Guiding participants from intent to action

2016 Defined Contribution Plan Participant Survey Findings
TO STAY IN TUNE WITH THE KNOWLEDGE, BEHAVIOR AND ATTITUDES of 401(k) plan participants with respect to saving and investing for retirement, we undertook our fourth participant research study on this topic. From January 12 through January 25, 2016, we partnered with Mathew Greenwald & Associates, a market research firm based in Washington, D.C., to conduct an online survey of 1,001 defined contribution plan participants. In order to qualify for the study, each respondent had to be employed full-time at a for-profit organization with at least 50 employees, be at least 18 years old and have contributed to a 401(k) plan in the past 12 months.

Survey results have been weighted by age, gender and education to reflect the overall makeup of the general population of 401(k) plan participants. In a similarly sized, random sample survey of general population respondents, the margin of error (at the 95% confidence level) for the total population in this study would be plus or minus approximately 3.2 percentage points.

This paper includes direct quotes from plan participants in response to the following questions:

“What would you change about your 401(k) plan? What would make saving for retirement easier for you?”
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EXECUTIVE SUMMARY

OVERVIEW

DEFINED CONTRIBUTION (DC) PLANS, NOW ENTERING THEIR FOURTH DECADE, HAVE BECOME THE FOUNDATION OF RETIREMENT SECURITY FOR MOST MEMBERS OF THE U.S. LABOR FORCE, LARGELY REPLACING DEFINED BENEFIT (DB) PLANS. As a result, participants now shoulder a far greater share of the responsibility for their retirement saving and investing.

Plan sponsors have worked hard to strengthen their plans, spending time, energy and money to educate participants on how to save and invest for retirement. Yet after 30 years of DC plan evolution, many participants are still not saving enough, investing appropriately or feeling secure about their retirement.

A major advancement in efforts to improve retirement outcomes was the passage of the Pension Protection Act of 2006 (PPA). The PPA helped encourage the adoption of automatic enrollment and automatic contribution escalation, introduced the concept of a qualified default investment alternative (QDIA) and led to the development of a strategy known as re-enrollment. Plan sponsors are using these features and strategies, in combination with QDIAs such as target date funds (TDFs), to put more participants on a sound, simplified path to a secure retirement. But our years of research and experience suggest that broader adoption has been tempered, in part, by concern among some plan sponsors that employees may perceive these plan features and strategies as taking away their control over personal retirement saving and investing decisions.

If DC plans are to continue to evolve and strengthen, their development must be aligned with the needs, wants and capabilities of the employees they are designed to benefit. But an important question remains unanswered: What do participants want?

In January 2016, we conducted our fourth participant research study to better understand the perspectives of employees enrolled in these plans, canvassing 1,001 DC plan participants to update our findings and gain further insight into their views:

• How confident are they about achieving a financially secure retirement?
• Do they feel they are saving enough and have the time, talent and interest needed to make appropriate investment decisions for their retirement?
• What would motivate them to save more?
• Perhaps most important, 10 years after passage of the PPA, what are their views of and experiences with automatic features, TDFs and re-enrollment?

In addition to looking at results for participants as a whole, we also examine similarities and differences across investor types (“do it for me” and “do it yourself” investors) and include some high-level findings for two age cohorts—those under 30 years of age and those 30 years of age or older.

In this report, we discuss our research findings, draw implications for the continued evolution of DC plans and explore what plan sponsors and their industry partners can do to help as many participants as possible achieve a financially secure retirement.

1 “Do it for me” investors are those who say they want help selecting their investment strategy and prefer to leave most of the ongoing investment decisions to experienced investment professionals. “Do it yourself” investors say they want to take a more hands-on approach in selecting their own mix of funds and prefer to choose a combination of the plan’s investment options and then monitor and make adjustments to their portfolio as their circumstances change.
KEY FINDINGS

Our latest participant research, together with our 2015 Plan Sponsor Research, reveals three defining issues with implications for the direction of DC plan evolution:

1. When it comes to participants’ retirement saving and investing, a knowledge gap remains, despite years of educational efforts on the part of plan sponsors. This suggests to us that resources could be more effectively directed elsewhere and that a more simplified approach to saving and investing is needed.

2. There appears to be a very human disconnect between participant intent and action (that is, inertia). Many participants are interested in doing more financial planning and acknowledge their need to save more but have not acted on these intentions. Automating the saving and investing process (while allowing participants to opt out) could help address participant inaction.

3. There is a potential misperception among plan sponsors. A key reason given by many plan sponsors for not implementing automatic features and conducting a re-enrollment is anticipation of employee pushback. Survey results, however, suggest that participants recognize their need for saving and investing guidance, and most are in favor of, or at least neutral toward, these features and strategies. While those who classify themselves as “do it yourself” investors may have a less pronounced need for guidance, their views of these features and strategies are, to a large extent, in line with those of investors as a whole. Our analysis of the “under 30” age cohort shows that this large contingent, who will be working their way toward retirement for the next 35 to 45 years or more, are among the strongest proponents.

We believe our findings point to a clear opportunity for plan sponsors to strengthen their DC plans and potentially improve participants’ retirement outcomes. An important step in achieving that goal is to evaluate the benefits of shifting toward a more “automatic 401(k),” a term we use here to refer to a plan that utilizes some combination of automatic features, QDIAs such as target date funds, and re-enrollment. Such plans use the tools provided by the PPA to simplify saving and investing and proactively place more employees on a path to a secure retirement—while leaving ultimate control over personal saving and investing decisions in participants’ hands.

The state of DC plan participants

DC plan participants have gained some confidence in their ability to plan, save and invest, but many are still uncertain that a financially secure retirement awaits them. There are several reasons for this uncertainty:

- More immediate financial demands interfere with their ability to save for the future.
- Many participants don’t have a clear understanding of how to set a retirement savings goal.
- Most are not very confident in their ability to make investment decisions.
Competing financial demands are a reality; on that front, careful budgeting and planning by participants can help. Plan sponsors, for their part, can and have provided education and tools to help participants size their retirement challenge, set realistic savings goals and improve their knowledge of investing. Our survey suggests, however, that focusing on closing the knowledge gap is not enough. When it comes to saving and investing for retirement, another gap exists—a disconnect between participant intent and action:

• Many participants know they are not saving enough (68% say their 2015 contributions were below where they should have been).
• Most participants (81%) say they are interested in doing financial planning for retirement, but almost half (45%) do not have a plan.
• Nearly half of participants (48%) admit they simply do not spend enough time thinking about and planning for retirement.
• Many participants may not be fully engaged in managing their 401(k) accounts. For example, 28% have never rebalanced their 401(k) account, 31% have never made a change to their initial choice of investment options, and 18% have never increased their contribution amount.

Effecting change
In our view, to help more participants bridge this gap between intent and action and achieve a secure retirement, plan sponsors need to strengthen their DC plans with a strong emphasis on:

• Improving savings behavior
• Simplifying investment decisions
• Allowing inertia to work for, not against, participants

For some plan sponsors, this implies a shift in focus—with less emphasis on maximizing participant autonomy and providing investment education, and more attention to proactively placing participants on a solid path to a secure retirement, where the ultimate control over saving and investing decisions still remains in participants’ hands. The Pension Protection Act of 2006 gave plan sponsors the basic tools necessary to support this shift.

Since passage of the PPA, many plan sponsors have adopted some or all of the features and strategies the Act laid the groundwork for: Target date funds have been the most frequently chosen QDIA option and automatic features are being incorporated into plan designs at moderate rates. The PPA also led to the development of re-enrollment, a strategy which plan sponsors are implementing albeit at a slower pace than the above features and strategies. A key constraint on the adoption of the automatic 401(k) has been the perceived potential for pushback from participants who may feel they are relinquishing control over their retirement savings (though, in reality, they are not). Our latest research suggests that participants’ own views do not validate this plan sponsor concern.
The automatic 401(k): Participant views

The question is: What form of saving and investing support do participants actually expect or want from their employers?

Based on our research findings, participants appear receptive to trading some degree of autonomy for plan features and strategies designed to offer a disciplined approach to saving, simplified investment choices and improved asset allocation.

• Roughly three-quarters of participants are in favor of or at least neutral toward automatic enrollment (75%) and automatic contribution escalation (74%).

• Roughly two-thirds (67%) are in favor of or at least neutral toward a combination of these two features. A large majority (90%) find TDFs appealing.

• Most (82%) are in favor of or at least neutral toward re-enrollment.

Our analysis of participants under 30 years of age suggests members of this cohort are even stronger proponents of the automatic 401(k). Additionally, results for “do it yourself” investors, despite this group’s stated preference for a more independent approach, do not vary significantly from the above averages.

Participant experience is also very encouraging:

• Among those automatically enrolled in their plans, less than 1% opted out, nearly all are satisfied (96%), and almost a third (31%) say they would not have enrolled otherwise.

• Among those whose contribution amounts are/were automatically increased by 1% to 2% each year, almost all are satisfied (97%), and 15% say they were unlikely to have escalated their contributions if not for this automatic feature.

• Among those who went through a re-enrollment, 73% allowed their assets to be moved to a TDF, and 99% of those whose funds were moved are satisfied.

In the above features and strategies, the ability to opt out is critical. It leaves control in the hands of employees but draws on the force of human inertia—allowing it to work in favor of the participant.

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2 Here the plan feature combination starts 401(k) contributions at 6%, with automatic increases of 2% every year until contributions reach about 10% of pay.
Guiding participants to secure retirement outcomes

Our participant research and retirement industry experience lead us to conclude that plan sponsors have clear participant endorsement to evaluate the elements of the automatic 401(k). They will need to establish, for their own plans, the appropriate balance between maximizing participant autonomy and proactively placing participants on a path to a secure retirement. We believe this undertaking is necessary for a meaningful improvement in retirement outcomes.

We urge all plan sponsors to work with their industry partners to consider the following steps for fortifying their DC plans and achieving secure retirement outcomes for their participants:

1. **Adopt automatic features.** Automatic enrollment and automatic contribution escalation can be most effective in combination.

2. **Select an appropriate QDIA, such as a target date fund.** TDFs are well-diversified, age-appropriate and professionally managed investment strategies that become more conservative as participants move toward retirement.

3. **Conduct a re-enrollment.** While automatic enrollment can help put new employees on the right path, re-enrollment—a process by which participants are notified that their existing assets and future contributions will be invested in the plan’s QDIA (usually a TDF) based on their date of birth, with the ability to opt out—provides an opportunity to get those already enrolled to review their asset allocations and ensure they are on a solid investing path. Conducting a re-enrollment can immediately help move the needle toward better retirement outcomes for a large number of plan participants.

Success in strengthening DC plans will require plan sponsors to understand what their participants want. It will also entail effective collaboration with industry partners; financial advisors/consultants and asset managers, to keep plan sponsors informed of industry innovations/best practices and provide plan-appropriate investment options; plan providers/recordkeepers, to help ensure the smooth participant experience that is critical to successful implementation; and policymakers, to provide clarification and guidance as plan sponsors adopt new features and strategies. Meaningful improvement in retirement outcomes will only be accomplished through this industry-wide commitment and coordination.
THE STATE OF DC PLAN PARTICIPANTS

DC PLAN PARTICIPANTS HAVE GAINED SOME CONFIDENCE IN THEIR ABILITY TO PLAN, SAVE AND INVEST. MANY, HOWEVER, ARE STILL UNCERTAIN THAT A FINANCIALLY SECURE RETIREMENT AWAITS THEM.

PROGRESSING ... BUT STILL SHORT ON SAVINGS

DC plans have gradually replaced DB plans as a critical source of retirement income for much of the U.S. workforce. With that transformation, retirement saving and investing decisions have largely shifted from plan sponsors to plan participants. To support participants in this expanded role, plan sponsors have taken steps to strengthen DC plans and provide participants with the knowledge they need to achieve retirement security.

Our latest research findings offer a window into the way DC plan participants currently view their retirement readiness and how that view has changed since our 2012 research. From that perspective, the outlook has somewhat improved. Fewer participants (59%, down from 70%) think they will have to remain employed beyond their desired retirement age, and a larger proportion (44%, up from 31%) are confident that their savings will last throughout their lifetimes. On the other hand, over half of DC participants (56%) still fear that their savings may not see them through to the end of their lives.

Many participants are aware that they are not saving enough: 68% say their 2015 contribution rates were below where they should have been. In fact, among those who believe they should be saving 10% or more of their pretax salary (75% of participants), 76% missed that target last year (EXHIBIT 1).

Participants are aware that they are not saving enough for retirement

EXHIBIT 1: PERCENTAGE OF PARTICIPANTS ON TARGET VS. THEIR STATED 10% SAVINGS GOAL

75% of participants think they should be saving 10% or more to be on track toward a secure retirement

76% of those... 76% ARE MISSING SAVINGS TARGET

Note: Of those that responded to % of salary, before taxes, contributed to retirement plan in 2015 and say they should be contributing 10% or more to be on track in 2016 n=754.
NEEDED ... A GOAL AND A PLAN

There are difficult and very personal decisions to be made in saving for retirement—realistically, retirement saving often takes a backseat to more-immediate financial demands, such as paying off debts (EXHIBIT 2). Ultimately, participants should be in the best position to weigh the size, immediacy and importance of these competing demands, and budget accordingly—provided they take the time to plan.

While most participants (81%) say they are interested in doing financial planning for retirement, far fewer actually appear to have a plan. Almost half (45%) do not have a targeted dollar amount in mind as they save for their retirement years; they are either committed to saving as much as they can ... or intend to sort it all out when they reach retirement. Competing financial demands are inevitable, but having a clear sense of the trade-offs is essential for sound financial decision-making.

Why the disconnect between intent and action when it comes to planning and saving for retirement? Aside from competing financial demands, part of the explanation may be a lack of “know-how.” Almost half (48%) of participants say they are willing to invest time in planning for retirement, but don’t know where to begin. Others feel poorly equipped to determine what level of saving is required to accomplish their retirement goals—for example, although this figure increased vs. our 2012 research, only 38% are confident about how much to put into their 401(k) each year to stay on track (EXHIBIT 3). Human nature appears to be at work as well: 48% of participants admit they simply do not spend enough time thinking about and planning for retirement.

Saving for retirement often takes a backseat, given competing financial demands

EXHIBIT 2: WHICH, IF ANY, OF THE FOLLOWING ARE MAJOR REASONS YOU ARE NOT SAVING MORE MONEY FOR RETIREMENT NOW THROUGH YOUR 401(K)? (TOP 3 RESPONSE CHOICES)

<table>
<thead>
<tr>
<th>Reason</th>
<th>2016 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 I have to pay off debts</td>
<td>49%</td>
</tr>
<tr>
<td>2 I do not earn enough at my job</td>
<td>36%</td>
</tr>
<tr>
<td>3 I have other spending priorities</td>
<td>26%</td>
</tr>
</tbody>
</table>

Note: Of those not contributing the maximum amount n=857. Source: J.P. Morgan Plan Participant Research 2016.

Few participants have a clear understanding of how to set a retirement savings goal

EXHIBIT 3: HOW CONFIDENT ARE YOU IN YOUR KNOWLEDGE OF EACH OF THE FOLLOWING ASPECTS OF 401(K) RETIREMENT PLANNING? (% RESPONDING “VERY” OR “EXTREMELY” CONFIDENT)

<table>
<thead>
<tr>
<th>Area</th>
<th>2016 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much to put in your 401(k) each year to be on track to reach your retirement goals</td>
<td>38%</td>
</tr>
<tr>
<td>How to estimate how much you will have in your 401(k) plan by your retirement age if you continue saving at the same level</td>
<td>34%</td>
</tr>
<tr>
<td>How much monthly income your savings will provide in retirement</td>
<td>30%</td>
</tr>
</tbody>
</table>

INVESTING CONFIDENCE ... A GRADUAL BUILD

While saving is the essential first step to reaching retirement security, investing in a risk-appropriate way to protect and grow retirement assets is equally critical. Here, too, much of the investment decision-making and risk-taking has shifted to participants.

Results suggest that participants have grown more secure in certain aspects of their investing expertise since our 2012 survey, yet only about a third feel a strong sense of confidence in their ability to make key investment decisions. There are also differences among participants based on their preferred investing styles as defined in EXHIBIT 4. Confidence is generally lower among those who say they favor a “do it for me” approach to investing vs. those who prefer a hands-on, “do it yourself” approach. For example, only 26% of “do it for me” investors are confident in choosing appropriate investments from their 401(k) plan options, while a slightly higher (but still low) 36% of “do it yourself” investors are confident in making that choice (EXHIBIT 5).

Perhaps symptomatic of a lack of time, talent or interest, many participants are not fully engaged in monitoring and managing their investments. Among those surveyed, 28% have never rebalanced their 401(k) account, 31% have never made a change to their initial choice of investment options, and 18% have never increased their contribution amount. Not surprisingly, these percentages are higher for “do it for me” investors and lower for “do it yourself” investors.

FROM INTENT TO ACTION

Since 2007, our surveys have tracked the knowledge, behavior and attitudes of 401(k) participants. While some progress has been made, many participants still face significant barriers to reaching retirement goals—competing demands on finances; lack of knowledge about saving and investing; absence of a realistic plan; a lack of time, talent or interest—or simply a tendency toward inaction. The overall picture is clear: Too many participants are still not on a secure path to retirement—and many recognize that they need to get on track.

Can 401(k) plans be designed to help participants deal with the complexities of saving and investing and move from having the best of intentions to taking the well-planned actions required to reach their retirement goals? Here we think plan sponsors have an opportunity to strengthen their plans and help provide a necessary catalyst.

Participants differ in their preferred investing styles

EXHIBIT 4: WHICH OF THE FOLLOWING MOST CLOSELY ALIGNS WITH THE WAY IN WHICH YOU PREFER TO MAKE INVESTMENT DECISIONS IN YOUR 401(K) PLAN?

<table>
<thead>
<tr>
<th>PREFERRED INVESTING STYLES</th>
<th>“DO IT FOR ME” INVESTORS</th>
<th>“DO IT YOURSELF” INVESTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“I want help selecting my investment strategy and prefer to leave most of the ongoing investment decisions to experienced investment professionals”</td>
<td>“I want to take a more hands-on approach in selecting my own mix of funds. I’d prefer to choose any combination of the plan’s investment options and then monitor and make adjustments to my portfolio as my circumstances change”</td>
</tr>
</tbody>
</table>

Note: 2016 Total n=1,001.
**Even among “do it yourself” investors, few are confident in their ability to make investment decisions**

**EXHIBIT 5: HOW CONFIDENT ARE YOU IN YOUR KNOWLEDGE OF EACH OF THE FOLLOWING ASPECTS OF 401(K) INVESTING? (% RESPONDING “VERY” OR “EXTREMELY” CONFIDENT)**

<table>
<thead>
<tr>
<th></th>
<th>2016 Total</th>
<th>“Do it for me” investors</th>
<th>“Do it yourself” investors</th>
<th>Point (%) change vs. 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which of your 401(k) plan investment options you should invest in</td>
<td></td>
<td></td>
<td></td>
<td>+8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+8</td>
</tr>
<tr>
<td>How to adjust the way your 401(k) plan money is invested as you get closer to retirement</td>
<td></td>
<td></td>
<td></td>
<td>+12</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+12</td>
</tr>
</tbody>
</table>

Note: 2012 Total n=1,009; 2016 Total n=1,001, “Do it for me” investors n=554, “Do it yourself” investors n=447.


“I am near retirement and wish all young employees would be reminded of the importance of maximizing savings for retirement at an early age. The compounding effect will greatly benefit them. I know people that did not do this, and they are forced to work longer and worry more about how they will manage financially in retirement.”
EFFECTING CHANGE

THE CHALLENGE FOR DC PLAN SPONSORS, ALONG WITH THEIR INDUSTRY PARTNERS, IS TO HELP PARTICIPANTS OVERCOME ROADBLOCKS AND GET ON THE PATH TO A SECURE RETIREMENT. THIS MAY REQUIRE A SHIFT IN FOCUS.

In our view, effecting change—that is, meaningfully improving retirement outcomes—will require a strong emphasis on:

1. Improving savings behavior
2. Simplifying investment decisions
3. Allowing inertia to work for, not against, participants

For some plan sponsors, this implies less emphasis on maximizing participant autonomy and providing investment education and more attention to proactively placing participants on a solid path to a secure retirement—from which they can opt out.

THE PENSION PROTECTION ACT CELEBRATES 10 YEARS

The passage of the PPA in August 2006 provided a firm foundation for strengthening the U.S. retirement system. It gave plan sponsors the tools necessary to design plans with the potential to increase retirement savings, simplify investing and channel the force of human inertia.
The Pension Protection Act:

- Established a clear legal framework for the use of automatic enrollment to help put more participants on a solid savings path by getting them enrolled into their plans, typically early in their employment, with the ability to opt out
- Provided an incentive for the use of automatic contribution escalation to gradually increase contribution rates to an appropriate level, a feature from which participants could opt out
- Introduced the qualified default investment alternative, allowing plan sponsors to designate a well-diversified, professionally managed investment strategy, such as a TDF, into which the assets and contributions of those employees automatically enrolled (or re-enrolled) would be invested, unless the participant specified a different investment election
- Led to the development of re-enrollment, a strategy allowing plan sponsors to do for existing participants what automatic enrollment, paired with a QDIA, had done for new employees—put them on a solid investing path with an appropriate asset allocation, a path the participant could choose not to pursue

Growth in the use of some of these features and strategies surged in the years immediately following the enactment of the PPA as plan sponsors took advantage of these new ways to improve retirement outcomes for their participants, but adoption has since continued at a more stable rate. TDFs have experienced the greatest rate of adoption (49% of plans include them in their lineups);\(^3\) automatic enrollment and automatic contribution escalation have seen encouraging but more moderate rates of adoption (45% and 31%, respectively).\(^4\) While re-enrollment has been slower to take hold, 53% of plan sponsors have considered or conducted a one-time re-enrollment, up from 39% in 2013.\(^5\)

Our plan sponsor research indicates that one of the most frequently cited reasons for not implementing these automatic plan features and strategies is plan sponsors’ concern that participants will push back. While this may be a misperception, it points to a challenge for plan sponsors in strengthening their DC plans—establishing the right balance between maximizing participant autonomy and proactively placing participants on a path to secure retirement. The solution requires a clear understanding of what participants want.

While each DC plan is unique, our latest findings, presented in the following section, offer a critical participant perspective:

- What kind of help and guidance are participants likely to be receptive to?
- What motivates them to save?
- Most important, what are participants’ views of and experiences with the automatic features and strategies available to plan sponsors to strengthen their retirement plans and place participants on the path to a financially secure retirement?

\(^3\) J.P. Morgan Plan Sponsor Research 2015.
THE AUTOMATIC 401(K): PARTICIPANT VIEWS

PARTICIPANTS APPEAR RECEPTIVE TO TRADING SOME DEGREE OF AUTONOMY FOR PLAN FEATURES AND STRATEGIES DESIGNED TO OFFER A DISCIPLINED APPROACH TO SAVING AND INVESTING.

As evidenced in our 2015 Plan Sponsor Research, most plan sponsors are committed to helping ensure a financially secure retirement for their employees: 74% feel responsible for the financial wellness of their employees (EXHIBIT 6A). Participants expect this sense of commitment from employers: 75% say their employer should take at least some responsibility for helping employees save for retirement (EXHIBIT 6B). The question is: What form of saving and investing support do participants actually expect or want from their employers?

Plan sponsors and participants agree: Plan sponsors have at least some responsibility for helping participants achieve a financially secure retirement

EXHIBIT 6A: AS AN EMPLOYER, WHICH OF THE FOLLOWING BEST DESCRIBES THE LEVEL OF RESPONSIBILITY YOU FEEL FOR THE OVERALL FINANCIAL WELLNESS OF YOUR EMPLOYEES?

EXHIBIT 6B: HOW MUCH RESPONSIBILITY DO YOU BELIEVE YOUR EMPLOYER SHOULD HAVE FOR HELPING EMPLOYEES SAVE FOR RETIREMENT?

Note: 2015 Plan Sponsor Total n=756; 2016 Plan Participant Total n=1,001.
WHAT PARTICIPANTS DO (AND DON’T) WANT

On the savings front, a majority of participants (82%) agree that employers should encourage employees to contribute to the company retirement plan. At least half (52%) look to their employer to provide a viewpoint on how much to contribute to their plan, while 41% think they should be notified if they are not saving enough. Participants are generally receptive to encouragement and suggestions from plan sponsors, but only 10% would choose to relinquish ultimate control over how much they save (EXHIBIT 7).

When it comes to saving, participants want encouragement and a viewpoint from their employers

<table>
<thead>
<tr>
<th>Statement</th>
<th>2016 Total</th>
<th>&quot;Do it for me&quot; investors</th>
<th>&quot;Do it yourself&quot; investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>My employer should encourage employees to contribute to the company retirement plan</td>
<td>82%</td>
<td>80%</td>
<td>60%</td>
</tr>
<tr>
<td>My employer should provide a viewpoint on how much employees should contribute to the company retirement plan</td>
<td>52%</td>
<td>41%</td>
<td>41%</td>
</tr>
<tr>
<td>My employer should notify me if I am not saving enough for retirement</td>
<td>41%</td>
<td>32%</td>
<td>29%</td>
</tr>
<tr>
<td>My employer should decide my savings rate on my behalf</td>
<td>10%</td>
<td>13%</td>
<td>5%</td>
</tr>
</tbody>
</table>


In terms of investment decision-making, participants are clearly receptive to professional help and guidance. While there are differences between “do it for me” and “do it yourself” investors, 60% of all participants would prefer to have an expert manage their account. Over 50% would like to push the retirement “easy button” and hand over retirement planning and investing to a financial professional. The same is true for 29% of “do it yourself” investors, who perhaps have the talent and interest but not the time to be as hands-on as they might like. When it comes to what participants don’t want, only 13% would forfeit ultimate control of their investment choices to their employer (EXHIBIT 8).

When it comes to investing, many want the help of an expert to manage their 401(k) assets

<table>
<thead>
<tr>
<th>Statement</th>
<th>2016 Total</th>
<th>&quot;Do it for me&quot; investors</th>
<th>&quot;Do it yourself&quot; investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing is not my area of expertise; I’d rather let an expert manage my account</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>If I could push an “easy button” for retirement where I could completely hand over my retirement planning and investing to a financial professional, and not have to think about it at all, I would</td>
<td>55%</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>My employer has an obligation to help me pick the right investments in my retirement plan</td>
<td>29%</td>
<td>29%</td>
<td>20%</td>
</tr>
<tr>
<td>My employer should decide my investment choices on my behalf</td>
<td>13%</td>
<td>19%</td>
<td>5%</td>
</tr>
</tbody>
</table>

IMPROVING SAVINGS BEHAVIOR—TRADITIONAL APPROACHES

There are tried-and-true planning tools and financial incentives that, when thoughtfully implemented, can help encourage participants to save.

Financial projections

Individuals vary in what motivates them to save, but 67% agree that helping them to “understand their numbers”—how much more they should be saving or how much they should have in their retirement plan today to ensure a financially secure retirement—is a very effective way for an employer to encourage them to save. Personal, quantifiable goals are clearly motivating, help participants appreciate and “size” the retirement savings challenge and, one hopes, keep them on an effective savings path.

“...I have never been given any projections for what amount of money I would actually need in retirement. This would be extremely motivating in terms of planning savings.”

Our results show that while financial projections can make a difference, not all participants take action when receiving them. Among participants who were notified that they were not on track to reach an appropriate level of retirement savings in their 401(k) plan, 36% increased their contribution; 32%, after considering their current savings rate, chose not to make a change. However, the remainder (32%) either did not get around to making intended changes (15%) or did not take the information into consideration (17%). While projections can be motivating for some, many participants may choose to ignore them, while others stop short of putting that knowledge into action (EXHIBIT 9).

Matching contributions

Matching contributions can also be effective in motivating saving but can have unintended consequences if they are not thoughtfully implemented. Over 25% of participants say they chose the percentage of income to contribute to their retirement plan based on the percentage their employer would match. While this choice assures participants that they are receiving the maximum benefit from the match, often the rate is too low to meet retirement goals. Our research shows that 68% of participants interpret this matched contribution percentage as some form of recommendation—for example, as a minimum contribution or the percentage their employer thinks they should be saving. Matching contributions, if not properly positioned, can unintentionally lead participants down the wrong path.
PROACTIVELY PLACING EMPLOYEES ON A SOLID SAVING AND INVESTING PATH

What can employers do to help employees save more and invest wisely, when offering guidance and education, quantifying goals and matching some percentage of contributions are not enough?

We at J.P. Morgan believe that the most effective way to help put employees on the path to a more secure retirement is to proactively place them on that path. This can be done through the use of automatic features and strategies such as automatic enrollment, automatic contribution escalation and re-enrollment, in conjunction with a QDIA, such as a target date fund. Our research indicates that participants are generally supportive of these features and strategies, in part because they leave ultimate control with the employee.

Automatic enrollment/automatic contribution escalation

In the case of automatic enrollment, after proper notification has been given, employees are enrolled in the plan, at a predetermined contribution rate, unless they explicitly opt out. Assets are, by default, invested in the plan’s QDIA (such as a TDF). Participants can, at their discretion, stop contributing, change their contribution amount or elect a different investment option. Automatic contribution escalation works in a similar way, making automatic annual increases in contribution rates until a specified percentage is reached, unless the participant opts out. When used in combination and appropriately implemented, these features can have a powerful impact on participant savings.

The element of default is critical. It leaves control in the hands of employees but draws on the force of human inertia. Presented with an opportunity to make a choice, people often do nothing. As Harvard Law School professor and Nudge co-author Cass Sunstein has written, default rules “incline people’s choices in a particular direction … [They] have a large impact, because they tend to stick.”

Participants as a whole find both of these plan features equally attractive. Automatic enrollment receives a favorable or at least neutral rating among 75% of participants, and automatic contribution escalation earns a similar rating from 74% of participants. The percentage is somewhat lower (67%) for the combination of the two features, but is still encouraging. Both “do it for me” and “do it yourself” investors are similarly supportive (EXHIBIT 10). Most participants see the implementation of these features not as an example of an employer overstepping its role to encourage saving or “deciding” how much employees will save but rather as proactively placing employees on a path to a secure retirement … one they can choose to follow or not.

Not only do these features meet with participant approval, they also appear to have the desired impact. Among those automatically enrolled in their plans, less than 1% opted out and the vast majority are satisfied (96%) with the experience. Perhaps most important, over 30% admit they were unlikely to have enrolled otherwise. Given a company with 100 new employees, that means 30 employees who probably would not have been included in the plan are now hopefully on a path to a secure retirement.

Support for automatic features is high among participants, including “do it yourself” investors

EXHIBIT 10: PERCENTAGE OF PARTICIPANTS IN FAVOR OF OR AT LEAST NEUTRAL TOWARD THE PLAN FEATURE

<table>
<thead>
<tr>
<th>Feature</th>
<th>Total</th>
<th>“Do it for me” investors</th>
<th>“Do it yourself” investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic enrollment</td>
<td>75%</td>
<td>73%</td>
<td>78%</td>
</tr>
<tr>
<td>Automatic contribution escalation</td>
<td>74%</td>
<td>77%</td>
<td>70%</td>
</tr>
<tr>
<td>Combination of automatic enrollment and automatic contribution escalation</td>
<td>67%</td>
<td>69%</td>
<td>66%</td>
</tr>
</tbody>
</table>

a Annual increases of 2% of salary up to 10%
b Starting contributions at 6% with automatic increases of 2% every year until contributions reach about 10% of pay.

Note: 2016 Total n=1,001, “Do it for me” investors n=554, “Do it yourself” investors n=447.
Among those who were automatically enrolled, there are some important similarities and differences by type of investor. In the case of both “do it for me” and “do it yourself” investors, opt-out rates were less than 1% and 96% are satisfied with the experience. However, the percentage say they would not have otherwise enrolled in the plan is 43% for “do it for me” investors but only 9% for “do it yourself” investors. Apparently, those in the “do it for me” category are much more likely to need the extra “nudge” to enroll, but “do it yourself” investors are still supportive of the automatic enrollment feature.

Among participants whose contribution amount is/was automatically increased each year, virtually all (97%) are satisfied and 15% say they would not have escalated their contribution if it had not been automatically increased. As with automatic enrollment, “do it for me” investors are more likely to need a “nudge.” In this case, 17% say they would not have increased their contribution otherwise, compared with only 9% for “do it yourself” investors.

Among the minority (25%) who are not in favor of automatic enrollment, most (62%) feel that enrolling in the plan should be the employee’s choice and want to have control over their enrollment. Others (23%) who are opposed feel that employers simply don’t know the financial/personal situation of each employee and therefore aren’t in a position to make this decision for them. The concern is understandable but, of course, automatic enrollment does leave the employee in control, with the ability to opt out at any time. Clear communication and appropriate positioning of these features with employees can help ensure their acceptance and success.

The message from participants is clear: Automatic features have been successful in proactively placing employees on a path to a financially secure retirement, a path that many, especially “do it for me” investors, are unlikely to have traveled on their own. But even those who didn’t need an extra push are supportive of these features and highly satisfied with them, based on their own experiences.

Target date funds

Target date funds can help simplify investing for those without the time, talent or interest to manage their own investments. What’s more, the glide path strategies underlying TDFs guide the allocation of assets over time, adjusting toward a more conservative asset mix as the participant approaches his or her target retirement date. TDFs are highly valued by participants: 90% find them appealing, while 75% believe it is important that they are offered within a 401(k) plan. Even “do it yourself” investors are supportive (84% find them appealing, and 65% see them as important plan options).

Target date funds have strong appeal—even among “do it yourself” investors

EXHIBIT 11: ATTITUDES TOWARD AND USAGE OF TARGET DATE FUNDS

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>“Do it for me” investors</th>
<th>“Do it yourself” investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeal of target date funds</td>
<td>90%</td>
<td>94%</td>
<td>84%</td>
</tr>
<tr>
<td>(% stating “somewhat” or “very” appealing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of target date funds in plan</td>
<td>75%</td>
<td>82%</td>
<td>65%</td>
</tr>
<tr>
<td>(% stating “somewhat” or “very” important)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in target date funds</td>
<td>62%</td>
<td>73%</td>
<td>47%</td>
</tr>
<tr>
<td>(If available in plan)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Of those invested in TDFs if available in plan n=550, “Do it for me” investors n=276, “Do it yourself” investors n=274.

Note: 2016 Total n=1,001, “Do it for me” investors n=554, “Do it yourself” investors n=447.

Among those surveyed who indicated that their employer offers TDFs, 62% are invested in them. While “do it yourself” investors might not be expected to choose these premixed, professionally managed strategies, almost half (47%), given the chance to invest, did so. TDFs may be ideally suited for those lacking confidence in their investing knowledge, but their appeal clearly extends to some experienced, independent investors as well (EXHIBIT 11).

The ability to use QDIAs, such as target date funds, in conjunction with automatic enrollment can put new employees on a strong saving and investing path.

Re-enrollment

Automatic enrollment into a QDIA (such as a TDF) typically benefits only new employees. However, this does not address the needs of a generally much larger group of employees: existing participants. Clearly, lack of confidence in one’s knowledge of investing is not limited to new employees—nor is inertia.

Some employers believe that all participants in their company’s 401(k) plan should review and reaffirm their investment selections periodically to ensure they are still appropriate. In these cases, in a process known as re-enrollment, employers notify participants that their existing account balances and future contributions will be defaulted into an appropriate mix of investments based on their age (for example, into a TDF) unless they take action by opting out and selecting a different investment option.

Our retirement research indicates that re-enrollment with a TDF as the QDIA is a potent combination. In fact, when plan sponsors conduct a re-enrollment, 49% to 97% of plan assets are defaulted into TDFs. When TDFs are simply added to investment lineups, only about 1% to 4% of plan assets end up in these strategies. 7 This illustrates the power of inertia: Simply given the option to invest in TDFs, most participants do nothing, but when defaulted into these strategies few opt out.

Some plan sponsors have been reluctant to conduct re-enrollments, notwithstanding their potential to positively impact the asset allocations of the greatest number of employees. The reason most frequently cited in our 2015 Plan Sponsor Research, by those who considered but did not conduct a one-time re-enrollment, was fear of employee pushback.

Our participant survey results suggest a greater receptivity to re-enrollment than plan sponsors seem to expect. In fact, the vast majority of participants (82%) are in favor of or at least neutral toward the concept. Even among “do it yourself” investors, 72% hold a favorable to neutral view (EXHIBIT 12).

Implementation results are also very encouraging. Among the respondents who had been through a re-enrollment with a target date fund as the QDIA, 73% allowed their assets to be moved to a TDF. The corresponding percentages for “do it for me” and “do it yourself” investors are 80% and 56%, respectively. The remaining participants in these categories made a different investment election during the appropriate period so that their existing balances and current contributions would not be moved to a TDF. While “do it yourself” investors are more likely to choose a different investment election during a re-enrollment, it is important to remember that they still are in favor of or at least neutral toward this reaffirmation process. Among those whose funds were moved, 99% are satisfied.

99% of those who have gone through a re-enrollment and allowed funds to be moved to a TDF are satisfied

Most participants are in favor of or at least neutral toward re-enrollment

EXHIBIT 12: PERCENTAGE OF PARTICIPANTS IN FAVOR OF OR AT LEAST NEUTRAL TOWARD RE-ENROLLMENT

<table>
<thead>
<tr>
<th>Re-enrollment</th>
<th>Total</th>
<th>“Do it for me” investors</th>
<th>“Do it yourself” investors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>82%</td>
<td>89%</td>
<td>72%</td>
</tr>
</tbody>
</table>

These results strongly suggest that the vast majority of participants would favor or not be opposed to having automatic plan features and QDIAs (especially TDFs) in their plans or having plan sponsors conduct a re-enrollment. In fact, as seen in “A word from participants ‘under 30,’” below, the youngest participants, whose retirement security is likely to be impacted the most, may be the greatest advocates of these features and strategies. We believe plan sponsors seeking to improve employees’ retirement outcomes while leaving ultimate control in their hands should seriously consider the benefits of the automatic 401(k).

### A WORD FROM PARTICIPANTS “UNDER 30”

In our analysis of survey responses, we took a closer look at the “under 30” age cohort within our sample of plan participants. This is a large, influential contingent—and one that will be working its way toward retirement for the next 35 to 45 years. What’s more, if this group’s views and opinions represent a continuing shift in attitudes among employees, these insights can help plan sponsors strengthen their DC plans for the future.

Our research indicates that those under 30 are more likely than those 30 and over to classify themselves as “do it for me” investors (69% vs. 56%). They are also more likely to favor the involvement of plan sponsors as they save and invest for retirement. For example, they are considerably more likely to appreciate receiving notifications if they are not saving enough (62% of those under 30 vs. 34% of those 30 and over). Even more striking, 50% of those under 30 (vs. 22% of those 30 and over) agree that their employer has an obligation to help them pick the right investments. In line with these attitudes, the “under 30s” are also stronger proponents of automatic 401(k) plan features and strategies, as shown below.

Getting these employees on the right track now, early in their careers, can allow the benefits of consistent saving and appropriate asset allocation to compound over their working lives. What’s more, plan sponsors should gain some assurance from these results that their efforts to proactively place employees on a solid retirement saving and investing path will be met with support among current and future generations of participants.

**“Under 30s” are the strongest proponents of automatic 401(k) plan features and strategies**

<table>
<thead>
<tr>
<th>Feature Model</th>
<th>Under 30 years old (%)</th>
<th>30 years old and over (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic enrollment</td>
<td>84%</td>
<td>72%</td>
</tr>
<tr>
<td>Automatic contribution escalation(^a)</td>
<td>86%</td>
<td>70%</td>
</tr>
<tr>
<td>Combination of automatic enrollment and automatic contribution escalation(^b)</td>
<td>74%</td>
<td>65%</td>
</tr>
<tr>
<td>Appeal of target date funds(^c)</td>
<td>97%</td>
<td>87%</td>
</tr>
<tr>
<td>Re-enrollment</td>
<td>93%</td>
<td>79%</td>
</tr>
</tbody>
</table>

\(^a\) Annual increases of 2% of salary up to 10%.

\(^b\) Starting contributions at 6% with automatic increases of 2% every year until contributions reach about 10% of pay.

\(^c\) Appeal of TDF % shows those who find TDFs “somewhat” or “very” appealing.

Note: 2016 Total n=1,001, under 30 years old n=109, 30 years old and over n=892.
GUIDING PARTICIPANTS TO SECURE RETIREMENT OUTCOMES

OUR RESEARCH PROVIDES A CLEAR CALL TO ACTION FOR PLAN SPONSORS: EVALUATE THE ELEMENTS OF THE AUTOMATIC 401(K) AND ESTABLISH AN EFFECTIVE BALANCE BETWEEN MAXIMIZING PARTICIPANT AUTONOMY AND PROACTIVELY PLACING PARTICIPANTS ON A PATH TO A FINANCIALLY SECURE RETIREMENT.

While participants appear somewhat more confident in their ability to save and invest, there is still much work to be done. Our research indicates that employer-provided participant education, matching contributions and tools for quantifying retirement goals can help but have not been enough. Participants themselves have told us: They are not saving enough, are not confident in their knowledge of investing and are uncertain they will achieve a secure retirement. It is also clear from our research that many participants recognize what they need to do to achieve their retirement goals but often fail to connect those intentions with action.

Based on our research and experience in working with plan sponsors, we believe meaningful improvement in saving and investing behavior, and ultimately retirement outcomes, will require a shift in plan focus. Specifically, plan sponsors should consider putting less emphasis on maximizing participant autonomy and providing investment education, and paying more attention to proactively placing employees on a solid saving and investing path to a secure retirement—from which they can opt out at any point. This approach would leave ultimate saving and investment decision-making in the hands of participants, simplify investing and help put the force of inertia to work for employees.

“We need to make things easier for those not interested in retirement planning and those who have no knowledge of investing. Automatic increases with time and with raises are important, as well as the education as to why it is important.”
Our research strongly suggests that most participants would support this shift, and our findings provide direction for plan sponsors that want to fortify their DC plans. All DC plans are unique, and the features and strategies discussed here can also vary in their specifications and implementation. We urge all plan sponsors to work with their industry partners to consider the following steps for strengthening their DC plans and achieving secure retirement outcomes for their participants:

1. **Adopt automatic features.** Automatic enrollment and automatic contribution escalation can be most effective in combination. Both “do it for me” and “do it yourself” investors are in favor of or at least neutral toward these features. Their impact as catalysts is clear: Among “do it for me” investors, 43% of those automatically enrolled say they would not have joined the plan otherwise, while 17% of those whose contributions were automatically escalated say they would not have increased their contributions on their own.

2. **Select an appropriate QDIA, such as a target date fund.** TDFs are well-diversified, age-appropriate and professionally managed investment strategies that become more conservative as participants move toward retirement. These strategies have a very strong appeal. Even among “do it yourself” investors, almost half (47%), given the opportunity to invest in TDFs, did so.

3. **Conduct a re-enrollment.** This is one action that can immediately help move the needle in terms of improving asset allocations and retirement outcomes. It impacts all existing participants. Some plan sponsors are reluctant to conduct a re-enrollment, due to anticipation of participant pushback. Our research indicates this is likely a misperception: 82% of participants overall and 72% of “do it yourself” investors are in favor of or at least neutral toward this strategy.

Success in strengthening DC plans will require plan sponsors to understand what their participants want. It will also entail effective collaboration with industry partners: financial advisors/consultants and asset managers, to keep plan sponsors informed of industry innovations/best practices and provide plan-appropriate investment options; plan providers/recordkeepers, to help ensure the smooth participant experience that is critical to successful implementation; and policymakers, to provide clarification and guidance as plan sponsors adopt new features and strategies. Meaningful improvement in retirement outcomes will only be accomplished through this industry-wide commitment and coordination.
THE EVOLUTION CONTINUES

With the skillful collaboration of all involved, receptivity to practical new developments in plan design features and investment strategies, and awareness of participants’ needs and wants, we believe the fortification of DC plans will continue to advance at a steady pace. Working together, we can help to ensure that more members of the U.S. workforce experience a financially secure retirement.

At J.P. Morgan Asset Management, we are committed to supporting the continuing evolution of DC plans. Our biennial plan sponsor and participant surveys help us to stay on top of trends and developments impacting DC plans, understand the challenges faced by plan sponsors and their participants, and remain in the forefront of the financial industry’s response to the need for greater retirement security.

FOR ADDITIONAL INSIGHTS FROM THIS SURVEY OR TO ACCESS MORE OF OUR RETIREMENT INSIGHTS, CONTACT YOUR J.P. MORGAN REPRESENTATIVE
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