Testimony Of

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on behalf of the

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for the

ERISA Advisory Council:

Successful Retirement Plan Communications For Various Population Segments

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Good morning. My name is Donn Hess and I'm a Managing Director for J.P. Morgan's Retirement Plan Services organization, responsible for Product Development. This includes the study of participant behaviors and the creation of programs and services that drive improved outcomes. I'm here to testify in conjunction with and on behalf of the American Benefits Council. This testimony focuses on one Council member's experience with segmenting communication for plan participants. The Council continues to seek input and gather information from other Council members and while J.P. Morgan has successfully segmented participants using the practices I will describe, both J.P. Morgan and the Council believe it is a good idea to encourage experimentation in this area rather than to mandate any particular form of communication segmentation.

J.P. Morgan is a Policy Board member company of the American Benefits Council which is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly, or provide services to, retirement and health plans that cover more than 100 million Americans.

When it comes to driving better outcomes for employees, I will say first and foremost that no communication plan drives increased participation and savings levels better than automatic enrollment, automatic increase and default investments. We anticipate more companies will use these tools in the future. That said, all of these approaches tend to benefit, primarily, new entrants into retirement plans. Legacy employees who joined the company prior to implementation of automatic strategies often remain mired in less impactful fund options or worse, they are not participating. Absent the encouragement of re-enrollment or automatic enrollment for existing employees, communication will be all the more important to reach these groups. And even for beneficiaries of automatic enrollment, communication is a critical tool for navigating changes to the plan, changes in lifestage and changes in employment status.

In the experience of J.P. Morgan, the most effective communications follow three main tenets: They are simple; they recognize that most participants make emotional, rather than logical, decisions with regard to their financial savings; and they employ diagnostic techniques that not only target based on employment status and savings practices, but also create segments or personas based on demographics and behavioral patterns.

To elaborate, if we consider tools that make saving for retirement easier — automatic enrollment, default investing — an equal number of things make it more difficult. People must decide whether to save on a pre-tax or Roth basis; whether to save in a qualified or non-qualified plan; and, as benefits overall become more consumer driven, they must decide whether to save for retirement or for health in a health savings or similar type account. These decisions can become a barrier to entry. As a result, to effectively communicate, it is important to strip out as much complexity as possible, to create a clear next step and, more importantly, to offer a specific reason to take that step.

The best way J.P. Morgan has found to accomplish this is to share an income replacement projection. Doing so reduces the complexities of retirement to a single number. For example, 'You are on track to receive $52,000 per year when you retire.' Our best practices then illustrate the impact of different scenarios. For example, 'You are on track to receive $52,000 per year when you retire, but that could be $64,000 if you save 2% more and get the full benefit of the match.'

This approach can be the easiest way to help someone understand the value of taking the next step. As evidence, when we look at people who have received regular income replacement projections vs. those who haven't, the recipients are 19% more likely to achieve income replacement levels of 70% or more and they are nearly twice as likely to have diversified asset allocations.

The key to this improvement, however, is regularity. Many retirement services providers offer a retirement income projection on their websites and the DOL is considering regulations that would require projections be disclosed on statements. As the DOL seeks public comment on alternative ways of calculating and presenting the projections, we suggest that one of the best ways to use this number is to make it front and center in more interactions. This means putting it not just at the top of the website or the front page of the statement, but also using the projection to prompt discussion in the call center and embedding it in outgoing communications. The old advertising adage of reach and frequency applies — the more consistently people see this number, the more likely it is to drive action.

In addition to using income replacement projections, packaging that recognizes the emotional nature of the decision to save is critical. This is where many of the concepts associated with behavioral finance can apply. Two specific strategies are Placement and Social Norming. Placement refers to the idea that people tend to select the first option presented. For example, in communications where we asked whether people would like to increase their contributions by 1%, 3% or 5%, most selected 1%. When we reversed that listing to read 5%, 3% or 1%, many more selected the higher numbers.

Likewise, Social Norming refers to the idea that people tend to benchmark themselves against peers. With that in mind, we can present peer groups who are on track for successful retirement and encourage participants to follow their lead. For example, we know that one of the major barriers to saving is debt. In fact, we conducted a survey in 2012 where 77% of respondents listed 'Paying off bills' as one of their top financial priorities vs. only 54% of people who listed 'Retirement.' With this in mind, encouraging people to set budgets has been notoriously difficult. We have used Social Norming to help bridge this gap by using Bureau of Labor geographic statistics to show participants how people who live where they live and make the income they make spend their money. This provides a benchmark to help determine where there may be over spending.

Techniques like Social Norming do require enhanced data mining and diagnostics. We've found that analysis to be the third pillar of effective communication. Certainly the industry has become much more targeted in its communications, focusing on non-participants differently than low savers and on both of those differently than poorly diversified investors. What that targeting neglects to do, however, is to take into consideration other factors that may be behind those behaviors.

For example, building on my previous comment that income replacement projections can be an important motivator for action, how that projection is presented may need to differ based on demographics. For someone between 30 and 50, showing how income replacement could improve with greater savings has historically been effective. For someone older than 50 with a shorter time horizon, however, it may be more effective to present an estimated need against a potential short fall. And for someone younger than 30, for whom retirement income may not resonate, it could be better to not show that calculation and instead focus on the value of the match. For example, 'If you save $16, $24 actually goes into your account thanks to your company's contribution.'

To address these nuances, we've developed 36 different personas and shaped our outbound communications accordingly. These personas are based on three age bands: younger than 30, 30 to 50, and 50 and older. We layer on three income levels: $115,000 or more, a regional median or less, and the income levels in between.

For income it is important to note that this must be adapted by geography. In Kansas City, for example, the median income is approximately $30,000. This isn't a meaningful level for my colleagues in New York City, however, who see a median income level of closer to $70,000.

Finally, we add in historic engagement. We consider engagement to be a combination of reviewing information and acting upon it. Someone who does both is an Active participant. Someone who looks but does not transact is Interested. Someone who does not look at his account but who has a transaction performed on his behalf — auto -escalation or auto-rebalance, for example, is "Passive." And someone who does nothing and for whom nothing is done is truly "Disengaged." This is valuable when we think about positioning. The communication to someone who is actively managing his investments but dramatically underperforming must be different from the communication to someone who is also underperforming but managing investments more passively.

Employing a combination of these techniques — simple income replacement projections, behavioral finance strategies and a persona-driven message — has resulted in 3 to 4 times the response rates for our communication programs.

While we consider ethnicity, gender, life events and other personal factors in the communications, we have steered away from incorporating this information overtly. This is driven by two things: lack of reliable data to validate the classification and concern that this messaging may be perceived as discriminatory or in violation of privacy.

In conclusion, what we have shared today is based on one company's, J.P. Morgan's, experiences. While there are themes here that I anticipate will echo what others have to say, I would repeat the comment from my opening: The most important thing we can do is to encourage experimentation and innovation. Our industry and the needs of the people we serve are ever changing and evolving. It is important that our communication and education practices have the flexibility to change and evolve with them. Thank you.