

PlanSuccess Behavioral Audit Report: SAMPLE PLAN

Prepared by:



13 February, 2013 SAMPLE PLAN



What is PlanSuccess?

A system designed to improve 401(k) plans according to behavioral finance best practices.

PlanSuccess will provide you with practical behavioral solutions to help more of your employees:

- ✓ Save
- ✓ Save More
- ✓ Save Smarter

How PlanSuccess Works



An audit tool guides you and Plan Sponsor Consultants through up to 23 questions about your 401(k) plan today, which are grounded in behavioral finance research.



Based on your answers, the tool will show you how your plan stacks up against three key success measures. You receive a tailored set of recommendations to consider.



Plan Sponsor Consultants will work with you to put effective solutions in place and to measure your progress year after year.

How PlanSuccess Works Continued





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What is the participation rate for your plan?

(Enter Percentage 0-100%)

85.23%

Question 1a:

Does your plan use auto-enrollment for <u>new employees</u>?

(Choose one)

☐Yes

▼No

Question 1b:

Does your plan use auto-enrollment for existing employees?

(Choose one)

☐ Yes

No

☑Not Applicable

Question 1c:

What is the initial deferral rate (%) for auto-enrolled participants?

(Enter Percentage 0-100%)

Not Applicable

Question 1d:

Does your plan offer easy-enrollment?

(Choose one)

☐ Yes



Question 1e:

Does your plan offer active-enrollment?

(Choose one)

☐ Yes



Question 1f:

Does your plan offer a <u>future-enrollment</u> option when an employee decides not to participate in the plan?

(Choose one)		
Yes		
No		
✓ Not Applicable		

Question 2:

What is the maximum percentage of pay that the employer will match? (For example, if the employer matches 50 cents on the dollar up to 6% of pay, the answer here would be 6%, not 3%)

(Enter Percentage 0-100%)

6%



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What's the average employee deferral rate for your plan?

(Enter Percentage 0-100%)

5.95%

Question 4a:

Does your plan use auto-escalation of deferrals for <u>new employees</u>?

(Choose one)

∏Yes

▼No

Question 4b:

Does your plan use auto-escalation of deferrals for existing employees?

(Choose one)

Yes

□No

☑Not Applicable

Question 4c:

Since your plan currently uses auto-escalation, what is the percentage by which employee contribution rates are increased annually?

(Enter Percentage 0-100%)

Not Applicable

Question 4d:

At what percentage of salary are auto-escalations capped?

(Enter Percentage 0-100%)

Not Applicable

Question 5a:

Does your plan implement auto-escalations to coincide with salary increases?

(Choose one)

Yes

∏No

✓ Not Applicable

Question 5b:

Question 3b.
When do auto-escalations occur?
(Choose one)
Every January as designated by the employer
Other (Please specify)
▼Not Applicable
Question 6:
People have a strong tendency to focus on the short term and often have difficulty thinking concretely about the future. Do you offer specific tools to participants to help them envision their own retirements?
(Choose one)
☐ Yes
✓No
☐ Don't know



Question C:

What percentage of plan participants are invested in default investment funds? If you do not have a default fund, please enter "0"

(Enter Percentage 0-100%)

6%

Question 7a:

Does your plan offer a default investment choice for <u>new employees</u>?

(Choose one)

☑Yes - Target date fund
Yes - Target risk fund
Yes - Balanced fund
Yes - Third-party managed account
Yes - Other (Please specify)
□No - No default offered

Question 7b:

Does your plan offer a default investment choice for existing employees?

(Choose one)

Yes - Target date fund
Yes - Target risk fund
Yes - Balanced fund
Yes - Third-party managed accounts
Yes - Other (Please specify)

No - No default offered

Question 7c:

How is your plan's fund menu typically presented to participants?

(Choose one)

According to risk, with the safest funds listed first

Starting with funds that are appropriate for the widest range of investors (such as target date funds)

In alphabetical order

✓ Other (Please Specify)

Sorted by asset class

Question 7d:

How many investment options does your plan offer in each of the following categories?

(Fill in the number)

One-stop portfolio solutions	1	
Core	14	
Specialty	0	

Question 7e:

One strategy used to group funds is to target one-stop funds for most employees, core funds for a smaller base of employees who are more self-directed, and specialty funds for expert investors. Do you use this system of grouping funds in your plan?

(Choose one)

☐ Yes
☑ No

Question 7f:

What percentage of your plan's assets is in company stock? If none, please enter "0"

(Enter Percentage 0-100%)

0%

Question 8:

On account statements, do you present long-term performance information first, before you present quarterly performance information?

(Choose one)

☐ Yes
☑ No

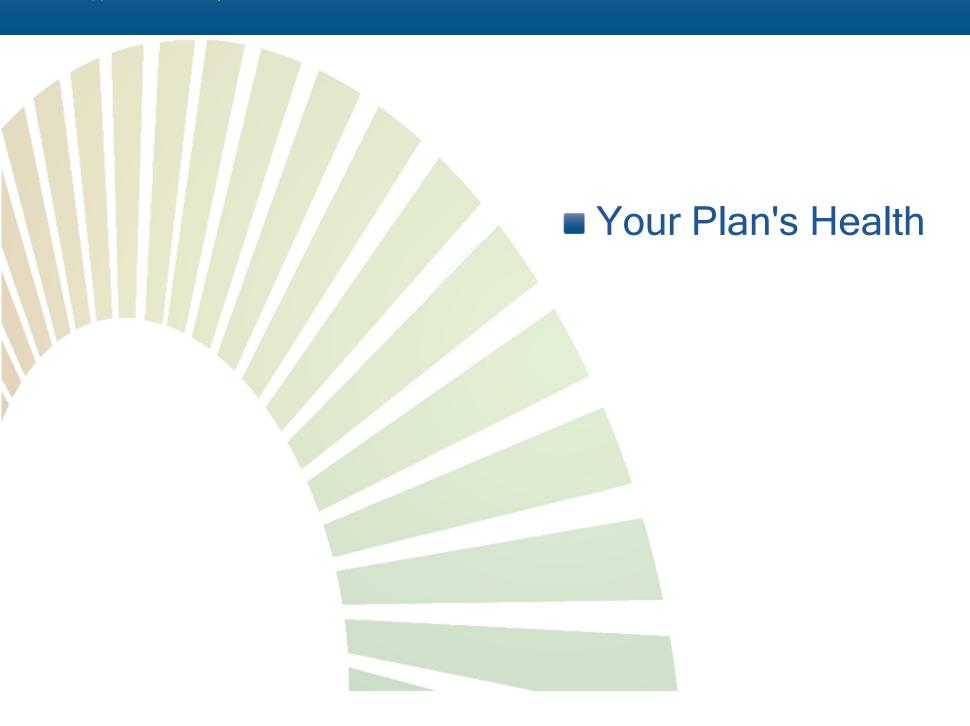
Question 9:

Do account statements show participants their projected income at retirement given their current savings trajectory?

(Choose one)

✓ Nc

Don't know



And now the results...

Thanks for completing the PlanSuccess questionnaire. The meters below show how your plan compares to a successful 401(k) plan based on the three key measures:



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Participation health index



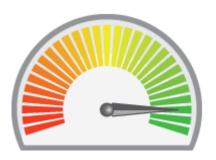
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Deferral health index



43

Investment menu health index



95
Participation health index

Your plan's health in the Participation health index area may potentially be enhanced by incorporating the following solutions. Each delivers on a best practice that we've identified through behavioral finance research.

✓ Implement auto-enrollment for new employees. Making plan participation automatic can help boost participation by letting inertia work in employees' favor. See Chapter 1 of the book, Save More Tomorrow.



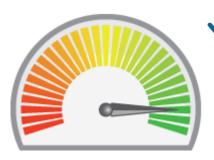
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Participation health index

✓Implement auto-enrollment for existing employees.

Automatically enrolling existing employees who have failed to join the plan on their own can help increase plan participation. See Chapter 1 of the book, *Save More Tomorrow*.

✓Increase default deferral rates for auto-enrolled employees.

Setting a higher default deferral rate, preferably 6%, can help set employees on the path to greater long-term savings. See Chapter 1 of the book, *Save More Tomorrow*.



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Participation health index

- ✓ Offer easy-enrollment to employees. While auto-enrollment generates the highest participation rates, there are other options to consider if you decide against it. One way to increase participation is through easy-enrollment, which makes joining the plan a simple yes/no decision—one that is attached to a default savings rate and investment allocation. See Chapter 1 of the book, *Save More Tomorrow*.
- ✓Offer active-enrollment to employees. If you decide against auto-enrollment, you can still help boost participation by prompting employees to make an enrollment decision. With active-enrollment, employees must choose whether or not to participate in the plan. Using this feature in combination with easy-enrollment can get even stronger results. See Chapter 1 of the book, *Save More Tomorrow*.



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Participation health index

✓ Provide a future-enrollment option. Employees who initially decide not to enroll in your plan may find it easier to commit to saving in the future. By providing a feature that lets them sign up today to start saving at a specified future date, you increase the odds that they will eventually participate. See Chapter 1 of the book, *Save More Tomorrow*.

✓Work with your advisor to optimize your employer match.

Increasing the employer match cap can give participants an incentive to enroll and save more. At the same time, adjusting the match rate downward can help control the costs that come along with greater employee participation and savings. *Plan Sponsor Consultants* can work with you to optimize the balance between your plan's match cap and rate. See Chapter 2 of the book, *Save More Tomorrow*.



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Deferral health index

Your plan's health in the Deferral health index area may potentially be enhanced by incorporating the following solutions. Each delivers on a best practice that we've identified through behavioral finance research.

✓ Establish auto-escalation of deferrals for new employees.

Adding a feature that automatically steps up new employee contributions, often to coincide with annual pay increases, makes higher savings seamless for participants. See Chapter 4 of the book, *Save More Tomorrow*.



60Deferral health index

- ✓ Establish auto-escalation of deferrals for existing employees. Adding a feature that automatically steps up existing employee contributions, often to coincide with annual pay increases, makes higher savings seamless for participants. See Chapter 4 of the book, *Save More Tomorrow*.
- ✓ Automatically increase deferral rates by two percent annually. Auto-escalation percentages of 2% can help participants keep on pace with their retirement goals. See Chapter 4 of the book, *Save More Tomorrow*.



✓ Raise the cap for employee deferral rates. Stepping employee deferral rates to at least 10% of their annual salary opens the door for robust retirement savings. See Chapter 4 of the book, *Save More Tomorrow*.

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Deferral health index

✓Time automatic savings increases to coincide with annual pay increases. Automatically increasing deferral rates at the time when annual pay raises usually occur can take the bite out of saving more for retirement. Alternatively, there's some benefit to timing them in January. See Chapter 5 of the book, Save More Tomorrow.



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Deferral health index

✓Offer tools to help employees envision their retirements.

An exercise that prompts employees to actively imagine their individual retirements can motivate them to save more. See Chapter 6 of the book, *Save More Tomorrow*.

Investment menu health index



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Investment menu health index

Your plan's health in the Investment health index area may potentially be enhanced by incorporating the following solutions. Each delivers on a best practice that we've identified through behavioral finance research.

✓ Restructure your investment menu to accentuate the most broadly appropriate funds. In a healthy investment menu, funds that are appropriate for the widest range of investors (such as target date funds) should generally be presented first. See Chapter 7 of the book, *Save More Tomorrow*.

Investment menu health index



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Investment menu health index

- ✓ Target a selection of about seven core funds. Research has shown that a selection of more than five to nine funds can impair investor decision-making. Seven core funds is a healthy target. See Chapter 7 of the book, Save More Tomorrow.
- ✓ Construct a "choice pyramid" to better frame your plan's investment options. A three-tiered investment menu that groups one-stop, core and specialty funds—and presents them in that order—can provide a solid framework for investor choices. See Chapter 7 of the book, Save More Tomorrow.

Investment menu health index



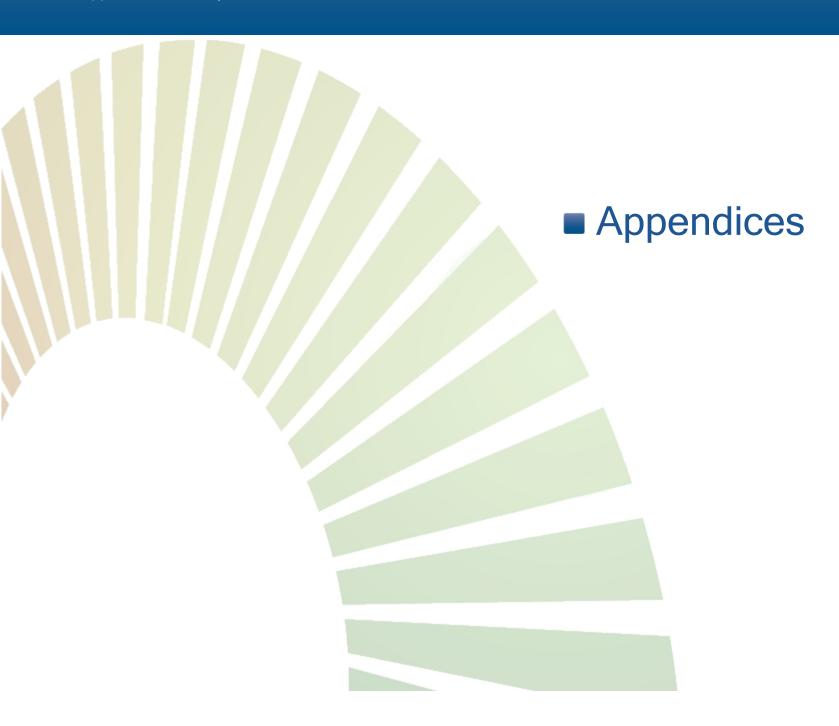
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Investment menu health index

- ✓ Lead account statements with long-term performance information. By presenting only long-term performance information on the first page of account statements, you can help employees stay focused on the big picture. Shorter-term, quarterly account performance is not required to be the most prominent piece of information. See Chapter 8 of the book, *Save More Tomorrow*.
- ✓ Show employees their projected income at retirement. By giving participants a tangible context for their savings, you can help them avoid a focus on short-term changes in the value of their investments. You can effectively do this on account statements by showing participants their projected retirement income based on their current savings trajectory. See Chapter 9 of the book, *Save More Tomorrow*.

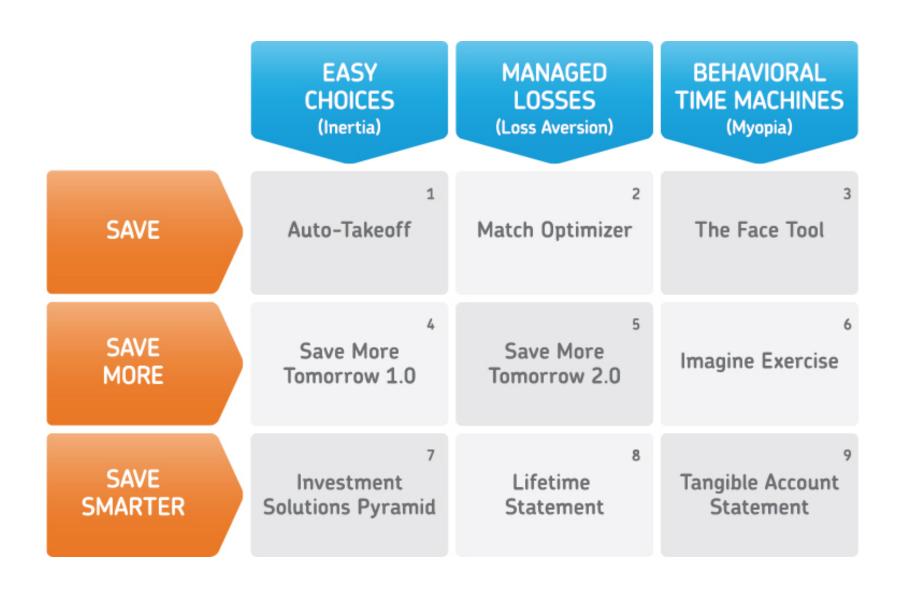
Thanks for using PlanSuccess

By implementing your tailored set of solutions, you stand to help more employees enroll, save more and invest wisely in your plan. Yet to ensure the long-term success of these efforts, it's imperative that you set PlanSuccess goals and measure your results on an ongoing basis.

Plan Sponsor Consultants is committed to working with you to not only put effective solutions in place, but to measure your progress year after year. Plan Sponsor Consultants can also help you make adjustments when necessary to help you continue to target optimal results.



PlanSuccess Conceptual Framework



Imagine Exercise



Give employees a single piece of paper or allow them to do the entire exercise online. The exercise should have the following statements and question at the top:

Suppose that you decide to save adequately for your retirement. As a consequence you will be able to live a comfortable life and maintain your lifestyle without worrying about financial needs such as paying the bills or health expenses.

How would you feel about this situation?

Take two minutes to think about your response and a further two minutes to write down in the space below everything that comes to mind, in terms of tangible lifestyle and how you feel about it.

Elaboration on Potential Outcomes (EPO) Exercise



Give employees a single piece of paper or allow them to do the entire exercise online. The exercise should have the following statements and question at the top:

Please take a moment to think about the potential future outcomes of choosing to invest or not invest in the proposed 401(k) plan. In the space provided below, please list as many outcomes as you can think of, both positive and negative.

PlanSuccess

401(k) Behavioral Audit Report

The PlanSuccess System was developed by the Allianz Global Investors Center for Behavioral Finance to provide practical behavioral finance solutions to help improve 401(k) plans. PlanSuccess was conceived by the Center's Chief Behavioral Economist, Professor Shlomo Benartzi, with significant contributions from its Academic and Client Advisory Boards.

Professor Benartzi is a leading authority on behavioral finance with a special interest in personal finance and participant behavior in defined contribution plans. He received his Ph.D. from Cornell University's Johnson Graduate School of Management, and he is currently professor and co-chair of the Behavioral Decision-Making Group at The Anderson School at UCLA.

Allianz Global Investors founded the Center for Behavioral Finance in 2010 to help people make better financial decisions. The Center aims to turn academic insights into actionable ideas and practical tools for use by financial advisors, plan sponsors and investors.

The principles and strategies suggested do not constitute legal advice and do not address the legal issues associated with implementing any recommendations, or associated with establishing or amending employee benefit plans. There are many legal and other considerations plan sponsors and plan fiduciaries should consider prior to adopting any of the above recommendations, and legal counsel should be consulted to ensure compliance with the law. Any adoption of these general recommendations must be considered in light of the particular facts and circumstances of each retirement plan and its participants. The authors and Allianz Global Investors provide no advice regarding, and are not responsible for, implementation of these concepts by any particular plan.

For more information about the Center for Behavioral Finance, visit http://befi.allianzgi.com.

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