Pensions & Investments West Coast Defined Contribution Conference
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Does Automation Trump Education?

Moderator:
Laura Gaynor, Vice President, National Practice Leader, Transamerica Retirement Solutions

Speakers:
Meenu Natarajan, Retirement Programs Manager, Global Total Rewards, Franklin Templeton Investments
Molly Rudd, Senior Retirement Plans Administrator, Weyerhaeuser Company
Laraine McKinnon, Managing Director, Defined Contribution Group, BlackRock
Donna MacFarland, Senior VP, Chief Marketing Officer, Retirement Plan Services, Lincoln Financial Group
Audience Poll Question

Do you provide for automatic enrollment (with/without escalation) in your retirement plan?

1. No, we do not provide for automatic enrollment in our plan
2. Yes, we have automatic enrollment but we do not provide for automatic escalation
3. Yes, we have automatic enrollment and automatic escalation
Audience Poll Question

For those that offer automatic enrollment, have you dialed back your education to plan participants?

1. No, not at all
2. Slightly
3. Significantly
4. No, but we have redirected our education efforts
Plan Overview: Franklin Templeton 401(k)

*As of June 30th 2015

About the Plan*

• Plan Assets: ~$1.25 B
• Number of Participants: ~5,700
• Average tenure: 11+ years
• Employer match: 75%

*As of June 30th 2015

This information is for educational and informational purposes only and is not intended to provide investment tax or legal advice.
Real Effects of Automation

What we’ve implemented since 2006:
- Auto-enrollment of new hires at 3% of base pay
- Auto-escalation by 1% each year until reaching 15% of base salary
  - Opt-out rate: 3.6%
  - Plan does not auto-sweep those who opt out

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
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<tbody>
<tr>
<td>Participation Rate</td>
<td>~70%</td>
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Further Encouragement

- As new employees are automatically enrolled, the average deferral rate and average account balance can decrease—even with an aggressive auto-escalation policy.

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**However, we’ve maintained good numbers:**

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<tbody>
<tr>
<td>Average Deferral Rate</td>
<td>11%</td>
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<tr>
<td>Average Account Balance</td>
<td>$210,000</td>
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</table>

75% employer match encourages higher contribution rates.
Refocused Education Efforts

Topics for All Participants:
• Auto-rebalance
• Financial planning
• Retirement income & trends

Targeted Education Topics:
• Participants age 50 & older:
  – Social Security benefits
  – Catch-up contributions
• New hires & millennials:
  – Roth 401(k) feature
  – Managed accounts & access to advice
• Healthcare costs in retirement
• Beneficiary designations
• Non-participants & participants with loans and/or hardships:
  – Debt management & budgeting
• Participants with concentrated asset allocations:
  – Diversification & asset allocation campaigns

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Weyerhaeuser: About Our Plan

• We match $.50 on the dollar up to 6% for salaried and a handful of hourly locations and $.50 on the dollar up to 5% for the rest of the hourly locations.

• We have 9734 eligible employees and 8258 are participating (85%) with an average deferral percentage of 8.75%:
  - Hourly – 6326 eligible employees and 5121 are participating (81%) with an average deferral percentage of 7.94%.
    Average annual salary $46,766
  - Salaried – 3408 eligible employees and 3408 are participating (92%) with an average deferral percentage of 10.08%.
    Average annual salary $89,550
Weyerhaeuser: About Our Plan

- We don’t have loans in our plan, but do allow hardship withdrawals and 2 in-service withdrawals/year.
- Closed our pension plan to new hire and rehired salaried and non-union hourly employee on or after 1/1/2014.
- The DC replacement for those not in the pension plan is a 5% non-elective employer contribution to the 401(k) plan.
- 20 union location, 9 have bargained to close the pension plan to new hires and rehires.
- Each subsequent union negotiation will have the closure of the pension plan to new hires and rehires.
401(k) Plan – Automation

Auto-Enroll/Auto-Increase New Hires and Rehires

- Auto-Enroll at 3% for new hires with 1% annual increase and a 15% cap, implemented in 2009. For 2012-2014:
  - 0% have opted in 60-day opt-out period
  - Less than 2% have opted out after the first deduction has been taken
  - 26% positively enroll prior to 60-day opt-out period ending
  - 11% change investment from default after auto-enrollment
  - 21% opt-out of the one-step annual increase after 60-day window
401(k) Plan – Education

• We complete targeted education campaigns annually

• “Meet Your Match” - For employees not contributing or not contributing to the max match we send a direct mailing to the employees followed by an e-mail with corresponding posters at the locations. For 2012-2015, this was sent to 8371 employees and 689 have enrolled or increased their deferral percentage (8%).

• Investment Diversification – Promoting the importance of appropriate portfolio construction. Promotes the advice services within the Plan, with an emphasis to reduce portfolios with holdings of more than 20% in the Company Stock Fund. This has only had a 3% success rate.
401(k) Plan – Education

- In-Service Withdrawal – Targeting employees that have taken repeated withdrawals from the Plan. We measured the success of the campaign based on open and click through rates, but have not seen a reduction in withdrawals from the plan.

- We don’t have on-site education sessions. We offer webinars both from the plan sponsor and our administrator.
Automation vs Education: What the academics taught us

Laibson et al. 2002: “Saving for Retirement on the Path of Least Resistance”

- Used data to link employees’ receipt of financial education (seminars) to their actual savings behavior & followed participants’ intentions and actions thereafter.
  - After education, many participants plan to make 401(k) changes but very few actually do

- Conclusion:
  - While financial education does improve savings outcomes, its effects are modest at best
  - Participants follow the path of least resistance
To figure out what is right for you...

1) What’s the objective of your DC Plan?
2) Where does your plan stand?
3) Are your participants on track for retirement?

review your data
measure & quantify
design for desired outcomes
Putting the Future in Focus

- Consider the impact of plan design changes on participant outcomes at retirement
- Gauge the benefit in terms of replacement retirement income for participants
A framework for DC Plans

- Optimize the DC plan to drive retirement readiness

**AUTOMATION**
- Use automation and defaults to drive good outcomes
  - Saving – auto-escalation & auto-enrollment
  - Investments - QDIA
- Let participants opt out if it’s not right for them

**EDUCATION**
- Use education and communications to focus on financial wellness and retirement readiness
  - Benefits of starting young
  - Benefits of compounding
  - Benefits of diversification
- Use education to address the things you may not be able to control as a plan sponsor
  - Preparing for retirement
IMPORTANT: The projections or other information generated by the Future in Focus App™ (“App”) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Actual participant outcomes may vary with each use and over time.

*Investing involves risk, including possible loss of principal.*

*All App analysis and output are for informational purposes only and should not be construed as a recommendation or investment advice. The App should be used as part of a comprehensive due diligence process, should not be relied upon exclusively when evaluating a plan and is not meant to replace a plan sponsor’s fiduciary responsibilities.*

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Case study 1: Large mid-west healthcare client

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<th>Plan sponsor’s goals</th>
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<tr>
<td>• To provide competitive benefits and services to its employees</td>
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<tr>
<td>• Increase participation</td>
</tr>
<tr>
<td>• Drive higher deferral rates</td>
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<tr>
<td>• and ensure that participants were ready for retirement</td>
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<thead>
<tr>
<th>Plan design changes</th>
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<td>• Eliminated employer discretionary contributions</td>
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<tr>
<td>• Instituted a new auto-enroll program</td>
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<tr>
<td>• New Investment lineup</td>
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<tr>
<td>• Reset investment elections and mapped balances to the new QDIA</td>
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<tr>
<th>Education program</th>
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<tr>
<td>• Notification packets mailed to home</td>
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<tr>
<td>• Information email with Brainshark</td>
</tr>
<tr>
<td>• One-on-one meetings</td>
</tr>
<tr>
<td>• 12 group meetings were facilitated at the plan sponsor’s two locations</td>
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<th>Results</th>
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<tr>
<td>• 27% increase in total plan assets</td>
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<tr>
<td>• 17% increase in participation — from 82% to 96%</td>
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<tr>
<td>• 37% increase in employee contributions</td>
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<tr>
<td>• 23% increase in average account balance</td>
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<tr>
<td>• 8% increase in average deferral rate — from 6.3% to 6.8%</td>
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<tr>
<td>• Target-date portfolio assets increased from 51% to 84% of total plan assets</td>
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## Case study 2: Large east coast healthcare client

### Plan sponsor’s goals
- To ensure that employees had the easiest way to increase their retirement savings

### Plan design changes
- Auto escalation

### Education program
- Auto escalation client newsletter article
- Auto escalation custom web messaging
- Auto escalation statement message
- Auto escalation letter & envelope
- (1) system-generated
- (2) “custom” auto confirm letter when participants enrolled

### Results
- 126 participants enrolled by 5/2015 deadline
- 159 participants enrolled as of 9/3/15

For plan sponsor use only. Not for use by plan participants.
LCN-1305777-092115
Case study 3: Transportation management client

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<th>Plan sponsor’s goals</th>
<th>Plan design changes</th>
<th>Education program</th>
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| • Since most of the workforce is “on the road” they don’t have easy access to online education. Their priority was to build an education program to make the complexities of auto feature understandable in a one-on-one setting. | • Auto escalation | • Auto-escalation education  
• Retirement readiness statements  
• Newsletter article  
• One-on-one meetings |

**Results**

- 24% of employees attended a one-on-one meeting
- 66% increase in auto-increase feature following meetings (5% usage among entire employee base)
Case study 4: Government client

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<th>Plan sponsor’s goals</th>
<th>Plan design changes</th>
<th>Education program</th>
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| • To educate employees on the advantages of auto features as they entered the workforce. | • Auto enrollment  
• Auto increase | • Auto features flier for new hire package  
• Frequently asked question document  
• One-on-one meetings |

Results

• 98 participants made an affirmative election during initial 30 day opt out window, all but 4 participants elected a rate of more than 4%.  
• 151 participants were auto-enrolled at 4%
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