Re-enrollment: Myth vs. Reality

June 13, 2013

Panelists & Agenda

Importance of Re-enrollment – Understanding the Current State of Retirement Readiness

Exploring Re-enrollment – Myth vs. Reality

How BlackRock Can Help

Q&A

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Importance of Re-enrollment – Understanding the Current State of Retirement Readiness

Mistakes in your DC plan can have significant consequences…

Participants have not used their DC plans to full advantage

- **Time**
  - Putting off enrollment
- **Contributions**
  - Not saving enough
  - Viewing the company match rate as the recommended savings rate
- **Investments**
  - Not allocating assets appropriately, or at inappropriate levels of risk

These mistakes may have far reaching implications for both participants AND plan sponsors

- **Participant consequences:**
  - Inability to retire at the expected time
  - Job needed in retirement
  - Greatly reduced standard of living in retirement
- **Plan sponsor consequences:**
  - Unhappy retirees voice their grievances publically
  - Employees stay in the workforce despite declining productivity…
  - …and at a high level of compensation
  - …and higher healthcare costs

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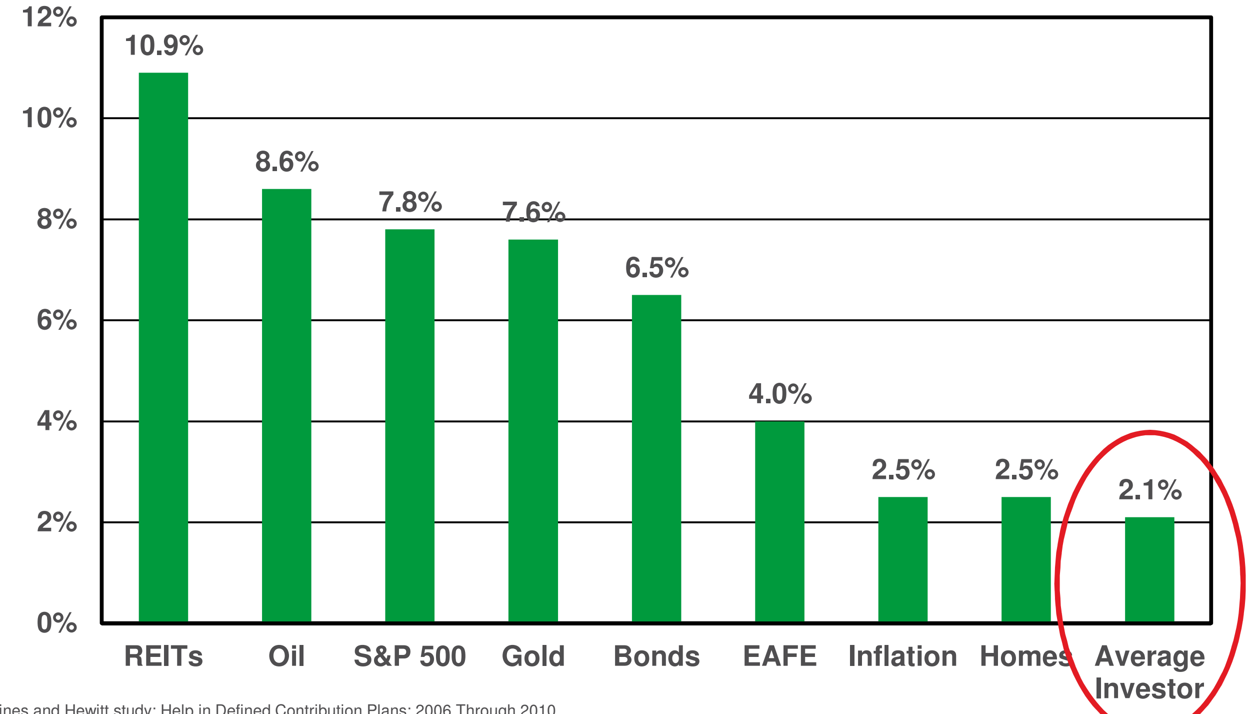
…and failed participant self direction is a contributing factor

Across all age groups and a range of market conditions, participants using Help (“Help Participants”) experienced higher returns with lower risk than those not using Help (“Non-Help Participants”).[1]

On average, the median annual return for Help participants was almost 3% (292 basis points) higher than for Non Help Participants, net of fees.[1]

20–year annualized returns by asset class (1992 – 2011)[2]



1September 2011 Financial Engines and Hewitt study: Help in Defined Contribution Plans: 2006 Through 2010

2 Source: J.P. Morgan. Past performance is no guarantee of future results. It is not possible to directly invest in an index. Indexes used are as follows: REITS: NAREIT Equity REIT Index, Oil: WTI Index, Stocks: S&P 500 Index, Gold: USD/troy oz, Bonds: Barclays US Aggregate Index, EAFE: MSCI EAFE, Inflation: Consumer Price Index (CPI), and Homes: Median sale price of existing single-family homes. Average asset allocation investor return is based on an analysis by Dalbar, Inc. which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/11 to match Dalbar’s most recent analysis.

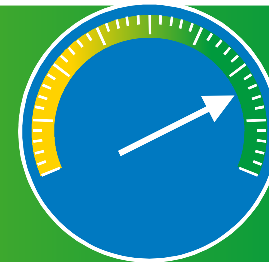
DC-0165

Re-enrollment is an integral component of the retirement equation…

Effective plan design strategies can help transform the below retirement equation into reality

Successful Participant Experience	=	Appropriate Savings Time Horizon	+	Appropriate Savings Rates	+	Appropriate Investment Options
		Auto-Enrollment		Auto-Escalation		Re-enrollment

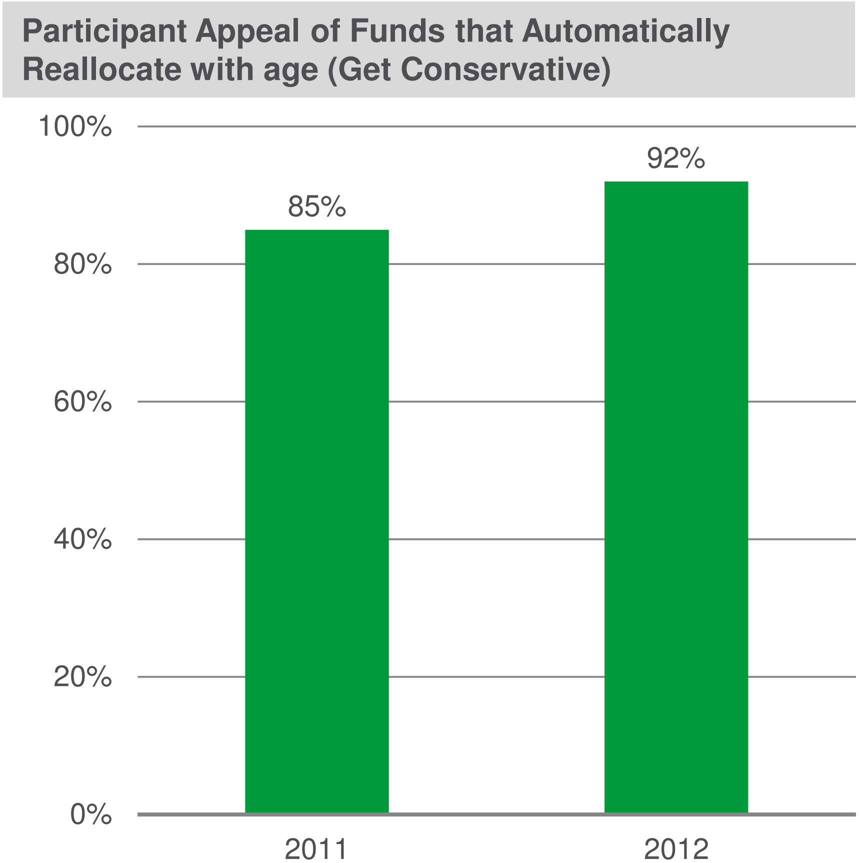
…and there are different degrees of implementing re-enrollment…

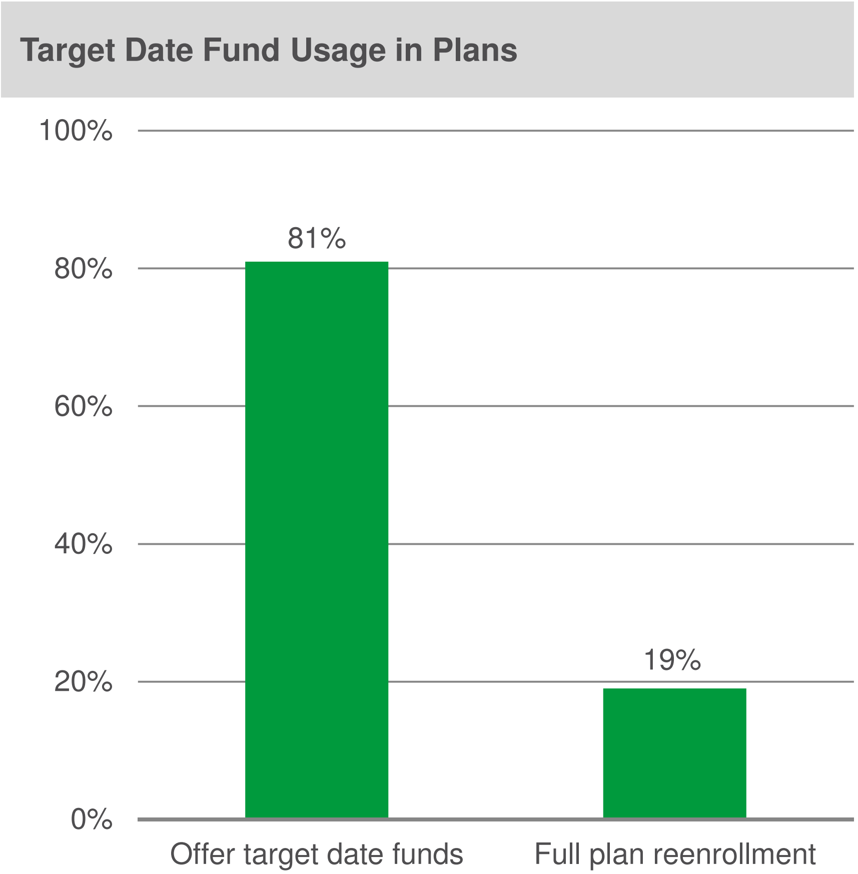
Reengagement Dial				
	Targeted communication	**Partial re-enrollment**	**Full plan re-enrollment**	**Full company re-enrollment**
Employee Segments	Segment of participants	Segment of participants	All plan participants	All employees
Opt in / out strategy	Opt in	Opt out	Opt out	Opt out
Potential Employee Targets	▸ Specific investment options ▸ Poor investment portfolios ▸ Under contributors ▸ Employees not participating	▸ Specific investment options ▸ Poor investment portfolios ▸ Under contributors ▸ Employees not participating		
Potential Outcomes	▸ Move to QDIA ▸ Increase contribution rate ▸ Improved employee engagement ▸ Better retirement outcomes ▸ Advantage of new plan design features	▸ Move to QDIA ▸ Increase contribution rate ▸ Improved employee engagement ▸ Better retirement outcomes ▸ Advantage of new plan design features	▸ Move to QDIA ▸ Increase base contribution rate ▸ Improved employee engagement ▸ Better retirement outcomes ▸ Advantage of new plan design features	▸ Move to QDIA ▸ Set base contribution rate ▸ Improved employee engagement ▸ Better retirement outcomes ▸ Advantage of new plan design features

Mild — **Range of Outcomes** — *Strong*

…but most plan sponsors have not yet taken action

Although most plans now offer target date funds, only 1 in 5 have implemented a full re-enrollment into these funds





Source: 2012 BlackRock Annual Retirement Survey

The target date is the approximate date when investors start withdrawing their money. Each fund grows more conservative as it approaches its target date, gradually assuming an allocation with prudent growth exposure and inflation protection at retirement. An investment in the funds is not guaranteed at any time, including at the target date.

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Exploring Re-enrollment – Myth vs. Reality

Exploring re-enrollment – Why might plan sponsors resist?

Despite its clear benefits, negative perceptions of re-enrollment still exist. When considering reenrolling participants, some common myths among plan sponsors include:

1. **There can be legal liability and ramifications**
2. Participants will resist change
3. Recordkeeper will be resistant
4. Re-enrollment will be costly
5. Communicating change is time consuming

Myth #1 - There can be legal liability and ramifications

JURY SAYS…. FICTION!

REALITY = Prior court rulings have given their vote of approval to plan sponsors for re-enrollment

- ✓ Bidwell vs. University Medical Center, affirmed that implementing a re-enrollment procedure does entitle a plan sponsor to relief under the QDIA safe harbor[1]
- ✓ Plan sponsors should ensure prior to implementing re-enrollment that the QDIA option, in most cases a target date fund, is appropriate given participant objectives and has been selected after considerable due diligence.

1 Wagner, Marcia; 2012, "Bidwell Confirms that QDIA Safe Harbor Applies to Re-enrollments"

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Myth #2 - Participants will resist change

JURY SAYS…. FICTION!

REALITY = Employees want – and appreciate – the help their employers can provide

- ✓ 72% of participants would support moving their DC plans to a professionally managed solution (only 24% would opt out)[1]
- ✓ Less than 20% of participants reenrolled by Supervalu elected how they wanted to invest their assets[2]
- ✓ Participants receiving "help" outperformed those who did not receive "help" by 292 basis points between 2006 and 2010[3]

Harvard University economist David Laibson says, "Everyone that I've spoken to says that re-enrollment goes off like clockwork. At the start of re-enrollment, the HR groups brace for pushback, but it never comes."

1 BlackRock's 2012 DC Participant Attitudes and Behaviors Study
2 BlackRock DC Focus
3 A powerful combination: Target date funds and managed accounts by Vanguard (2012). Past performance is no guarantee of future results.

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Myth #3 - Recordkeeper will be resistant

JURY SAYS…. FICTION!

REALITY = Administrator should not be a block if acting in the best interest of participants.

✓ One of the dominant themes of Aon Hewitt's *2013 Hot Topics in Retirement* report is that plan sponsors are embracing a more holistic perspective on their retirement programs by focusing on financial wellness and measuring projected retirement income adequacy.

✓ Keep in mind, a bundled provider may **push back** on re-enrollment if not a proprietary fund or may **encourage** a re-enrollment into their proprietary funds – ***for plan sponsors, participant best interests should always be top of mind when making any decision.***

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Myth #4 - Re-enrollment will be costly

JURY SAYS…. FICTION!

REALITY = Costs can be offset by savings and by tailoring plan design

- ✓ In the case of high staff turnover, a plan sponsor may choose to auto-enroll employees after six months of tenure
- ✓ Overall increase in target date fund assets that would result from a re-enrollment campaign could put the plan in a more competitive position and help drive down investment management fees

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Myth #5 - Communicating change is time consuming

JURY SAYS…. FICTION!

REALITY = Communication can be cost-effective and clear-cut

- ✓ If re-enrollment coincides with a change in the plan lineup or design, sponsors already need to communicate to participants. Leverage those efforts without adding significant resources / time spent.
- ✓ Follow participant communication best practices: 1) Target communication with a clear “benefits” message; 2) Tailor messaging for employee segments to promote optimal behavior; 3) Use unique mediums for effective engagement

Re-enrollment is the best way to make a material impact

1. Participants may not be aware of **today's modern investment options**
2. Goodwill earned by employer for their efforts to **improve financial wellness**
3. Participants in **all-in-one portfolios** may reduce strain on limited plan resources
4. More participants in the QDIA option translates into **more fiduciary coverage**
5. Engage employees who will join the plan if they **don't have to deal with the investment challenge**
6. Kill two birds with one stone – i**ncrease savings rates at the same time as reenrolling people**
7. Ensure appropriateness of allocations – participants **rarely revisit** / **rebalance self-directed elections**

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How BlackRock Can Help

BlackRock DC – A Wealth of Capabilities and Resources

Think of us when you consider:

Full reenrollment	Partial reenrollment	Plan merger and harmonization	Plan simplification

We have resources to help with:

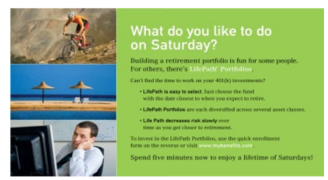
Plan Sponsor education

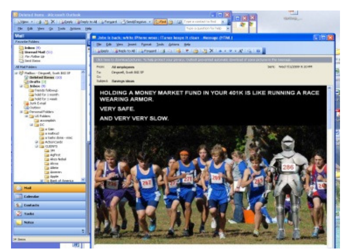
DCfocus Magazine Articles

Strategy and Consulting

Investment Education Videos

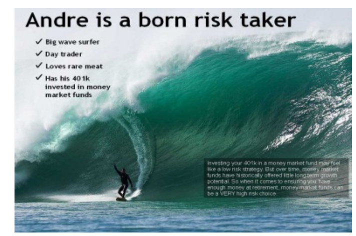
Participant engagement

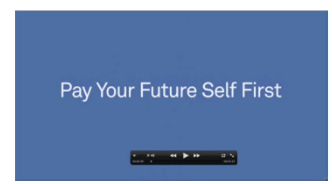




Postcards, Flyers and Online Tools

Participant communications





Innovative Communications Vehicles

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