BlackRock

Closing the Gap Between Belief and Behavior

BlackRock's 2010 401(k) Participant Behaviors and Attitudes Study

DefinedContribution

The Blackrock survey: Understanding your employees

As a plan sponsor, you work hard to help your employees secure their future. BlackRock is committed to helping you understand your employees' beliefs and behaviors, and applying this insight through quality defined contribution plans that guide your employees to a successful retirement.

The gap between good intentions and actual savings contributions is one of the key findings of BlackRock's second annual 401(k) Participant Behaviors and Attitudes Study. Fortunately, the survey also suggests that plan design changes meant to encourage better decisions are well received by a large majority of plan participants. This summary outlines five important findings—and potential action items for enhancing your defined contribution plan.

The BlackRock survey, conducted during March 2010 by Boston Research Group, solicited detailed responses on a variety of retirement savings topics from 1,000 employees actively contributing to their 401(k) plan.

Finding #1: Confidence rises, but lags recovery

Compared to 2009, DC plan participants reported a reversal of fortune for their retirement balances. 76% of plan participants said their balances increased over the 12 months prior to the March 2010 survey. This was a significant improvement over the 2009 survey, where 79% reported a decrease.

While retirement confidence also increased, it lagged compared to the rebound in balances. Participants who reported being "somewhat confident" or "confident" that they would have sufficient assets to retire climbed to 65%—an increase of only 12% from 2009. Interestingly, account balances didn't appear to drive confidence levels. Instead, the survey suggests that there may be a relationship between savings rates and retirement confidence: participants who reported saving over 11% of their paycheck indicated an 84% confidence level.

Action Plan: Build confidence along with savings

As a plan sponsor, you can help build confidence among your plan participants by illustrating the effectiveness of small changes and packaging the illustrations with specific, easy to execute action steps. For example, during open enrollment, you could show the effects of saving an extra 2% and include a simple check-box on the enrollment form that makes it easy for participants to elect to increase their contribution level.

A year later: Survey results from 2009 and 2010

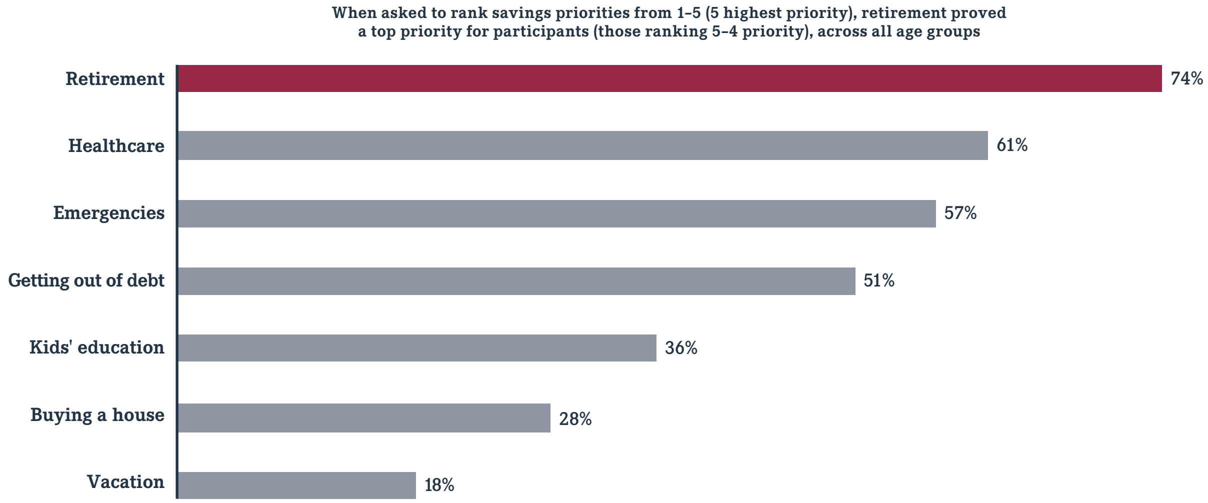
Compared to results from 2009, participants in 2010 report a reversal in their balances, a slight rise in confidence and an increase on the value they place on the 401(k) plan

	2009	2010
In the past 12 months my balance has…	79% say balances decreased	76% say balance increased
How confident are you that you will have enough money to retire?	53% have some level of confidence	65% have some level of confidence
Since the financial crisis of 2008, has your workplace savings plan become less or more important?	46% more important	55% more important

Source: BlackRock 2010 Participant Attitudes and Behaviors Survey. Conducted by Boston Research Group March 2010.

Is saving for retirement a priority?

Savings ranks as top priority, but participants' actions don't match their intentions



Source: BlackRock 2010 Participant Attitudes and Behaviors Survey. Conducted by Boston Research Group March 2010.

Finding #2: Saving is a top priority; taking action is not

Seven out of ten participants ranked retirement savings as their top priority, ahead of healthcare and emergencies. Nonetheless, while 85% of participants reported that saving between 10% to 12% of a monthly paycheck was a good rule of thumb, only about half indicated they were meeting that threshold.

These findings reveal a serious disconnect between savings intentions and actions. As a general rule, participants should set aside between 10% and 15% of their paycheck in order to maintain their current standard of living in retirement. If your participant base is saving around 6–7% of their paycheck on average, it could mean that the majority of your 401(k) plan members are heading for a severe savings shortfall when they reach retirement age. Participants could retire later than they (and you!) intended.

Action Plan: Set the savings bar higher

Although participants know that saving 10% to 15% is considered a good rule of thumb, they often don't save at that rate. Help participants by making it easier for them to follow their own advice. A few simple plan design changes can help raise the bar:

Set higher default.

Behavioral research shows that once a participant is defaulted at a particular savings rate, it is unlikely they will make a change on their own. Consider setting your default deferral rate at 6% or more.

Include auto-escalation.

Only 45% of plans utilize auto-escalation, yet nearly two-thirds of participants from the survey indicated that automatic increases to their savings rate would encourage future savings behavior. Consider a 1–2% increase per year to drive participants up to a 10–12% savings deferral.

Pair increased salary with increased savings.

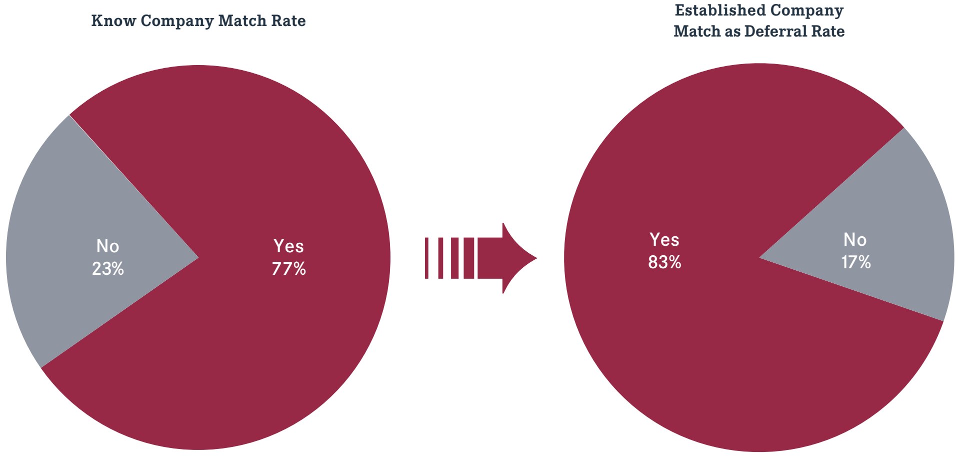
When employees are promoted, receive salary increases or are due a bonus, send communications encouraging them to take advantage of their increased spending power by setting aside a little more for their retirement.

Illustrate the value of saving more.

Participants may think they can't save more, but if you show that saving a little more has a big impact over time, they could change their minds.

The power of the company match

Among the 77% who know the deferral rate to receive the maximum match, more than eight in ten have established that deferral rate (83%)



Source: BlackRock 2010 Participant Attitudes and Behaviors Survey. Conducted by Boston Research Group March 2010.

Finding #3: The power of the company match

Not surprisingly, plan participants place a high value on the company match, but do plan sponsors recognize its influence as a guide for appropriate savings? About 45% of participants rank it among the leading factors that influence their current rate of savings. The company match was the leading influencer regardless of age, income or confidence level. (Rounding out the top three were total household budget at 43% and the need to meet retirement goals at 41%.)

Notably, 83% of the plan participants who reported that they knew their employer's match deferral rate said that they were investing at that rate. This strongly suggests the company match is more than a savings incentive — it's also a powerful influencer.

Action Plan: Get creative

The power of the company match program can be used creatively to encourage greater savings. For example, assume your plan set the match at 50% on the first 6%. Why not consider a program that pays 37.5% on the first 8%? This sets a higher and more appropriate savings target for your employees, encouraging them to set aside a greater percentage of their salary, without increasing your costs.

Finding #4: Plan design or education?

As a plan sponsor, you put a lot of thought and effort into educating your employees about preparing for retirement, but are those efforts driving results? According to the survey, only 9% of survey participants reported making a change to their investments after a company-sponsored investment seminar. More alarming, only about a quarter said they read the plan materials mailed to them and found them valuable, while half said they read it or glanced at it, but they didn't find it valuable or of interest.

Notably, while most participants do not respond favorably to education efforts, they do respond favorably to design changes and auto-features that nudge them along the right path. For example, when asked how they would respond to being automatically moved into a managed account, almost three fourths of participants (72%) said they would accept their employer's guidance.

Reaction to Automatic Features

If the employer were to automatically move participants' balances into a managed account, three in four would go along with the shift and only one in ten would be resentful that the employer took that initiative.

More plans are auto-enrolling entire populations which helped push up participation rates to 80% in 2009 (up from 77% in 2006).*

29% Go along with shift, and be happy they were helping diversify

34% Go along with shift, neither thankful nor resentful

09% Go along with shift, but feel a bit resentful

72% Go along

16% Refuse to go along with move, but happy company was concerned

08% Refuse to go along with move, neither happy nor resentful

24% Opt out

*Source: Cerulli 2009 Retirement Markets.

Action Plan: Plan design first, communication second

Research in behavioral finance and financial literacy suggest education efforts have little impact on helping participants make better choices. Should you abandon education efforts? Absolutely not!

Reprioritize your efforts to address plan design features such as a tiered investment lineup, default target-date funds, auto-enrollment and auto-escalation. Then follow up with communications and education to reinforce your plan design elements.

What can you do to coordinate plan design upgrades with your education and communication efforts? Consider the following:

Reduce risk and simplify your investment menu.
Investment lineup best practices point to a "tiered" approach that organizes funds into easily recognized compartments:

- Tier One: Default investment, such as a target-date or balanced fund.
- Tier Two: Core funds that provide global market exposure that may include both index and active choices. Some sponsors are replicating the building blocks found in the target-date or balanced fund.
- Tier Three: The extended tier may include a brokerage window to provide broader choice for the small minority who are active investors.

Automate.
The trend toward automation is growing, as over half of plans are utilizing auto-enrollment and auto-escalation.

Layer your communication.
Explore using layering techniques when communicating investment choices or new plan features. Highlight the benefits, list out the simple steps and then direct those who want more information to the detailed communication sections, such as fact sheets on various funds.

Pair communication and action.
Consider including simple check-boxes or quick enrollment campaigns to increase savings rates or encourage default investing. Or single out high-risk groups, such as those with risky equity allocations, with a campaign that allows them to check a box or click on a link to act upon the information you have sent them.

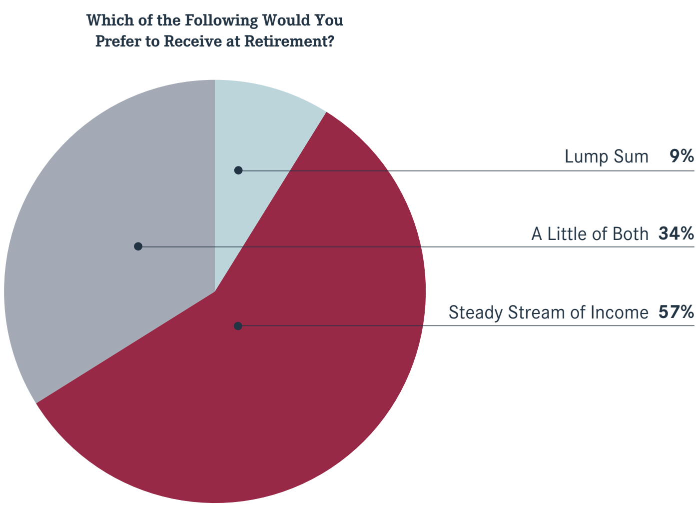
Finding #5: Income solutions an increasing retirement need

When asked if they had experience managing a large sum of money (over $100,000), the majority of participants (82%) admitted they had little or no experience. Not surprisingly, 57% reported a preference to receive a monthly stream of income in retirement compared to the 9% that preferred a lump sum. 34% wanted a little of both.

The preference for a stream of income makes sense, considering how ill-prepared most participants are for managing their own retirement assets. Based on their responses regarding drawdown rates, longevity and retirement age, 42% are estimated to outlive their assets.

Since the financial crisis, both plan sponsors and employees recognize the importance of embedding a secure income stream as a core offering of retirement planning. As the defined contribution plan takes center stage in the US retirement system, it is crucial that plan design and investment solutions focus on delivering guaranteed income to future retirees.

Preferences for payment when in retirement
Participants are ill-prepared to spend down their nest egg in the retirement years



Source: BlackRock 2010 Participant Attitudes and Behaviors Survey. Conducted by Boston Research Group March 2010.

Action Plan: Include retirement income solutions

Clearly, based on BlackRock's survey findings, participants are ready for — and in need of — the opportunity to secure income in retirement.

One way to meet this need is to provide participants with investment choices that address both longevity risk and participant inertia and that fit into your current plan design. For example, a target-date fund with income provides the familiarity of a target-date fund and ease of use in the plan while informing outcomes. A target-date fund with income not only mitigates the risks of asset allocation, longevity and inflation, it can also deliver what participants want and need — a steady stream of income at retirement.

Seven questions to ask when considering an income solution

1 Are longevity, inflation and credit risks addressed?

2 Does it provide pre-retirement and retirement flexibility?

3 Does it fit into my defined contribution plan?

4 Is it designed to address behavioral challenges such as inertia and choice overload?

5 Is the product structure simple or complicated?

6 Is it easy to communicate to participants how the product works and what it delivers to the participant?

7 Does the product seem appropriate across all participant age groups?

Keeping up with evolving retirement needs

The defined contribution plan was born 30 years ago as a supplemental savings plan and has worked hard to keep up with the demands of a changing retirement landscape. Plan sponsors have endeavored to improve retirement adequacy for their participants. As the 401(k) plan takes the lead as the primary source of retirement savings for millions of Americans, it is clear there are steps we must take to ensure retirement readiness.

- Support retirement confidence by helping your participants articulate their retirement goals and then deliver a plan that helps them achieve those goals.
- Increase savings rates by raising the bar by setting higher default rates, utilizing auto-escalation and encouraging savings increases paired with salary increases.
- Get creative with the company match. Consider raising the bar with a program that pays 37.5% on the first 8%. This increases savings rates without increasing your cost.
- Put plan design first, communications second. Optimal plan design streamlines the investment decision for your participants, such as tiered investment choices and automatic features. Pair your communications with action and layer the details to put the choice first, details second.
- Evaluate and include retirement income solutions in the plan that minimize the complication of estimating the needs for retirement, while delivering a secure stream of income in retirement.

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