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Testimony
on behalf of the American Benefits Council
Before the Senate Committee
on Health, Education, Labor and Pensions
Roundtable on Financial Literacy

My name is Lynn Dudley and I am the senior vice president, global retirement and compensation policy for the American Benefits Council (the "Council"). Thank you for the opportunity to share the American Benefits Council's perspectives on financial well-being, the innovations being undertaken by plan sponsors on behalf of their employees and ways that that public policy can support the success of those efforts.

The Council 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.

Many Council members engage in efforts to provide financial education and support programs for their employees. One reason companies do this is because they want their employees to get full value out of the retirement plans they offer. Budgeting and basic financial skills often help to remove barriers to savings in retirement programs and those have become increasingly included in programs offered by companies. And it is not just improved savings that results from helping employees achieve greater personal financial security, but such efforts also contribute to better health, less stress in and outside of the workplace and greater productivity.

As these other aspects of financial well-being have emerged and the interrelationships between them have become clearer, many have expanded their programs to not only improve basic financial skills, but to more effectively deploy health care dollars and understand the use of and risks of income during their retirement years. Understanding the potential long-term outcomes for employees and employers, plan sponsors and providers who service employment-based retirement plans have taken the initiative and have been important innovators in the development of workplace financial well-being programs.

It should be noted that financial well-being programs are founded on research that supports its value. Research in this area is growing as more attention is given to it.

As part of an initiative undertaken by the Council to highlight successful innovations by plan sponsors in both the retirement and health areas, the Council has begun to collect examples of programs offered by Council members. The innovative practices described below demonstrate the positive difference employers are making in helping workers, retirees and families achieve financial security.

For example, the Council recently conducted an informal survey of its members regarding lifetime income options and included a question concerning the use of financial tools and/or education in connection with their plans. The responses exceeded expectations. Over 95 percent of respondents use tools or education that help participants plan for accumulating assets and over 73 percent use tools and/or education that help participants plan for distributions. Other features used by member companies included entire retirement portfolio evaluation, education on longevity risk, investment advice, on-site meetings with financial advisors, financial management, basic budgeting and financial plans and financial planning seminars and webinars.

USING TECHNOLOGY TO MAKE RETIREMENT SAVING EASIER

One large, multinational member company has been innovative in combining a strong retirement savings plan design with a comprehensive communication approach to achieve notable results for its employees. This company offers its regular U.S. employees the opportunity for immediate enrollment and full vesting with a 50 percent match of regular contributions, well above the average match formula for most 401(k) type plans. Partnering with its service provider, the company is able to offer simplified enrollment, comprehensive communications and coaching to maximize participation and savings levels.

The company's simplified enrollment is comprised of three main components that address the key behavioral elements driving positive outcomes. This is a technically advanced company and in keeping with its digital culture, it has adopted the service provider's "Easy Enroll" program that offers new hires a simple "three-click" enrollment process which places them in a pre-established framework of a high default savings rate, automatic annual increases in salary deferral, and investment in low cost age appropriate target date funds. A standard enrollment process that enables participants to opt for higher rates or tailor specifics to their particular circumstances is offered as an alternative for those seeking greater engagement. More than half of new employees are now using this simplified enrollment process which has resulted in a significant increase in both the speed with which new hires are enrolled and their resulting savings rates.

This underlying framework is supported through a coordinated suite of information and consultation programs. This includes targeted and personalized communications to ensure employees understand the potential value of the plan to their particular circumstances, individualized assessment and tracking of results using customized online tools that enable workers to define their financial goals and track progress, personalized on-site coaching by licensed advisors from the service provider, onsite and virtual workshops and weekly question and answer sessions, and the availability of phone advice and online planning resources to all employees.

This integrated approach has enabled the company to demonstrate how technology and integration of communications can leverage a strong program design. In 2017 the company was able to achieve a 92 percent participation rate in its US 401(k) plan (up from an already very high 87 percent in 2012) with a median deferral rate of 10 percent (up from 7 percent in 2012). A strong indication of the effectiveness of the combined enrollment and communications program is indicated by the 58 percent of participants that were maximizing the matching contribution, nearly twice the level of 31 percent just five years earlier. A quarter of participants had signed up for automatic increases by early 2017, more than four times the share than just four years earlier, and the average account balance reached $205,584 during the year.

ACHIEVING SYNERGIES IN COMMUNICATIONS AND BEHAVIOR CHANGE

Another large multinational member company has demonstrated how employer-sponsored retirement plans can serve as effective cornerstones to broader financial well-being education programs. In partnership with a service provider that is a federally registered investment advisor, the company uses communications, personal conversations, and in-person and online resources to help employees evaluate their personal financial situation and take steps to improve it — both today and in the future.

This second company has provided employees with access to retirement planning resources through the investment advisor for eight years, with a focus on 401(k) savings and investments. In response to employees' requests for more holistic financial planning support, the company enhanced its educational offerings in late 2017. Through the expansion, the company had both short-term and long-term goals: First, it wanted to help employees address their day-to-day financial needs — building a budget, saving for college, and getting ready for retirement, for example. Second, the company ultimately wanted to improve employees' overall financial picture through reduced financial stress and greater financial confidence.

In addition to the online planning tools already provided by the investment advisor, the company rolled out new "retirement checkups" — one-on-one discussions with investment advisors that enable employees to take a more comprehensive look at their overall financial goals and progress.

To drive awareness of the new retirement checkup program and to encourage employees to sign up for an appointment, the company distributed comprehensive communications across a variety of print, email and online channels. The company also offered on-site live events and advisor sessions so employees could further discuss a range of important topics, including debt management, college planning, Social Security payment strategies, estimating health care costs, estate planning, and saving for retirement.

The communications and on-site support drove very strong engagement across the company's population. In just the first three days following the retirement checkup rollout, 700 employees signed up for an appointment — and by the end of the first quarter of 2018, over 2,700 employees had. Additionally, over 2,000 employees participated in a live event in the first two months they were offered, more than 1,000 employees became new users of the investment advisor's online advice service and 600 employees received personal advice from an advisor for the first time. Both the company and its investment adviser are closely monitoring a range of metrics to monitor engagement and measure ongoing success. These metrics include overall program utilization rates as well as changes to employee behavior, such as increased 401(k) contribution rates and/or improved 401(k) investment allocations. To maintain momentum over time, the investment advisor's offerings are also being promoted through a web-based well-being program offered by the company through which employees and their eligible spouses can earn points for completing healthy behaviors.

This company's innovative partnership with its investment advisor illustrates how employer-sponsored financial well-being programs tied to available retirement plans can be instrumental in helping employees navigate complex financial needs. It also demonstrates the importance of taking a holistic approach to communications strategies, planning tools, and ongoing financial discussions. Together, technology and personal conversations can help employees define and reach their financial goals.

Customizing Education and Information to the Specific Needs of Employees

Another large company with thousands of employees throughout the United States and globally has partnered with another service provider to provide an example of how employer sponsorship creates powerful synergies to enhance financial wellness. After undertaking an assessment of the behavior and perceptions of engagement with its retirement savings programs in 2015 and 2016, this Fortune 500 company was able to identify specific areas in which retirement savings outcomes were below a national baseline or its workers expressed a need for financial capability support. This diagnostic analysis was then matched to a suite of financial education and behavior enhancement programs developed by the service provider who was providing the investment management and other services underlying the company's employee savings programs.

This resulted in a targeted deployment of educational modules through webinars and on-site seminars tailored to the identified needs of the workforce that were delivered in May and June of 2017. Nearly 3,000 workers participated in these sessions delivered by the company's in-house education and outreach team and service provider staff. These were designed to raise awareness and understanding of the savings plans offered, increase the level of funds directed to these plans, teach effective debt management methods, introduce the concept of emergency funds, and motivate employees to update their beneficiary designations.

About a quarter of the roughly 2,000 participants in the webinars and on-site sessions were tracked over the ensuing 30 day period to assess changes in behavior. A meaningful proportion of these participating in a webinar (16 percent) increased their elective deferrals from an average of 10 percent of earnings to 14.3 percent and a similar proportion of participants in on-site sessions (12 percent) increased their savings rate in the plan from 8.7 percent to 11.4 percent. A somewhat smaller proportion added or enhanced the automatic annual increase in the share of their earnings directed into the plan. Among the nearly 900 employees who participated in sessions presented by the sponsor's team, similar proportions (8.5 percent for on-site sessions and 12.2 percent for webinars) increased their savings allocations. Webinar participants making a change moved to an average of 17.2 percent of earnings directed into the plan. Nearly one in ten participants in these sessions changed their investment fund allocations within 30 days of the program and many increased automatic escalation and updated beneficiary information.

These substantial improvements in savings and financial behavior illustrate some of the unique advantages of employment-based savings programs in improving financial well-being. Large employers are particularly well positioned to undertake the diagnostic work necessary to target interventions in a cost-effective manner. Employers are then able to deploy well-developed programs and complete timely impact assessments with a large enough sample to validate outcomes. The company partnered with its service provider to provide participants with a personalized retirement journey that is rooted in behavioral finance, adult learning theory and participant analytics. The monitoring and evaluation undertaken in conjunction with the programs has had the additional advantage of informing the strategy going forward. In their assessment of the experience, workers articulated a need for a personalized and holistic approach to enhancing their financial skills that adjusted to the evolving needs across life stages.

The company is developing are developing the next phase of the program that is reflective of this learning.

PROVIDING GUIDANCE TO AND THROUGH RETIREMENT

Enabling and empowering plan participants to make the most effective use of the opportunities provided by employer-sponsored retirement plans has always been a central challenge as defined contribution and hybrid plans become the source of new coverage. In 2014, another large member company found that only 17 percent of its plan members were on pace to retire with suitable income replacement. Despite a generous employer contribution, most members were not saving enough toward retirement, with fewer than 20 percent of plan members making their own pre-tax retirement contributions. While employees were offered access to external financial planners and planning tools, very few took advantage of these offerings.

The company addressed this challenge by requiring its members to more frequently consider and update their retirement savings plan, providing easy access to expert guidance and extending the plan sponsors' support through the equally important years in retirement. Beginning in 2013, plan members were required to annually complete a new benefits enrollment process, including reconsidering and specifying their pre-tax retirement contribution. In late 2016, the company implemented a customized retirement planning tool designed for active plan members along with an in-house financial planning service.

Credentialed planners who understand the investment and distribution options help individuals make best use of the planning tool at no out-of-pocket cost to the member. This enables them to easily generate a comprehensive retirement plan, project any potential income gap or surplus and adjust their future contributions and investments accordingly by recommending a specific pretax contribution amount and asset allocation strategy. To maximize participation the company offers active members a $200 wellness incentive if they implement a retirement plan.

In early 2018, the company extended support to participants by implementing a planning tool that enables retirees to better manage retirement income. This allows them to plan for expenses while they are in retirement, model lifetime income options, plan for a financial legacy, as well as generate and adjust an asset allocation and withdrawal strategy consistent with their evolving needs.

The combination of these enhancements has achieved remarkable results. In 2017, 65 percent of members made pre-tax retirement contributions — representing a 329 percent increase from 2012. Over 7,000 active members have benefited from using the retirement planning tool to create a plan. Of those who have implemented a plan, 51 percent increased their pre-tax contributions and, perhaps even more importantly, 61 percent of those previously not making pretax contributions started saving toward retirement. Over 3,500 members have worked with a company-provided financial planner with 100 percent of the planners receiving high satisfaction scores from members. As a result, the percentage of active members on pace to retire well has nearly doubled since 2014. Incentivizing participation, making guidance cost free and extending access to planning expertise throughout the entire retirement process is shown by this innovation to be a very effective integration of essential elements that are linked to a long-term employment relationship.

PRESERVING SAVINGS IN RETIREMENT PLANS

Like many other plan sponsors, another multinational company member was concerned about the potential for employee loans to result in leakage from their 401(k) plan and diminish the retirement savings of their workers. To address this challenge the company introduced a number of innovations in the design of the plan by adding educational content through pop-up messages in the automated transaction flow through which a loan request is processed. During the application and approval process through the plan website a message now appears telling the participant the estimated dollar reduction in their account balance and expected reduction in monthly income at retirement that is likely to result from taking the loan. A second pop-up message asks if the participant has considered other options and repeats that they will have less money in retirement if they are unable to completely repay the loan. The participant must click through each of these messages to request a loan. In addition to the pop-up messages, there are links to more educational content about plan loans, their costs and the consequences of taking a loan. In conjunction with the timely availability of this information, the interest rate on loans was increased by one percentage point and a flat loan fee was imposed regardless of the amount or duration.

The website's educational content is specific to the participant's requested loan amount and other parameters, giving them a dollar impact on their retirement that is more meaningful than a generic educational piece could provide. The higher interest rate increases the total loan repayments to the plan, with a goal of also increasing the participant's account balance at retirement. The loan fee is added to the principal amount the participant repays, to avoid reducing the retirement account balance permanently by the fee amount. All three of these features are intended to cause participants to limit plan loans or seek other sources of funds, or if they do take a loan to end up with a higher account balance after repayment than might be otherwise.

In the first eleven months after these three features were implemented, the plan saw reductions in average monthly loan amounts for each month compared with the same period in the prior year. These reductions were as high as 20.7 percent between comparable months. The average loan balance also decreased. The reduction in loan amounts indicates that participants are giving more deliberation to taking plan loans that will reduce their account balance at retirement. This coordinated set of innovations demonstrates how employers can take advantage of timely individualized information to improve retirement savings outcomes in a way that would not be feasible in another environment.

In addition to these examples, other Council members have initiated other programs such as one that provides a 401(k) match based on student loan repayment, maintaining a not-for-profit trust that serves as an employee emergency fund for employees that have encountered immediate financial difficulty, educational programs to help employees obtain their high school equivalency or associate degrees and trade certificates. Employers have integrated features of health and retirement, by including financial well-being as a component of their health assessments and providing a wide range of employee assistance programs, all of which have an impact on the overall financial security of the employee and their families.

While plan sponsors and their service providers report significant progress, there is more that can and should be achieved. The need for public and private sector partnership is critical in order to help Americans and their families achieve personal financial security. While we have talked about the value to the employer and the employee, the government is also an important stakeholder.

For example, tax favored employer retirement plans provide an efficient way to complement Social Security benefits. Employer-sponsored retirement benefits are something of a bargain for the federal government. The Council calculates that for every $1 of wages deferred retirees will take into *taxable income* at retirement $7.18. Likewise, the tax expenditure for health insurance provides a similarly high ratio of benefits in relation to the value of the exclusion of employer payments for group health insurance. Employees gain $4.45 in health benefits from every $1 in health tax expenditures.

The Council's strategic report, A 2020 Vision: Flexibility and the Future of Employee Benefits, outlines goals and provides recommendations that we believe will lead to greater personal financial security for Americans. Given the focus of this roundtable on financial well-being we would like to offer the following policy suggestions:

1. Protect the ability of employers and providers to innovate in the workplace. ERISA preemption is a critical component for employers who have operations in multiple states and want to provide programs on a national basis.

2. Make it easier to use technology to provide information in the workplace and to use technology as it becomes available.

3. Allow people to make up savings they may have missed.

4. One of the big challenges for Americans in retirement is how to calculate the amount of money they will need to have on hand to meet healthcare needs and risks. Recognizing the interrelationship between health care risk and financial security is key to important component of financial education. Integrating information from Medicare and Social Security also would help people think about their retirement income more holistically.

5. Many struggle with understanding the risk of longevity and how to plan for retirement and managing their money to last through retirement. Employers report that there continue to be significant barriers to offering lifetime income products as part of the defined contribution plans. Let's work together on the most fundamental of these challenges - educating about the importance of saving, the need to prepare and how to prepare for longevity and the impact of leakage. Providing fiduciary safe-harbors and innovation in products that are practical, affordable, explainable and portable is critical.

Thank you for the opportunity to share the Council's views. We are confident that together we can more effectively meet the retirement policy challenges we face.