Invesco

Executive summary

ReDefined CONTRIBUTION PLANS

2018 defined contribution language study

"It's not what you **say**, it's what they **hear**."®

"**My plan is confusing,** especially if you don't have a financial background."

Despite the great strides plan sponsors have made over the past 30 years in providing participants with in-depth education, guidance and tools, many are still challenged in their ability to engage, inform and motivate employees to save for retirement. Participant communications continues to be named a top-three "area of focus" in 2018,[1] as plan sponsors of all sizes continually seek to refine their existing programs.

Based on more than 10 years of in-depth research, focused on the language used when communicating with investors, we believe a disconnect remains between what plan sponsors **say** and what participants **hear.** To that end, our 2018 **ReDefined Contribution Plans** defined contribution (DC) language study focused exclusively on the language of DC plans, specifically testing how participants reacted to various language as it related to their understanding of, and interest in, key aspects of DC plan design and investments.

Together with Maslansky + Partners, we conducted a national survey of more than 800 large-plan participants of various genders, income levels and ages (broken out by millennials, Generation X, and boomers).

We then reviewed our key findings within the construct of our four key principles of credible communication, designed to help plan sponsors communicate more effectively and build trust with participants.

Four key principles of credible communication:

Positive	Use language that's positive and hopeful.
Plausible	Use language that communicates plausible, credible benefits.
Plain-English	Use plain-spoken language and avoid jargon.
Personal	Use personalized language such as "you" and "your."

Here are three key findings from our DC language study:

- **"Free money"** via the match may help drive **higher savings rates.**
- **Clear descriptions** of target date funds could **reduce misunderstanding and misuse.**
- **Specific language** may help retirees understand the potential **benefits of staying in-plan.**

[1] Source: Callan 2018 Defined Contribution Trends Survey.

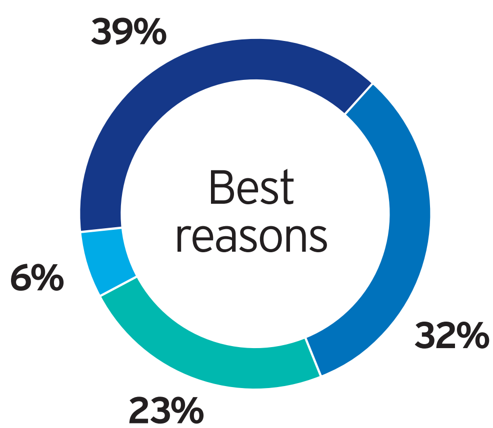
Key finding

"Free money" via the match may help drive higher savings rates.

A well-designed employer match is one of the strongest motivators towards plan participation and can also aid in workforce management and retention.

When participants were asked the best reason to take advantage of their employer's matching contribution, 39% preferred "the match is free money," with 32% preferring "the match allows me to invest more in my 401(k)." "Leaving money on the table" resonated with 23% of respondents overall, but "free money" was much more succinct and impactful. Last, equating the match to a raise fell short at 6%. The term "free money" resonated highest with Gen X (41%).

Which is the best reason to take advantage of your employer's savings plan match?



39%
The match is free money.
34% millennials
41% Gen Xers
37% baby boomers

32%
The match allows me to invest more in my 401(k).
35% millennials
31% Gen Xers
33% baby boomers

23%
If I don't, I'm leaving money on the table.
26% millennials
21% Gen Xers
24% baby boomers

6%
If I miss out on the match, that's like saying no to a raise.
5% millennials
7% Gen Xers
6% baby boomers

Overwhelmingly, when describing the potential benefit of the company match, personalized language that ties back to a positive, aspirational goal of a comfortable retirement resonated with all ages and helped drive higher default rates to "meet the match."

Which would you rather hear your employer communicate?

56%
With our company match, we can significantly increase the total amount you can put away.
51% millennials
57% Gen Xers
67% baby boomers

44%
The company will match a portion of your contribution each year.
49% millennials
43% Gen Xers
33% baby boomers

Key finding

Clear descriptions of target date funds could **reduce misunderstanding and misuse.**

We delved into the language employers (and the industry overall) use today to define target date funds (TDFs), and what participants actually hear and/or understand. Not surprisingly, a focus on plain-English (versus industry jargon), a positive approach and a sense of personalization are paramount.

When describing target date funds, all ages gravitated to descriptors of an investment that is **"managed for you"** and designed to help you **"achieve your goals."** A personalized approach especially resonated with boomers, who have most likely already experienced various life stages and understand the need to adapt accordingly.

Further, using personalized language (such as **"a customized strategy"**) to explain how target date funds work may help combat their misuse. Nearly half of survey participants believed the best reason to put their retirement savings in a single target date fund (versus investing in additional options) was due to the TDF's customized strategy description of balancing growth potential, managing risk tolerance, and adapting to one's time horizon to retirement. This description overwhelmingly resonated with all age groups and seemed to best explain the fund's intent.

Clear descriptions of target date funds

"Managed for you"

"Achieve your goals"

"Stay on-track"

"Risk-reduction path"

What is the best reason to put your retirement savings in a single target date fund?

48%
You have a customized strategy designed to help you balance growth potential and risk tolerance as you get closer to retirement.

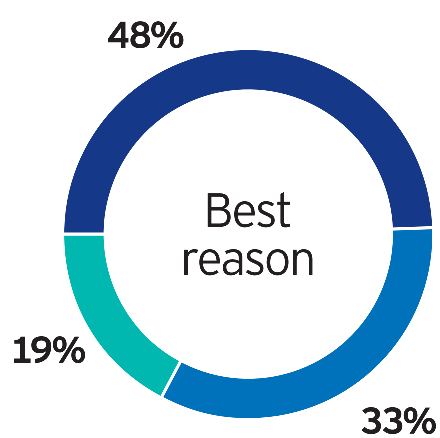
44% millennials
49% Gen Xers
55% baby boomers

33%
You have one coordinated portfolio made of investments that work together to achieve your goals.

31% millennials
33% Gen Xers
36% baby boomers

19%
You have an all-inclusive asset allocation portfolio that is dynamically balanced with investments that have a low correlation.

25% millennials
18% Gen Xers
9% baby boomers



We also found that the word "risk" means different things to different investors:

Preferred risk descriptors

"Target risk"

"More conservative over time"

- When it comes to target-date funds, 61% of participants preferred the more positive phrase, **"stay on-track to achieve my goals"** versus "managing risk." By using the phrase **"stay on-track,"** participants are exposed to a different way to communicate risk management that seems more approachable.
- When asked which of the following funds they would rather invest in, both target date funds and target risk funds were appealing to participants; however, **"target risk"** was favored by millennials (54%) and Gen X (53%) while **"target date"** was more favored by boomers (52%).
- Becoming **"more conservative over time"** was preferred overall by all ages (60%) and was much more highly rated by millennials than a portfolio that becomes "less aggressive over time." While the statements are virtually the same thing, the word "more" is perceived as positive, while "less" is perceived as negative.

Which do you most want your investments to become?

60%
More conservative over time

64% millennials
60% Gen Xers
54% baby boomers

40%
Less aggressive over time

36% millennials
40% Gen Xers
46% baby boomers

Future-focused strategies are preferred

"The year I hope to retire"

"My return goals"

Among plan sponsors, plan providers, advisors and consultants, the term "glide path" is widely used. But when we asked participants to define what we mean by a target date fund's "glide path," the term ranked the lowest (4%) of all descriptors, with the more specific **"risk-reduction path"** resonating highest (40%). Clearly, plain-English makes a stronger impact over industry jargon.

Last, when asked to build their own retirement plan strategy, **future-focused strategies,** such as "the year I hope to retire" and "my return goals," **beat out current-day strategies** tied to "my risk tolerance" and "my current age." There was a wider spread for boomers who gravitated toward "retirement year" overall.

"**I wish I had a simple explanation** of each fund available and had help to decide how much to invest in each."

Key
finding

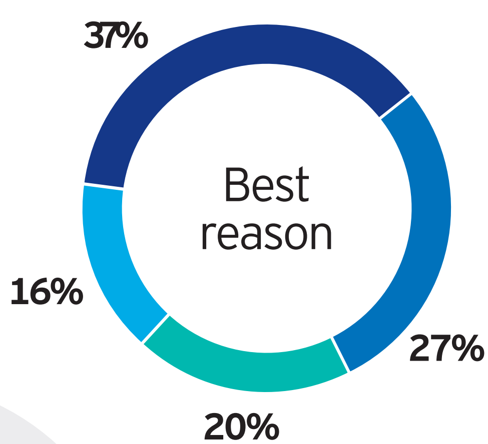
Specific language may help retirees understand the potential **benefits of staying in-plan.**

For employers who want to keep participants in the plan once they retire, the offer of a monthly payout feature (combined with a less expensive option than what could be found outside of plan) would be of significant interest across all ages, according to the survey.

When presented with a personalized, plain-English and positive short description, 54% of all ages would be either very or extremely likely to stay in the plan with a monthly payout feature, with only 2% not at all likely.

By encouraging retirees to remain in their plans, sponsors may help maximize plan assets and bargaining power with plan providers, which may lead to increased cost efficiency for plan participants. Communicating the ability of a plan to keep expenses low (through cost-efficient pricing and/or plan scale) resonates with all ages. In addition, the trust factor influences decisions to stay or go (28%) more than convenience (19%) or having to rethink investment options (15%).

Which of the following would be the best reason to stay in your employer's savings plan after you retire?



37%
If it were less expensive than other retirement options.
35% millennials
37% Gen Xers
41% baby boomers

27%
If the plan is run by someone I already trust, I'd rather stay with what I know.
23% millennials
30% Gen Xers
29% baby boomers

20%
If it were more convenient to stay in the plan.
21% millennials
20% Gen Xers
18% baby boomers

16%
If I didn't have to rethink my investment options.
22% millennials
14% Gen Xers
12% baby boomers

> "The information is not always understandable. It has a lot of legal **mumbo-jumbo words** that most people don't understand."

The term **"post-retirement investment options"** resonated with most participants (55%) as the name that best describes a group of funds designed for employees who stay in the plan after they retire.

- The industry jargon "retirement tier" was least favored (15%).
- The phrase "funds exclusively available to retirees" seemed to imply "high cost." Simply using "cost-efficient" could make a difference to those who are open to staying in-plan but fear high fees.
- In using the term "post-retirement," participants seem to view retirement as an "event" (e.g., the day I retire) versus an ongoing next stage of their lives. In fact, 69% of boomers preferred this term.

69% The day I retire

15% Retirement tier

55% Post-retirement investment options

Putting it **all together**

Using the right words provides clarity to participants, which can lead to confidence. For plan sponsors looking to evolve their communications to increase participant engagement, help motivate them to save for retirement, and encourage them to make good decisions along the way, using personal, positive and plausible words in plain-English could make all the difference.

For additional insights into how language can affect DC participants, view our full report **"ReDefined Contribution Plans, 2018 defined contribution language study"** by contacting your Invesco consultant.

Topic	Words to say	Words to not say	Communication principles
Company match	"Our company match is **free money** that allows us to **significantly increase** the total amount you can put away towards **your retirement."**	"Leaving money on the table"	Personal Positive Plausible
Target date funds	"Target date funds offer a **customized** strategy that is **professionally managed for you** and designed to help you **achieve your goals."** "The fund **adjusts to your life stages over time** by balancing the potential for investment **growth** with the level of **risk appropriate for your age."** "As you near retirement, your portfolio becomes **more conservative over time** to help you have the funds you need to **retire comfortably."**	"Glide path" "Less aggressive"	Personal Positive Plain-English
Staying in the plan	"Retiring may mean time to relax, but it's important to keep on top of the savings plan you've spent so many years building. One way to continue to earn is to stay in your employer's plan. And if you do, you're eligible to participate in a group of **cost-efficient** funds available to our employees once they retire."	"Exclusive"	Positive Plain-English

About Maslansky + Partners

Maslansky + Partners specializes in communications and research strategies. The firm advises organizations on what to say, how to say it and, most important, why it matters. Maslansky + Partners has conducted hundreds of research projects in twenty countries using its proprietary polling and focus group methodology and has been cited by *The New York Times, The Washington Post, The New Yorker, 60 Minutes, Nightline,* and PBS's *Frontline,* among others.

About Invesco

Invesco is a leading global investment manager and a top provider of defined contribution solutions, managing approximately $96 billion in DC assets.[2] With a thoughtful insights platform, one of the broadest and deepest investment offerings, and a commitment to a superior client experience, Invesco is helping plan sponsors, advisors and consultants achieve optimized participant outcomes.

To learn more

Learn more about how innovative and holistic thinking leads to a more secure future by contacting your Invesco consultant.

For more information, visit **invesco.com/dc**

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[2] Source: Invesco. Data as of September 30, 2018.

Source for all data unless otherwise indicated: March 2018 study by Invesco and Maslansky + Partners of 800 employees of large companies. Percentages may not add up to 100 due to rounding.

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A target date fund identifies a specific time at which investors are expected to begin making withdrawals, e.g., Now, 2020, 2030. The principal value of the fund is not guaranteed at any time, including at the target date.

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