Simplify the Path to Financial Wellness
Four strategies to help increase 401(k) participation

Employees today are concerned about their financial wellness, especially when it comes to their retirement readiness. In our May 2013 Employee Workplace Benefits Report survey of more than 1,000 employees we found:¹

- 90% are worried about their overall financial wellness
- 60% are finding it difficult to reach their retirement savings goals

Even so, not all employees take advantage of the easiest way to pursue retirement security: 401(k) plans. The overall participation rate for defined contribution plans has remained at just 68.7% across the U.S. as of December 2012.²

Simplifying the enrollment process so that more eligible people participate is one of the most effective steps you can take to help your employees save for retirement and achieve greater financial wellness.

At Bank of America Merrill Lynch we believe that, together with employers, we can help drive better outcomes for employees by removing barriers to participation. We will present four strategies that help get employees on the path toward financial wellness.

“We’ve heard from employers that helping their employees save more for retirement is increasingly important. They are looking for ways to help more employees take full advantage of their 401(k) benefit. Making it simpler from the start may be the key to helping more employees engage in their retirement savings, which ultimately leads to a higher probability of achieving greater financial wellness.”

— Kevin Crain, Senior Relationship Executive, Bank of America Merrill Lynch
Employees who participate in their plans tend to be better positioned to prepare for retirement and more financially well. Indeed, 71% of employees say their workplace plans will be their first or second largest source of income in retirement.⁴ We also know that most employers (81%) feel some responsibility for their employees’ financial wellness and believe a financially well workforce is more productive, satisfied, loyal and engaged.⁴ Employers want to make the retirement plan benefits they offer more effective for their employees.

Building on the “Action-Based Plan Design” pyramid, left, first presented in our Success by Plan Design paper in September 2012, we have developed four easy steps that can help you increase enrollment rates and overcome employee-driven roadblocks to participation.

Employers who believe providing financial wellness tools leads to ...

- More satisfied employees: 76%
- Greater productivity: 55%
- More engaged employees: 65%
- More loyal employees: 66%

Key strategies to help improve participation

Through behavioral finance research we know that offering too many upfront decisions yields one of two situations: Either individuals choose too many of the options, watering down the effectiveness of any one option, or they become paralyzed and choose none. When employees delay saving for retirement, even for a short time, it can lead to “substantial reductions in long-run wealth accumulation.”

While the 401(k) plan is a critical benefit that enables employees to save for retirement, a complicated enrollment process that requires difficult decisions can delay or prevent their enrollment.

Employers understand the sense of urgency and are seeking ways to demonstrate the value of the benefits they offer by making them more accessible and easy to use. These four proven strategies can help:

1. Automate enrollment

Plan design decisions can significantly influence how much employees contribute while employed. Making plan enrollment automatic is one of the most powerful features a plan sponsor can offer to improve participation. Automatic enrollment takes upfront decisions out of the hands of participants and gets them onto the path of saving as soon as they are eligible. Once employees are in the plan, they are able to make steady improvements that better prepare them for retirement.

Automatic enrollment has a secondary benefit: Our research indicates that automatically enrolled participants also boost contribution rates on their own. From the beginning of 2012 through the end of 2013, 41% of automatically enrolled participants voluntarily increased their contribution rates. In 2011, the figure was only 25%.

Automatic enrollment helps boost participation

Plans with automatic enrollment have 33% higher average participation rates than plans that do not have automatic enrollment.

Bank of America Merrill Lynch analysis, clients with recordkeeping services as of Dec. 31, 2013.
“When employees delay saving for retirement, even for a short time, it can lead to ‘substantial reductions in long-run wealth accumulation.’”  

In our *Success by Plan Design* paper, we identified automatic enrollment as a proven and effective way of driving employees to save for their futures. Since the paper launched in September 2012, we have seen a rise in the number of plans offering both automatic enrollment and automatic increase.

**Plans with automatic enrollment and automatic increase are on the rise**

<table>
<thead>
<tr>
<th>Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>+16%</td>
<td>Increase in plans using automatic enrollment</td>
</tr>
<tr>
<td>+22%</td>
<td>Increase in employees enrolled through automatic enrollment</td>
</tr>
<tr>
<td>+20%</td>
<td>Increase in plans combining automatic enrollment with automatic increase</td>
</tr>
<tr>
<td>+44%</td>
<td>Increase in plans offering stand-alone automatic increase</td>
</tr>
<tr>
<td>+21%</td>
<td>Increase in participants using automatic increase</td>
</tr>
</tbody>
</table>

Bank of America Merrill Lynch analysis, year-over-year data on client plans using recordkeeping services from 2012 to 2013.

**Put this strategy into action**

- Implement automatic enrollment and apply it to both new and eligible, nonparticipating employees.
- Consider combining automatic enrollment with automatic increase.
Some employers and those within the financial services industry wrongly believe that automatic enrollment features cause employees to disengage from the retirement planning process. They believe employees will not act to increase their contributions, will not make the best investment decisions possible and will not value the benefit.

After eight years of offering automatic enrollment to its clients, Bank of America Merrill Lynch has found the opposite: Once the enrollment decision is a nondecision, participants are more likely to take control of their benefits and make positive decisions that ultimately lead toward better financial wellness. We found:

- Of employees who were placed into their employer’s plan via automatic enrollment, only 6.6% have opted out, as of January 2014. Interestingly, fewer employees opt out of participating in their 401(k) plan when the default contribution rate is higher. In fact, as default rates rise, participation in the plan increases as well.\(^7\)

- More participants in automatically enrolled plans voluntarily increased their contribution rate year over year.

- Average contributions increase dramatically for participants who are automatically enrolled. Every year since 2009, contributions for automatically enrolled participants have grown: In 2013 the average contribution was 29% higher than in 2009.\(^8\)
2. Simplify enrollment

We know that retirement planning decisions can overwhelm employees and discourage them from taking action. One way to promote positive participant behavior is to streamline decisions. Providing employees with key information and reducing the number of upfront choices needed to complete their enrollment can help drive successful outcomes.

Evidence of this can be seen within 401(k) plans: Employees were more likely to enroll when the process was simpler. Both our own research and behavioral studies indicate a connection between enrollment success and offering fewer choices during enrollment.\(^5\)\(^10\)

There are two critical decisions to make during the enrollment process.

First, employees must choose their contribution rate — the percentage they want taken from each paycheck to contribute to their 401(k) plan. Employers can help simplify this decision by presenting just a few contribution rate options and aligning them with employees’ goals. For example:

- Starting range: 3–5% contribution rate
- Mid-range: 6–10% contribution rate (which may also align with a company match)
- Higher range: 11–25% contribution rate (up to the maximum amount allowed by the plan)

85% of plan participants have found it confusing where to invest or which funds to choose.

Second, employees must choose investment options for their contributions. Many employees struggle with this step and are unsure which fund(s) to select. In a simplified enrollment process, the plan’s default investment option is presented as the quick-path investment option. While the quick path is a participant-elected active enrollment and not a default scenario, this option has been carefully selected by plan sponsors and deemed to be an appropriate investment for their employees. With fewer obstacles and pain points in the enrollment process, employees can more easily focus on the benefits of the program.

**Put this strategy into action**

- Reduce the number of upfront decisions employees are required to make during enrollment.
- Present a limited number of contribution rate choices.
- Leverage your plan’s default investment as the quick-path investment option for simplified enrollment.

**Did you know?**

Bank of America Merrill Lynch’s Express Enrollment has an 81% enrollment rate vs. 56% with traditional enrollment, as of December 31, 2013.

Express Enrollment offers …

- Enrollment in just a few clicks
- A choice of three contribution rates*, or the option for employees to select their own
- Flexibility to choose the Express Investment* or select from the full plan menu

---

“... the complexity of the retirement savings decision discourages employees from timely enrollment in employer-sponsored savings plans, even when they prefer participation to nonparticipation.”

— *Simplification and Saving*, Beshears, et al.
3. Encourage enrollment all year long

Increasing enrollment among employees who delay participation is an ongoing process that must be carefully targeted to employees’ varying circumstances. Tailor your approach based on employees’ needs and previous actions.

For employees who never enrolled in the plan, develop a communications strategy that encourages them to enroll as soon as possible. Many of these employees may not be aware that they are still eligible. If your plan offers a match, this may be a good time to promote the value of your plan by reminding employees. Offering a company match has historically been shown to increase participation rates. Help them visualize how the match can impact their savings over time.

The best times to remind nonparticipating employees to join the plan will vary and reminders may be better received at certain times of the year. Consider targeted enrollment communications:

• During annual reviews or when merit increases occur
• When annual employer contribution amounts are communicated
• During annual open enrollment events (e.g., health care or insurance)

For employees who were part of an automatic enrollment process but opted out, implement a re-enrollment strategy that requires them to opt out of the plan again. A timing issue or competing financial priorities may have caused them to initially opt out. An ongoing annual automatic enrollment strategy may be an effective way to achieve higher enrollment success rates given that most employees don’t typically opt out.

For employees who respond to technology-driven experiences, leverage mobile capabilities to drive a deeper level of engagement. For example, Bank of America Merrill Lynch saw a 98% increase in usage of Benefits OnLine® Mobile from May to December 2013. Meeting employees where they are, in a manner that makes it easy for them to take positive action, can be an effective way to achieve higher enrollment rates.

Put this strategy into action

• Target nonparticipating employees on a regular basis. Select several points in the year to contact them with another invitation to join.
• Leverage your plan provider’s website to personalize messaging and call employees to action. Remind employees of readily available information for enrolling and making changes to their selections.
• Communicate clearly and frequently the importance of saving for retirement and the value of the benefits you offer. Continuously reinforcing the message may improve retirement planning priorities.
Talk to us about our Targeted Campaigns program

Help increase participation rates with Bank of America Merrill Lynch's Targeted Campaigns turnkey communications program. We provide four touch points of relevant messages to your eligible, nonparticipating employees using email, direct mail and posters. Including direct links to Benefits OnLine® makes enrolling easy and immediate.

Best of all, employers offering Targeted Campaigns have seen positive results. During 2013, the Targeted Campaigns emails achieved an average 30% open rate. Nearly 21% of employees receiving these messages enrolled in their plans on the first email, and another 15% took action by the fourth touch.12

Whatever their reasons for delaying enrollment, engaging employees early and often to participate in their 401(k) plans is critical for their financial wellness.
One of the best times to capture employees’ interest in their benefits and to get them to participate in their 401(k) plans is when they’re already engaged, such as during the annual open enrollment period.

4. Integrate enrollment events

Increasing employees’ awareness of their retirement plans when they’re already in an enrollment mindset can drive positive participant behavior. A simple way to increase employees’ retirement enrollment is to connect those decisions with health care open enrollment.

For example, in the fourth quarter of 2013, Bank of America Merrill Lynch saw a 277% increase in average monthly retirement plan activity when health care selections were paired with retirement plan offerings, from 52,500 starts or increases January through September, to 198,000 from October to December. Employees see health care as an essential benefit and are familiar with the deadlines required to enroll each year. Making the connection between health care and retirement plan enrollment makes the most of employees’ sense of urgency during the annual open enrollment period. Synchronizing enrollment also provides employees with a more comprehensive view of their overall financial wellness.

There are several ways to integrate benefits enrollment events, and often they can be tailored to meet plan needs. In some cases, simple messaging on health care enrollment screens, along with a plan service provider link, is all that’s needed. In other cases, the health care provider’s website can be enhanced to include a link to 401(k) enrollment elections. Regardless of the technology, integrating health care with retirement plan selections captures the employees’ interest and helps make it easy to enroll.

Did you know?

Bank of America Merrill Lynch supports several options for combining health care and 401(k) enrollment through Benefits OnLine®. Please reach out to your Bank of America Merrill Lynch representative to learn more.
Closing the participation gap

Employees want and need to save for retirement, but many are unsure how to go about it, or are too intimidated by the process or unaware of the importance of participating. Savvy employers recognize that they are part of the solution. By automating and streamlining the enrollment process, increasing awareness of the benefits you offer and encouraging employees to participate at every opportunity, you can help lead employees to make the positive 401(k) plan choices that help drive better outcomes.

Turn ideas into action:
Strategies to help you increase plan participation

**AUTOMATE**

- Make enrollment automatic.
- Apply it to all eligible employees.
- Combine it with other features — such as automatic increase — to optimize contributions.

**SIMPLIFY**

- Simplify the enrollment process.
- Reduce the number of contribution rate options.
- Leverage your plan’s default investment as the quick-path investment option.

**ENCOURAGE**

- Select several points in the year to contact nonparticipating eligible employees with an invitation to join the plan.
- Leverage your plan service provider’s website to provide employees with meaningful calls to action.
- Communicate clearly and frequently the importance of saving for retirement and the value of the benefits you offer.

**INTEGRATE**

- Synchronize benefits elections with health care open enrollment.
- Provide access to your retirement plan enrollment through your health care provider’s site.
How Bank of America Merrill Lynch can help

Helping employees move toward financial wellness is a top priority for Bank of America Merrill Lynch — it’s at the very core of what we do. That’s why we work alongside employers to provide tools, services and guidance that will help motivate employees to take full advantage of the benefits you offer.

The critical first step is to get employees to engage and enroll in the plan. Let us work with you to streamline and simplify your enrollment process to maximize the number of employees participating. Our solutions and strategies can help you:

- Implement automatic and simplified enrollment features to get employees on board faster.
- Implement targeted and personalized communications strategies to help get and keep employees engaged, whatever their life stage or personal situations.
- Assess the success of your strategy by measuring participation rates among existing employees and new hires, and help recalibrate your goals as needed.

To further assess the financial wellness of your employees and identify gaps in your benefits offering, use the Plan in Review report or the Bank of America Merrill Lynch Financial Wellness Monitor® report14 (for our clients that offer Advice Access).

Working together, we can help you get more employees on the road to financial wellness sooner.

For more information about how we can help your company and your employees with workplace benefits, contact your Bank of America Merrill Lynch representative or call 1.877.902.8730.

Visit us online at benefitplans.baml.com or email us at benefitplans@baml.com.

---

1 Employee Workplace Benefits Report, May 2013, Bank of America Merrill Lynch. Methodology: Boston Research Group interviewed and completed a national sample of 1,014 interviews for Bank of America Merrill Lynch. An Internet methodology was used to reach 401(k) plan participants. Interviews were collected from March 6 through March 17, 2013. Respondents were screened to ensure current participation in a 401(k) plan. Bank of America Merrill Lynch was not identified as the sponsor of the study.


3 Employer Workplace Benefits Report, Dec. 2013, Bank of America Merrill Lynch. Methodology: Boston Research Group interviewed a national sample of 1,000 employers from July 2013 through August 2013 on behalf of Bank of America Merrill Lynch. To have qualified for the survey, employers must have offered their employees a 401(k) plan.

4 Simplification and Saving, Beshears, et al., Feb. 2, 2012

5 Population includes 93,804 employees who were automatically enrolled for at least one year and are currently active with no automatic increase feature in their plans.

6 Data as of Dec. 31, 2013. Participation rate of 89% for employees automatically enrolled with a default contribution rate of 4% or less, vs. 93% for employees with a default contribution rate of 5% or greater. Opt-out rates of 11% for employees automatically enrolled with a default contribution rate of 4% or less, vs. 5% for employees with a default contribution rate of 5% or greater.

7 Includes both employer and employee contributions for participants who are automatically enrolled within that year.

8 Percentage of employees who entered the enrollment process through Express Enrollment and joined their plans. 81%, vs. 56% of employees who enrolled after entering the process through a traditional path (in plans that do not offer Express Enrollment).


11 To use Financial Wellness Monitor® is not to suggest that a plan sponsor would dispense with using retirement income replacement modeling at the employee level. Only an employee knows his or her overall household circumstances for retirement income planning, and tools like Advice Access can help build awareness about an employee’s future income needs and aid in his or her preparation for that income.

The strategies presented are intended to illustrate the products and services available through Bank of America Merrill Lynch; it should not be considered an offer, solicitation or endorsement. These illustrations may not be used with the general public under any circumstances. This material does not take into account your plan’s objectives, financial situations or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security, financial instrument, or strategy. Before acting on any information in this material, you should consider whether it is suitable; if necessary, seek professional advice.