

# Your Retirement Aspirations

## Perspectives from a Fund Manager and the US Experience

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# Your Retirement Aspirations: Key Success Factors

Three primary factors drive retirement readiness

## (A) Participation

- In order to achieve the balances required to fund a comfortable retirement, employees must begin participating early and maintain participation throughout their careers



## (B) Contributions

- Contribution rates are an essential part of ensuring adequacy; the biggest determinant of how much participants have to retire is how much they put into the plan

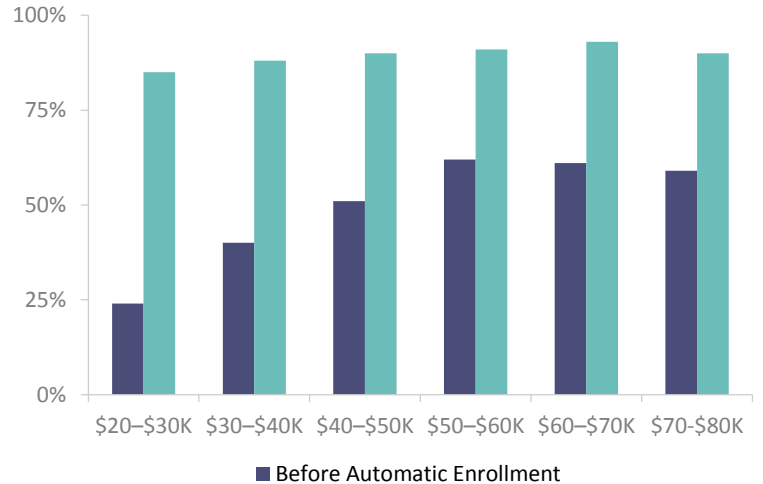
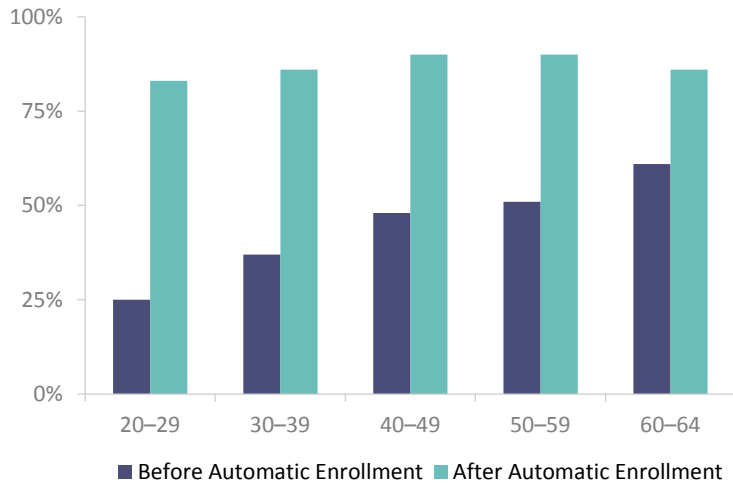
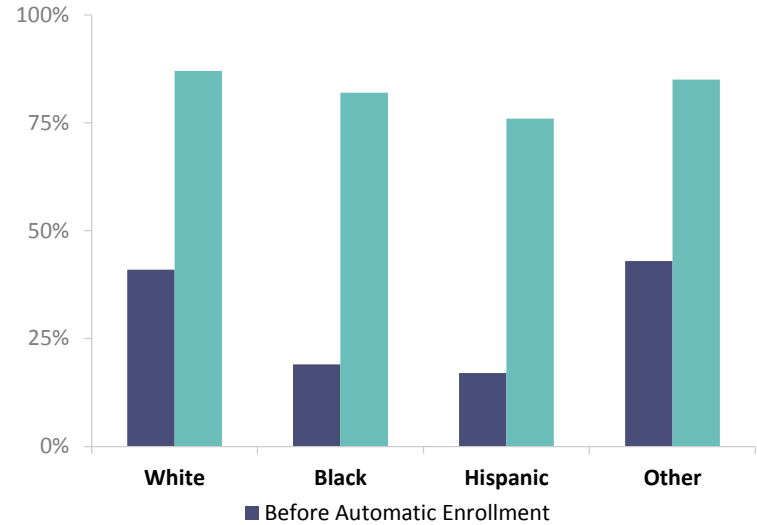
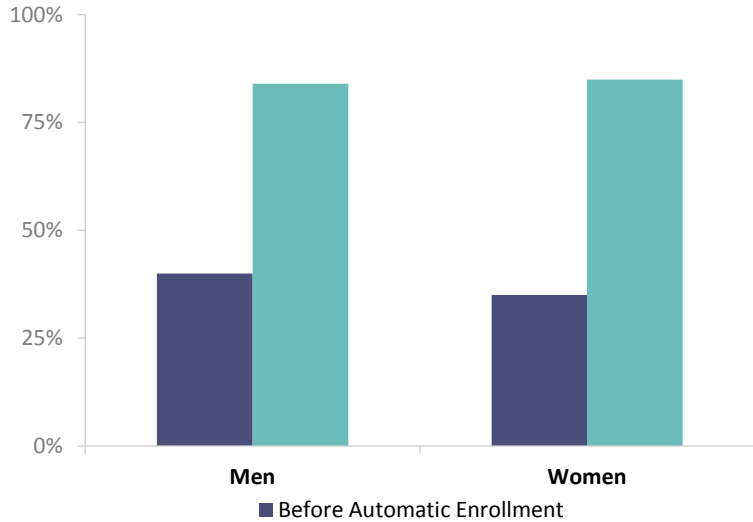


## (C) Investments

- Investing in well diversified, age appropriate portfolios helps facilitate the accumulation of adequate funding for retirement

Source: State Street Global Advisors.  
Diversification does not ensure a profit or guarantee against loss.

# (A) Participation: The Case for Automatic Enrollment (Illustration for US)

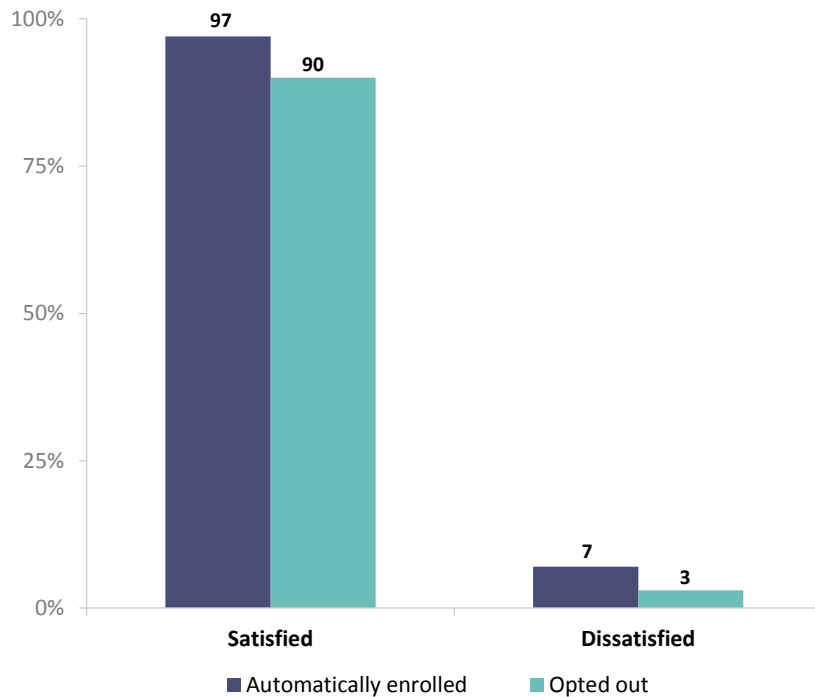


Source: Madrian and Shea (2001).

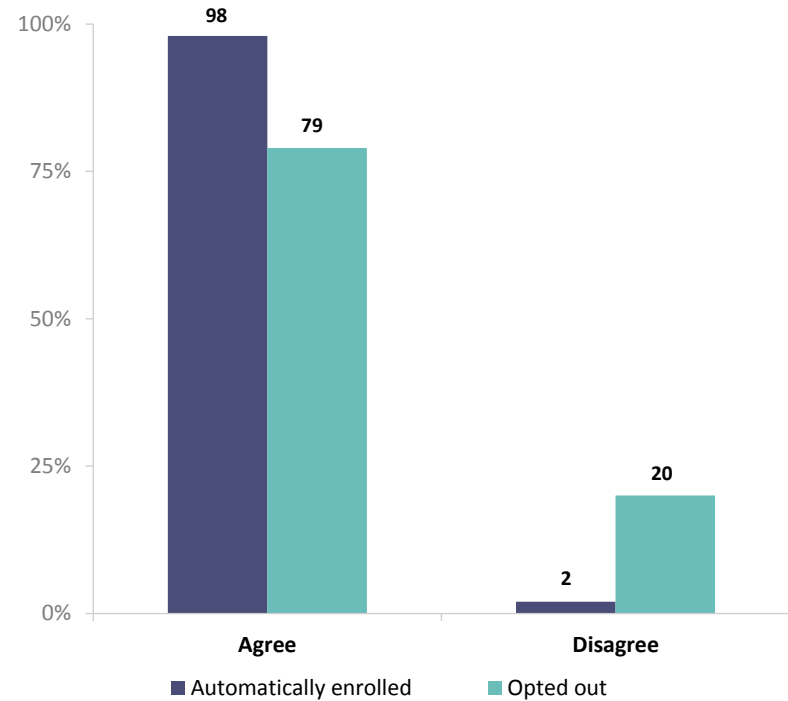
# The Case for Automatic Enrollment... Employee Support

Employees have overwhelmingly supported automatic enrollment, even those who opt out!

“How satisfied were you with the process of being automatically enrolled in the plan?”



“You are glad your company offers automatic enrollment”



Source: 2007 study by Harris Interactive on behalf of Retirement Made Simpler (RMS). Please see Important Disclaimer slides for survey methodology.

# To Maximize Participation, Make Enrollment Simple

Illustration of a simplified enrollment initiative

**To enroll in the Helpful Corporation Savings Plan,  
check below and return this form**

- Yes, please enroll me in the Helpful Corporation Savings plan at a 5% contribution rate invested in a diversified retirement date fund

Note: you may enroll with other contribution rate and investment options on-line at any time <http://www.helpful.com/benefits/savings>

Default contribution rate for Helpful Corp was 5%. How do we encourage further savings? .....

The information contained above is for illustrative purposes only.

# (B) Contributions : Encouraging Increased Savings

## Example of implementation in one company

- Employees met individually with a financial planner, who in most cases recommended an increase in the 401(k) contribution rate
- Some employees were willing to raise their contribution rates at that time (Group A)
- Most employees were not willing to raise their contribution rates at that time (Group B)
- Group B individuals were given the option to sign-up for automatic contribution rate increases to coincide with future annual pay raises

Source: contribution escalation (Thaler and Benartzi, 2004)

# The Effect of Contribution Escalation on Contribution Rates

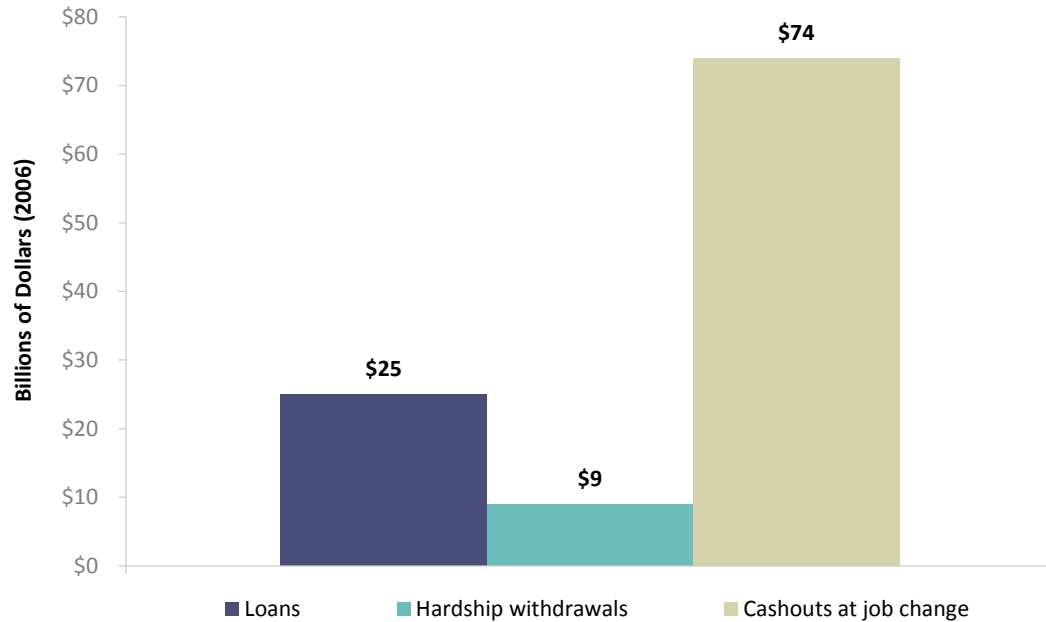
	Contribution Rate			
	Before meeting with planner		After 4 raises	Increase
<b>GROUP A</b>				
Willing to save more now (Not offered auto escalation)	4.4%	→	8.6%	+4.4%
<b>GROUP B</b>				
Unwilling to save more now (Offered auto escalation)	3.5%	→	13.6%	+10.1%

Source: Thaler and Benartzi (2004); Utkus and Young (2004).

# Retirement Plan Leakages That Can Reduce Contributions

## Sources of Leakage from 401(k) Plans (2006)

Leakage represents about 3% of total assets



Source: Government Accountability Office-09-715, 2009.

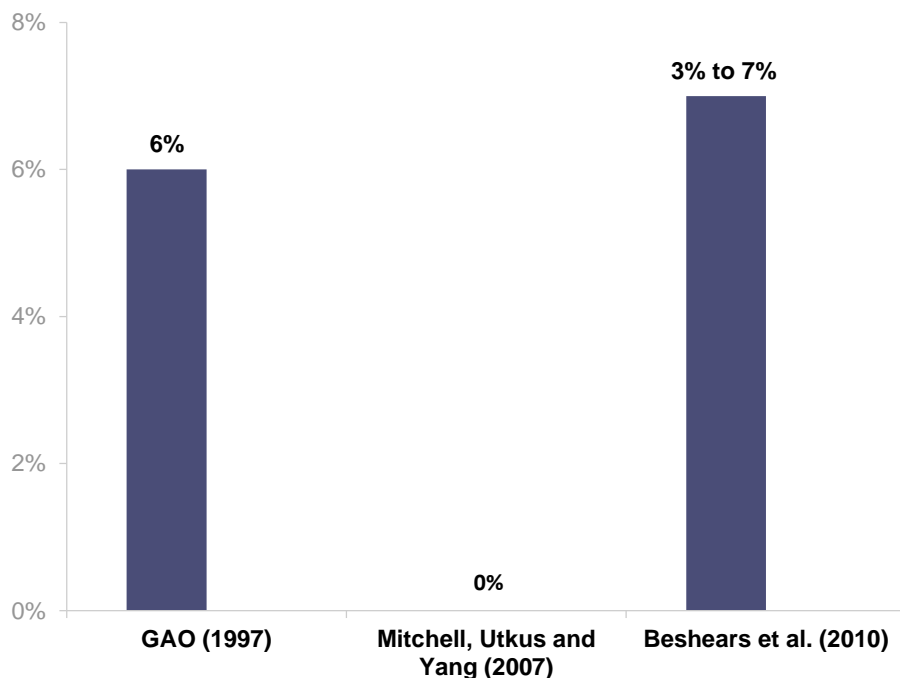


# Are Leakages Necessarily a Bad Thing?

The availability of loans can have a positive impact on both on participation and contributions

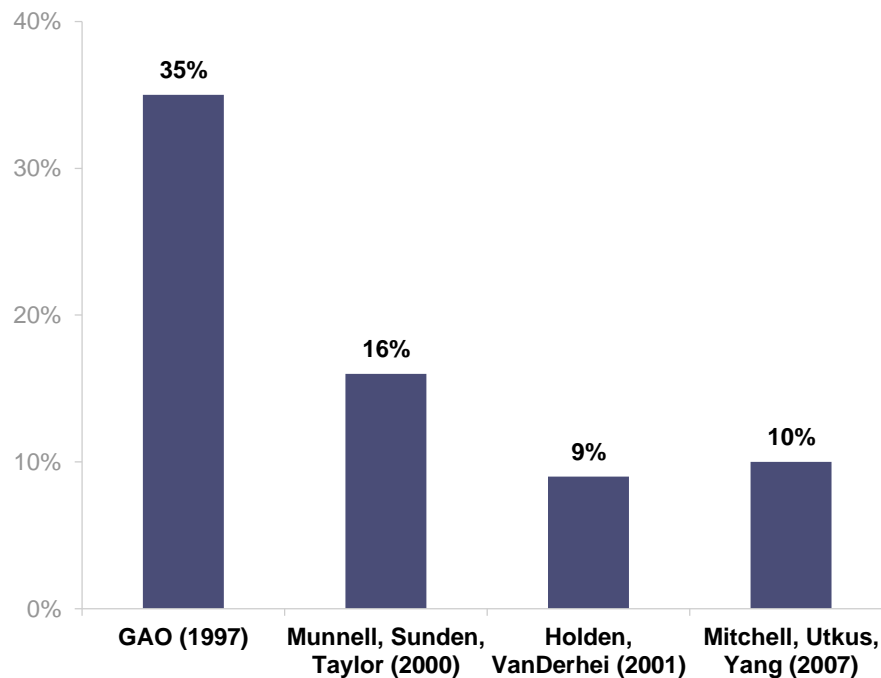
## Savings Plan Participation

At worst, loan availability has no effect on participation; at best, it increases participation rates by 6%–7%



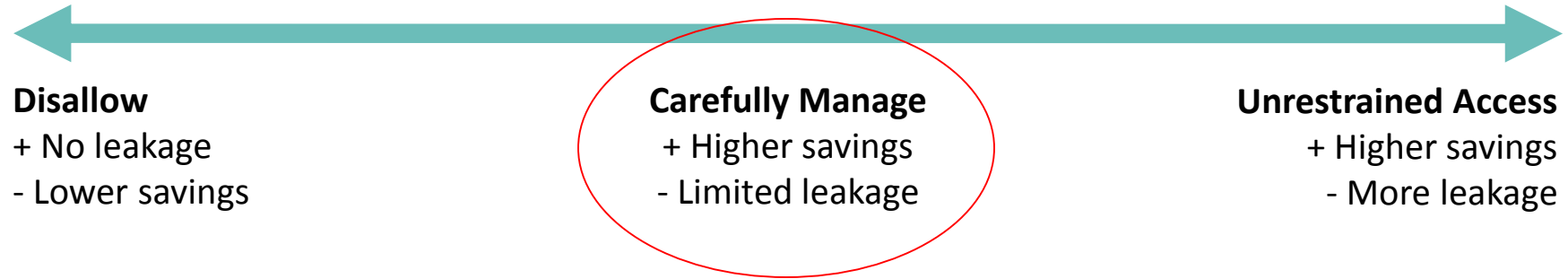
## Savings Plan Contributions

Loan availability increases employee savings plan contributions by 9%–35%



Sources: Global Alliance Office (GAO); Mitchel Utkus and Yang, Beshears et al., Munnell, Sunden, Taylor; Holden, VanDerhei (dates provided in chart).

# Options to Limit Leakage

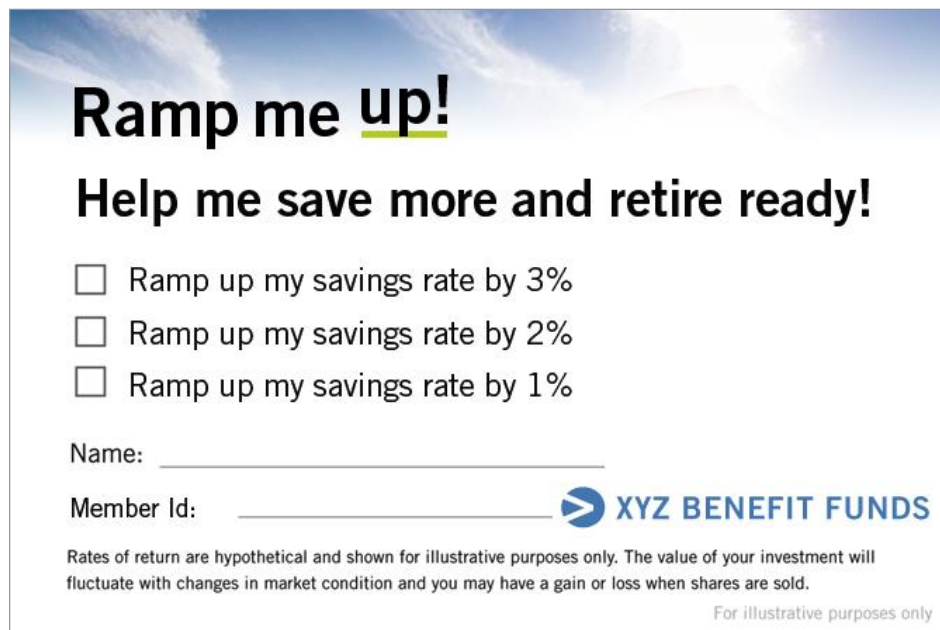


# Overriding Approach: Again, Keep it Simple

## Illustration of a simplified contributions campaign

### Ramp it up! Savings Campaign

#### Benefits Fair Poster and Onsite Reply Card



**Ramp me up!**


**Help me save more and retire ready!**

Ramp up my savings rate by 3%

Ramp up my savings rate by 2%

Ramp up my savings rate by 1%

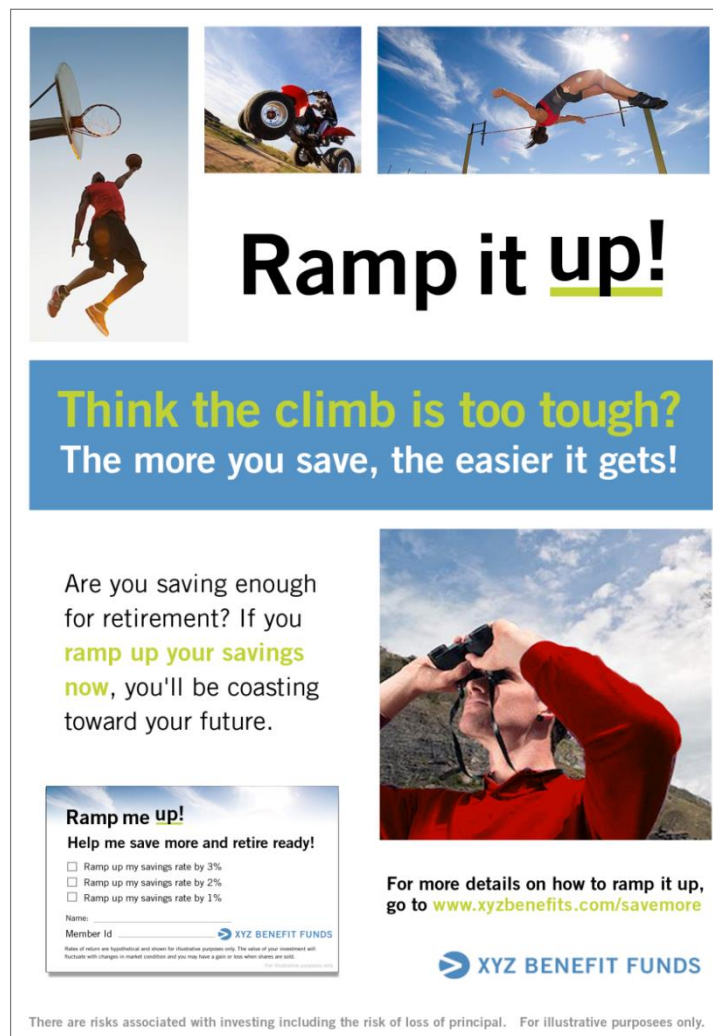
Name: \_\_\_\_\_




Member Id: \_\_\_\_\_  **XYZ BENEFIT FUNDS**

Rates of return are hypothetical and shown for illustrative purposes only. The value of your investment will fluctuate with changes in market condition and you may have a gain or loss when shares are sold.

For illustrative purposes only

The information contained above is for illustrative purposes only.







# Ramp it up!

**Think the climb is too tough?**  
The more you save, the easier it gets!

Are you saving enough for retirement? If you **ramp up your savings now**, you'll be coasting toward your future.



**For more details on how to ramp it up, go to [www.xyzbenefits.com/savemore](http://www.xyzbenefits.com/savemore)**



**Ramp me up!**


**Help me save more and retire ready!**

Ramp up my savings rate by 3%

Ramp up my savings rate by 2%


Ramp up my savings rate by 1%

Name: \_\_\_\_\_

Member Id: \_\_\_\_\_  **XYZ BENEFIT FUNDS**

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For illustrative purposes only

 **XYZ BENEFIT FUNDS**

There are risks associated with investing including the risk of loss of principal. For illustrative purposes only.

# (C) Investment Decisions: Factors Driving Retirement Success

## Investments

- Investing in well diversified, age appropriate portfolios helps facilitate the accumulation of adequate funding for retirement

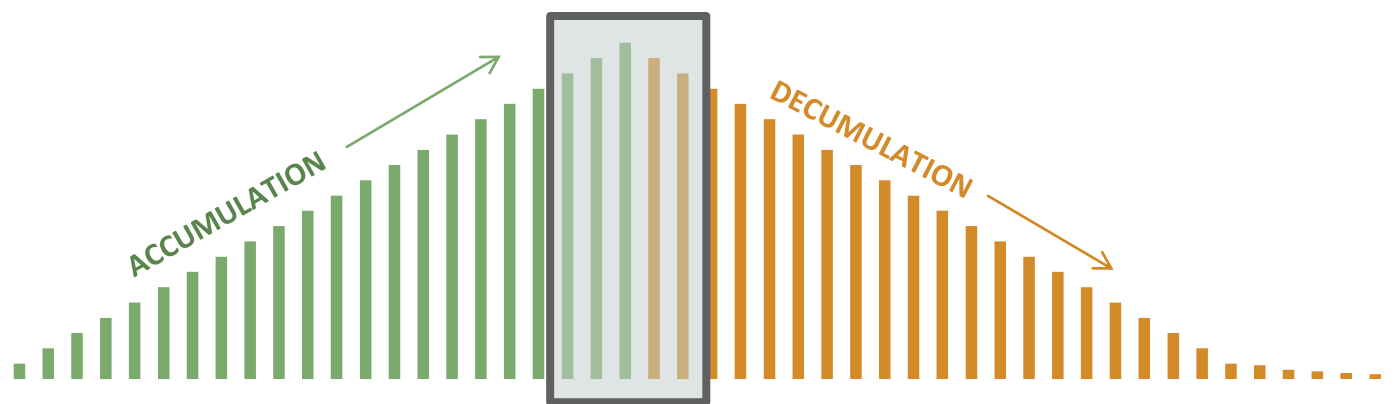


1. Transition from accumulation and decumulation phase
2. Participant inertia
3. Need a robust default solution
4. Is the plan's menu easy to understand and use?
5. Are participants globally well-diversified?
6. The Role of investor education

Diversification does not ensure a profit or guarantee against loss.

# 1. Managing the Transition: Accumulation to Decumulation

Establish a specific plan for the transition from accumulation to de-accumulation



**How will plans handle this transition for participants?**

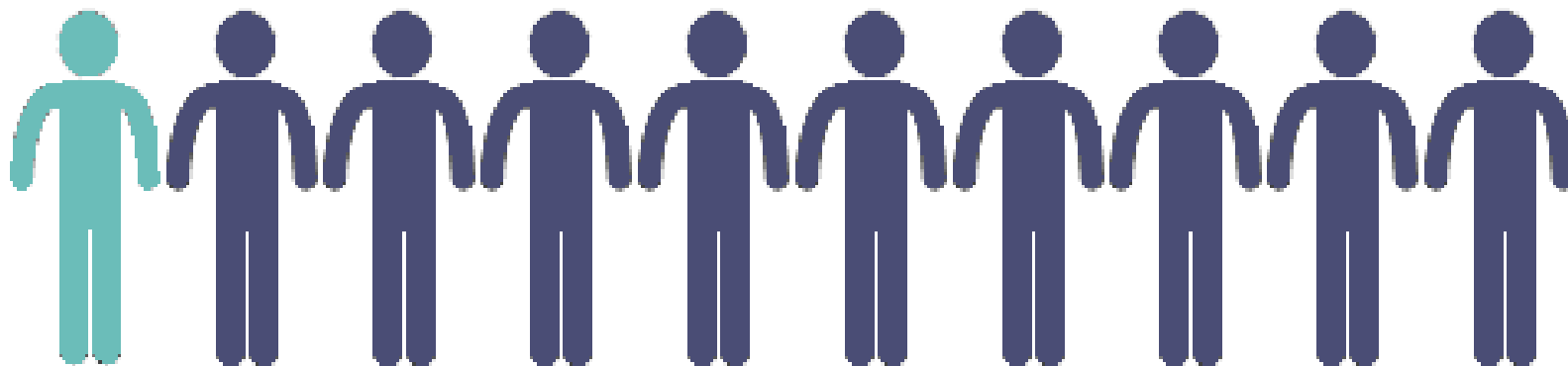
- State insurance model
- Longevity risk
- Annuities
- Drawdown

Source: State Street Global Advisors. The information contained above is for illustrative purposes only.

## 2. Participant Behavior: Inertia

Vast majority of participants make little or no changes to their investment decisions

- It takes an average of 371 days for the average participant who is already investing in a DC plan to allocate to newly introduced investments in the plan<sup>1</sup>
- Only 10% of plan participants made a trade in 2013 (down from 12% in 2012)<sup>2</sup>



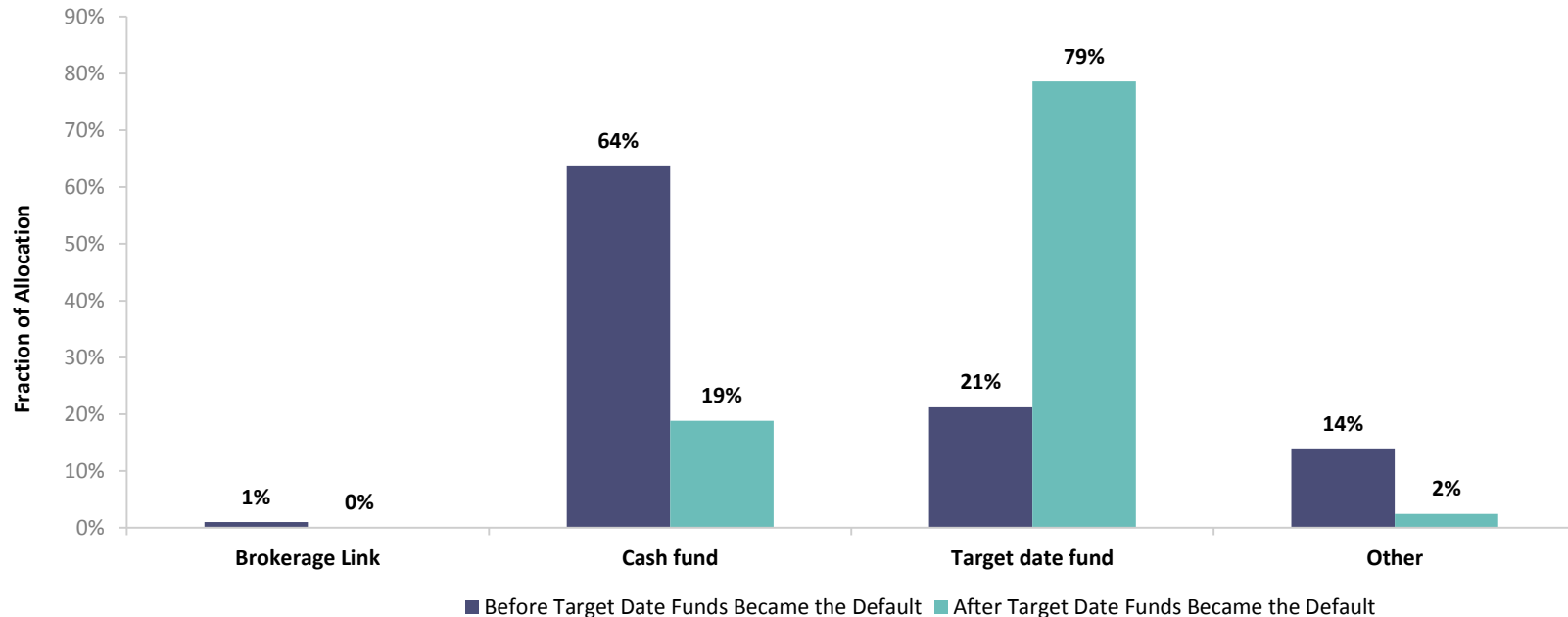
<sup>1</sup> Delayed Adjustment to New Funds, David Laibson, Andrew Metrick and James Choi (2002).

<sup>2</sup> How America Saves, Vanguard (2014).

### 3. Need a Robust Default Solution: Automatic Enrollment and the Power of the Default

Recent plan analysis shows that participants who are automatically enrolled into a plan's default tend to stay in that default, highlighting the importance for plan sponsor to get the default right

Allocations for participants enrolled before and after the target date funds became default



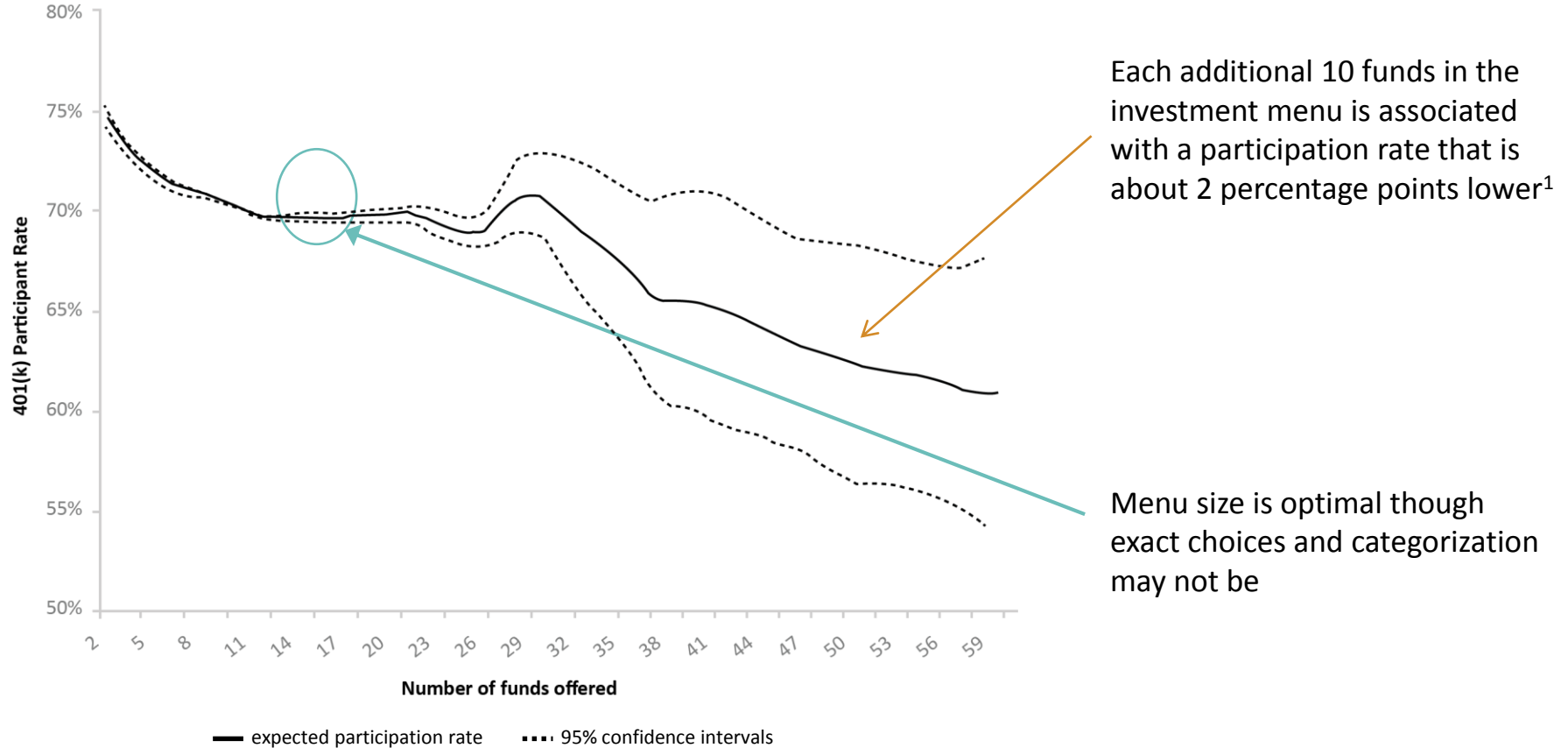
Source: Participant data provided by Plan Sponsor, October 2015.

Note: The default was previously the cash fund. It changed to the target date in September 2014.

Target date funds became the default option in September 2014. Before refers to participants who were enrolled in the plan prior to September 2014 and After to participants enrolled after that date.

# 4. Size of Investment Menu – Impact on Plan Participation

Relationship between Participation and Number of Funds Offered in 401(k) Plans



Source: "How Much Choice is Too Much?: Contributions to 401(k) Retirement Plans," Iyengar, Huberman and Jiang (2004).

<sup>1</sup> "Choice Overload and Simplicity Seeking," Lyengar and Kamenica (2007).



# 5. Global Diversification and Avoiding Home Bias

Using a global index to remove the risk of participant biases and potential mis-weightings in their portfolio

Participant allocates 100% to Global Equity index



## Global Equity Allocation

MSCI ACWI IMI Index

versus

Participant has to decide how much to allocate to each underlying component



**Domestic Equity**  
MSCI USA IMI Index (~51%)

**Small Cap**  
(~14%)

**Mid Cap**  
(~14%)

**Large Cap**  
(~72%)

**International Equity**  
MSCI ACWI ex-USA IMI Index (~45%)

**Int'l Large Cap**  
(~55%)

**Int'l Mid Cap**  
(~13%)

**Int'l Small Cap**  
(~10%)

**EM Large Cap**  
(~16%)

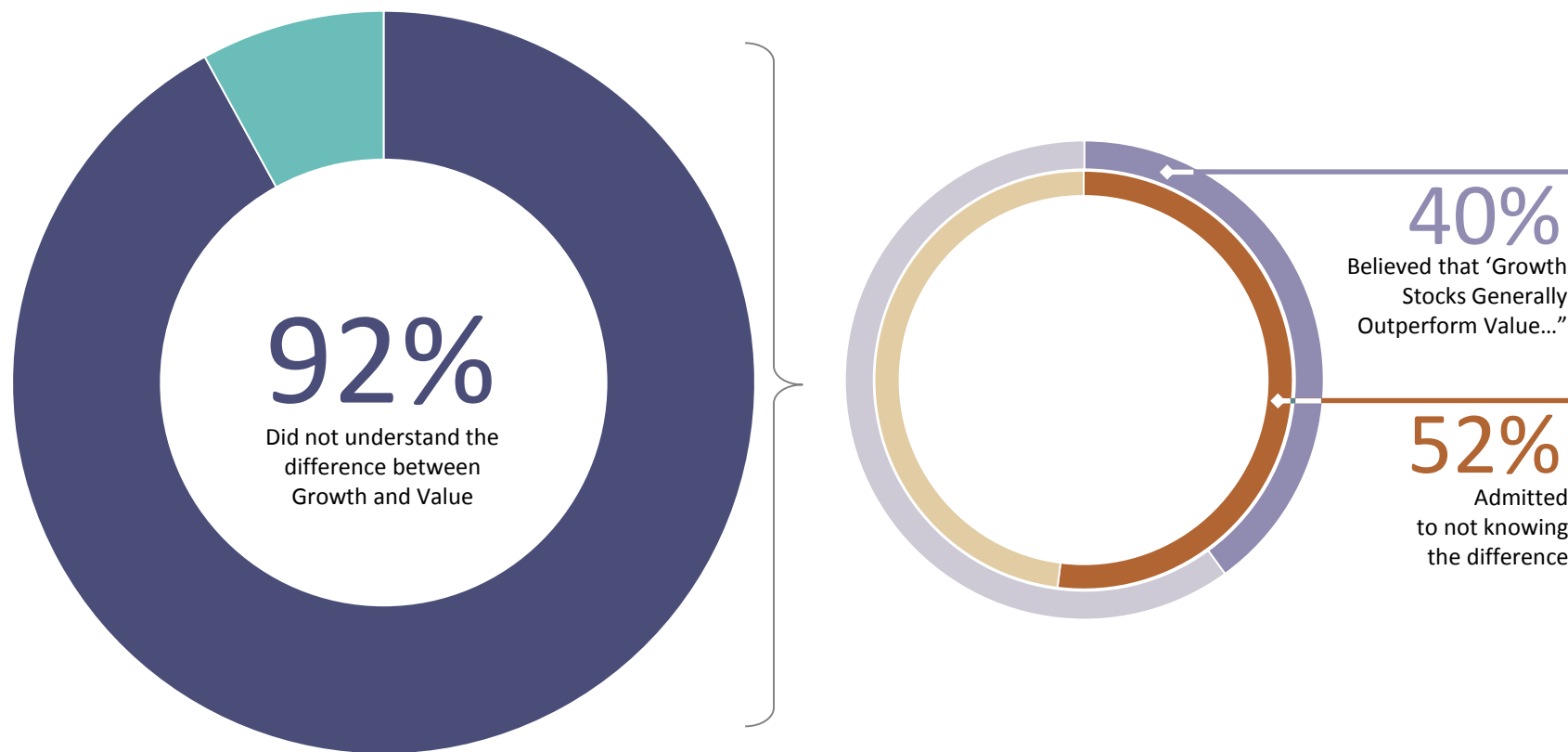
**EM Mid Cap**  
(~3%)

**EM Small Cap**  
(~3%)

Source: MSCI, 'Bringing the Best of DB to DC Fund Options' 2013. Allocations are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

## 6. The Role of Investor Education

Investor education is necessary, but cannot be relied upon to allow members to make fully informed decisions. For example, most participants don't understand the difference between growth and value



Source: «Financial Literacy and the Design of Retirement Plans» — April 2010.

# Important Disclosures

# Important Disclaimer

## Retirement Made Simpler Survey

The survey referenced on slide 23 was conducted by telephone within the United States by Harris Interactive® on behalf of Retirement Made Simpler between September 6, and October 1, 2007 among 10,130 adults of whom 696 were automatically and are currently enrolled in an automatic 401(k) plan and 48 opted-out of an automatic 401(k) plan offered by their company. Results were weighted for age, sex, geographic region, and race where necessary to align them with their actual proportions in the population.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments.

Therefore, Harris Interactive® avoids the words "margin of error" as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100 percent response rates. These are only theoretical because no published polls come close to this ideal.

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