NAGDCA

BEST PRACTICES GUIDE TO ADMINISTERING YOUR GOVERNMENTAL DEFINED CONTRIBUTION PLAN

COMMUNICATIONS/PARTICIPANTS EDUCATION

September 2013

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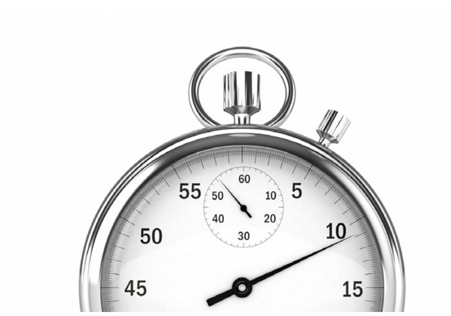
EDUCATION & COMMUNICATION OVERVIEW

Your communications and education program is arguably one of your most important functions as a plan sponsor. If participants don't understand the plan in a way that enables them to be successful, all of the other work you do – setting up the plan, choosing investment options, hiring service providers, etc. – will have a diminished impact. We establish defined contribution plans to help our workforces create retirement income security. These plans are most successful when plan participants understand their choices and are empowered to take action.

The challenge plan sponsors face with their retirement program communications is considerable. Participants crave simplicity, and yet there is inherent complexity to the rules, benefits and services of our plans. Participants also want to feel confident, but for many of them investing raises fear and anxiety.

As a plan sponsor, you must transform complexity into simplicity, and fear into action. In this chapter we'll explore some of the most important aspects of retirement plan information, as well as some of the tools available to effectively communicate to your participants. We'll also review disclosure obligations you may face under applicable law.

While plan communications can be difficult, the benefits offered by a successful communications program outweigh the challenges. There is nothing more rewarding as a sponsor than to witness participants grasping an important piece of information and taking action towards securing their future retirement. Approach communications with creativity, enthusiasm, and simple clarity; your participants will be grateful for it. Also, your success is dependant, in part, on how well your organization supports and facilitates your efforts.



WHAT TO COMMUNICATE

If someone told you that you have two minutes to communicate the benefits of your plan to a new employee, what would you say? While it may sound like an impossible task, the reality is that many of your employees may not devote even that amount of time to reading the communication materials you prepare.

How people read websites may be a useful indicator for how they will approach information you create for your plan. Research suggests that when readers look at website pages, they tend to scan rather than read text; and when they do read, they only read about 20% of the text on a given page. [1]

[1] See Neilsen, J., Scrolling and Attention, available online at http://www.nngroup.com/articles/how-little-do-users-read/

With that as our backdrop, it's critical to communicate the most important information items first. Let's begin with the two-minute drill of what participants need to know to be successful with their accounts. Then we'll dive into some of the details.

I. Two-Minute Drill

Here is an example of important information participants need to know to be successful in a defined contribution plan, in about 100 words:

- The plan offers a way to help save for retirement
- There are two tax-advantaged ways to save: pre-tax or after-tax dollars
- Different contribution limits exist for different types of participants
- Contribute as much as you can afford
- If there's an employer match, don't leave money on the table
- Investing doesn't need to be scary – diversifying helps manage risk, and you determine your risk level
- You have access to your assets in the event of an unforeseen emergency
- How you take money out of the plan is just as important as how you put it in
- Updating beneficiary designations is an important aspect of maintaining your account

II. The Long Version

Now we move to a more comprehensive look at how these elements can be incorporated into your communication materials.

Saving for Retirement – Defined contribution plans provide a way to save for retirement, but often the plan sponsor needs to provide the participant some context. Many governmental employers also offer defined benefit plans. Your employees may have only a vague notion of what the benefits of that program are and how the defined contribution plan supplements those benefits. Providing information about the defined benefit plan, even if it's not a program you directly administer, may be extremely important to potential participants. They need to understand how both plans play vital roles in planning for their retirement. Lastly, most governmental employees contribute to Social Security, which often serves as the 3rd and final source of retirement income.

Tax Deferral vs. Tax Free Accumulation (Roth) – One of the fundamental benefits of defined contribution plans is the participant's ability to save money on a tax-advantaged basis. Historically, this has been through contributing pre-tax dollars and paying taxes when withdrawn. For many people, retirement income will be lower than income during their working years. By deferring taxes, they not only push their taxable income to a time when their tax rate will be lower, they accumulate earnings on money that otherwise would have gone to the government in taxes.

A relatively new approach has been the addition of "Roth" plans, where after-tax contributions are invested. The earnings on those contributions accumulate tax-free if certain requirements are met. Members who feel their taxable income will be higher after retirement are able to use a Roth plan to their advantage. They may also be able to contribute to both types of plans (tax deferred and Roth) as circumstances change throughout their careers.

This type of tax planning may be confusing to some, and it's difficult to predict future personal tax rates and future tax laws. It is important not to over–analyze, as this could lead to the participant experiencing the "deer-in-the-headlights" syndrome, where they procrastinate making a decision over fear of making a tax mistake. If your plan offers both savings approaches, it may be best to ensure that your communication program clearly explains the benefits of contributing to both, thereby creating versatility in their post-employment distribution planning. The critical first step is to encourage employees to start saving, and remind them that they can always make adjustments during their career.

In addition to the potential advantages of tax deferral or tax free (Roth) accumulation, some participants may also be eligible to receive a tax credit simply by saving money in their retirement plan. This credit is called the "Saver's Tax Credit" and is obtained by eligible participants by filing IRS form 8880. Your education materials may be the only way this information is brought to the attention of some participants.

Contribution Limits – Because of the tax advantages of retirement plans, the government limits how much participants and employers may contribute each year. There are different dollar limits that apply to different categories: a limit for those below age 50, another limit for those age 50 or older, and a third limit for those who are eligible and approved for a "Special Catch-Up." This special catch-up provision is part of the 457(b) Internal Revenue Code, and was amended by the Pension Protection Act of 2006. Participants who have under-utilized their contribution limits in prior years may contribute up to double the contribution maximum in the three years prior to attaining the individual's normal retirement age.

Contribute What You Can – Media attention to the nation's "retirement crisis," while perhaps well-intended, also creates a climate of fear. It can be tempting for a plan sponsor to use language which essentially involves trying to scare people into saving. Fear may produce paralysis rather than the savings behavior you're trying to encourage. Everyone's financial situation is different; as such, it's best to encourage participants to start saving as much as they can afford on a regular and consistent basis. Also, each time they receive an increase in salary, encourage them to take a percentage of their increase and pay it to their retirement account. Emphasize that the more they accumulate in their account the more possibilities they create for themselves in retirement.

Don't Miss the Match! – Whether from procrastination or lack of understanding, some participants fail to take advantage of employer matching contributions. The plan sponsor needs to make every effort to help participants understand and take advantage of this benefit, where it is available.

Investments and Investment Concepts – Private industry as a whole has moved from a defined benefit (pension) structure toward a defined contribution (individual savings) structure and statistics show that most individuals in private industry are not prepared for retirement. The government sector has also seen some movement toward replacing defined benefit with a defined contribution model. However, the vast majority of government employees are still covered by a defined benefit pension plan. Moving from a defined benefit to a defined contribution model shifts the investment decision from a centralized professional investment staff to the individual investor. Most participants don't believe they have the information to make good investment decisions, and regard investing as the province of experts. And like all human beings, they are vulnerable to emotions of the marketplace which drive panic buying and panic selling.

Helping participants navigate investment anxiety is a challenging task. This is where your plan design must be integrated with your communications. An "everything plus the kitchen sink" approach to investment menu design will only leave the average participants feeling more overwhelmed and fearful of making the wrong choice. Offering a well thought-out investment selection process and an investment line-up makes the decision-making process simpler. This means an investment menu that incorporates a flexible, but limited number of choices in the major asset classes, as well as asset allocation funds.

The most important concept to communicate is that the essential principles of investing are not that complicated. The participant should maintain a diversified portfolio matched to his or her risk tolerance and investment time horizon. Their asset allocation strategy can also be modified over time as their situation changes.

The following investment documents provide examples of disclosure materials that assist the participants in making investment decisions:

- Fact sheets and fund prospectuses
- Historical performance return information
- Information about asset allocation strategies, including the use of risk-based or age-based asset allocation funds
- Fee disclosure and the potential impact of fees on investment returns
- Asset Allocation questionnaires to assist participants in determining an asset allocation model that's right for them.

The volume of all this information can be overwhelming for the typical participant. While the information must be made available, a plan sponsor can always keep it in context by introducing it with key summary data. Certain disclosures are made to help remove the potential for bias or distortion. This is important, but it's not the only objective; the information must also be actionable and presented in a manner that is easy to understand.

Fees and Expenses – Fee disclosure is a challenging responsibility. Fee structures among investment and service providers, and even within the plan design structure, are diverse and complex. Participants, and often even plan sponsors, find it difficult to understand how much they are paying and what they are paying for. The Department of Labor recently created new fee disclosure requirements for ERISA plans. Even though governmental retirement plans are exempt from ERISA requirements, we believe it is a best practice to disclose all fees clearly and regularly. When communicating fees, it is also helpful to "translate" them in ways that participants can understand. For example, if an investment advisor charges 10 basis points (0.10%) for investment management costs, it could be converted to an equivalent dollar per $1,000 invested. In this example, it would be $1 per year ($1,000 X 0.10% = $1). If a participant has $10,000 in that fund, the annual fee would be $10.

Access To Your Account While Working – Loans and hardship withdrawals are vehicles to access one's account while working. When used wisely, loans provide opportunities for participants to leverage their balances to address multiple financial objectives (e.g. a home purchase, resource for emergencies, etc.). However, to the extent that participants reduce or stop contributing in order to make a loan payment, they can undermine the retirement security objective. Hardship withdrawals can potentially resolve certain financial challenges (e.g. imminent foreclosure on a home, or a loss of income due to disability), but this may be at the cost of retirement readiness.

Taking loans and withdrawals work against the theory of compounding investment returns, and may have a potentially negative impact on a participant's overall retirement readiness in the long term. Clear and straightforward language needs to be used in the literature and forms, helping participants understand the pros and cons of these features. A separate emergency savings fund is the preferred approach to meet those unexpected financial needs. Most experts recommend maintaining three months of emergency savings on a regular basis.

Distribution Phase – The distribution phase of life is as important as the accumulation phase. How to withdraw, when to withdraw, what is required to be withdrawn, investment strategies in retirement, and tax consequences of withdrawals can feel like another daunting set of decisions for a participant. Encouraging participants to think about and utilize their account balance as a future retirement income stream is a powerful touchstone. For many, the amount saved in a defined contribution plan will be the single largest source of savings they will ever accumulate. Once the account becomes available for distribution, an ill-considered series of partial withdrawals can deplete an account rapidly.

The broader challenge lies in understanding how much income one needs in retirement and how best to benchmark progress. As a best practice, resources should be developed to help participants understand the options in the plan for converting savings into lifetime income.

Beneficiaries – Participants should be required to designate beneficiaries at the time they enroll, but additional communication mechanisms should be created to remind them to keep this information updated. It's very easy for participants to forget to update this information over the course of years and changes in their life circumstances (including marital status). It's also very easy for a beneficiary to forget or never be informed they have rights to this benefit following the participant's death – this can create problems for the plan sponsor in addressing the unclaimed property.

Additional Important Communication Topics

- **Annual Updates and Regulatory Changes** – The benefits and rules associated with defined contribution plans are fluid and always changing as legislation is modified, regulations are clarified, contribution limits change, etc. It is important for the plan sponsor to stay up-to-date on these changes and relay this information to participants in a timely manner. In addition, as plans make changes (by changing investment options, for example) plan sponsors must be aware of their obligations to communicate those changes according to regulatory requirements, protecting both the plan participant and the plan sponsor.

- **Summary Plan Description** – A primary resource for documenting and disclosing the plan's policies, procedures, and provisions is the "Summary Plan Description" (SPD) or "Plan Prospectus". The goal of the SPD is to communicate technical information in clear and simple language. This document should be made available to all eligible employees and participants. This document is a powerful one-stop guide for not only the participant but the plan sponsor in documenting important rules and meeting disclosure requirements.

HOW TO COMMUNICATE

When establishing your communication plan, it's critical to consider the various methods of communication individuals receive and answer. Some are visual learners, others are auditory learners and others have a hands-on learning preference. As your communication program is developed, utilize different means to ensure you are incorporating enough methods of communication to meet all of their learning styles.

In developing your communications program you should explore all potential communication methods:

- One-on-one Counseling
- Websites and Web-Based Information Tools
- Call Centers
- Quarterly Statements & Newsletters
- Group Education
- Social Media

A plan sponsor may not have the resources to create and maintain all of these communication vehicles. Third party administrators and communication consultants can assist you with your communication development process and explore alternate forms of disseminating information. Make certain you leverage effective communication strategies consistently to help meet your fiduciary responsibilities. The following is a discussion of the most common communication methods which support an effective communication program.

Personalized Counseling – One-on one counseling is probably the most effective communications resource. Because so many participants approach retirement planning and investing with some measure of fear and anxiety, the "personal touch" goes a long way towards building confidence. It's also important to provide neutral representatives, ones who are not there to market a specific product, but rather to educate and explain the value of the plan.

Websites and Web-Based Information Tools – Despite the fact that many of us are web 'scanners' and not 'readers', it is undeniable that the internet is becoming the primary resource for research. This is why your website is such an important tool in your communication program. Websites, to be effective, must be thought of as living, evolving organisms. If you "set it and forget it," gradually accumulating stale information, participants will learn to not engage with it. This is why monitoring it closely, adding fresh information on a regular basis, and using interactive tools like webinars and calculators, is crucial in building this as a "go-to" resource for your plan.

BEST PRACTICE ALERT – Focus groups are your communication program's best friends. There is a general tendency on the part of many service providers and plan sponsors to build their communication materials around (a) the complexity of the subject matter that they work with every day, and/or (b) a "full disclosure" orientation which is geared towards including every single fact and nuance that relates to a particular topic. Large doses of complexity and disclosure can make for absolute confusion at the participant level, and there is no greater resource for calling this out than testing the materials on participants before they're finalized.

Here's a promise – your initial draft of your communication piece will change after your focus group tells you how they interpreted it. This isn't because of a service provider's or plan sponsor's failure, it's because subject matter experts inevitably interpret information differently than those who aren't experts. Focus groups help ground your communication pieces and let you know whether they're meeting their primary objective of being understood.

Here are a few tips on running a successful focus group:

- Try and get a representative sample of your workforce to participate in the group (e.g. mixing officer workers, field workers, etc.)
- The ideal size is about 6-10 individuals
- The ideal length is 30-60 minutes, depending on the length of the material
- Keep the focus on learning what questions were raised but not answered, and where people became confused; don't answer questions that focus group members have about the subject matter until the end of the session because it's very easy to lose control of the discussion, particularly if the communications topic is controversial
- Give participants a small reward, even if it's just refreshments, and thank them profusely for helping you make a great communications piece

Test everything if you can, including forms, your website, and even your group presentations. Your participants are the most valuable resource you have in designing an effective communications program.

Interactive tools and on-line calculators are a great and emerging resource to help engage participants with their accounts. Unlike the traditional static chart or graph showing potential growth patterns, participants can now use dynamic modeling tools to create different scenarios and try different savings and investment strategies. They may also model their savings strategies in conjunction with their defined benefit (pension) benefits and social security benefits. The website can also more quickly communicate changes to rules, regulations, services, etc.

Call Centers – Call centers are generally thought of as a resource to assist participants with performing transactions rather than education, but the fact is that participants will learn a great deal about the rules of your program as they are in the process of trying to accomplish a specific objective. For example, a participant may call to increase her contributions. In the process she may discover that she is subject to a higher contribution limit than she thought because she's over age 50. This is why it's important to ensure your call center representatives are knowledgeable and helpful. They are often the front line of communicating the features of your plan.

Quarterly Statements and Newsletters – Historically, quarterly paper statements and other communication materials (like newsletters) mailed to the participant's home were thought of as the primary and most effective communications tool. Before account and investment information was available on the internet, paper statements were the only way to monitor one's account. Now, with the ability to obtain access to information instantly, the value of the traditional paper statement and newsletter has lessened for some participants. However these communication pieces still play an important role for the plan as it provides the plan with a method to ensure that it has met its disclosure obligations. Although some participants will continue to read the hard copy versions, many are moving away from paper and opting for more electronic methods. Keep this in mind as you develop communication campaigns – meeting your fiduciary disclosure obligations is one objective, but communications effectiveness is quite another. When you want participants to take action, it's important not to assume they will read the information that's been mailed to them.[2]

[2] With growing doubts about the effectiveness of paper statements as a communication tool, the question has been raised as to whether printing and mailing paper statements can and should be replaced by making the information available online. Surveys indicate there is still a significant proportion of the population preferring to receive paper statements and disclosures (see Paper by Choice, AARP Research & Strategic Analysis, November 15, 2012).
The Department of Labor weighed in on the issue of electronic delivery with a Technical Release 2011-03 (Interim Policy on Electronic Disclosure Under 29CFR2550.404A-5) stating disclosures must be furnished using "measures reasonably calculated to ensure actual receipt of the material" and that participants must give "Affirmative Consent" to receiving electronic delivery, meaning they will receive paper statements unless they ask for electronic delivery. Utilizing a "Negative Election" or an "Opt Out" approach means participants will receive electronic delivery unless they affirmatively choose to receive paper. This distinction is important, because participants generally don't make these types of proactive decisions and allow themselves to be defaulted to the plan sponsor's decision. The challenge with either approach is that some participants will never open their statements while other participants will never go to the website. When considering this issue, the plan sponsor should consider the nature of the workforce – a more office-oriented workforce might be a better fit with electronic distribution, while a less office-oriented workforce might be better suited to paper delivery. Plans maintaining accounts for retirees need to consider those who have terminated or retired, and how connected these members may be electronically. Because of the diverse population in the government arena, many plans default members to paper delivery but engage in an aggressive marketing effort to convince members to "go green" with affirmative consent.

A new practice with statements is to show participants individualized future projections of their savings, and then converting it to an estimated monthly retirement income. This takes into consideration behavioral finance research and helps participants focus on their financial future. The goal is to help our participants change their focus towards a retirement income stream, and away from short term returns and balances.

Group Education – Group educational meetings (for enrollment, education, etc.) can be extremely powerful. Smaller employers – or employers for whom this type of group education has been institutionalized within the work culture –generally succeed with this approach. Larger employers, or those for whom these types of forums rarely occur, have limited success. Attendence is key. Approach group education strategically, by participating in events where employees are likely or mandated to attend (like a new employee orientation, a retirement planning seminar, etc.). But if you have 10,000 employees and the same 15 people show up to your quarterly education seminars, you may want to explore other options (like webinars) as more efficient educational tools.

Social Media/Portable Device Apps – Social media is the new frontier of participant communication. As smartphones, tablets and other devices become more integrated into daily life, they present expanding opportunities for communicating to plan participants. Governmental plan sponsors have been somewhat cautious in this arena as they explore some of the issues concerning the community nature of the information exchange which can occur in social media. A plan able to send e-mail blasts, tweets, etc. giving immediate updates and reminders has a powerful toolkit. Providing portable device applications could also represent a new wave of the future for plan communications.

Where possible, the plan sponsor should collect participant e-mails and cell phone numbers into a database that may be used for targeted e-mail blasts, text messages and notifications. Together with the demographic profile, e-mails and texts can be customized to certain groups. For example, e-mailing a reminder to members over 70 ½ to take their minimum distributions, or texting active members - encouraging them to increase their deferral rates when compensation increases are announced.

Measuring Success – How do you know if your efforts are effective? There are two methods to help you determine the success of your education program - testing participant behavior, and surveys.

Periodically obtain reports showing customer behavior, such as contribution rates, loans, withdrawals, rollovers, and investment choices. Measure changes in activity to detect patterns. Also, after a targeted promotion, you could test the change in behavior to see if there was a response to your promotion.

Surveys are a tool that can be used to determine if people are receiving and understanding your information. On-line survey tools are easy to use, but may be limited to individuals willing to participate on-line. Exit surveys (from seminars and after counseling sessions) and telephone surveys are also good options. Surveys are good tools to test knowledge, but may not accurately test behavior. Participants may indicate that they "intend" to take action, but never get around to making a change.

CONCLUSION

Communications is where the rubber meets the road in defined contribution plan administration. It is the point at which participants either engage or fail to engage with the opportunities presented by your plan.

The most important thing you can do when planning your communication program is to give it a high priority. It may be tempting to rely on service providers to generate a pile of disclosures and either ship them out or post them on the website. But engaged communication with your plan participants should be more of a dynamic process than that. Plan sponsors should be continuously assessing and questioning their communication objectives, strategies, and outcomes. By doing so you will know you're doing your part to help participants navigate the complexity of the retirement world, and ultimately to build the brightest futures they can imagine.
