Executive Summary

For retirement plan providers, managing communications with participants continues to be a double-edged sword. While effective communications can offer a competitive edge for a provider in a commoditized industry, delivering these communications adds costs in a thin-margin business under increasing fee pressure.

Meanwhile, automated plan design, new plan features, and new technologies have created complexities and opportunities—and thus a need for a new participant communications model. As the nation’s retirement crisis becomes ever more urgent, it is important for the industry to address this issue, particularly since there are now three generations in the workplace with vastly different financial concerns and communication preferences.¹

Early Baby Boomers may be the last generation to achieve financial security in retirement. While they have enough savings and wealth to replace nearly 70 to 80 percent of their pre-retirement income, Late Baby Boomers are on track to replace only 60 percent. Gen Xers, at the median, are projected to replace only half their income.² And the majority of Millennials are much more concerned with paying off debt and meeting current expenses than with retirement savings.³

Providers are striving to overcome participant inertia by delivering more personalized, contextual, and interactive communications. To do so, they will be required not only to leverage data more effectively but also to persuade plan sponsors to approve automatic, multichannel programs for participant communications. Four important trends are emerging as providers rise to meet these challenges:

1. Segmentation Strategies
2. Channel Optimization
3. Data Integration and Management
4. Metrics
Segmentation Strategies

Delivering on audience preferences
Understanding the trends shaping the future of retirement communications starts with a look at how the audiences for these communications are changing. Traditional communication programs have focused primarily on Baby Boomers (the largest audience segment), who have dominated the workplace during the entire history of the 401(k) plan.

While Baby Boomers will continue to be an important factor in the next 20 years, Millennials will dominate, followed by Generation X. New communication solutions must effectively address the needs and channel preferences of these generations, as well as meet the evolving requirements of plan sponsors and advisors.

Many providers have focused on life-stage communication programs targeted by age segments. These programs use content, language, and images designed to address the specific preferences of different workforce generations. For example, more than half of Gen Xers and Millennials feel comfortable using digital channels to interact with financial service providers, while only about a third of Baby Boomers are happy to do so.4

However, there remains significant scope for innovation. First, many providers do not have a reliable way to capture valuable participant data elements to allow further segmentation. And even when they do, participant targeting tends to be limited to print communications. As a result, most pass up the opportunity to create integrated and contextual multichannel experiences that target each group based on behavioral characteristics.
The Millennials

Millennials are the first generation of digital natives, born in a world where Internet access and evolving mobile technologies have shaped their life experiences. These experiences have created high expectations when it comes to instant information access as well as high comfort levels with sharing information through social media. Some 40 percent of Millennials surveyed said that they have found social media valuable in planning for retirement, while only 21 percent of Gen Xers and a minute 7 percent of Baby Boomers would agree.5

While Millennials understand the importance of saving, they are struggling with debt. In a recent survey, 42 percent said that debt was their largest financial concern. Four in 10 Millennials said they were overwhelmed by debt (versus 23 percent of Baby Boomers) and 56 percent said they didn’t have enough money to start saving since they are living paycheck to paycheck.6

When it comes to their workplace retirement plan, less than 25 percent of Millennials participate when not auto-enrolled, six in 10 find it complicated, and 45 percent believe their plan is “very risky.”7 Nearly 19 percent of those who are eligible non-participants say that the main reason they did not join the plan was that they didn’t know enough about it.4 The good news is that participation rates are approximately 83 percent for Millennials who are auto-enrolled and with focused education participating Millennials have increased deferral rates from 4.5 percent to 8.7 percent on average.9

It is critical to communicate plan specifics with Millennials using language they can relate to and in the channels that will most effectively engage this segment.

The "Retired" Baby Boomers

Beginning in 2011, the oldest members of the Baby Boom generation celebrated their 65th birthdays. In fact, every day for the next 19 years, 10,000 Baby Boomers will reach age 65. Currently, just 13 percent of Americans are ages 65 and older. By 2030, when all members of the Baby Boom generation have reached that age, a full 18 percent of the nation will be at least 65.10 And statistics show that 65 percent still plan to work in some capacity after they officially "retire."11

However, the retirement marketplace is not yet fully communicating with this wave of working retirees, nor are they anticipating the impact they will have on continued plan participation and drawdown of assets. What’s more, because of administrative complexity and other factors, not all plan sponsors fully embrace the need to support participating retiring and retired employees.

The "working retired" will require different types of communications so that they can still be encouraged to save, and so that their presence in the workplace doesn’t adversely skew testing results if they do not participate. It is unclear how the "working retired" or the fully retired will manage their assets as they begin their drawdown phase. They may combine income from their employer’s plan with payouts from IRAs and annuities.
Clearly this is an area where the industry has much to tackle, including building new infrastructure and communication support, and a wide range of questions to answer:

- How will providers handle savings and participation communications to the “working retired”?
- How will the distribution preferences – and income needs – of future retirees affect communications?
- How will plan sponsors view their obligations to retirees still in the plan? Will they demand more administrative support from providers?
- Will provider systems be flexible enough to manage installment payments effectively?
- Will plan design provide for participants to roll in their IRA accounts, allowing them to consolidate tax-deferred assets and holistically manage drawdowns?
- What role will income solutions and target-date funds play and how will that influence communications?

**The plan sponsors**

As communication gatekeepers between providers and employees, plan sponsors will strongly influence the communications approach of the future. Industry research suggests that sponsors remain divided regarding the level of support that they believe should be provided to retired workers through the plan as well as the role of the plan in generating retirement income for retirees.

The recent migration from defined benefit to defined contribution plans appears to have heightened acceptance of retirement income as the most appropriate metric of a plan’s success among providers and regulators. Nonetheless, many sponsors do not see their primary responsibility as ensuring successful participant outcomes as the best way to measure plan success. Given this disconnect, plan sponsors may be unwilling to support or pay for programs designed to enhance outcomes.

**While many providers admirably point to helping participants generate adequate retirement income as the ultimate goal of their defined contribution plan services, not all plan sponsors share this objective.** Nearly two-thirds of sponsors feel they have an obligation to prepare their employees for retirement, but only 20 percent are actively addressing the issue. Plan sponsors ranked improvement of retirement readiness as the most important task with which they want help from providers.

**The advisors**

Driven by competitive pressures—especially as more transparent fee structures make value added easier to discern—advisors are now seeking an expanded role in the participant communication process. And they have good reason to do so since 44 percent of plan sponsors want an advisor that is proactive with suggestions for improving plan performance.

Unfortunately, advisors often have divergent views from those of providers about the issues that communications should cover. Advisors might include wider-ranging discussions of broad participant behaviors, while providers would prefer to stick with more traditional model of portfolio analysis. Sponsors and providers also tend to have differing expectations about the role advisors should have in the communication process.
Many advisors want to develop their own communication plans and programs rather than stick to the record keeper’s program exclusively. Many advisors have traditionally offered on-site enrollment and investment education seminars, and a growing number are using communications program planning tools, advisor websites, custom videos, and targeted mailings to service direct contribution plans.

Industry players with a vested interest in advisor success, including asset managers and broker-dealer home offices, are beginning to play a stronger role in supporting select advisors with more comprehensive participant communication solutions, seeking new ways to create both proprietary and standardized approaches across multiple recordkeeping platforms. While meeting individual advisor demands for communication tools requires specialized workflow and production support, it is possible to deliver this efficiently within the fee structure of each plan.

Channel optimization: Effective messaging and targeting

To meet the diverse needs of all participant audiences while containing costs, retirement providers must deploy highly efficient techniques for communications delivery. Communications programs can draw a valuable lesson from automated plan design: that they must overcome participant inertia.

Personalization can be a useful strategy for accomplishing this. While providers have promoted the use of targeted and personalized communication approaches for quite some time, the actual delivery of these services is inconsistent and plagued by data and cost challenges.

Likewise, providers frequently tout message consistency across multiple communication channels (phone, digital, print, in person) but rarely achieve it. The reality is that fragmentation by communications channels is the norm. Meanwhile, most providers view confirmations and regulatory notices as operational tasks. As a result, they tend to leave the strategic opportunities to leverage these ongoing, automated communications largely untapped in order to pursue broader communication objectives.

Emerging trends suggest that future best practices will be less about achieving competitive differentiation through costly plan level brand customization and more about producing better outcomes through careful targeting and timing of the communications based on participant needs, life events, and patterns of behavior.

One approach is to pilot or prototype new programs to measure the effectiveness of personalized communications before launching them across a book of business. These relatively low-cost, "no-development" pilots can test specific changes in participant behaviors across a variety of scenarios and media channels.

Because there are so many potential variables (the message, the media, the timing, the call to action), it’s critical that providers test and refine solutions prior to investing in technologies to make those solutions scalable across all plans.

Providers who lack the internal resources to create and sustain such programs may seek outsourced solutions to achieve the level of targeted and personalized support required to deliver cost-effective and competitive communication solutions.
Sponsor consent
To implement the personalized, multichannel communications that they consider most effective in changing participant behavior, leading providers are asking sponsors to approve an overall communications program rather than seeking to customize and review each piece before release.

Prior sponsor approval for an annual communication budget and plan—especially when combined with an approach for proactive sponsor consent to participant communications—is emerging as an efficient and cost-effective means of delivery for providers.

Digital and social
Digital channels and social media provide vast opportunities to deliver cost-effective, targeted communications that meet the changing needs and expectations of plan participants, particularly the Millennials. However, retirement plan services lag behind many other industries in the delivery of full-featured digital and social solutions. While some of this lag may be because of perceived and real regulatory hurdles, it is clear that the financial industry will need to overcome these hurdles and fully embrace social media to engage Millennials on retirement plan benefits.

Many providers are delivering mobile-enabled websites and making robust efforts to collect participant email addresses. However, text messaging, alerts, mobile apps, and the use of social media are barely visible within the retirement marketplace.

Even when they are, these offerings may miss the mark. For example, mobile-enabled participant websites are often too complex and require too much navigation to appeal to Millennials, who want quick text- and app-oriented interactions. This group is highly motivated by peer behavior and benchmarking. They tend to need praise or recognition for taking positive action. And, they have an expectation for instant access to information.

One top provider built compelling communication strategies around three outcomes: participation, contribution increases, and diversification. Based on the success of targeted participant campaigns, this Broadridge client is moving toward an "opt-out" model to push targeted communications to every participant on its platform at a predefined frequency. The result was a growth in assets, a valuable return on investment for the campaign—a 3 percent increase in participation across all plans. In addition, 6 percent of participants increased deferral elections and 4.5 percent reallocated or diversified investment elections based on the targeted program.

This is a real opportunity for innovative providers to differentiate themselves by tapping into the potential of responsive and adaptive web technologies and social media distribution to permit a more direct response to these characteristics. In fact, 12 of the top 20 providers with mobile-enabled participant web portals are working to create focused mobile experiences that are relevant and event-specific.16

The identification of participant preferences for delivery of different types of communications, however, remains incomplete. For example, firms may ask if statements, confirmations, and prospectuses can be delivered electronically. However, most firms don’t have a centrally managed communications exchange that identifies preferences to determine if the participant gave permission to receive other plan communications electronically, such as alerts and ongoing education.
What is clear is that the future of retirement communications will need to integrate digital channels more fully. The desire to deliver targeted, personalized, and cost-effective communications requires it. The advance of new technologies demands it.

Data integration and management: Leveraging and managing big and little data

Data will be the foundation for building the communication platform of the future. The ability to source, store, manage, analyze, and use accurate participant and plan data remains a key challenge in delivering the types of personalized and targeted communications that will drive better participant outcomes.

With minimal data elements such as name, address (email or mailing), and contribution amount, retirement providers can target content across multiple delivery channels. With additional data such as account balance, age, and investment elections, retirement providers can achieve true one-to-one personalization with focused messaging, compensation data, income projections, and gap analysis.

However, providers across the industry continue to struggle with sourcing and using data to deliver insights and reliable metrics. There are challenges in all elements of the data chain, which include:

• Each sponsor’s ability to provide basic data (such as census, salary, deferral rates, and date of birth) about eligible employees
• The record keeper’s ability to supply participant activity, behaviors, and details about plan rules (participant preferences, investment holdings and behaviors, transaction, and inquiry activity across multiple channels)
• The provider’s ability to utilize community-based data offering relevant and valid insights into participant segments (including overall financial goals) and translate it into actionable retirement plan communications
• The participants’ willingness to provide additional information through digital and social data sources which can be used to tailor and personalize communications.

While providers may focus more fully on data needs with new clients during the plan conversion process, they may often overlook legacy plan data. Updated and consistent solutions across a provider’s book of business are critical for scalable personalized communication programs.

Data can offer the ability to tailor messaging to reflect the different issues and needs of many generations of workers and to reach participants with action-oriented, plan-specific communications.

Leading providers are diligently working to enhance the comprehensiveness, accuracy, and consistency of the plan and participant data that they currently have to ensure that as strategic "big-data” solutions become available, the "little data" required to maximize effectiveness is ready to go. In addition, retirement providers are now beginning to discuss how to expand data capture beyond what is available from employers to encompass information gained directly from participants.
Metrics: Defining success and aligning objectives

Tracking the wave of retirees sweeping across the nation, retirement providers and regulators have shifted their attention to focus on one primary metric of plan success: retirement outcomes. However, an equally important focus should be on delivering these positive outcomes at a cost that is reasonable, sustainable, and competitive.

Retirement outcomes
Retirement providers are increasingly offering participants analytical tools to evaluate their progress in achieving their projected retirement income needs, identifying income needs, and offering general guidance on steps that can be taken to eliminate the shortfall.

While retirement providers have embraced positive retirement outcomes as a core business goal, there is little current agreement on how to define those outcomes. So as outcomes become a primary competitive differentiator, they increasingly must offer projection, measurement, reporting, and benchmarking to substantiate their claims. To encourage and empower better outcomes, providers must also provide more robust guidance and personalized communications offering specific recommendations on what participants can do to achieve the desired results.

Meanwhile, industry regulators are reinforcing this focus on outcomes. In May 2013, the U.S. Department of Labor Employee Benefits Security Administration (EBSA) requested comments to a proposed rule that would require defined contribution pension plans to include illustrations of what the participant’s current and projected account balance would provide to the participant (and spouse if married) as a lifetime monthly benefit on account statements.

Relevant outcome-based measures will also require more robust data aggregation support since it is quite common for individuals and households to have retirement assets outside of their current employer’s plan. Ultimately, the retirement income calculation needs to be all-encompassing and the process must provide easy ways to integrate data.

Strategic tools such as a plan health scorecard, aggregate individual participant data to provide an assessment of the overall health of the plan and create a clear call to action for the sponsor to offer targeted educational programs to address at-risk populations. The success of this tool is evidenced by increasing coordination among retirement providers and advisors to maintain a consistent message to plan sponsors.

Costs and scale
While digital delivery of confirmations, prospectuses, and statements has created cost savings for providers, new regulatory notice requirements—which carry different timing and conditions for required communications—have somewhat offset these savings. In a perfect world, service providers would effectively leverage communications to accomplish a number of goals:

- Integrate all participant service channels to promote message consistency
- Provide flexibility to meet advisors’ needs to participate in the communication process
- Maximize the use of digital and social media to deliver targeted messages
- Take advantage of required regulatory communications and disclosures to serve broader marketing and outcome-oriented purposes
Of course, supporting this perfect world also means retirement providers must make continual investments in data management, production, and workflow tools. Few retirement providers have the scale, in-house capabilities, expertise, or budget to deliver on the promise of consistent and sustained outcome-oriented plan communications. The efforts to drive better outcomes, coupled with increasing compliance requirements, introduce new bottom-line pressures. Retirement providers must also have the pricing capacity to cover the related incremental costs.

Fortunately, the traditional conflict between high-cost, custom-designed communications and low-cost, off-the-shelf communications is collapsing as print on demand and design technologies create the potential to deliver highly flexible, customized solutions at reasonable costs. Outsourcing is increasingly a highly effective, scalable option for managing data, design, and delivery to support the entire participant communications lifecycle.

Broadridge analysis shows that retirement providers leveraging a blend of high-speed digital print and a multichannel, multi-touch strategy can generate between 10 percent and 20 percent in annual cost savings, plus double-digit returns from participation rate increases and adoption of managed account services. Retirement providers are also seeing benefits from their efforts to streamline communication materials—moving away from comprehensive enrollment kits to bite-size pieces that lead to easy-to-use enrollment apps.
Moving forward

The field of retirement communications, while changing and challenging, offers the opportunity for a broad new dialogue in the industry.

Some firms have already begun to create concrete strategies to address these opportunities, but many are still formulating their retirement communication strategies, and others are focused on the more immediate tactical issues at hand. The need to find real solutions has never been greater.

Footnotes
1 Transamerica Institute, “15th Annual Transamerica Retirement Survey of Workers,” April 2014, page 8
6 Wells Fargo, “Wells Fargo Millenial Study,” 2014, page 2
7 ING Retirement Institute, “Retirement Revealed: Retirement Across the Ages: Focus on Generation Y,” 2012
16 Broadridge internal data, 2014
17 As of this writing, the rule has neither been passed nor dismissed.
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