Default Electronic Delivery Works:

Evidence of Improved Participant Outcomes from Electronic Delivery of Retirement Plan Documents

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EXECUTIVE SUMMARY

Currently, employers that voluntarily choose to offer retirement plans, such as 401(k) plans, are required to distribute numerous statements and disclosures both quarterly and annually. Many plans would like, as a default, to distribute retirement plan information electronically. All participants would be given the right to "opt out" and receive paper communications at no direct charge. But current rules stand in the way.[1] The recent Department of Labor (DOL) proposed safe harbor reflects the changing nature of electronic communication and improved internet access for retirement plan participants, and offers plan administrators the ability to use technology to enhance participant outcomes.

Building on research conducted in 2015, this white paper updates the previous estimate of participant cost savings and further explores the other benefits of electronic communication for plan participants based on current empirical evidence of internet access and technology adoption. In addition, the current research is enhanced by providers' experience with electronic delivery to demonstrate the many benefits realized by plan participants from electronic communication.[2]

The trend toward digital access and electronic delivery continues to move into all areas of everyday life. This is consistent with a 2015 Greenwald & Associates survey that found plan participants are aware of the many potential benefits of electronic delivery and they overwhelmingly find it acceptable to make electronic delivery the default method of delivering of plan information.

Electronic delivery provides an efficient, secure, and reliable means of communicating important plan information, which reduces costs and facilitates superior participant outcomes. Further, economic theory supports the benefits to plan participants in two ways. First, economic theory indicates that in a competitive marketplace, a significant portion of the costs savings will pass through to plan participants (Refer to Appendix A). Second and more importantly, current economic research shows that electronic delivery and communication (nudges) alters participant behavior and dramatically improves participant outcomes.

FINDINGS

- **Default Rules that Rely on Opt-Out Improve Outcomes –** Behavioral economists have demonstrated the importance of nudges and enhanced communication to engage plan participants and overcome their inertia. Accordingly, in the landmark Pension Protection Act of 2006, Congress promoted the use of "automatic" rules that facilitate "automatic" behavior for retirement savings. The evidence is clear that this shift has had a critical impact on driving superior outcomes:

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[1] Previously, the Department of Labor (DOL) and Internal Revenue Service (IRS) have issued extensive guidance governing the manner in which plans can distribute retirement plan information electronically.

[2] The SPARK Institute represents the interests of a broad-based cross section of retirement plan service providers. The SPARK Institute funded this research and coordinated the service providers' responses. These providers made available proprietary data to support and strengthen this research. The author acknowledges data and empirical evidence contributed from Ascensus, Empower Retirement, Fidelity ICMA-RC, Lincoln Financial Group, Principal Financial, Prudential, Charles Schwab, TIAA, Transamerica, and Vanguard.

- ***Automatic Enrollment Increases Plan Participation –*** Auto enrollment has been a remarkable success in getting participants to save for retirement with one large provider's data showing that ***92 percent of eligible employees participate in the plan when automatic enrollment is available, but only 57 percent participate when no such feature is available.***
- ***Automatic Escalation of Deferral Rates –*** Getting participants in a plan is only the first step toward reaching retirement savings goals; it is also important for the participant to increase their rate of savings over time. One recent survey found that ***automatic escalation of contribution amounts resulted in average account balance growth of 78 percent*** for plans with automatic contribution escalation.

- **Enhancing Retirement Readiness with Default Electronic Delivery –** Directing participants to electronic mediums promotes the use of electronic tools (such as investment rebalancing and financial wellness applications) that ultimately play an important role in promoting superior retirement outcomes. In fact, as provider data demonstrate, mere exposure to online tools has been shown to encourage participants to increase deferrals or modify their investment strategy to achieve a secure retirement. Consequently, provider evidence demonstrates that participants receiving plan communications electronically have better retirement outcomes and default electronic delivery could improve retirement readiness for countless others.

    - ***Increases in Deferral Rates –*** Estimates indicate that plan participants ***could increase their final account balance by 63 percent with modest increases in their deferral rate*** which provider data indicates can be accomplished with electronic communication nudges and engagement with online tools**.**
    - ***Improving Investment Choices and Defaults*** – Providers overwhelmingly offer tools and education to plan participants, as well as financial wellness and benchmarking or data analysis portals for participants.
    - ***Cumulative Benefits*** – Projections of the benefits of increased electronic communication – e.g., direct cost savings, increased deferral rates, improved investment choices and utilization of online tools, ***could increase a participants account balances by as much as 149 percent over their saving horizon*** in combination with other enhancements like automatic escalation.

- **Benefits Accruing Directly to Participants –** Allowing retirement plan administrators to use default electronic delivery would reduce the costs associated with their plans. As our research based on economic incidence theory shows, these cost savings would ultimately be passed back to participants, translating to lower expenses – and higher net investment returns – for participants. We calculate that switching to an electronic delivery default would produce ***$250 to $450 million in aggregate savings annually that would accrue directly to individual retirement plan participants***.

    - Empirical estimates indicate that these cost savings attributable to default electronic delivery could ***<u>improve participant retirement security by 9 percent</u>*** during the accumulation phase.

- **Benefits of Electronic Delivery –** Relying on paper communication is both inefficient and costly. Even the federal government has recognized in its defined contribution plan for federal employees that electronic delivery of plan information is the appropriate default. Electronic delivery:

    - ***Allows participants to respond quickly to plan information received electronically;***
    - ***Ensures information remains up-to-date and is accessed by participants in "real time;"***
    - ***Provides information that is more accessible – and digestible;***
    - ***Provides information that can be more readily customized;***
    - ***Provides a better guarantee of actual receipt of information and helps address missing participants; and***
    - ***Helps strengthen cybersecurity and prevents online account fraud.***

- **Retirement Savers Have Online Access and Prefer Electronic Delivery –** Recent surveys indicate that technology and personal devices have changed the nature of online access. Current government surveys of internet performance no longer measure access, but rather focus on the available speed of the connection. Virtually all Americans have access to online services through a smartphone or through broadband service in the home. Discrepancies across age group, race, and household income have narrowed and, in some cases, have been eliminated. This is particularly true for the sub-population of plan participants. A recent Greenwald & Associates survey of online habits indicated that ***99 percent of retirement plan participants reported having computer access at home or work and 88 percent of respondents reported accessing the internet on a daily basis***.[3]

- **Conducting Financial Business Online –** Americans' reliance on electronic technology for financial communication and transactions has grown significantly along with the dramatic growth in smartphone and internet access. This growth has taken place in areas of critical importance to everyday life:

    - ***Banking and Financial Transactions*** – According to the most recent American Bankers Association survey, customers overwhelmingly preferred electronic banking methods, with ***72 percent of all respondents in 2017 preferring online*** (computer or other device) or mobile banking, a dramatic increase from 45 percent in 2012.
    - ***Social Security Benefits*** – Nearly ***all Social Security recipients (98.6 percent in 2018)*** receive their benefits through electronic payment.
    - ***Federal Income Tax Filing*** – The trend to file individual tax returns electronically continues to experience steady growth. Specifically, ***85 percent of the 137 million returns filed as of May 2018 were filed electronically***.

    Conducting day-to-day financial transactions online serves as a proxy for a retirement plan participant's willingness to electronically receive retirement plan-related notices, disclosures, and statements. This move toward conducting day-to-day financial transactions is a strong indicator that participants would prefer and benefit from default electronic delivery of plan information.

[3] Refer to Appendix A in the original 2015 study for the complete Greenwald & Associates survey.

IV. CONCLUSION

Many plans would like, as a default, to distribute retirement plan information electronically. All participants would be given the right to "opt out" and receive paper communications at no direct charge. However, current rules stand in the way. The 2019 Department of Labor (DOL) proposed safe harbor reflects the changing nature of electronic communication and improved internet access for all Americans, but in particular for retirement plan participants.

Plan participants' adoption of digital technology indicates that electronic delivery would provide seamless access to plan information. Further participant views, reported in a 2015 Greenwald & Associates survey, show overwhelming acceptance for the move to electronic delivery as the default delivery method. Participants surveyed indicate an awareness of the many potential benefits of electronic delivery. Allowing plan sponsors to use default electronic delivery would help overcome the inertia that currently results in many plan participants remaining in default paper delivery despite their preference for electronic delivery.

Electronic delivery of retirement plan information provides an efficient, secure, and reliable means of communicating important plan information, which reduces costs and facilitates superior outcomes. Evidence of participant experience demonstrates that they are reaping the benefits of electronic delivery, communication, and tools to achieve superior outcomes.

Behavioral economists have demonstrated the importance of electronic communication and electronic nudges to engage plan participants. Accordingly, in the landmark Pension Protection Act of 2006, Congress promoted the use of "automatic" rules that facilitate "automatic" behavior for retirement savings. The evidence is clear that this shift has had a critical impact on driving superior outcomes through: (1) automatic enrollment; (2) automatic escalation; (3) increased deferral rates; and (4) improved investment choices.

Further, economic theory indicates that in a competitive marketplace, a significant portion of the cost savings will pass through to plan participants (Refer to Appendix A). Allowing retirement plan sponsors to make electronic delivery a default would reduce the costs associated with operating their retirement plans. These cost savings would reduce their overall administrative costs and will ultimately benefit participants, translating to lower expenses – and higher net investment returns – to the participant. This translates to an estimated ***$250 to $450 million in savings that would accrue directly to individual retirement plan participants annually***.

These measurable benefits from default electronic delivery are demonstrated for all participants from current workers to the newly enrolled, and across all age cohorts from younger to older participants alike (Section III). Under conservative assumptions, a ***35-year old worker who is defaulted into electronic delivery could have 149 percent (or a cumulative $265,000) more in retirement savings after their working career,*** through the cumulative effects of electronic communication, direct cost savings, increased deferral rates, engagement with online tools and access to educational resources, in addition to other enhancements like automatic escalation. Collectively, the benefits from default electronic delivery and electronic communication will help facilitate superior retirement saving outcomes.