The Path Forward

Engaging the Younger Employee in DC Plan Participation

Northern Trust
We hope you enjoy the latest presentation from Northern Trust’s Line of Sight. By providing research, findings, analysis and insight on the effects and implications of our changing financial landscape, Line of Sight offers the clarity you need to make better informed decisions.
Defined contribution (DC) plans will play an increasingly larger role in retirement savings in the United States. Encouraging employees below the age of 35 to participate meaningfully, consistently and intelligently in these plans is critical to the successful longer-term retirement savings outcomes of this age group.

This edition of our DC research series, The Path Forward, examines challenges to achieving this objective and proposes ideas to encourage increased and higher-quality participation in defined contribution plans among younger employees.

THE PATH FORWARD DC INITIATIVE

The Path Forward DC initiative is an effort launched by Northern Trust in 2010 to help plan sponsors and the pension industry as a whole improve and perfect DC plans. In the series’ inaugural edition, Northern Trust presented a look at “Designing the Ideal Defined Contribution Plan,” which outlined the structures, practices and features DC plan sponsors and investment consultants would include in their visions of the ideal plan.

In this edition, “Engaging the Younger Employee,” we discuss

I. What Our Research Reveals  
II. How to Encourage Broader – and Deeper – DC Plan Participation  
III. 12 Key Action Steps
ADAPTING TO AN EVOLVING DC LANDSCAPE

Most workers below the age of 35 will never have access to a defined benefit pension plan. And given the perennial debate in Washington, D.C. over the future of entitlement programs, it would not be prudent for younger workers to assume they can rely on current levels of Social Security, Medicare and other government programs for support during retirement. For the majority of these workers, that leaves employer-sponsored DC plans as their primary means of saving for retirement.

But the DC structure was never designed to be a primary retirement savings vehicle, and some significant questions remain about the ability of current DC plans to play such a central role in the nation’s retirement savings system. Plan sponsors and plan providers have labored mightily during the past decade to ensure DC plans are up to the task. Many of those efforts, however, have focused on the needs of the 75 million-strong Baby Boom generation, which has been advancing toward retirement age amid serious questions about whether Boomers are financially prepared for retirement. Given the sheer size of this demographic segment – one Boomer turns 60 every eight seconds1 – focus on this group is understandable.

If DC plans are to become a more predominant form of retirement savings in the United States, the pension industry as a whole must act now to address the needs of younger workers. DC plans can succeed as a main source of retirement funding in the United States only if workers start participating early in their careers, make adequate contributions and avoid undermining progress through inaction, poor investment decisions or other mistakes. By the time a worker reaches his or her 40s it is often too late to make up for these past mistakes.

“Together with the inevitable adjustments required to preserve the solvency of Social Security, the disappearance of corporate DB plans for younger workers means two legs of the traditional retirement stool have been seriously weakened or eliminated,” said Bob Browne, Northern Trust’s chief investment officer. “If young workers are to have any chance of a financially secure retirement, they must fully embrace participation in company-sponsored DC plans immediately. There is no time to waste.”

Time to Act

Given the importance of this topic, Northern Trust has devoted this installment of The Path Forward DC research series to the issue of engaging younger employees in DC plan participation. In particular, we present a series of concrete steps plan sponsors, providers, government and other constituencies can take to increase DC participation rates among younger workers – defined here as below the age of 35 – and to improve the quality of participation among this critical demographic segment. These include:

- Near-term steps plan sponsors can take to advance those goals immediately at minimal cost.
- Medium-term steps plan sponsors can tackle with more concerted effort and some degree of expense.
- Longer-term steps that will require a broader effort on the part of the industry, regulators and even Congress.

RESEARCH APPROACH: ENGAGING THE YOUNGER EMPLOYEE IN DC PLAN PARTICIPATION

The goal of this report is to present recommendations to plan sponsors, providers and other constituencies about how to encourage increased and higher-quality participation in DC plans among younger employees. To identify those steps, Northern Trust engaged Greenwich Associates to interview 45 DC plan sponsors at some of the largest and most well-regarded companies in the United States, and 11 leading DC investment consultants. Altogether the DC plans included in the analysis represent more than 1.5 million participants and more than $175 billion in assets. Thirty-six percent of participating companies also had an active defined benefit plan.

Study participants were asked to describe and assess the effectiveness of past and current efforts to engage younger workers, with a focus on the following key areas:

- Plan design and features – especially automatic features
- Investment options – especially target retirement date funds and other asset allocation products
- Employee education
- The effect of the global financial crisis on both the savings status and attitudes of younger workers

Interviews were conducted from May 2011 to July 2011.

WHAT OUR RESEARCH REVEALS

It’s time to engage the younger employee. Most plan sponsors agree: the primary objective of offering a DC plan is to help employees prepare for retirement. Yet, in order to successfully meet that objective for younger employees, plan sponsors must increase attention and resources on the needs of these workers. While these workers have not typically been a primary focus as a discrete demographic, they still have time to make meaningful improvements to their financial positioning by saving and accumulating assets over the course of their careers.

The protracted financial crisis will have a long-lasting impact

Efforts to better engage younger workers in DC plans might have received an unlikely boost from the global financial crisis. History has shown that periods of widespread wealth destruction leave lasting impressions on young generations that experience them. The events of the past several years, combined with the resulting financial struggles experienced by many late-career Baby Boomers, have provided the current younger generation with a powerful lesson about the importance of saving and sound financial planning. These workers might be more inclined than their older peers to participate in DC plans earlier and more regularly, and to take investing more seriously by delegating decision making or using pre-mixed asset allocation products.
**Automatic enrollment works**

The industry and the nation as a whole have made significant progress in increasing the effectiveness of DC plans as a retirement savings vehicle. One huge step forward was the passage of the Pension Protection Act of 2006 (PPA), which provided safe harbor to employers who automatically enroll employees into a small set of professionally managed investment options designed to increase both the overall level and quality of participation, in terms of contributions and diversification. The combination of thoughtful regulatory reform and industry product innovation has driven a marked improvement in DC plan design and outcomes. The evidence: DC participation rates had hovered near 70% for years, despite plan sponsors’ experimentation with a myriad of schemes to educate workers about how and why they should be participating. Now, five years after the passage of PPA and the resulting widespread adoption of automatic enrollment features, DC participation rates have climbed to 76%.

Among our survey participants, plan sponsors reported strong participation rates of 71% or higher among the majority of their employees, but the younger employees lagged their older counterparts. (See Chart 1.) At the same time, the growing popularity of professionally managed asset allocation funds as qualified default investment alternatives (QDIAs), namely target retirement date funds, has made dramatic improvements in the quality of worker participation.

**There is still much work to be done**

Despite any change in generational attitudes and significant industry strides in recent years, DC plans need to improve substantially in order to serve as a primary retirement funding vehicle for today’s younger workers. These improvements must come in three areas: plan management, product development and regulation.

**CHART 1: CURRENT PARTICIPATION RATES IN DC PLAN**

![Chart showing participation rates by age group]

Source: Northern Trust – Engaging the Younger Employee Research.

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YOUNGER WORKERS ENGAGED?

Although plan sponsors and regulators have been working hard to improve DC plan effectiveness, a sizable share of plan sponsors have doubts about the ability of their own DC plans to adequately prepare younger workers for retirement. While approximately 60% of plan sponsors say they are “confident” or “very confident” in their plan’s ability to prepare younger workers for retirement, the rest are not so sure. (See Chart 2.) Fewer than half of DC investment consultants are confident their clients’ plans are up to the task.

CHART 2: HOW CONFIDENT ARE YOU IN YOUR DC BENEFIT’S ABILITY TO PREPARE YOUNGER WORKERS FOR RETIREMENT?

![Chart 2: How Confident Are You in Your DC Benefit’s Ability to Prepare Younger Workers for Retirement?](image)

Source: Northern Trust – Engaging the Younger Employee Research.

One reason some plan sponsors might lack confidence in their plan’s ability to deliver for young workers: most have never analyzed or set specific goals for the different age demographics that make up their plans. In fact, 96% of plan sponsors participating in the study have not set goals specific to age ranges and three-quarters have not defined any age-based participation strategies. (See Chart 3.)

CHART 3: GOALS AND STRATEGIES

![Chart 3: Goals and Strategies](image)

Source: Northern Trust – Engaging the Younger Employee Research.
Setting goals and building marketing strategies around different demographic groups is a critical step in improving DC plan funding effectiveness. In particular, it’s critical plan sponsors design specific strategies that target younger workers. The reason: Workers who wait until the age of 40 or older to begin saving for retirement very likely will fall short of their financial goals. By contrast, workers who begin participating in DC plans in their 20s or even early 30s have an opportunity to achieve their goals – if they stay engaged and make the right decisions.

DC investment consultants pinpointed three characteristics of young workers that make encouraging high-quality participation a challenge. According to these survey participants, young workers:

- Lack discipline and frequently maintain low savings rates
- Have difficulty staying engaged with a program over a long period
- Generally lack a basic education in investment issues

Adding to younger employees’ retirement savings challenges, almost 60% of workers below the age of 30 cash out their balances when leaving a job. This compares to a cash-out rate of only 37% for employees between the ages of 46 and 54. (See Chart 4.) Though the balance initially may just be a few thousand dollars, these amounts could turn into tens of thousands of dollars at retirement. As regulations do not currently permit employers from prohibiting this type of endemic plan leakage, plan sponsors in our survey suggest Congress get involved. One plan sponsor noted, “younger employees don’t seem to understand just how damaging it can be to take an early distribution between jobs.”

Not all DC shortcomings can be blamed on youthful ignorance or indifference, however. To

"KIDS" TODAY ...

The largest obstacle to getting young workers to commit to high-quality participation in DC plans is their lack of understanding about the importance of saving early, saving aggressively and diversifying appropriately. Plan sponsors participating in The Path Forward research study observed:

“The below-35 set traditionally sees retirement as years away and their thinking is only looking forward to the weekend. Retirement plans and savings plans are not on their radar and, in an environment where workers are not staying with one company throughout their working years, joining a retirement plan may be for the ‘next’ job, not necessarily this one.”

“There is a lack of financial literacy or any understanding of the magnitude of the obstacles and how important time and compounding are in that analysis.”

“They need education to understand how much they have to save in order to retire with enough assets. Six percent is not enough.”

“You can’t reach them. You can try to communicate with them but often they don’t pay attention. They are computer literate so that’s making it a bit easier, but they are ignoring our education outreach efforts regarding the benefits of investing.”

CHART 4: CASH-OUT RATES FOLLOWING JOB TRANSITION


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the contrary, flaws in plan and product design also undermine the long-term effectiveness of DC plans as a retirement savings vehicle. One prime example occurred following the 2008 financial crisis when some plan sponsors realized they were uncomfortable with the glidepath construction of their target retirement date funds. Certain funds contained large allocations to equities and other relatively high-risk asset classes that lost significant value – dealing a serious setback to DC plan participants’ chances of accumulating enough assets during their careers to fund their retirements. Although target retirement date products represent an important step forward in DC plan design, the 2008 financial crisis illuminated the challenge for plan sponsors to identify the optimal glidepath for their participants.

**AUTO FEATURES: THE HOLY GRAIL?**

The evidence is clear: Young workers are not very good savers. Although nationwide DC participation rates have climbed in recent years, participation rates among younger workers continue to lag those of their older counterparts. Only 50% of workers below the age of 30 participate in 401(k) plans offered by employers compared to 76% of employees between the ages of 46 and 54. Younger workers also contribute much less to their DC plans than do their older peers. Based on the results of our survey, workers age 35 and older are more likely to set pre-tax contributions at 6% or higher; younger workers are more likely than their older counterparts to contribute 5% or less. (See Chart 5.)

**CHART 5: AVERAGE CONTRIBUTION LEVEL (PRE-TAX) IN DC PLAN**

To help address these disparities, plan sponsors are pushing for more “automatic” features that take key decisions out of participants’ hands. Along with employer contribution matches, the adoption of automatic features has proven the most effective in getting younger employees involved, engaged and participating, though it may have the unintended consequence of lowering overall “average” plan contribution rates.

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Seventy-eight percent of plan sponsors participating in the study have implemented automatic enrollment in their DC plans. (See Chart 6.) More than half the plan sponsors using automatic enrollment adopted the feature between 2006 and 2008, in the wake of the passage of PPA. Plan sponsors who have implemented auto-enrollment estimate participation rates increased by an average of 13% since adoption.

![Chart 6: Does your DC plan include automatic features?](source: Northern Trust – Engaging the Younger Employee Research)

About half of all survey respondents also say their plans use auto-escalation features and about one-third employ automatic rebalancing. In combination with auto-enrollment, these features are a powerful driver of increasing deferral rates and improving portfolio diversification. In fact, more than 86% of the plan sponsors say they are convinced auto features improve both the level and quality of participation among young workers. (See Chart 7.) Given this result, it is surprising that use of auto plan features is not more widespread.

One DC investment consultant explained why auto-enrollment increases participation rates among young workers:

“It really plays into the inertia factor. People find it very difficult to make these kind of decisions about long-term planning – the human brain doesn’t work that way – and by automatically enrolling them you are really turning inertia in your favor. We see a huge impact.”

Another consultant commented on the impact of auto-escalation:

“Whenever we have seen clients implement auto escalation, it definitely increases the deferral rate of participants and there’s typically very little push-back from participants. The difference from paycheck to paycheck is pretty tiny if it is set to increase by one more percent, so there is little complaining.”

![Chart 7: Auto features proven effective for younger employees?](source: Northern Trust – Engaging the Younger Employee Research)
The plan sponsors participating in the study highlight the benefits of auto-enrollment:

“By auto-enrolling we get the few who wouldn’t participate on their own, the group that probably isn’t thinking that far ahead and maybe doesn’t care all that much.”

“Auto-features are great for making sure that a worker’s plan does not stay stagnant, and provide a benefit in the long run as some participants don’t even look at their statements or take the time to find out what steps they should be taking once they are enrolled.”

“Many people will not take the initiative to join but once they are in then they either leave it alone or they get interested and use the plan to its fullest potential. Either way, it is an increase in participation.”

“Because participants are passive, especially the younger employees, it’s inertia. When they had to enroll there was inertia stopping them from doing so and now there is inertia [keeping them in the plan].”

Plan sponsors surveyed did not report higher-than-average rates of plan drop-outs among younger employees who have been automatically enrolled in DC plans. One investment consultant went so far to say that, in his experience, plan sponsors that have adopted auto-enrollment have been “pleasantly surprised by the number of folks who do not drop out.” Another consultant said he now sees some younger workers making deferrals in the 12% to 15% range, a clear sign that “something is working” in plans that have adopted auto features. (See Chart 8.)

**Chart 8: Percent of Auto-Enrolled Participants Who Opt Out Within 6 Months**

<table>
<thead>
<tr>
<th>Opt Out Rates</th>
<th>Below Age 35</th>
<th>Age 35 or Older</th>
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<tbody>
<tr>
<td>1-3%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>4-6%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>7-9%</td>
<td>40%</td>
<td>20%</td>
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<tr>
<td>10%+</td>
<td>20%</td>
<td>20%</td>
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</tbody>
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Base: 34 respondents for Total, 5 respondents for age groups.
Source: Northern Trust – Engaging the Younger Employee Research.
TARGET RETIREMENT DATE FUNDS: THE CLEAR QDIA LEADER

Nearly three-quarters of the plan sponsors participating in the study have selected target retirement date funds as their QDIA. (See Chart 9.) Among the other options selected by plan sponsors are target risk funds and managed accounts, although neither of these products has gained anything close to the traction demonstrated by target retirement date funds. As evidence, according to a recent Mercer study, plan sponsors are eight times more likely to use a target retirement date fund than a target risk fund in their plans. Plan sponsors cite the many obvious benefits target retirement date funds deliver to participants when used as a QDIA.

Given that more than half of plan sponsors report that the share of younger workers defaulted into the QDIA is north of 40%, target retirement date funds are clearly a critical investment option for younger employees in particular. (See Chart 10.)

The benefits for younger employees include portfolio diversification, higher return potential through long-term exposure to equities and consistent professional asset allocation decisions throughout their working careers. As a result, between 85% and 90% of plan sponsors say they are “satisfied” or “very satisfied” with their QDIA. More specifically, 95% of plan sponsors say they are confident the investment options available in DC plans today allow for properly diversified portfolios for participants below the age of 35. (See Charts 11 and 12.)

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But this high level of support for QDIAs is somewhat inconsistent with lower levels of confidence among plan sponsors that the DC plan will adequately prepare younger workers for retirement, especially given the propensity of younger workers to use the QDIA. That may be because plan sponsors and DC investment consultants continue to note some significant shortcomings of the target retirement date fund products they have selected as QDIAs, including:

- Equity allocations that are too high
- Glidepaths that are too aggressive
- Underperformance in actively managed asset classes relative to benchmarks
- Inadequate exposure to non-U.S. investments
- Levels of complexity that make it hard for participants to understand
- A lack of transparency regarding underlying investments

Source: Northern Trust – Engaging the Younger Employee Research.
As these responses indicate, there is still work for the industry to do in making target retirement date funds more effective investment vehicles. In November 2010, the Department of Labor issued proposed regulations requiring additional disclosures in target retirement date fund communications, which will address some of the shortcomings. But, plan sponsors still will need to align their choice of target date retirement glidepaths to better reflect the needs, sophistication levels and risk tolerance of their plan participants.

“Although these are real issues that need to be addressed, it is important to keep in mind: these products have already gone a long way to overcoming one of the most difficult issues in DC. Namely, a lack of informed investment decision making that frequently leads to inactivity or limited participation,” said Greenwich Associates consultant Andrew McCollum. “Going forward, the industry needs to continue refining these products to make them as effective as possible for DC plan participants.”

THE THRIFTIEST GENERATION?
Due to the financial crisis and subsequent recession, many young U.S. workers have gotten off to a difficult start in building a secure financial future. Employment rates among young Americans are at historic lows: According to the Bureau of Labor Statistics, the unemployment rate among 16- to 24-year-olds in the United States topped 17% in May 2011.

Those scary jobless rates are having a real impact on the behavior and attitudes of the younger generation, even on those who do have jobs. Uncertainty about economic prospects is hardly conducive to saving, and plan sponsors might find it difficult to convince young workers to put away money for a decades-away retirement when the worker and his or her family have pressing cash needs today. Even many young Americans participating in DC plans started their retirement savings with a significant setback: Lacking experience in financial markets, young workers might have been more likely to exit under-performing investments during the financial crisis, locking in losses and missing out on the 2009 rebound. Together, these experiences might have eroded some young workers’ confidence in financial markets as a generator of wealth and DC plans as an effective savings vehicle.

From a longer-term perspective, however, the financial crisis and recession could ultimately play a positive role in terms of shaping the attitudes and behaviors of young workers. There are some obvious parallels between this generation and the generation that lived through the Great Depression: Both experienced the effects of unemployment and economic dislocation first-hand. Though young workers today may be financially or psychologically supported by a social safety net, they are likely to carry these memories and lessons with them for the rest of their lives. If these workers follow the example of many who lived through the Great Depression, they might demonstrate a life-long appreciation for the value of financial security. This perspective could manifest itself through higher savings rates and higher participation rates in company-sponsored DC plans, as well as greater engagement levels in managing their plan accounts and other investments.

“Relative to older workers, members of the younger generation were fortunate to experience the financial crisis at an early point in their working lives,” said Jim McDonald,
chief investment strategist at Northern Trust. “Not only do they have time to make up their losses, they also have access to professionally managed products that probably helped some of them emerge with portfolios more or less intact.”

One DC investment consultant gave his assessment of how the financial crisis experience will affect the savings and investment behaviors of younger workers:

“I think from a savings behavior perspective the experience will cause them to contribute more into the plans. From an asset allocation standpoint, I think it will make them tend to be a little more conservative than what they could potentially or should potentially be given their long-term investment horizon.”

COURTING YOUTH: HOW TO ENCOURAGE BROADER AND DEEPER PLAN PARTICIPATION

The DC plan sponsors and investment consultants participating in this research expressed preferences and suggestions they believe will encourage broader and deeper participation in DC plans among younger employees:

Near-term actions requiring minimal investment by plan sponsors

- **Slice by segment.** One of the best ways plan sponsors can effectively encourage high-quality participation among discrete demographic segments of their workforce is by setting goals and measuring progress by age segment. Most plan sponsors currently track rates of participation and engagement only at an aggregate level among all participants.

- **Adopt a marketing mindset.** In keeping with setting goals and measuring progress by segment, plan sponsors should view the challenge of increasing participation rates and deferrals as a marketing exercise. Marketing campaigns are by their nature targeted to specific constituencies, with messages and goals tailored to the demographic characteristics of those segments.

- **Don’t give up on education plans – improve them.** Like a good marketing program, a quality education program is tailored to the needs and perspectives of its target audience. Young employees are a prime target for education efforts simply because they have so little experience with savings and financial matters. Since younger employees might also be a less-than-receptive audience for such outreach, plan sponsors should experiment with new communication tools that might appeal to this segment, such as mobile devices or social networking sites.

- **Reduce plan leakage.** Although participants are often driven by real financial needs, it is incumbent upon plan sponsors to do everything in their power to protect DC balances – even from the participants themselves. There is one step plan sponsors can
take to preserve retirement benefits in participant portfolios: tighten conditions on, or even eliminate, loan options. In today’s difficult economic times, participants are often tempted to take loans against their DC accounts. The stakes are simply too high. Plan sponsors should restrict loans to the greatest extent possible overall, to require greater evidence of need and to prohibit multiple loans.

**Medium-term actions requiring some level of investment on the part of plan sponsors**

- **Implement auto plan features – the more the better.** Nearly two decades of plan sponsor experience with education programs and other efforts have demonstrated education’s limitations in increasing employee participation rates and deferrals. Auto-enrollment, auto-escalation and other automated features can “move the needle” on both counts.

- **Escalate deferrals to 15%, automatically.** Most DC plan participants are not contributing enough pre-tax dollars to adequately fund their retirements. Auto-escalation can be an effective solution to this problem because it increases deferrals gradually over time and, since the escalation frequently occurs in tandem with a pay increase, often before workers become accustomed to having the extra take home pay. Our belief: Adopt an auto-escalation feature and allow deferrals to increase over time to 15%. Of course, increasing the auto-escalation level may result in increased costs to the plan sponsor in the form of greater employer matching contributions.

- **Align target retirement date funds with participant needs.** Earning potential and financial sophistication among workers can vary considerably across companies and industries. For this reason, plan sponsors should profile their participants – based on age and savings demographics, other retirement benefits and risk tolerance, among others – and select a glidepath that most closely matches that profile.

- **Implement re-enrollment.** One of the key drivers of investment success is appropriate diversification. Sponsors have traditionally used education programs to motivate participants to properly diversify their DC plan portfolios, which met with limited success due to participant inertia. In response, we believe one strategy sponsors should consider is re-enrollment, whereby participants’ holdings are transferred into the QDIA, unless of course they decide otherwise. Thanks to the PPA, sponsors now have some fiduciary relief under Section 404(c) for re-enrolling participants into a QDIA during a conversion or plan menu change.

**Long-term actions not wholly in the control of individual organizations**

- **Reform counterproductive regulations.** Plan sponsors and consultants suggested two changes to pension regulation to improve the odds that workers relying on DC as a primary retirement funding vehicle are able to accumulate enough assets over the course of their careers. First, current laws should be changed to permit “participation drives,” consistent with regulations for health plan enrollment. Second, legislators
should re-examine the restrictions on pre-tax contribution limits. At a time when retirement underfunding represents such a significant challenge to the country, many consider potential reductions to pre-tax contributions to DC plans counterproductive.

■ **Require participation.** This seemingly radical step has proven effective in various forms in other countries. Australia’s superannuation program is one approach in which employers must make contributions on behalf of employees. The United Kingdom will require companies to have a pension in place and auto-enroll employees into the plans beginning in 2012. As suggested in our first installment of *The Path Forward* research, similar changes in the United States should be considered given the fact most U.S. workers are pinning their retirement funding hopes on DC plan structures that were never designed to serve as the country’s primary retirement savings vehicle. “With the level of stress on federal entitlement programs, perhaps we are past the point of asking if it’s appropriate to require participation in DC plans,” said Jim Danaher, managing director of Northern Trust’s DC Solutions group. “It seems the more relevant question now is: Are there any other realistic options?”

■ **Institute mandatory rollovers.** In an effort to reduce the all-too-often retirement savings leakage that occurs during employment changes, legislators would be wise to examine reducing flexibility for distributions when individuals incur a separation of service. Younger workers are likely to switch jobs more frequently than their older counterparts. Enacting legislation that prohibits taxable distributions immediately following a job change would make them more likely to keep money in a retirement account and therefore benefit from the compounding effect of long-term investing.

■ **Embrace technology.** Industry participants ranging from recordkeepers to investment managers and advisors should be making better use of technology in a concerted effort to reach younger workers. Technology can help deliver critical plan information, as well as general education about retirement savings and investing in general – especially regarding the power of compounding interest, which in most cases will be the only method for workers to generate sufficient assets to fund their retirements. To that end, recordkeepers and plan sponsors alike should be investing in mobile technology, social networking, online tutorials, plan participation simulators and other Internet-based information delivery methods. The industry should also be working with technology providers and creative resources to explore “out of the box” channels for reaching younger workers.
CONCLUSION
Recent legislative changes and product innovations have significantly improved the effectiveness of DC plans as a vehicle for retirement savings. But, plan sponsors, providers and legislators should not stop there. Building on recommendations outlined in our first edition of *The Path Forward* research (Designing the Ideal Defined Contribution Plan), this research presents a series of concrete steps to improve long-term retirement savings outcomes for younger workers.

### 12 Key Action Steps to Engage the Younger Employee

<table>
<thead>
<tr>
<th>Key Steps</th>
<th>Why This Makes Sense</th>
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<tbody>
<tr>
<td><strong>Near-Term Actions</strong></td>
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<tr>
<td>1 Segment plan participants by age groups</td>
<td>Setting participation and engagement goals — and measuring progress by age group — will focus younger employees’ attention on retirement savings efforts.</td>
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<tr>
<td>2 View the effort to increase participation as a marketing exercise</td>
<td>Targeted marketing campaigns can help ensure messages and goals are tailored to the needs of younger employees.</td>
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<tr>
<td>3 Tailor education plans to plan participant needs</td>
<td>Younger employees, who are typically less financially literate than more experienced workers and more receptive to new media, could benefit from educational campaigns.</td>
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<tr>
<td>4 Reduce plan leakage</td>
<td>Reducing plan leakage helps protect account balances in the critical early stages of workers’ careers.</td>
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<td><strong>Medium-Term Actions</strong></td>
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<tr>
<td>5 Implement auto plan features</td>
<td>Auto-enrollment, auto-escalation and other automated features have proven to drive meaningful improvements in employee participation rates and deferrals.</td>
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<tr>
<td>6 Escalate deferrals to 15%, automatically</td>
<td>Increasing deferrals gradually over time to a meaningful level of 15% ensures that employees take full advantage of employer contributions.</td>
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<tr>
<td>7 Align target retirement date funds with participant needs</td>
<td>The appropriate glidepath will differ by plan sponsor, depending upon plan demographics, other retirement benefits offered and risk tolerance.</td>
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<tr>
<td>8 Implement re-enrollment</td>
<td>Implementing re-enrollment during a conversion or plan menu change will help diversify accounts of less-active participants.</td>
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<td><strong>Long-Term Actions</strong></td>
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<tr>
<td>9 Reform counterproductive regulations</td>
<td>Permitting “participation drives” and re-examining contribution limits will improve participation and deferral rates.</td>
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<tr>
<td>10 Require participation</td>
<td>Employees would begin mandatory contributions on their first day of employment.</td>
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<tr>
<td>11 Institute mandatory rollovers</td>
<td>As younger workers are more likely to switch jobs, this step would reduce leakage during job transitions.</td>
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<tr>
<td>12 Embrace technology</td>
<td>Use of social networking, online and mobile technology is more likely to catch younger workers’ attention than traditional education tools.</td>
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### Participating Plan Sponsors and Consultants

#### Plan Sponsors
- American Bar Association
- Altria Group, Inc.
- Baker Hughes Inc.
- The Boeing Company
- Bridgestone Americas, Inc.
- Dow Corning Corporation
- Energy Future Holdings Corporation
- Ford Motor Company
- Illinois Tool Works Inc.
- Integrys Energy Group, Inc.
- Lockheed Martin Corporation
- The Lutheran Church-Missouri Synod
- Marshfield Clinic
- Microsoft Corporation
- Motorola Mobility Holdings, Inc.
- Motorola Solutions, Inc.
- NCR Corporation
- Nissan North America, Inc.
- Northern Trust
- Olin Corporation
- Pepco Holdings, Inc.
- PricewaterhouseCoopers
- Rexam PLC
- Sara Lee Corporation
- Sidley Austin LLP
- Sprint Nextel Corporation
- Thyssenkrupp USA, Inc.
- Tomkins Limited
- Tyco International Ltd.
- United Launch Alliance, LLC.
- Vulcan Materials Company
- Walgreen Company
- Wisconsin Energy Corporation

#### Consultants
- Aon Hewitt Corporation
- Callan Associates
- DiMeco Schneider & Associates
- Hewitt EnnisKnupp, Inc.
- Marquette Associates, Inc.
- Mercer Investment Consulting
- NEPC, LLC
- Plan Sponsor Advisors
- Jeffrey Slocum & Associates, Inc.
- Towers Watson & Company
- Wilshire Associates Inc.

The above reflects a list of clients selected based on their participation in this survey that have consented to the use of their name. It is not known whether the listed clients approve of Northern Trust, Northern Trust Global Investments or any services provided. Twelve plan sponsors requested anonymity.
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THE PATH FORWARD
The Path Forward DC research series, launched in 2010, is designed to help plan sponsors – and the pension industry as a whole – improve defined contribution plans.

In the series’ inaugural edition, “Designing the Ideal Defined Contribution Plan,” 50 large U.S. DC plan sponsors and five leading investment consultants were asked to describe their ideal DC plan, focusing on:

- Plan design and features
- Investment options
- Employee education and advice
- Administration
- Fees

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