no surprise that fixing it requires a multipronged approach. Employers and plan sponsors that want a more active role in promoting retirement security can take a variety of actions to achieve one or more of these five interrelated goals:

1. Help workers determine their retirement needs and where they stand.
2. Get workers enrolled and saving for retirement.
3. Help workers make prudent investment choices.
4. Help workers stay on track to meet their retirement objectives.
5. Support those near retirement make the transition.

The good news is that many efforts on the part of employers and plan sponsors to achieve these goals can make a difference at minimal cost. This article focuses on some general points to keep in mind when promoting the retirement security of workers, including some specific strategies for achieving the first two goals.

A primary objective woven throughout each of the five goals is getting workers to take action. Doing so requires making action on the part of workers as easy as possible. It also involves understanding what motivates people to change. Many of the most successful efforts are based on the insights of behavioral economists who tell us people are not as rational as many believe and, as a result, promoting retirement security is not always what would appear to be most logical or rational.

As plans increasingly shift from defined benefit (DB) to self-directed defined contribution (DC)—with more responsibility for saving and planning placed on the shoulders of DC plan participants—it’s also important to pay special attention to the type of plan participant. Shlomo...
Benartzi, chief behavioral economist for the Allianz Global Investors Center for Behavioral Finance, has proposed DC plan participants fall into three categories (see the figure). Conservatively, 90% of workers are delegators who have neither the knowledge nor the desire to be actively involved in managing retirement savings. Delegators prefer professionals do the work for them. Automatic enrollment and investment in a one-stop, professionally managed, well-diversified investment portfolio is the optimal approach for this group of workers.

Another 9%—the fine-tuners—want to take on some responsibility for the management of their savings but don’t want to become deeply involved. Fine-tuners opt out of the default investment and prefer selecting from a menu of five to nine core funds that includes a target-date fund. The remaining 1% are customizers with extensive knowledge of investing. Persons in this group want to be deeply involved in the management of their retirement investments and prefer a much broader menu of options from which to choose, including specialty funds.¹

Help Workers Determine Their Retirement Needs and Where They Stand

Winning athletes and successful businesspersons envision what they want to accomplish and then identify what they need to do to achieve their vision. The same approach can help individuals prepare for retirement. An increasing number of retirement plan sponsors and vendors are providing planning tools and other resources to help participants determine how much income they will need at retirement to achieve their retirement goals and whether they are on track for success.

Help Workers Determine Their Retirement Needs and Where They Stand

Winning athletes and successful businesspersons envision what they want to accomplish and then identify what they need to do to achieve their vision. The same approach can help individuals prepare for retirement. An increasing number of retirement plan sponsors and vendors are providing planning tools and other resources to help participants determine how much income they will need at retirement to achieve their retirement goals and whether they are on track for success.

Encourage Participants to Picture Their Retirement

As part of an education program or in another setting, a sponsor can encourage workers to envision their future retirement—where they want to live, what they want to do, etc. Most people know they “should” save for retirement, but they find themselves doing something else instead. Behavioral economists refer to this problem as the future discounting obstacle. Having a personal retirement picture helps workers avoid temptations to spend today that might derail their retirement. As workers get closer to retirement, their retirement picture will be developed more fully—providing the foundation for determining how much it will cost to make their retirement dreams a reality.

In addition to providing a “price tag” for retirement, creating a retirement picture also forces workers to consider what is most important to them. Desires to be self-sufficient, stay active, care for loved ones, learn new things, spend more time on personal interests—All of these reflect a person’s core values and beliefs. They are intrinsic motivators that spur workers to make sure they have saved what they will need when they retire. While sponsors can (and should) use extrinsic motivators such as contribution matches and competitions to jump-start employee savings behaviors, it is intrinsic motivators that most likely will have the more lasting impact for some individuals.

Be aware that not everyone is able to come up with positive scenarios for retirement. When several thou-

---

sand people were asked (1) what they feared most about retirement and (2) what was their best-case scenario for retirement, two out of five admitted they were unable to see anything positive. What is positive about getting old? Benartzi suggests giving workers a few minutes to imagine they have saved adequately for retirement and will be able to live comfortably without worrying about paying bills or health expenses. Follow up by asking each person to write down everything that comes to mind in terms of his or her tangible lifestyle and how he or she feels about this scenario. Then direct workers to check a box indicating they wish to increase their savings rate—or one of four boxes offering rate increases of 3%, 2% or 1%, with a fourth box blank for another rate of the worker’s choice.2

Offer a Retirement Planning Calculator

Workers who have calculated how much they must save to meet their retirement needs tend to have higher savings goals than workers who have not done a calculation. When workers have used an online calculator to determine their retirement savings targets, the magnitude of the increase has ranged from 9% to 18% depending on the respondent's gender, marital status and income. In general, the lower the income of the worker, the higher the impact of using a calculator.3

The best retirement planning calculators allow workers to factor in assets and income from multiple sources; for example, benefits due a spouse, assets from past employers and personal savings as well as expected government payments. Some of the newest calculators are able to access and automatically enter information from other sources needed to make calculations. Users should also have the ability to link investment returns to specific investments. The return on a money market account should not be projected to be the same as a stock mutual fund.

If a participant’s desired retirement age or income does not work given current savings and investment choices, a good calculator suggests adjustments to help bring the user closer to achieving his or her goals. Some calculators have a sliding scale that allows participants to see how their monthly retirement income will change if they save more money, adjust the asset mix in their retirement portfolio or delay retirement.

When selecting a calculator, plan sponsors should be mindful of the assumptions used for inflation, tax rates and health care costs—Any of these can cause results to vary widely. Retirement projections should also show a range of possible results, reflecting both the upside potential and downside of inflation and investment risks. The advantage of this approach is that participants can see the impact of different choices they make and risks they face.

With so many unpredictable factors associated with retirement planning, tools that provide Monte Carlo simulations are worth considering. A Monte Carlo analysis involves multiple trial runs, called simulations, with random variables that affect retirement such as life expectancy, inflation, wage growth and investment returns. Users are provided the likelihood they will achieve their retirement goals.

Sponsors providing access to calculators must keep in mind that many workers are not able to use these tools without substantial guidance. Instructions for data entry must be clear—especially when it comes to making assumptions regarding inflation and investment return. If users are asked to select an income replacement rate for their retirement years, they need to be given information as to what might increase or decrease the percentage they need. For example, having a home with a
mortgage paid in full lowers how much income is needed. On the other hand, health care costs may increase. In some cases, a counselor may be needed to take a user step by step through the process—helping locate data, entering it and, ultimately, interpreting the results.

Provide Access to Financial Advisors

If plan sponsors—with support from actuaries, lawyers, investment managers, etc.—view the management of a DB plan as complicated, imagine how individual workers managing investments in DC plans or other individual accounts feel when they have limited financial knowledge and access to advice.

Professionally managed accounts and education programs help address these problems, but even they cannot provide all the guidance needed to achieve a secure retirement. Sometimes, there is simply no substitute for personalized and objective financial advice. Plan sponsors that provide access to and encourage the use of financial advice help workers make smarter decisions that keep them moving toward a secure retirement. A Schwab study of 401(k) plan participants using independent professional advice found:

- **Increased contributions**—70% of participants increased their retirement savings contribution rates.
- **More diversification**—Participants invested in at least eight assets, compared with an average of 3.7 assets for those who chose to manage their portfolios on their own.
- **Periodic rebalancing**—Those with a plan that annually rebalanced the assets in their portfolio had a higher annualized rate of return than those who never rebalanced their assets.
- **Increased likelihood of staying the course**—Participants were more likely to stick with their investment objectives and be less reactive during a market downturn or high volatility.

To avoid sponsor liability, remove conflict-of-interest concerns and increase participant use of professional advice, plan sponsors should provide information and planning tools that are comprehensive, personalized and provided by a certified third-party advisor who is not selling products or services. When looking for a third-party advisor, seek someone who:

- **Holds a credible designation.** The Certified Financial Planner (CFP®) designation has become the gold standard for financial planning. Other credentials that provide evidence of knowledge on a wide range of financial planning topics include Chartered Financial Analyst (CFA®), Certified Public Accountant–Personal Financial Specialist (CPA–PFS®) and Chartered Financial Consultant (ChFC®). Because these credentials focus on asset investment and accumulation, consider asking these advisors whether they have any special training or expertise in generating retirement income; for example, designation as a Certified Retirement Counselor (CRC®), Retirement Management Analyst (RMA®) or Retirement Income Certified Professional (RICP®). The Certified Employee Benefit Specialist® (CEBS®) designation ensures an advisor knows the benefits industry and fiduciary limits when providing investment advice in the workplace.

---

**Qualified Default Investment Alternatives**

The Pension Protection Act of 2006 (PPA) established safe harbor provisions for qualified default investment alternatives (QDIAs). Sponsors that do not implement a QDIA may be legally responsible if their retirement plan fails to produce adequate results for participants. Each alternative has pros and cons related to price and level of service.

- **Balanced funds** are mutual fund products that usually provide a diversified portfolio focused on a steady income, asset safety and capital appreciation.
- **Target-date funds** invest in a mix of assets (e.g., stocks, bonds and cash) considered suitable for individuals retiring in a given time frame. As retirement nears, a professional manager automatically resets the mix of assets to reduce risk and provide a more stable fund value. The primary appeal of a target-date fund is the professional rebalancing as the individual investor ages, which is not provided by a balanced fund.
- **Managed accounts** are owned by an individual and looked after by a professional money manager. While the cost of these accounts is higher than that of the other options, the manager makes decisions based on the specific needs of the individual investor who can be involved in the decision process.
• **Is willing to sign a fiduciary oath agreement.** The advisor should be willing to sign a document that includes the word *fiduciary* and language indicating he or she is looking after the best interests of participants.

• **Generates revenues on a fee-only basis.** An advisor who earns money based on commissions versus a flat fee could have an incentive to steer investment choices in a particular direction. There are also advisors who charge a percentage of assets managed—these professionals are not likely to recommend annuities and other solutions that reduce the assets under their management.

• **Has significant work experience.** Look for an advisor who has or is currently working with plan participants. He or she will be more likely to know what works and what doesn’t with respect to changing worker behavior.

To encourage use of a financial advisor, some sponsors arrange for an advisor to come to the workplace. A sign-up sheet can be posted with a list of scheduled times for meeting with the advisor. All workers have to do is put their name on the sheet and show up for the meeting. Consider letting workers meet with the advisor during paid work hours.

**Provide a Regular Retirement Income Statement**

The idea of projecting a lifetime income for each worker is catching on among DC plan sponsors and vendors. In fact, the U.S. Department of Labor (DOL) is considering mandating such a statement. At minimum, a plan sponsor should provide plan participants a clear, concise retirement income statement each year that projects a range of possible monthly income amounts the participant might receive during retirement given various contribution rates, asset allocations and years to retirement. Plan participants can quickly and easily add the monthly income estimate from their workplace plan(s) with the monthly estimate the federal government provides for their Social Security benefit to have a figure that is much more meaningful than an account balance. Projections that reflect how increases in contributions positively impact benefits could also help motivate participants to raise their savings levels.

By law, plan sponsors are required to provide DC plan participants the status of their account quarterly. There is, however, no requirement that the quarterly performance and account balances must be prominently positioned on the first page of the statement. Plan sponsors can place monthly income projections on the first page of the statement and the information required by law closer to the end of the report. Not only does this structure make it easy to find the income projections, it also helps participants focus on their portfolio’s long-term versus short-term performance. In addition, monthly income projections seem less dramatic than short-term performance figures, which can help calm those participants most likely to overreact and chase investment returns. This approach to reporting can reduce the anxiety of all participants regarding the return on their investment.

**Get Workers Enrolled and Saving for Retirement**

Offering a workplace retirement plan plays a crucial role in motivating workers to save for retirement. For employers offering DC plans that give participants the responsibility for saving some or all the funds needed for retirement, more effort is needed. On average, DC plan sponsors report 22% of eligible workers do not participate. Among those workers who do, many save too little. Plan features that encourage participation and more savings are imperative.

---

**takeaways >>**

• To encourage workers to save for retirement, it’s crucial employers offer a workplace retirement plan—one with features that encourage participation and more savings.

• Offering a match and the size of the match positively affect savings, but the match cap has the biggest effect. Stretching the match can cause workers to increase their contribution rate.

• Automatic features that take advantage of workers’ tendencies toward inertia and procrastination can increase participation and rates of saving.

• Workers who are encouraged to picture what their retirement will be like may be more likely to save for it.

• Retirement calculators can show workers how much they are likely to need to save for a secure retirement.

• There is no substitute for personalized, objective financial advice; most workers could benefit from access to a financial advisor.
Workers who have no idea how much they should be saving might want to take the advice of many financial planners who suggest workers with no DB plan should start saving in their 20s and set aside at least 10% to 15% of their income annually—figures that reflect both participant contributions and any employer match. For those in their 30s, 15% or 20% may be more appropriate depending on how much they saved previously.

Offer a Workplace Retirement Plan

In a national survey by ING, 64% of workers said the retirement plan they are provided through work accounted for all or most of their retirement savings. In addition, 44% said they probably would not be saving for retirement if it weren’t for their plan at work. Yet half of U.S. workers do not have a workplace retirement plan.

For many employers, the first step in helping workers achieve a secure retirement is to provide a workplace retirement plan. Changes in government policies and new retirement savings options may have made it easier than many employers think to offer a retirement savings plan providing tax advantages to both employer and employees.

Employers that do not want to establish and maintain an employee retirement plan on their own can use one of the 401(k), 403(b) or 457(b) prototype plans now offered by many financial institutions. Another option is to help employees set up individual retirement accounts (IRAs). Both routes considerably reduce the administrative burden on employers while offering workers the means to set aside money regularly via payroll deduction.

Relax Plan Eligibility

Some DC plans require a waiting period (e.g., 12 months) before employees can start contributing. Relaxed this requirement allows new hires to start saving for retirement right away. Plan sponsors concerned about the hassle of dealing with accounts of workers who don’t last a full year might have workers complete retirement plan enrollment forms at the time of hiring but simply delay participation for six months or a year.

Offer a Stretch Match

Most employers match worker contributions to DC plans to encourage retirement savings. The availability of a match, the size of the match and the match cap (the maximum amount the employer will match) can all positively affect the amount workers save. However, the effect of the match cap on the amount saved dwarfs the effects of the other two factors.

A no-cost and very effective way to boost participant savings is to stretch the match, in other words, increase the match cap. For example, consider the most common default contribution cap of 3%. Instead of offering a 100% match of up to 3% of worker pay, employers could offer a 50% match on up to 6%. Employees who save up to the cap would have total savings of 9% contributed to their plan with no increase in employer costs.

Given so many workers report household expenses and debt are obstacles to saving, many plan sponsors may be concerned as to how workers will accomplish a contribution rate greater than 3%. A 2012 survey of DC plan participants suggests this concern may be unwarranted. A surprising 83% of survey respondents said they could cut their household budget by at least 5% to save more for retirement—including 64% who said they could reduce their budget by 10% or more.

Use Automatic Enrollment

Plan sponsors have learned that automatically enrolling new hires in workplace DC plans substantially increases plan participation. Essentially, the same human behaviors that result in a failure to enroll—inertia and procrastination —can be exploited to promote plan enrollment. The employee must take action to opt out of enrollment, change the percentage contributed and adjust how it is invested.

Taking autoenrollment a step further, employers can ask workers who initially opt out whether they would like to enroll in the future—perhaps at

Get Life Partners Involved

For workers with spouses/life partners, the input of both individuals is essential to achieving a secure retirement. Having partners involved in the process not only introduces these persons to the choices available, it can increase the likelihood couples will have a joint retirement plan and work together to achieve their goals. Encourage partners to become informed and actively involved throughout the retirement planning process.

For workers with spouses/life partners, the input of both individuals is essential to achieving a secure retirement. Having partners involved in the process not only introduces these persons to the choices available, it can increase the likelihood couples will have a joint retirement plan and work together to achieve their goals. Encourage partners to become informed and actively involved throughout the retirement planning process.

For workers with spouses/life partners, the input of both individuals is essential to achieving a secure retirement. Having partners involved in the process not only introduces these persons to the choices available, it can increase the likelihood couples will have a joint retirement plan and work together to achieve their goals. Encourage partners to become informed and actively involved throughout the retirement planning process.

Workers who have no idea how much they should be saving might want to take the advice of many financial planners who suggest workers with no DB plan should start saving in their 20s and set aside at least 10% to 15% of their income annually—figures that reflect both participant contributions and any employer match. For those in their 30s, 15% or 20% may be more appropriate depending on how much they saved previously.

Offer a Workplace Retirement Plan

In a national survey by ING, 64% of workers said the retirement plan they are provided through work accounted for all or most of their retirement savings. In addition, 44% said they probably would not be saving for retirement if it weren’t for their plan at work. Yet half of U.S. workers do not have a workplace retirement plan.

For many employers, the first step in helping workers achieve a secure retirement is to provide a workplace retirement plan. Changes in government policies and new retirement savings options may have made it easier than many employers think to offer a retirement savings plan providing tax advantages to both employer and employees.

Employers that do not want to establish and maintain an employee retirement plan on their own can use one of the 401(k), 403(b) or 457(b) prototype plans now offered by many financial institutions. Another option is to help employees set up individual retirement accounts (IRAs). Both routes considerably reduce the administrative burden on employers while offering workers the means to set aside money regularly via payroll deduction.

Relax Plan Eligibility

Some DC plans require a waiting period (e.g., 12 months) before employees can start contributing. Relaxing this requirement allows new hires to start saving for retirement right away. Plan sponsors concerned about the hassle of dealing with accounts of workers who don’t last a full year might have workers complete retirement plan enrollment forms at the time of hiring but simply delay participation for six months or a year.

Offer a Stretch Match

Most employers match worker contributions to DC plans to encourage retirement savings. The availability of a match, the size of the match and the match cap (the maximum amount the employer will match) can all positively affect the amount workers save. However, the effect of the match cap on the amount saved dwarfs the effects of the other two factors.

A no-cost and very effective way to boost participant savings is to stretch the match, in other words, increase the match cap. For example, consider the most common default contribution cap of 3%. Instead of offering a 100% match of up to 3% of worker pay, employers could offer a 50% match on up to 6%. Employees who save up to the cap would have total savings of 9% contributed to their plan with no increase in employer costs.

Given so many workers report household expenses and debt are obstacles to saving, many plan sponsors may be concerned as to how workers will accomplish a contribution rate greater than 3%. A 2012 survey of DC plan participants suggests this concern may be unwarranted. A surprising 83% of survey respondents said they could cut their household budget by at least 5% to save more for retirement—including 64% who said they could reduce their budget by 10% or more.

Use Automatic Enrollment

Plan sponsors have learned that automatically enrolling new hires in workplace DC plans substantially increases plan participation. Essentially, the same human behaviors that result in a failure to enroll—inertia and procrastination—can be exploited to promote plan enrollment. The employee must take action to opt out of enrollment, change the percentage contributed and adjust how it is invested.

Taking autoenrollment a step further, employers can ask workers who initially opt out whether they would like to enroll in the future—perhaps at
the beginning of the new year or one year down the road—
when workers may think they will be in a better financial
position. Some sponsors also conduct “back-sweeps” to au-
toenroll workers who initially chose not to enroll in their re-
tirement plan.

Because workers tend to stay with the default chosen
by plan sponsors, the contribution rates and asset alloca-
tion in an autoenrollment program must be chosen very
carefully. Low default contribution rates and investment
in conservative assets can result in workers not achiev-
ing a secure retirement. Target-date funds—discussed in
the sidebar—offer a professionally managed, well-diver-
sified, single-option solution and have become the most
popular default option for dealing with the asset alloca-
tion issue.

For sponsors that are still concerned that a default contri-
bution rate greater than 3% will dampen plan participation,
consider Benartzi’s findings showing that an initial default
rate of 6% for an automatic enrollment program can work.10
As an example, consider the U.S. company that introduced
autoenrollment with a default contribution rate of 3%. A year
later, the contribution rate for new hires was increased to 6%.
Throughout this process, the employer had a dollar-for-dol-
lar match for employee contributions up to 6%. Contrary to
what anyone probably expected, the participation rate at 6% was essentially identical to when the default was 3%—about
95%.11 The experience at this company also reinforces the
conclusions of other research that the match cap has more
influence than either the availability of an employer match or
the rate at which the employer matches employee contribu-
tions. For plan sponsors that still think 6% is too high, Ben-
artzi suggests 4% as the initial default rate.12

Use Automatic Escalation

Plan sponsors shouldn’t stop with automatic enrollment. Once workers are enrolled, automatic escalation of the par-
ticipant default contribution rate over time can increase the
proportion of a worker’s salary or wages saved. Automatic
escalation, like autoenrollment, takes advantage of the hu-
man tendencies to postpone or not take action despite the
best of intentions.

In the same 2012 survey in which plan participants said
they thought they could save more, 52% said they would
be willing to increase their savings rate to as high as 10%
if their employer automatically increased the rate by 1% a
year.13 With an initial default savings rate of 6%, an annual
savings increase of 1% would mean participants reach a
10% contribution rate in four years. To boost participant
savings more quickly, a sponsor might consider a 2% annual
increase that would boost participant savings to 10% in just
two years.

When escalation occurs at the same time as a pay increase,
participants are less likely to miss money they didn’t receive
previously. If synchronizing the contribution increases with
pay increases is not possible, another option is implementing
the savings increase in January. A study by Vanguard asked
plan participants which month they would prefer their first
automatic savings increase to take place. The overwhelming
top choice was the month of January at 37%. No other month
received more than 10% of the votes.14 It appears participants
consider increasing their plan contributions at the start of a
new year as part of their traditional resolutions for change.

Simplify Decision Making

While autoenrollment and automation of other parts of
the retirement decision process have been proven to get re-
results, not everyone likes this approach. When individuals do
not actively participate in making choices, it is likely they
don’t know the options available to them and which choices
best fit their personal circumstances. Few experts would ad-
vise taking out a mortgage or credit card without spending
time investigating product terms and costs, yet this is pre-
cisely what autoenrollment is doing. Plan sponsors that share
this view may prefer a process that combines retirement ben-
efit education with simplifying enrollment.

During orientation, new workers complete important
forms concerning their health benefits, direct deposit of their
pay and tax deductions. Workers can be asked to fill out re-
tirement plan enrollment forms at the same time and to hand
them in before they leave the orientation.

Alternatively, ask workers to enroll within a certain
amount of time—perhaps two weeks or a month. Commu-
nication prior to the deadline should remind them they must
make a choice and that the date for a response is nearing.
While the deadline may be nonbinding, it may be enough to nudge some employees to take action.

With either approach, the enrollment decision process can be broken into several small steps—providing individuals with information and directions on what to do at each stage. For example, the process might have these stages:

- **Encourage enrollment and saving.** Use graphics and text to motivate individuals to enroll and save for retirement.
- **Choose how much to save.** When asking workers how much they will save, give them the minimum and maximum amounts they are permitted to save along with an explanation of how the sponsor match works.
- **Choose where to save.** To help enrollees decide where they will put their retirement funds, describe the pros and cons of each investment option, including a default target-date fund chosen by the sponsor.

A simple enrollment card with check boxes reflecting each decision made by the worker can be effective. Alternatively, a one-page sheet with step-by-step instructions might be used. For workers for whom English is a second language, materials in other languages may be needed.

### Leverage Competition

Some people are motivated by competition. Principal Financial Group challenges its plan participants to defer at least 10% of their annual salary for retirement. Those who accept the challenge are eligible to win a prize. Common prizes are gift cards, lunch parties and vacation days. If 10% seems too high a target for some workers, the bar might be set lower—say, 5% of their compensation. Alternatively, each worker might be given one chance at a prize for each percent deferred.

### Endnotes

2. Ibid., pp. 148, 159-160.
9. Supra note 7.
10. Supra note 1, Benartzi, p. 48.
11. Ibid., p. 44.
12. Ibid., p. 118.
13. Supra note 8, State Street.
14. Supra note 1, Benartzi, pp. 116-117.