Stop, Look, and Listen
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Stop, Look, and Listen: Your Profitable Participants Remain Hidden in Plain View

Richard D. Glass

"The greatest problem with communication is the assumption that it has taken place."
—George Bernard Shaw

Jack Welch, the former CEO of GE and a master at achieving corporate profitability, preached that "the winners will be those who deliver solutions from the users' point of view." In their classic study, Shoshana Zuboff and James Maxmin argue that profitability flounders because companies don't recognize that it is the end consumers, and not the firm, who create and define what is valuable to them.[1]

Allowing these insights to guide the 401(k) provider's interactions with participants and eligible non-participants (the end consumers) will create unlimited opportunities to gather more assets—and, thus, generate more profits—from these already existing customers. If both a "rediscovery" and fulfillment of their needs occur, participants will supply the provider with a steady cash flow (contributions, IRA rollovers, and cross-selling opportunities).

The key to making this happen is understanding what the majority of participants (and eligible non-participants) want and need. All too often, providers focus on the desires of the vocal minority who are often not its best customers (i.e., those with the most profit potential) anyway.

A game plan for achieving increased profitability will now be presented. It recognizes that:

- Most employees don't want to make investing and retirement planning part of their lives.
- Most employees want an easy approach (a "recipe", so to speak) to retirement planning.
- If a provider puts an intermediary (a third-party advice or managed account provider) between itself and the participant, it is only a matter of time before that intermediary wins the participant's loyalty. The provider is setting the stage for today's ally to become tomorrow's competitor for customer loyalty and, thus, assets.
- It is only by getting to know and understand the employees that you can change their behavior and increase participation, contributions, and the capture of rollover IRAs.

Defining the end consumer

Based upon how they have spent their money (on Internet-based advisory services that require participant involvement, calculators, educational content on websites, thick enrollment kits, etc.) providers have apparently thought that the average worker is or wants to be an investment enthusiast. Unfortunately, this has been a costly mistake.

The educational portions of web sites go unused, advisory services are also not used, and only slightly more than a third of American workers have calculated their retirement needs. About a third of those who have done the calculations can't remember their results.[2] To make matters worse, relatively few employers want intensive education to be done at company expense on company time.

[1]Shoshana Zuboff and James Maxmin, The Support Economy: Why Corporations Are Failing Individuals and the Next Episode of Capitalism, Penguin Books, New York, 2002.
[2]EBRI's 2004 Retirement Confidence Survey.

Providers have, unfortunately, catered to the "do-it-yourselfers". This relatively small group is highly vocal, resourceful, and does not represent the needs and wants of the majority of employees. They also do not represent much of a profit opportunity.

Providers forgot the mindset of the typical American worker. "We have become a quick reflexed, multitasking, channel-flipping, fast-forwarding species"[3] that needs instant coffee, fast foods, ten minute dating experiences, and instant gratification in all aspects of our life. Americans also "want to be freed from the time-consuming stress, rage, injustice, and personal defeat that accompany so many commercial exchanges".[4] This is especially true when they have to explore topics about which they know little—such as retirement planning—and are confronted with user unfriendly tools like poorly designed websites and voice response systems.[5]

(Is it any wonder, then, that regardless of the number of investment options a plan has, the average number used is 3.6.[6] Relatively few American workers want to be their own Chief Investment Officers. Even if more did, they probably wouldn't be successful at it. As Waring, Siegel, and Kohn point out, employees "have no particular skill at investment management, nor is there any reason why they should. Investment management is a technical field that requires extensive training, which most airplane mechanics, lawyers, and healthcare workers don't have, don't claim to have, and would rather not undergo."[7])

Another crucial fact that has been overlooked is that the average American also works more than his counterparts in any other industrialized nation, including Japan.[8] Having so little free time contributes to making it difficult to capture and keep his attention, especially if gratification is delayed (such as enjoying a financially secure retirement 20 years into the future).

Another characteristic that has been ignored is the American love affair with consumption (immediate gratification). Americans define themselves by what they consume, not what they make. "You are the logo on your T-shirt, not a descendant of a Mayflower passenger."[9] To make matters worse, "keeping up with the Joneses" now means keeping up with the rich or at least the upper middle class rather than your next door neighbor.[10] Since this country has one of the lowest savings rates in the world, ignoring this romance with "upscale emulation" (living beyond our means) is naïve.

The United States is also a nation of style. Functional but ugly products are not acceptable. The Great Indoors, a division of Sears (now Kmart), offers their customers (mostly middle class female suburban homeowners) wide selections of products, such as over 250 lavatory faucets and more than 1500 styles of drawer pulls, from which to choose.[11]

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[3]Taken from the cover jacket of James Gleick, Faster: The Acceleration of Just About Everything, Pantheon Books, New York, 1999.
[4]Zubroff and Maxmin, op. cit. p.4.
[5]For a discussion of this topic, see Kim Vicente, The Human Factor, Routledge, New York, 2003.
[6]Fidelity, "Building Futures", Volume 5, 2004.
[7]Barton Waring, Laurence Siegel and Timothy Kohn, "Mind the Gap! Why DC Plans *underperform* DB Plans, and How to Fix Them", Investment Insights, The Investment Journal from Barclays Global Investors, January, 2004, p. 3.
[8]Juliet B. Schor, The Commercialized Child and the New Consumer Culture, Scribner, New York, 2004.
[9]James B. Twitchell, "The Stone Age", in Juliet Schor, editor, Do Americans Shop Too Much, Beacon Press, Boston, 2000, p. 48.
[10]Juliet Schor, "The New Politics of Consumption", in Juliet Schor, editor, Do Americans Shop Too Much, Beacon Press, Boston, 2000, p. 8.
[11]Virginia Postrel, The Substance of Style: How the Rise of Aesthetic Value is Remaking Commerce, Culture, and Consciousness, Perennial, New York, 2004, pp.40-41.

Aesthetics has even had an impact on bathroom cleaning. "Dozens, probably hundreds, of distinctively designed toilet brush sets are available—functional, flamboyant, modern, mahogany", ranging in price from a few bucks to several hundred dollars.[12]

The use of "one-size-fits-all" communications was another misjudgment. These products "flew in the face" of the modern American's lack of free time and need for aesthetic seduction.[13] More often than not, these materials were not inviting, and their images and messages had little impact (ineffective call to action) on employees. Thus, plan materials were viewed as junk mail by their recipients.

For example, sending a 25 year old an enrollment kit (or other plan communications) emphasizing retirement will not catch his attention no matter how well designed it is. The material will go unread and end-up in the garbage or at the bottom of some pile.

401(k) providers have fallen victim to the "flu" of ignoring the customer that runs rampant in American business. Paco Underhill, in his classic study of retailing, found: "All our research shows this direct relationship: The more shopper-employee contacts take place, the greater the average sale." But what do retailers do? They cut costs by reducing staffs. Retailers simply "didn't get it" that given the chance, people will buy from people who care. Retailers, like 401(k) providers, never bothered to learn who their customers are.[14]

Ignoring the research into what makes the modern American tick has cost providers a lot of profit. Fortunately for them, however, if these insights into the American consumer are combined with modern technology, providers can quickly get back onto the road to profitability.

Using communications to increase profitability: Forget empowerment, think engagement
According to Dallas Salisbury, president and CEO of the Employee Benefit Research Institute (EBRI), existing 401(k) education programs have failed to encourage enough workers to save adequately for retirement. After all, these programs don't provide employees a realistic portrait of what is involved, including how much savings are required, to achieve retirement security.

Salisbury argues that retirement has been overemphasized: "Cut the stress on retirement and increase the stress on savings and wealth. And tell people of all ages that savings and wealth give independence and control."

"Asset allocation", he continues, "is irrelevant if you have no money to allocate." Thus, money should be spent on increasing participation and contributions. To accomplish this, however, personalized education programs are needed. "The results make it clear that, particularly among lower educated and lower income groups, the written word is highly valued, and the personal touch is highly valued." According to Salisbury, the Internet as an educational tool has been a disappointment. The most successful education efforts are generally those that offer one-on-one, personalized sessions with workers.[15]

One-on-one meetings are oftentimes the best way of getting a message across. Unfortunately, it is very expensive to hold group, let alone individual, meetings with employees. Neither providers nor

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[12]Postrel, Ibid, p.56.
[13]For a discussion of this topic, see Richard Saul Wurman, Information Anxiety 2, QUE, Indianapolis, 2001.
[14]Paco Underhill, Why We Buy: The Science of Shopping, Simon & Schuster, New York, 1999.
[15]"How To Build An Effective 401(k) Education Program", Managing 401(k) Plans, June 2004, p.3.

sponsors want to pick up this cost as evidenced by EBRI's 2004 Retirement Confidence Survey's finding that workplace education is down considerably from the previous year.

Research is showing that personalized targeted communications is a viable alternative to individual and/or group meetings. One recent study found that over 70% of employees said personalization catches their attention and the use of their own data made a message—the need to increase their contributions—much more meaningful.[16] The case study discussed later (Table I) confirms this study.

This research implies that the average worker may be equating well-designed personalized messaging with a recipe for achieving his retirement goals. If that is the case, providers are in luck. Americans love recipes, whether it is for losing weight, cooking, painting, or some would argue, just for living.

Providers also should not forget that best selling cookbooks, the paradigm for marketing recipes, are loaded with photographs to arouse the salivary glands (physically and emotionally). After all, cookbooks aren't read and recipes aren't prepared if the dish isn't tempting. The same can be said for any type of communications. If the material doesn't grab the worker's attention, it is a waste of money.

The first step to engaging non-participants, then, is to show them the benefits of participating in a 401(k) plan. For younger employees, this can be done with personalized wealth accumulation statements (Figure 1) that emphasize financial independence and the power of long-term investing. For older non-participants, reports can tout the advantages (such as the tax and employer match) of investing through a 401(k) plan. The reports can also show employees that the longer they keep procrastinating, the more difficult it becomes to achieve their financial goals.

Gap analyses are appropriate wake-up calls for older participants for which retirement is much closer. Their purpose is to make participants realize that just contributing to their 401(k) account is not good enough. The contribution must be large enough to fund a comfortable and financially secure retirement.

Personalized gap analyses show each participant the amount of money she will need at retirement to be financially secure as well as how much she will have making her current contributions. The contribution that will make up the gap (Figure 2) is also shown. (Thus providing an easily understood action step.)

Note the design of these standalone reports. They are not cluttered, they are eye-catching, their message is clear, and they are a quick read. They are distributed with only a brief cover letter with instructions as to how to implement the desired behavior (i.e., how to make the suggested contribution increase). The reports and, thus the message, won't get lost in a clutter of other materials.

The following case study summarized (Table I) shows just how effective personalized targeted messaging can be in increasing participation, contributions, and profitability. According to the provider, the projected return on investment (ROI) over the next five years will be over 600%.

In this case, a plan sponsor, disappointed with both participation and contribution levels, worked with its provider to send out three types of personalized statements. The first type encouraged

[16]Kate M. Jackson, "Now It's Personal: Benefits Communication in the Digital Age", Connections, The Fidelity Investments Magazine for Employers, volume 4 (2), 2004, p.6.

eligible non-participants to enroll in the plan. The second was for participants who were projected to have an inadequate nest egg at retirement. This report suggested an amount by which to increase their contributions so that they could get on the road to a comfortable retirement. The third report encouraged participants that were on track to a secure retirement to "stay the course".

Fidelity has implemented these personalization concepts into their newly developed Annual Checkup. Within this highly personalized 14 page report, a comparison is made between two possible hypothetical balances at retirement age—one is based on a participant's current contributions and the other assumes the participant increases those contributions. "Participants are more likely to make better decisions and change their behaviors to maximize their retirement plan when they see real-time, personalized data" comments Steven McManus, vice president, Marketing Communications.[17]

In addition to increasing participation and contributions, other profit generating opportunities can be tackled with targeted messaging. For example, if a provider wants to promote its rollover IRA capabilities, the message that is sent to a 40 year old should not emphasize how the provider can help participants determine required minimum distributions and/or achieve a life-long income (the message pre-retirees should receive). Rather, for the 40 year old, the provider should stress why, regardless of how often she changes jobs, the current provider is the place all her retirement money should be deposited.

The chart below (Figure III) lays out the process for understanding what employees are doing and then creating opportunities to implement the desired behavior and reap the resulting rewards. Capturing these opportunities is now relatively easy thanks to the available data analysis, content management, and publishing automation software.

Personalized targeted communications will be pivotal in the war for assets

Currently, personalized reports are being produced by the major advisory services, such as Financial Engines, and a few recordkeepers.[18] The two most common reasons providers give for not supplying personalized statements are their cost and not having adequate data. Two questions immediately arise: How do the organizations that provide these reports get the necessary data and who pays for them?

When an advisory service signs up a new client, they don't have the data necessary to do calculations and make asset allocation recommendations. They must get the data from the recordkeeper and possibly the sponsor. The real issue, then, is not the availability of data but the willingness of sponsors' and recordkeepers' IT departments to supply the advisory service with the necessary data.

If a plan provider needs any data from the sponsor, it would most likely be the employees' current salaries and/or deferral rates (percentages). With this data, the provider could assume responsibility for generating personalized wealth accumulation and gap analysis reports.

Unfortunately for their bottom lines, providers have opted out of this opportunity to increase participation and contributions by delegating the report generating task to an advisory service (and hoping the advisory service would be hired by the sponsor). The goals of these organizations are often different than those of the provider, and the cost of their services may not be justified for the average participant.

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[17]Ibid., p.7.
[18]Randy Myers, "Getting To Know You", Plan Sponsor, October, 2004, p. 94.

For example, it can be argued that a worker with a combined household income of less than $100,000 has no need of managed accounts or advisory services. An appropriate lifecycle fund (offered by the provider) could easily address the asset allocation needs. What these workers really need and what most don't have is a handle on their family finances, in particular budgeting. If they had these insights, finding the appropriate amount of money to save for retirement would be much easier.

In addition, some of the advisory services are now going directly to the American investor and offering to sell them investment advice. Others have become asset managers. The writing on the wall should be apparent to a provider. Advisory services are gaining control over assets, and those who control assets direct where the assets are invested (and, therefore, who gets paid for managing them).

By not providing personalized reports, providers are also missing out on other profit making opportunities like solidifying relationships with sponsors. In today's climate of mistrust, anything a provider can do that shows it has its clients' (sponsor and participants) best interests in mind is a wise move. An unwillingness or inability to help sponsors fulfill their fiduciary duties or satisfy their wants simply encourages the sponsor to shop the account for a more "responsive" provider.

Another bypassed opportunity is building relationships with participants. For example, if a participant receives a gap analysis and then increases her contributions, sending a congratulatory letter will not only make her feel good, but it will reinforce in her mind that she made a wise decision. Likewise, if the participant did not increase her contribution, a reminder letter will make her know that the provider is concerned about her. This relationship building is crucial to a provider's long-term financial success. Since its participants are constantly exposed on television and in the newspapers to the advertisements of the provider's competitors, it does not make sense to ignore this captive audience (as they will likely become someone else's audience).

Data analysis can also identify which groups of participants are the best candidates for different products (such lifecycle funds) and services. For example, every participant earning over $100,000 and having an account balance of $250,000 or greater could be targeted for private banking services.

The issue of cost, like that of data availability, does not lend itself to as simple an answer as a provider might like. To begin with, it seems reasonable to assume that whoever pays for an advisory service to do the calculations should also be willing to pay for the recordkeeper to provide the calculations—and there are only three possible "whoevers": the sponsor, the recordkeeper, or the participant. After all, advisory services are for profit organizations that don't help participants out of the generosity of their hearts.

Second, the evidence strongly suggests that personalized reports can bring about the desired participant behavior—increased contributions and participation—thus paying for themselves and still generating significant profits for the plan provider as shown (Table II).

In today's environment of fees being put under the microscope, a provider's potential to reap significant profits raises a delicate issue. If reports generate profit for a provider, can a legitimate argument be made that participants and/or sponsors should pay for the reports? The answer is probably no.

In any case, many employers now want their participants to get personalized reports and other types of targeted messaging. These sponsors are worried that it could be argued that they breached their fiduciary obligations if:

- participants do not know where they are along the road to retirement;
- eligible non-participants are not routinely reminded that it is their responsibility to fund their own retirement;
- the fiduciaries do not monitor how the plan is being used and then take the necessary actions to correct uncovered misuses or underutilization by participants.

Furthermore, sponsors know that targeted messaging costs much less than, and may possibly be just as effective as, sending out customer service reps, especially if the company is large and/or has many locations and/or large numbers of employees scattered across a wide geographical location. Remember, mid- and large size sponsors are successful businesses that use content management software and print-on-demand in many of their marketing and sales efforts. They know what is available, how to do it, and what it costs.

In any event, providers should never force sponsors to recall a cartoon which appeared in The New Yorker. The cartoon pictured a group of executives at a meeting. Its caption read: "We have lots of information technology. We just don't have any information."[19]

Henry Ford, you are wrong

Fortunately for providers, sponsors, and participants, Henry Ford's often quoted mantra, "An American can have his Model T in any color as long as it is black" can be ignored. Today's technological advances now permit mass customization. Two customers can request the same model in different colors and with different features.

Fortunately, technological advances have done the same for one-size-fits-all communications. This dinosaur can be buried and forgotten. It will surely not be missed.
If an American worker needs and wants help, providers can now deliver this help (an easy to implement,recipe like approach to retirement security) tailored to the worker's own needs. Thanks to personalized targeted communications technology, providers will earn the trust and loyalty of participants and will be rewarded with a steady cash flow (contributions, IRA rollovers, and cross-selling opportunities).

[19]The New Yorker, May 27, 2002. Sidney Harris was the cartoonist.

Figure I

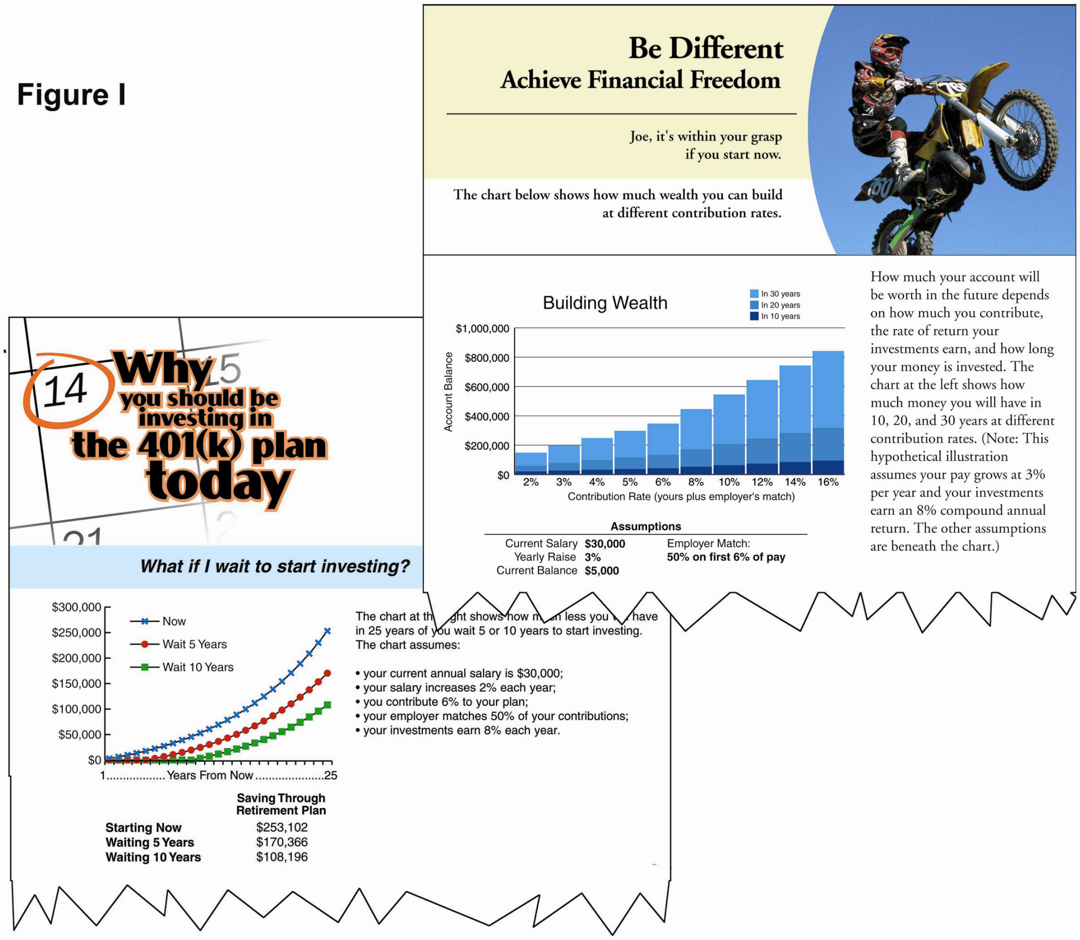
Be Different
Achieve Financial Freedom
Joe, it's within your grasp if you start now.
The chart below shows how much wealth you can build at different contribution rates.
Building Wealth
In 30 years
In 20 years
In 10 years
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
Account Balance
2% 3% 4% 5% 6% 8% 10% 12% 14% 16%
Contribution Rate (yours plus employer's match)
Assumptions
Current Salary $30,000
Yearly Raise 3%
Current Balance $5,000
Employer Match: 50% on first 6% of pay
How much your account will be worth in the future depends on how much you contribute, the rate of return your investments earn, and how long your money is invested. The chart at the left shows how much money you will have in 10, 20, and 30 years at different contribution rates. (Note: This hypothetical illustration assumes your pay grows at 3% per year and your investments earn an 8% compound annual return. The other assumptions are beneath the chart.)
14
Why you should be investing in the 401(k) plan today
What if I wait to start investing?
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Now
Wait 5 Years
Wait 10 Years
1.................Years From Now....................25
The chart assumes:
• your current annual salary is $30,000;
• your salary increases 2% each year;
• you contribute 6% to your plan;
• your employer matches 50% of your contributions;
• your investments earn 8% each year.
Saving Through Retirement Plan
Starting Now $253,102
Waiting 5 Years $170,366
Waiting 10 Years $108,196

Figure II

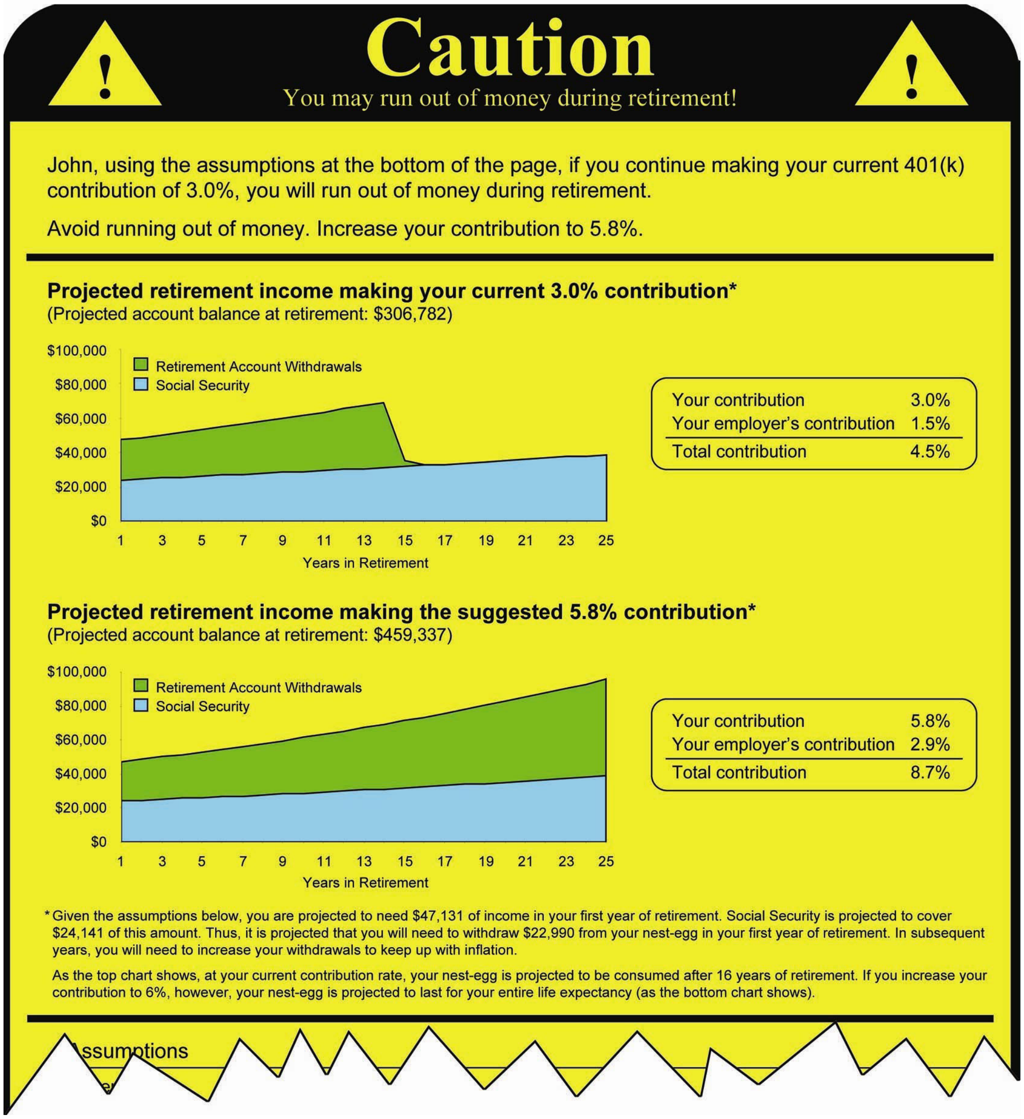
Caution
You may run out of money during retirement!
John, using the assumptions at the bottom of the page, if you continue making your current 401(k) contribution of 3.0%, you will run out of money during retirement.
Avoid running out of money. Increase your contribution to 5.8%.
Projected retirement income making your current 3.0% contribution*
(Projected account balance at retirement: $306,782)
$100,000
$80,000
$60,000
$40,000
$20,000
$0
Retirement Account Withdrawals
Social Security
1 3 5 7 9 11 13 15 17 19 21 23 25
Years in Retirement
Your contribution 3.0%
Your employer's contribution 1.5%
Total contribution 4.5%
Projected retirement income making the suggested 5.8% contribution*
(Projected account balance at retirement: $459,337)
$100,000
$80,000
$60,000
$40,000
$20,000
$0
Retirement Account Withdrawals
Social Security
1 3 5 7 9 11 13 15 17 19 21 23 25
Years in Retirement
Your contribution 5.8%
Your employer's contribution 2.9%
Total contribution 8.7%
* Given the assumptions below, you are projected to need $47,131 of income in your first year of retirement. Social Security is projected to cover $24,141 of this amount. Thus, it is projected that you will need to withdraw $22,990 from your nest-egg in your first year of retirement. In subsequent years, you will need to increase your withdrawals to keep up with inflation.
As the top chart shows, at your current contribution rate, your nest-egg is projected to be consumed after 16 years of retirement. If you increase your contribution to 6%, however, your nest-egg is projected to last for your entire life expectancy (as the bottom chart shows).

Table I

The Effect on Participation and Contribution of the Personalized Reports

	Employees who either joined the plan or increased contributions	Average initial contribution or increase in contributions
435 non-participants	58 (13.3%)	7.7%
342 low contributors	42 (12.3%)	4.9%

The provider assumed the employees' current salaries and contributions would grow at an annual rate of 3%, the annual investment return would be 8%, and the provider collected 55 basis points in fees. The ROI projection (of greater than 600% over 5 years) factored in the cost of all three reports and the fact that some employees reduced their contributions after receiving their reports.

Figure III

Using data analytics and targeted reports
to build relationships and increase revenue

Provider Level

STEP 1

DEFINE GOALS (DESIRED CHANGES IN EMPLOYEE BEHAVIOR)

- Increase participation
- Increase contributions
- Address asset allocation issues
- Encourage use of advice or managed accounts

STEP 2

DEVELOP SEGMENTATION STRATEGIES (DEFINE EMPLOYEE SUBGROUPS BASED UPON GOALS)

- Participant vs. Non-participant
- Demographics
- Shortfall analysis
- Employer match/contribution analysis
- Appropriateness of current asset allocation

Plan Specific Level

STEP 1

ANALYZE PLAN DATA TO SELECT AND REFINE SEGMENTATION STRATEGIES

- Who's in? Who's not in?
- What are they like?
- Where are they on the road to retirement security?

STEP 2

SELECT (OR CUSTOMIZE) BOTH THE APPROPRIATE MESSAGE AND CAMPAIGN MATERIALS FOR EACH EMPLOYEE SEGMENT

- Reports
- Posters
- Postcards
- Brochures

STEP 3

PERSONALIZE (INCORPORATE EACH EMPLOYEE'S DATA) AND DISTRIBUTE THE MESSAGES APPROPRIATELY

- Mail
- Meetings
- Email
- Web

STEP 4

ANALYZE PARTICIPANTS' BEHAVIOR TO DETERMINE THE EFFECTIVENESS OF THE COMMUNICATION PROCESS (MESSAGE, VEHICLE, AND DELIVERY)

STEP 5

CREATE APPROPRIATE FOLLOW-UP MESSAGES, PROGRAMS, AND CAMPAIGNS

STEP 6

THIS DYNAMIC AND EVOLVING PROCESS IS PERIODICALLY REPEATED

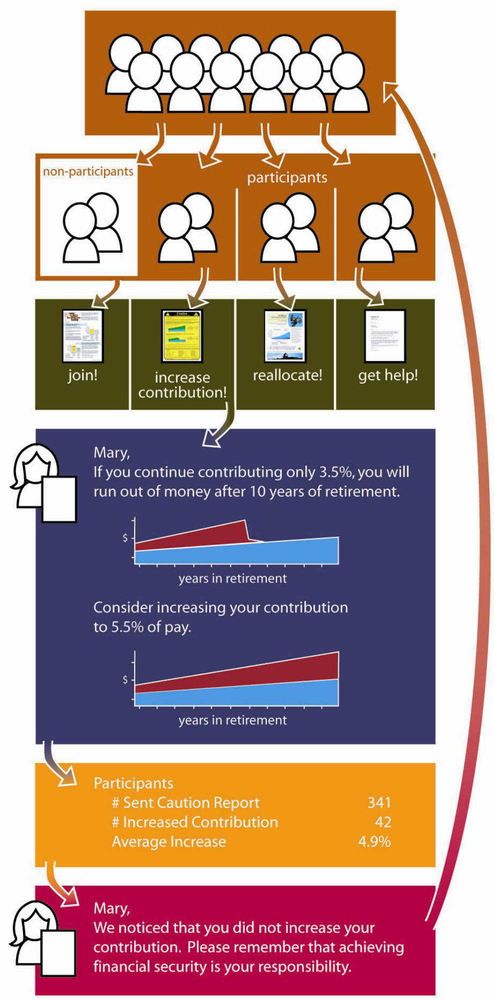

Table II

Generating Additional Profit via Increased Contributions

Assumptions

No. of Participants	1,000,000
Avg. Account Balance	$20,000
Annual Account Growth Rate	6.00%
Avg. Annual Salary	$30,000
Annual Salary Growth Rate	2.00%
Avg. Current Employee Contribution Rate%	5.00%
Average Employer Contribution Rate	2.50%
Educational Materials Per-Copy Cost (including calculations, printing, fulfillment, and postage)	$2.00

Fee of 0.55%

Increase in **Employee** Contribution Rate As A Result of Communications	1.00%	2.00%
Increase in **Employer** Contribution Rate As A Result of Communications*	0.50%	0.50%
Cumulative Profit Increase (year 1)	$623,500	$2,372,500
Cumulative Profit Increase (year 2)	$6,080,380	$11,467,300
Cumulative Profit Increase (year 3)	$14,594,162	$25,626,937
Cumulative Profit Increase (year 4)	$26,402,851	$45,338,084

*Employer matches 50¢ for each $1 the employee defers, up to 6% of salary.