Success for Savers Through Design or Default:

Three ways to encourage better savings habits

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EMPOWER INSTITUTE

Key Findings

On plan design

Employees in plans with auto-enrollment are on track to replace **95%** of their income in retirement compared to **84%** for employees in plans without it.

Employees in plans with auto-escalation are on track to replace **107%** of their income in retirement compared to **80%** for those in plans without this feature.

Company match can serve as an anchor for employees, with **72%** of people saying they set their contributions to meet the match.

On communication

"Safe" retirement words may be: contribution, match, enroll, retirement income, allocation, assets, retirement readiness, rollover, registered investment adviser, withdrawal strategy.

Employees prefer to receive retirement plan communications in their **personal email**.[1]

On retirement income

When savings are translated into a retirement income estimate, 48% of employees increased their savings rates. Empower data shows evidence for the importance of seeing **potential retirement income.** When onboarded to our new income-focused platform, Empower participants have **averaged a 16% increase** in their estimated income in retirement over a seven year time-period.

[1] *Required plan notices and communications may be subject to regulatory requirements governing use of personal email.*

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Three ways to encourage better savings habits

A WHITE PAPER

You might think that people wouldn't need to be encouraged to act in their own self-interest. In reality, we face so many decisions every day that we often don't have the information or time to weigh the pros and cons needed to arrive at rational decisions. As a result, the vast majority of our decisions are based on what feels right. And while intuition can sometimes work in our favor, it can also lead us astray.

Enter the power of encouragement. For workers, the difference between living the retirement they imagine and failing to meet their savings goals could come down to how they are encouraged, an idea that behavioral economists refer to as a nudge.

As defined by Richard Thaler and Cass Sunstein in their 2009 book *Nudge: Improving Decisions About Health, Wealth and Happiness*, a nudge is something that alters behavior in a predictable way but does not limit choices. The reason nudges are so important is that they can help people make decisions that are in their own self-interest.

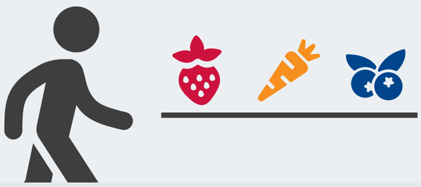
Employers and their advisors have the potential to influence employees' decision-making for the better. In particular, employers who use nudges strategically can drive better retirement savings outcomes for their employees.

Nudges can be hugely significant. Our research shows that employees can be nudged into better savings habits in three areas: plan design, strategic employee engagement and a focus on retirement income. Here's a closer look at each.

A few types of nudges

1 Convenience

PLACING HEALTHY CHOICES AT EYE LEVEL CAN HELP NUDGE SCHOOL CHILDREN TO CHOOSE HEALTHY FOOD IN THE LUNCH LINE.[*]

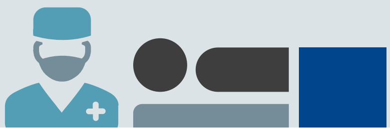


2 Default

COUNTRIES THAT DEFAULT CITIZENS INTO ORGAN DONATION HAVE PARTICIPATION RATES NEAR 100% WHILE COUNTRIES WITH OPT-IN HAVE PARTICIPATION RATES CLOSER TO 30%.[**]

3 Framing

PATIENTS WHO ARE TOLD THEY HAVE A 90% CHANCE OF BEING ALIVE AFTER FIVE YEARS IF THEY HAVE SURGERY ARE MUCH MORE LIKELY TO OPT IN TO THE SURGERY THAN THOSE WHO ARE TOLD THEY HAVE A 10% CHANCE OF BEING DEAD IN FIVE YEARS.[***]



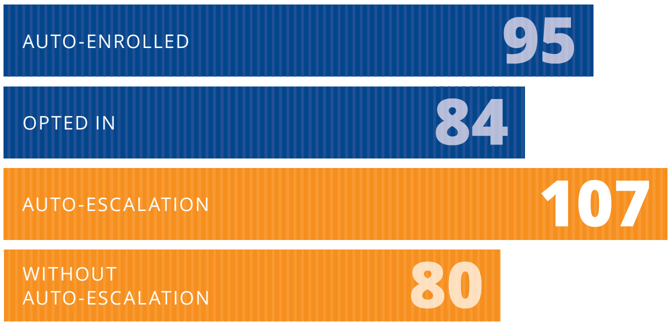
Plan design features can nudge savings habits

The research of behavioral economists has suggested that well-selected retirement plan features can nudge employees into positive savings behaviors. Empower Institute tested such theories by conducting an online survey of over 4,000 American households of working adults between the ages of 18 and 65.[1] We found that three features in particular acted as effective nudges for employees: auto-enrollment, auto-escalation and employer match.

Automatic features are effective because they help people begin saving or save more without having to remember to perform specific actions. The proof is in the pudding: On average, employees in plans with auto-enrollment are on track to replace 95% of their income in retirement compared to 84% of employees in plans without it. Meanwhile, on average, employees in plans with auto-escalation are on track to replace 107% of their income in retirement compared to 80% of those in plans without this feature.

Auto features effectively help savers save more

AVERAGE RETIREMENT PROGRESS SCORE FOR 401(k) / 403(b) / 457 PLAN PARTICIPANTS

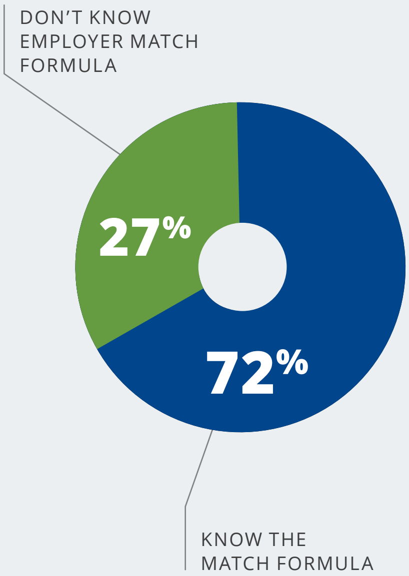


The nudges provided by employer matches work a little differently than those offered by automatic features. In behavioral finance, the concept of anchoring refers to people's tendency to fix their financial decisions to a predetermined point, or anchor. By planting a savings amount to aspire to in the minds of employees, a match acts as this sort of anchor. In fact, our research has found that among employees who know their employer's match formula, 72% set their contributions at the match level or higher.

[1] *Results are from a national survey of 4,038 working adults (full-time, part-time, never retired) ages 18 to 65 conducted in conjunction with NMG Consulting. Respondents answered an online survey between December 18, 2017, and January 21, 2018.*

Match formula can serve as an anchor to influence savers' savings amounts

KNOWLEDGE OF EMPLOYER MATCH



72% of people know the match formula and set contributions to match the match

* *Hanks et al. (2012), "Healthy Convenience: Nudging Students toward Healthier Choices in the Lunchroom," Journal of Public Health.*

** *Johnson & Goldstein, Science, "Do Defaults Save Lives?" Vol. 302, 2003.*

*** *McNeil et al, New England Journal of Medicine, "On the elicitation of preferences for alternative therapies," 1982.*

Strategic employee engagement can nudge employees to better retirement outcomes

Employers can also nudge employee behavior via their plan communications. That includes both *what* they say and *how* they say it.

Empower surveyed 1,000 workers participating in their employer defined contribution plan to discover the methods of communication they found most effective.[2] We came away from our research with a list of "safe" words that hold clear meaning and positive connotations for employees. These words can nudge workers into better savings behavior by making them feel confident, well-informed and prepared. Other terms, many of which are used commonly by financial providers and are often misunderstood, make savers feel nervous, uncomfortable, overwhelmed and stressed.

Our survey also showed that workers prefer receiving communications about their workplace plans through their personal email addresses rather than in one-on-one meetings or by phone or text — or even, as many employers assume, via their work email. Since employees receive messages about other financial accounts in their personal email, it seems they prefer the convenience of having all that information in one place.

The upshot for employers? Giving employees information where they want to receive it could make them more likely to act on it.[3]

A majority of individuals understood what these terms meant

Participants prefer to receive communication to their personal email

PREFERRED METHODS OF RECEIVING COMMUNICATIONS		MOST PREFERRED
PERSONAL EMAIL	51%	26%
WEBSITE VISIT	44%	16%
NOTICE MAILED WITH ACCOUNT STATEMENT	32%	13%
MAILED LETTER SENT SEPERATELY FROM ACCOUNT STATEMENT	29%	13%
WORK EMAIL	26%	10%
IN-PERSON MEETING	23%	11%
TELEPHONE CALL	14%	4%
MAILED POSTCARD SENT SEPERATELY FROM ACCOUNT STATEMENT	11%	2%
SOCIAL MEDIA PAGE VISIT	9%	2%
TEXT MESSAGE BY PHONE	8%	2%
LIVE MESSAGING ONLINE	7%	2%

Source: Empower Retirement Communications online research survey of 1,000 adults participating in their employer defined contribution retirement plan, July 2018.

[2] *In August 2018, Empower surveyed 1,000 workers participating in their employer defined contribution plan to determine more effective ways for employers to communicate information related to such plans.*

[3] *Required plan notices and communications may be subject to regulatory requirements governing use of personal email.*

Focusing on retirement income can nudge employees to prepare realistically

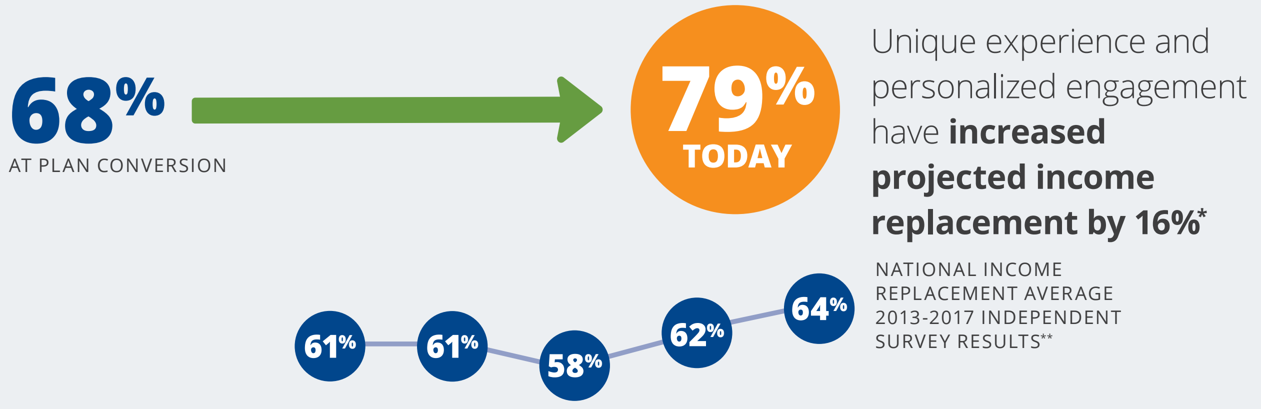
Just one in three pre-retirees has a plan for how much money they will spend annually in retirement according to research from the Stanford Center on Longevity.[3] And 52% say it is hard to know how their retirement balance equates to income in retirement.[4] One reason for these figures is a lack of exposure to income planning software. Just a third of workers have access to an income planning tool, and only one in six has ever used one.[5] When asked why they haven't used such a tool, employees said it was too complicated, required too much digging or was too hard to find.

However, a recent survey provides evidence that showing employees projected income in retirement instead of a lump-sum amount can nudge saving behaviors. When savings are translated into a retirement income estimate, 48% of employees increased their savings rates.[6] Plus, seeing this estimate led employees to feel more confident about achieving the retirement lifestyle they imagined. Just three in 10 employees who had not seen their projected income were confident about their retirement compared to seven in 10 employees who had seen their projected income. Clearly, showing savers a retirement income estimate can act as a powerful behavioral nudge.

That's why our website for savers revolves around projected monthly retirement income. In the words of Ed Murphy, president of Empower, "There's a better way to frame retirement savings. When employees think of their savings as the source of a future paycheck — a way to replace the monthly income they're earning now — the goal starts to feel more achievable and becomes far easier to comprehend."

Our data bears out this point: On a national scale, the ability of savers to replace their income in retirement has remained relatively flat. Meanwhile, the average for Empower participants who have onboarded to an income-based platform has increased from 68% income replacement to 79%. These numbers provide strong evidence that exposure to projected retirement income does in fact increase employee retirement readiness.

An income-focused approach has led to income replacement projections that exceed national savings



* *Includes time period December 2010 to December 2017; reflects over 8 million web views, 419 plans, 201,840 participants and over 130,000 deferred changes.*

** *Census-weighted survey results from more than 4,000 American workers annually aged 18 to 65 conducted independently by NMG Consulting between 2013 and 2018.*

[3] *Stanford Center on Longevity, "The Sightlines Project: Seeing our way to Living Long, Living Well in 21st Century America," February 2016.*

[4] *LIMRA, "More than Half of All US Workers Have Difficulty Understanding Retirement Savings in Terms of Future Monthly Income," September 25, 2018.*

[5] *Empower Retirement, "Lifetime Income Scores VI: Our latest assessment of Retirement Preparedness," April 2016.*

[6] *LIMRA, "More than Half of All US Workers Have Difficulty Understanding Retirement Savings in Terms of Future Monthly Income," September 25, 2018.*

Helping employees take positive steps

You might think that people wouldn't need to be encouraged to act in their own self-interest. In reality, we face so many decisions every day that we often don't have the information or time to weigh the pros and cons needed to arrive at rational decisions. As a result, the vast majority of our decisions are based on what feels right. And while intuition can sometimes work in our favor, it can also lead us astray.

Action steps for employers

1

Adapt your plan design to incorporate automatic features

Automatic enrollment gets employees headed in the right direction while auto-escalation keeps them moving along a productive path.

2

Communicate with employees strategically

Make the most of your employee communications by using safe words that make employees feel comfortable with the concepts you're covering. And send your messages to their personal email accounts, where they can consider the information along with the rest of their financial communications.[1]

3

Give employees access to digital tools that translate their savings into retirement income estimates

Providing such a perspective can make a big difference in employee savings rates and, thus, retirement readiness.

[1] *Required plan notices and communications may be subject to regulatory requirements governing use of personal email.*

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