ARTICLE

RETIREMENT TRENDS: ARTICLE ONE

The engagement imperative

Retirement Trends, a new article series from Broadridge, explores the major movements that are impacting plan advisors, sponsors, administrators and recordkeepers today.

Plan advisors, sponsors, administrators and recordkeepers are continually looking for smarter ways to meet retirement needs for millions of American workers. Amid economic, social and industry turbulence, they find themselves revisiting even long-standing provider relationships—and utilizing operating models forever changed by the pandemic.

Yet, continued industry consolidation heightens competition and margin pressure. Technology and security requirements continue to rise. Plan sponsors and participants expect more products and improved experiences. And recently enacted laws have added new regulations and savings incentives for retirement plan providers to consider.

This first article in our Retirement Trends series explores enhancements to engagement that can boost plan participation and investment. It illustrates how digitized tools, workflows and communications make accelerating digital transformation more important than ever.

Broadridge®

The engagement imperative

U.S. workers need to save as if their future depends on it. Only slightly more than half (56%) participate in employer sponsored plans. Fewer than three quarters (72%) are even eligible.[1] Adjusted for inflation, Social Security pays out just 60% of what it did in 2000.[2] Plus, the time when Social Security will not be fully funded is closing fast.

Buoyed by a strong job market and increasingly attuned to the need to save, workers are leveraging their advantage for higher wages—and better benefits. The right benefits can be a powerful bargaining chip for employers seeking to attract and retain the best talent. Effective engagement on this front requires three things:

"What will be needed to win today, tomorrow and in 2025? A competitive benefits offering that considers all aspects of an employee's wellbeing: retirement, wellness, other group benefits, student loan support and more."

— Michael Tae, President, Mutual Fund and Retirement Solutions Broadridge

EDUCATION

The SECURE Act, PTE 2020-02 and other legislation and regulations provide more options for plan sponsors and workers. Understanding these and keeping abreast of new developments opens opportunities across the retirement ecosystem.

PERSONALIZATION

In today's time of personally curated shopping experiences, newsfeeds and more, workers have come to expect personalized engagement. Plan outreach must be relevant, timely and life-stage appropriate.

DIGITIZATION

With the advent of the pandemic, workers increasingly prefer digital engagement. Plus, digital engagement is key to improved segmentation, personalization and cost-efficiency.

Education: Keys to increasing participation

Here are some of the rules, older to potentially pending, that offer powerful opportunities to engage plan sponsors and participants.

Auto-enrollment: Taking advantage of the ability to auto enroll participants is arguably one of the surest ways to boost enrollment and participation. The House Ways and Means Committee reports: "Since first defined and approved by Treasury in 1998, automatic enrollment has boosted participation by eligible employees generally, and particularly for Black, Latinx, and lower-wage employees...and the racial gap in participation rates is nearly eliminated among employees subject to auto-enrollment."[3]

Automatic payroll deductions: Automatic 1% annual payroll-deduction increases are now allowable up to 15% of gross pay. This is a powerful way to systematically grow savings.

Matching strategies: Some plan sponsors offer a one-for-one match up to a certain level. Others may use "stretch match" formulas that require employees to contribute a higher percentage of their salary to receive the full employer match. Varying data suggests that differences in workforce demographics, such as average salary and the availability of discretionary income, play a big role in the success of a particular match strategy.

CREATIVE MATCHING

Consider ways to prompt participants to increase their savings rates. For example, a sponsor could match at 100% up to a maximum 3% employee contribution—or at 50% up to maximum 6% employee contribution. In each instance, the maximum sponsor contribution would be the same—however, in the latter case, the employee would save more.[4]

LEGISLATIVE OPPORTUNITIES

The Social Security Administration (SSA) and U.S. Department of Labor (DOL) are both striving to remedy current coverage gaps. The changes they make offer retirement plan providers, administrators, recordkeepers and advisors more ways to differentiate themselves via product offerings, market conduct rules such as the fiduciary standard, and new plans.

The SECURE Act: The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) was signed into law on December 20, 2019. The final bill passed by Congress has been heralded as one of the most significant pieces of retirement legislation in decades.

In addition to the new, higher 15% payroll deduction cap, the SECURE Act allows for more ways for workers to save:

- Long-term, part-time workers may participate in 401(k) plans
- Incentives for small businesses and Pooled Employer Plans
- Annuities for lifetime income
- Parents may withdraw up to $5K from retirement accounts penalty-free for qualified expenses within one year of birth or adoption
- Increase of the required minimum distribution (RMD) age to 72

The Securing a Strong Retirement Act of 2021: Often referred to as SECURE Act 2.0, this act passed the House with a bipartisan vote of 414-5. When we published this article, comparable legislation was being considered in the Senate.

> ***"The SECURE ACT 2.0 greatly benefits plan providers and participants. Now it's just a matter of establishing the technological capabilities and capacity to put it into action."***
>
> — Cindy Dash, General Manager and Senior Vice President
> Broadridge

New DOL rules: The DOL is expected to propose new rules that may significantly impact the retirement space. At time of publication, most were still pending. However, PTE 2020-02 requirements are moving forward.

PTE 2020-02: This rule stipulates, among other things, specific conditions under which advisors may recommend that an individual move their account from an employer-sponsored plan into an IRA. (An advisor must document the specific reasons as to why the rollover is in the investor's best interest in the context of an expected or ongoing advisory relationship with the investor.) This key part of the regulation is in full force as of June 30, 2022. However, two lawsuits filed in February 2022 by industry groups are challenging the DOL's specific guidance for rollover advice. If successful, these administrative challenges could roll back some aspects of PTE 2020-02.

CHANGE IS THE ONE CONSTANT

The current administration continues to push for greater participation and investment. For example, the DOL anticipates taking further regulatory and sub-regulatory actions.[5] Changes create opportunities to engage.

Personalization: The value of knowing your participants

Life stages, personal circumstances, family obligations and more contribute to individual retirement and financial wellness needs. A personalized experience strengthens the relationship between an employer and employee. It's not just about getting the right message to the right audience—it's essential to garnering the attention that can boost participation and investment.

Plan options and messaging must be directly responsive to the needs and attitudes of participants at different stages on the journey to retirement. New legislation and new products create opportunities to differentiate plans, education and messaging. These will be increasingly important in the face of industry consolidation, fee pressure and heightened employee expectations.

Data required: Data-driven journeys allow automated and scalable interactions that reach each participant at the right moment, with the right message. Not only can this strengthen relationships, it can also help to improve participant outcomes. Consider, for example, changes introduced by the SECURE Act that make it less punitive to tap into retirement funds for educational or catastrophic needs. The right data can inform targeted, personalized communications at scale, reaching participants with college-age dependents, or participants in areas impacted by severe weather-related events.

Achieving effective personalization requires access to relevant data. To gain that access from sponsors, it's critical to provide something in return. Share statistics, new ideas and success stories. Then sponsors will be more likely to provide the data you need for robust, personalized digital communication.

The right content: Messages such as "start saving," "adjust default deferral rates," "maximize your employer matching contribution" and others are among the many reasons to engage on a personal level. The objective here is to create content that connects with participants in ways that matter—and it does matter: 71% of consumers expect companies to deliver personalized interactions. And 76% get frustrated when this doesn't happen.[6]

Channels of choice: Consumers' digital expectations are higher than ever, and they increasingly prefer digital experiences over in-person interaction. They want on-demand access to the information they need. They expect simple, seamless experiences. Intelligent microsites, chat, email, SMS: There's lots of smart technology available to optimize plan-participant communications at enrollment and across the savings journey. To automate annual increases, personalize communications, utilize bounce-to-print capabilities and more, digitization is required. Leveraging digitization to democratize access to personalized advice can help more participants prepare for retirement—and the decisions that precede it.

What's next? More than 85% of all consumers agree that touchless technologies will become more popular. These technologies are particularly in demand by employers and employees in schools, hospitals and airports, places where reducing contact—and paper—is vitally important.[7] In choosing touchless technologies, organizations must balance security and personalization while ensuring that the technology does not intrude on the user experience.

"The experience of the future will be holistic, predictive, precise and clearly tied to improved outcomes for participants, sponsors and providers."

— Cindy Volker, VP Customer Experience and Product Strategy Broadridge

Feedback loop: Built-in data and analytics are a must. Online and off, it's essential to access insights that optimize programming. Analytics can drive both efficiency and effectiveness, helping spur a virtuous cycle of program-efficacy optimization. As data models mature and more information is available, analytics will fuel better business decisions and significantly impact participant, sponsor and provider outcomes.

"By leveraging data and technology, it becomes possible to democratize access to personalized advice. This means that plan advisors can help more participants and grow their businesses at the same time."

— John Faustino, Head of Fi360, Broadridge

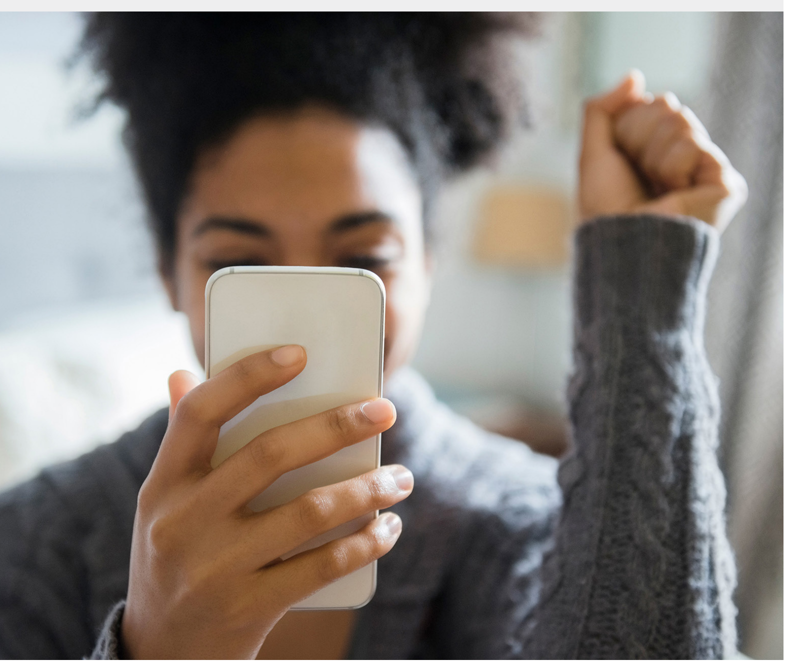
Digitization: Engagement is forever changed

The pandemic challenged participants, employers, advisors and providers to do things differently. Providers found themselves reinventing their business models AND leveraging solutions in new and unimagined ways. Employers and employees changed the way they work, interact and make decisions about benefits. Many of these temporary measures have become the new norm.

Several transformative events are converging at once, prompting leading providers to establish a scalable blend of digital and human interactions to advance participant engagement.

Regulations are catching up. The industry continues to rely on too many analog-first practices. However, policymakers were already working to facilitate digitization to modernize the industry when the pandemic hit. For example, the Default Electronic Disclosure rule, passed by the DOL in 2020, allowed plan administrators to make electronic delivery the default mechanism for providing certain information to plan participants. Over the next few years, the current administration will likely lean on the regulatory process to accomplish priority goals away from the gridlock on Capitol Hill. Providers, sponsors and partners will require a flexible model and scalable tools to maintain pace with the aggressive agendas outlined by the DOL, SEC and IRS.

"Engagement and Communications" was most frequently cited as "the aspect of business most in need of technology enhancements over the next three years" among a survey of attendees at the Broadridge Fi360 Solutions Annual Conference.



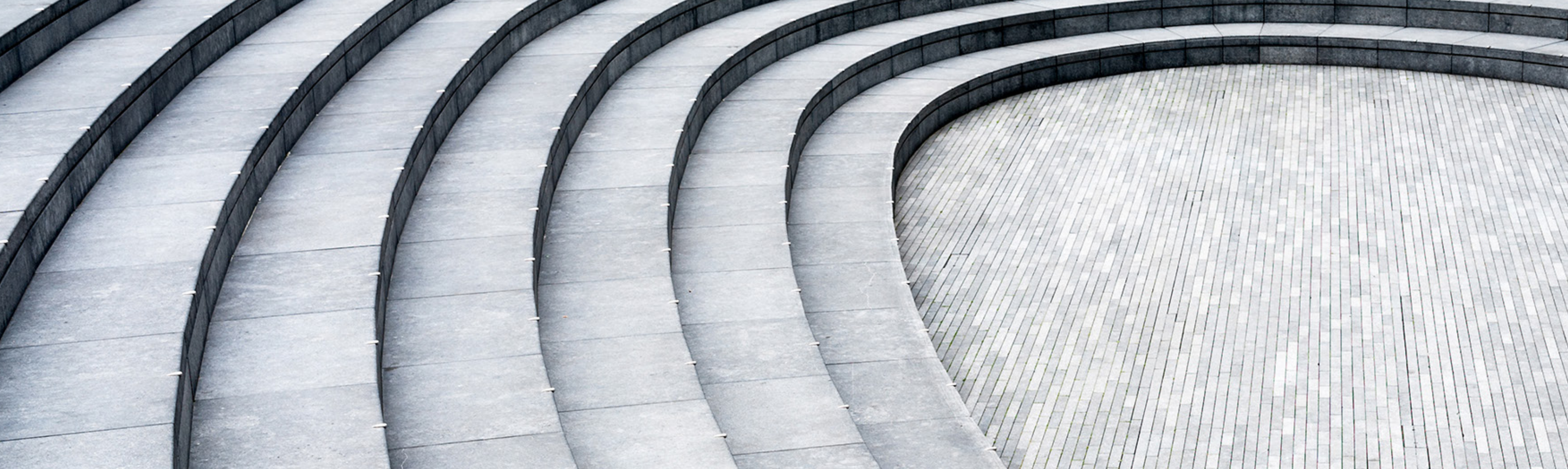
Digital yields greater efficiencies, experiences and savings. Having the right tools to automate great experiences translates to cost-saving efficiencies—and dollars that can go back into participants' pockets instead of costly communication programs. The digital enhancements listed above offer a better participant experience that can boost participation, savings and engagement while costing less than traditional print and mail. Emerging technologies such as artificial intelligence (AI) and machine learning are rapidly maturing.

Data security is now a differentiator. When advisors were asked to rank the importance of different criteria in evaluating recordkeepers, cybersecurity topped the list. SPARK reports: "Historically advisors have shied away from cybersecurity issues... However, with the recent Department of Labor guidance to plan sponsors on cybersecurity and fraud protection, advisors seem to have changed their thinking."[8] Security breaches, platform downtime and other disruptors are all significant concerns.

Per SPARK: "Advisors are seeking recordkeepers that adhere to an industry-recognized standard for cybersecurity. Second, they want to know that the recordkeeper has the proper insurance coverage and can provide them easy-to-understand information about their cybersecurity capabilities."[9]

Choosing the right partners and platforms is essential to ensuring optimal cybersecurity measures are in place. Emerging innovations in technology, new workflow tools and SaaS solutions are helping recordkeepers, TPAs and plan administrators streamline operations and lower costs. They can also help to accelerate introduction of the new products, solutions and tools that foster participation, investment and engagement.

Some considerations: A chain is only as strong as its weakest link. Assembling a selection of different digital solutions from different sources often requires more programming and oversight—and may create increased vulnerabilities. Detailed knowledge of and experience within and beyond the retirement ecosystem can help to ensure more frictionless transitions from physical to digital engagement and back. And changes to investment products, rules and technologies will require ongoing updates. Working with a true partner, not just a technology provider, can help to streamline and accelerate transitions.



BROADRIDGE CAN HELP

To take full advantage of evolving options, you require the flexible technologies and proven know-how of a trusted partner. Turn to Broadridge for the insight, technologies and fiduciary tools advisors, providers and sponsors require.

Two Broadridge companies, Matrix and Fi360 offer additional value. Matrix provides automated trust, custody and agent services for qualified and non-qualified retirement plans. Fi360 helps financial intermediaries use prudent fiduciary practices to profitably gather, grow and protect investors' assets via software and technology, learning and development, and data and analytics solutions.

For more on ways to effectively engage participants, contact us at broadridge.com or +1 866 359 0456.

[1] https://sgp.fas.org/crs/misc/R43439.pdf

[2] https://seniorsleague.org/social-security-buying-power

[3] As quoted in https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%202.0%20Section%20by%20section%205.3.21.pdf

[4] https://thedecisionlab.com/reference-guide/psychology/choice-architecture/ Behavioral science behind this.

[5] https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/faqs/new-fiduciary-advice-exemption

[6] www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/the-value-of-getting-personalization-right-or-wrong-is-multiplying November 12, 2021

[7] https://360marketreach.com/research-update/touchless-tech-travel-industry

[8] Advisor Survey, SPARK and DCIIA, published Dec 2021.

[9] Ibid.

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