Watch your language

Rethinking how we communicate with participants

2021 defined contribution language study

US executive summary

“Retirement is a time in your life where you don’t have to work a regular job and can have the time to pursue other interests.”
– Focus group participant

“Retirement means spending time to enjoy whatever I want to do and having the financial security to do it, without worry.”
– Focus group participant

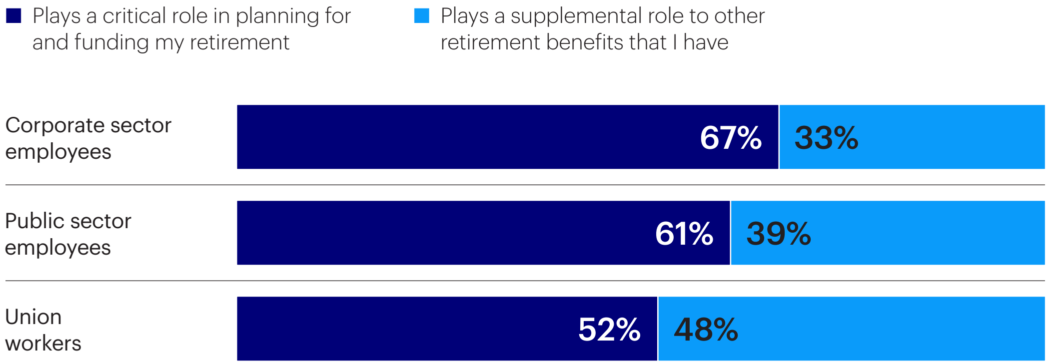
Table of contents

The new retire-mentality

How we view and define retirement has undergone a philosophical change. Multiple factors — including longer lifespans, more active lifestyles, supporting or caregiving for family members, lack of traditional pensions and rising healthcare costs — have all added more complexity and disparity to how people live in retirement. With this new “retire-mentality” comes a seismic shift towards helping defined contribution (DC) plan participants turn their retirement plan savings into a stream of income in retirement that may need to last for 20 or more years.

Defined contribution (DC) plans strive to offer the right balance of support, communications, investments, and tools to help participants gain confidence to retire “on time.” These efforts are paying off, as most participants in our study viewed their DC plans as a critical component to saving for retirement. Now, as the conversation shifts towards income generation, plan sponsors must rethink how they approach their plans’ overall design, investment menu structure, and the language used to better engage employees. Using language that appeals to participants’ need for a sense of control and choice could help them better understand, engage, and value their DC plan as both a savings and income resource.

DC plans are viewed in a positive light



Actionable insights

Based on more than 10 years of in-depth research on the language used with investors, we believe a disconnect remains between what plan sponsors **say** and what participants **hear.** Our 2021 study offers insight and guidance into the impact language can have on plan participants' overall understanding of, and behavior towards, three actionable insights:

Insight
01
Demystify the investment menu with the right language

Insight
02
Position target date + target risk clearly to help participants find the right fit

Insight
03
Jumpstart the retirement income conversation now

"It gives me peace of mind. Having a retirement plan reduces my stress about life after retirement."
– Focus group participant

About this study

Together with Maslansky + Partners, we conducted in-depth interviews with seven US plan sponsors and connected with almost 1,000 US participants and over 600 Canadian plan members (large employers with more than 5,000 employees) through online surveys and virtual focus groups. During these sessions, we tested different versions of messages to uncover what works and why. Participant data and quotes reflect research conducted in the US and are used with permission.

1,600
DC plan participants were surveyed

Insight

01

Demystify the investment menu with the right language

Similar to a key finding from our 2019 Forgotten Participant research, participants preferred to have more control (or the perception of control), rather than less, when it came to their money. Language conveying that they have the ultimate decision-making authority over their retirement assets consistently won — both with participants who preferred to be highly involved with investments decisions, and those who did not.

The US defined contribution industry hasn't done a great job with associating the investment menu with specific names. Participants **preferred investment menu names that provided cues** about the offerings. While the retirement plan industry often uses a "tier" structure, this language didn't provide any context to participants. Instead present the menu with clear and descriptive titles.

If you say	Do it for me	Do it with me	Do it myself	participants hear →
	↑ Target date funds ↓	↑ Risk-based funds ↓	↑ Core funds ↓	
If you say	Tier 1	Tier 2	Tier 3	participants hear →

"I can easily look at these items and see what is expected or required of me, and what level of participation is needed."

– Focus group participant

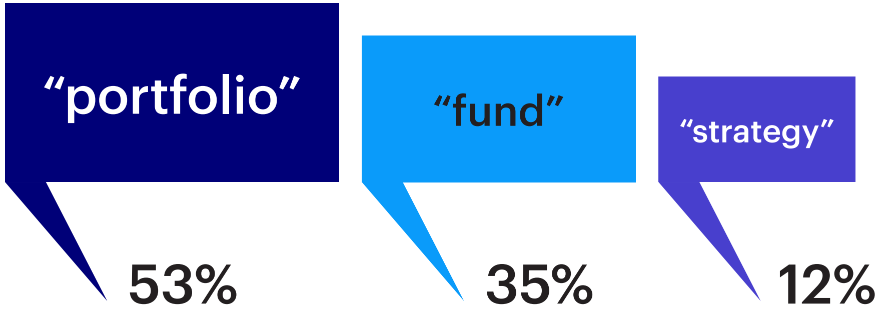
When I think of [fund] 'tiers' I think some must be higher quality."

– Focus group participant

"Portfolio" points to a wide range of investments

When deciding how to present target date and/or target risk options in the investment menu, it's important to align with participants' desire for investments that are diversified. When we asked participants to rank the benefits of both TDFs and TRFs, "fully diversified" was the most compelling benefit (34%). The term "portfolio" signaled a collection of investments in a way "fund" and "strategy" did not.

Q What is the best name for where you invest your retirement savings?



Participants were attracted to the term that implies a diversified approach.

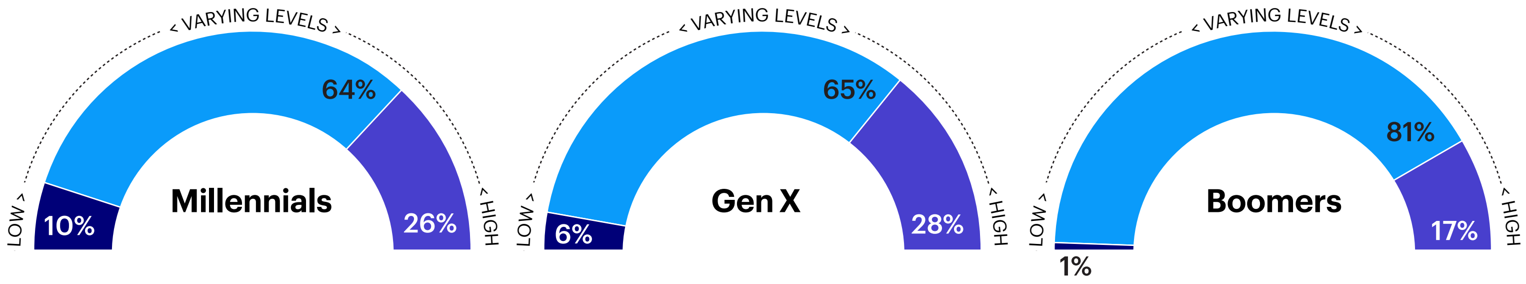
Without context, risk = high-risk

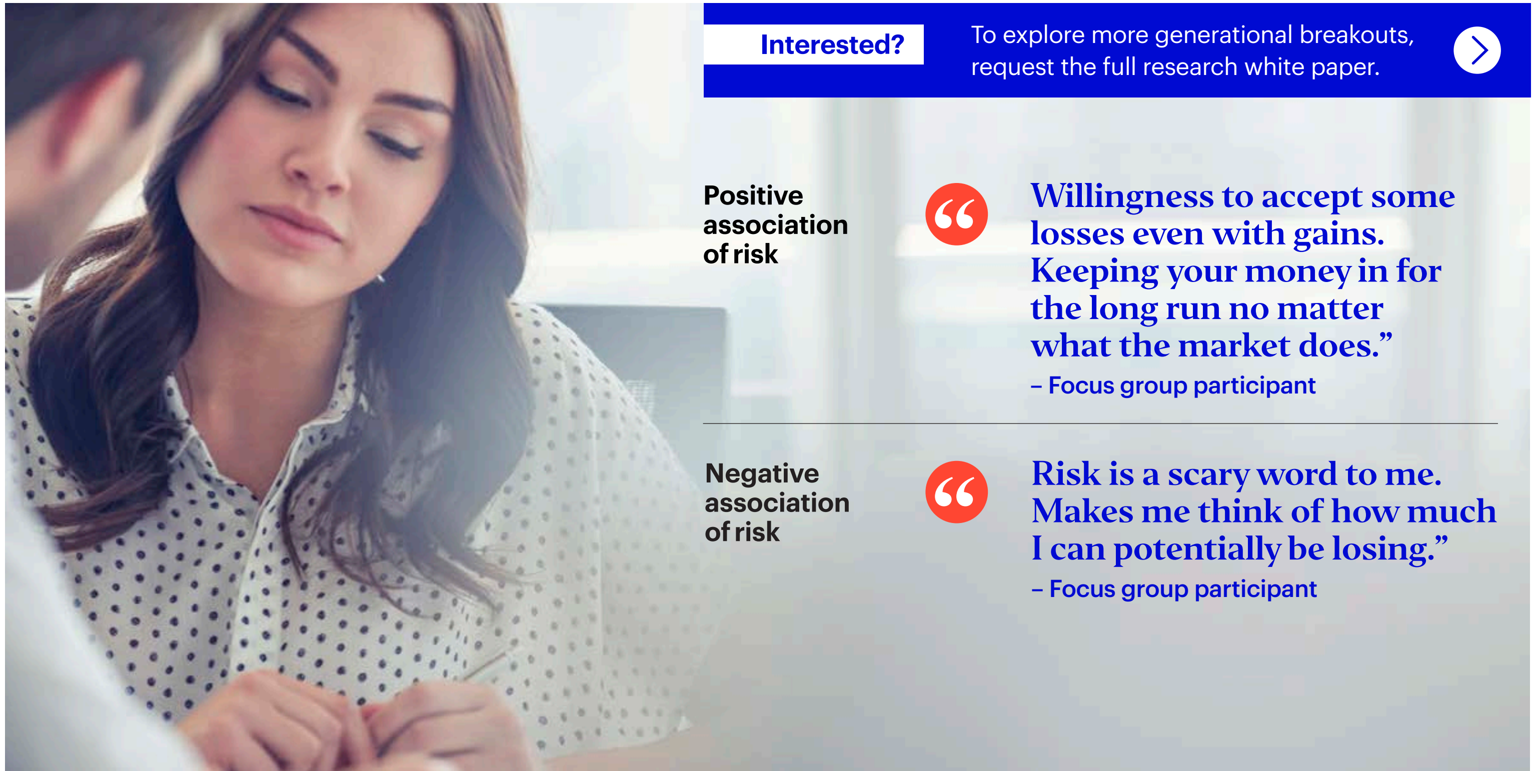
What language can plan sponsors use to help participants of all ages better understand risk as it relates to long-term retirement investing? To most, all risk was high risk. When we asked participants in this study what they think about investment risk, the "potential for loss" was often the first thought for 64% of participants across all age groups — with just 36% equating it with the "potential for gain." For millennials this was especially concerning, as their portfolio should be more growth focused since they have the most time to make up any potential losses.

However, with context, a majority (71%) of participants associated investment risk across a broader spectrum.

> Unless I hear low-risk, risk is synonymous with high risk."
>
> – Focus group participant

Q When you hear "investment risk," what do you associate with it?





Interested? To explore more generational breakouts, request the full research white paper.

Positive association of risk

> Willingness to accept some losses even with gains. Keeping your money in for the long run no matter what the market does."
>
> – Focus group participant

Negative association of risk

> Risk is a scary word to me. Makes me think of how much I can potentially be losing."
>
> – Focus group participant

The new retire-mentality
Insight 01
Insight 02
Insight 03
Putting it all together
Methodology

Insight

02

Position target date + target risk clearly to help participants find the right fit

Like findings from our 2019 Forgotten Participant research study, there continues to be a clear interest for both target date funds (TDFs) and target risk funds (TRFs) on the investment menu. Almost 70% of participants preferred to invest in either professionally managed options compared to single asset class options. Including both within the investment menu allowed participants to select an option that fits their investing profile — whether they wanted a portfolio tied to their risk tolerance or expected retirement date. For many, it's hard to separate these two factors.

"I'm not familiar with risk-based funds, but excited that there's an alternative to target date funds."

– Focus group participant

Q **Imagine your employer offers two types of retirement portfolios. Based on these descriptions, which do you think is a better fit for you?**

49%

A **target risk fund** is a fully diversified portfolio of investments designed to target the level of investment risk that you are comfortable with. You can choose a target risk fund that's aggressive, conservative, or somewhere in between.

51%

A **target date fund** is a fully diversified portfolio of investments designed to automatically adapt to your life stages. As you get closer to retirement, the fund's mix of investments evolves from a focus on growth to a focus on stability.

There was equal interest in target date and target risk funds among survey participants.

Source: Invesco participant survey, November 2020.

Position target date + target risk clearly to help participants find the right fit

What's the difference?

What's the best way to position both target risk and target date funds on the investment menu for better understanding? Simple framing made it easier for participants to compare investment options. Use short, easy-to-understand descriptors that are more intuitive for participants.

To differentiate target risk funds on the menu, participants found a goals-based (vs. time-based) approach was most compelling.

Q

Which reason to invest in a target risk fund is most appealing to you? "Unlike target date funds, target risk funds...

50%

...allow me to choose a level of risk **based on my goals,** not on how close I am to retirement,"

28%

...let me customize my investments based on the potential for gain I want to aim for."

23%

...make it easy to know the financial objectives I'm working towards over the course of my career."

Goal-based vs. retirement date

Target risk funds appealed more to a goal-oriented participant.

Insight
02

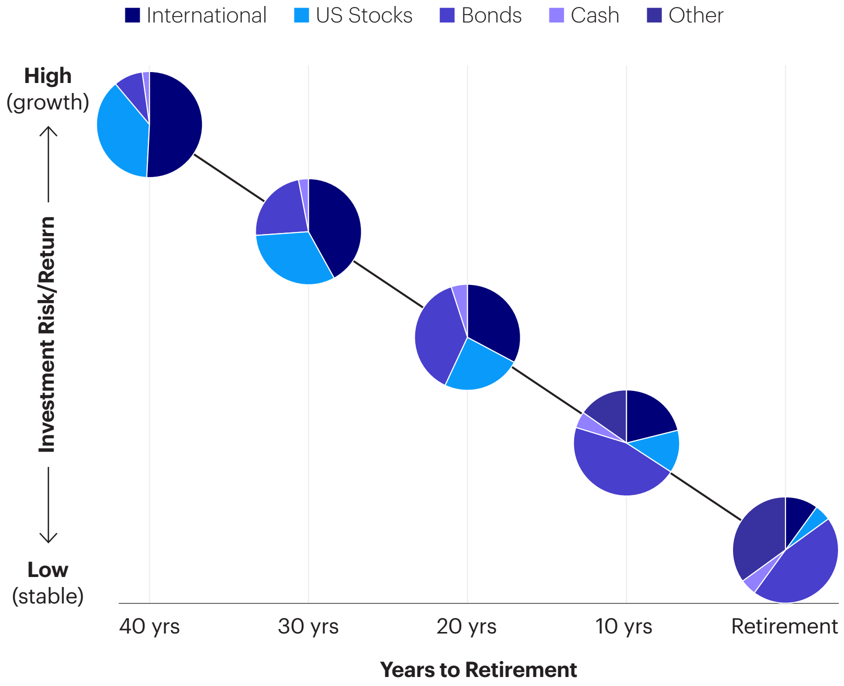
Position target date + target risk clearly to help participants find the right fit

The appeal of a "positive" slope

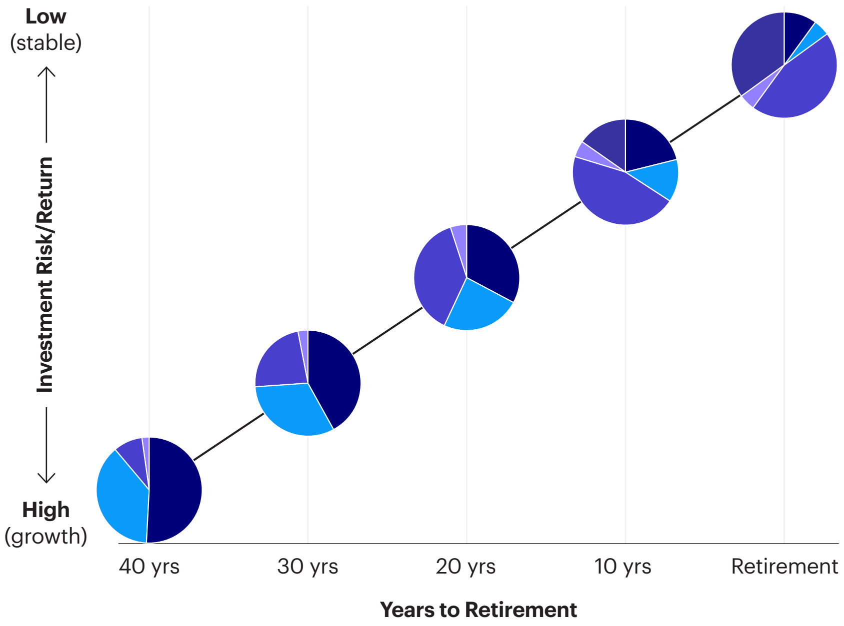
What's the preferred way to illustrate a target date glidepath? Typical TDF literature shows a "downward sloping" asset allocation where the investment risk declines over time. When we showed two different options (downward sloping vs. upward sloping), half of respondents preferred the downward sloping. In taking a closer look, the majority of younger participants, with 52% of millennials and 56% of Gen X, preferred the more "positive-looking" upward-sloping graphic.

I like the visual of going up. It feels like achieving your goal."
– Focus group participant

Option A: High-to-low investment risk/return



Option B: Low-to-high investment risk/return



For illustrative purposes only.

Younger participants preferred an upward sloping glidepath

52% of millennials

56% of Gen X

Insight

03

Jumpstart the retirement income conversation now

While the industry is focused on getting ready for the "gray tsunami" of boomers turning age 65, we found that millennials and Gen X also want help to plan and prepare for the transition to retirement earlier than is expected.

Plan sponsors can provide greater peace-of-mind to all age segments by providing:

- earlier and more frequent communications around their ability to stay in the retirement plan (if allowed), and
- education about, and access to, distribution and/or investment options that could help them turn their retirement savings into a stream of retirement income they can't outlive.

For plan sponsors who want employees to stay-in-plan at retirement, it's critical that they create a plan that participants would actually want to remain in post-retirement. Starting the dialogue much earlier, with more frequent communications about generating income in retirement as well as the potential benefits of staying in the plan, is paramount.

> **It's good to have these conversations. I hear a lot about investing for your retirement but haven't heard much on how to utilize those funds (in retirement)."**
>
> – Focus group participant

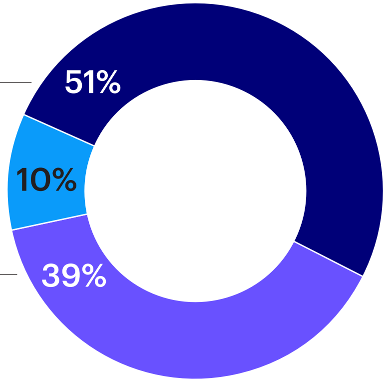
Talk to me

Participants really want their employers to communicate with them about the transition from retirement savings to income generation, especially as it relates to their options within their current plan.

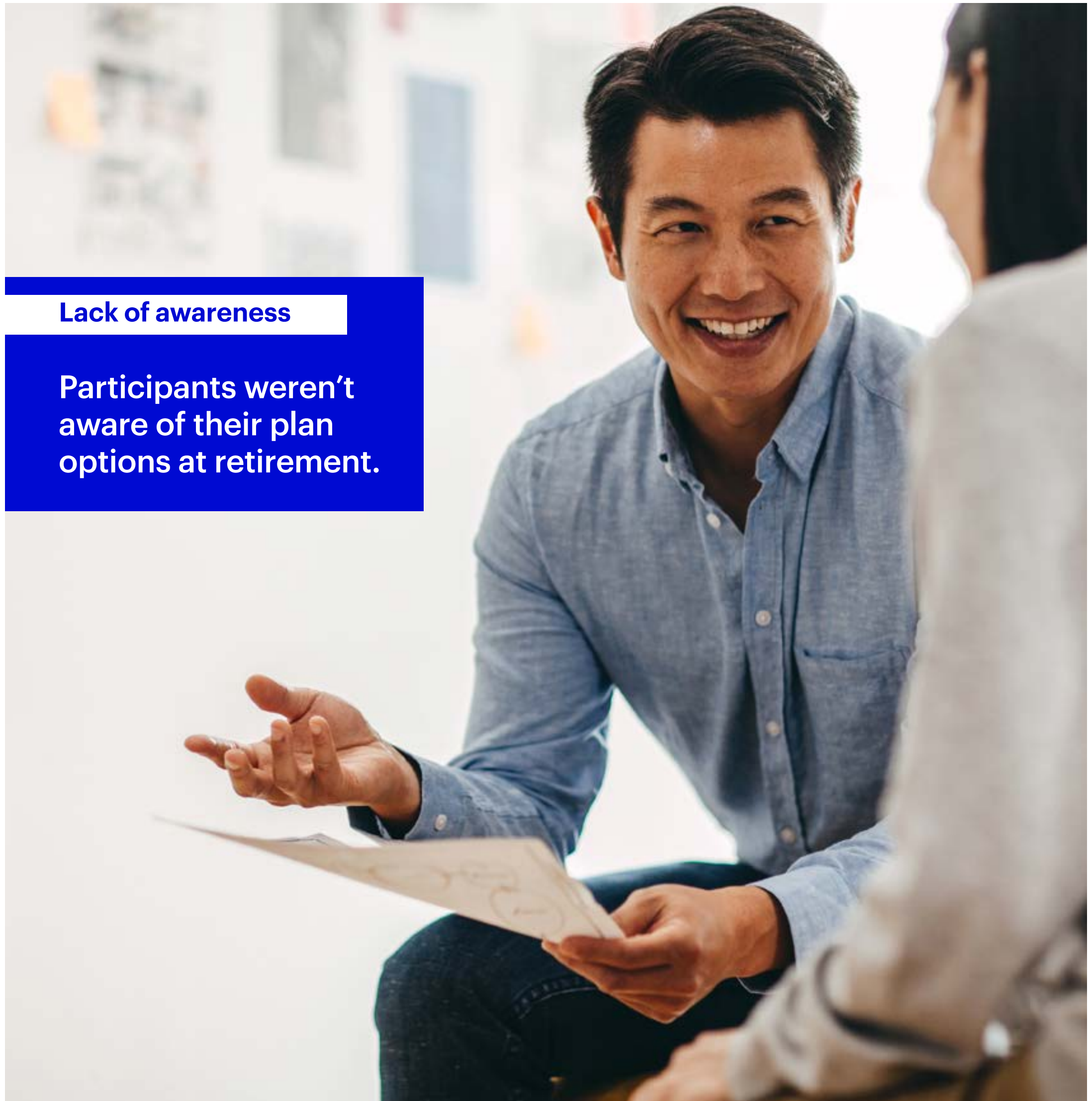
28% of pre-retiree participants (those who stated they were within five years of retirement) were unsure of what their plan allowed.

Q When you retire, can you keep your money in your employer's retirement plan, or are you required to roll (or transfer) money out of your plan?

- I can keep my money in my employer's retirement plan.
- I'm required to roll (or transfer) my money out.
- Don't know for sure.



39% of participants surveyed didn't know what their plan allows them to do with their assets at retirement. This lack of awareness was also common with public plan employees (38%).



Lack of awareness

Participants weren't aware of their plan options at retirement.

It's never too early to talk about retirement income

What could help participants better engage with the process of planning for retirement? We found that both millennials and Gen X — participant segments who are farther from retirement — believed their employer should start the retirement income conversation at age 45 or younger. Too often, it begins around age 55 or older, which for many is considered too late.

Q When should your employer start communicating with you about using the money in your defined contribution plan to create a stream of income in retirement? When I'm...

	Millennial	Gen X
45 years or younger	**35%**	**24%**
50 years old	18%	16%
55 years old	17%	21%
60 years old	17%	21%
64 years old	5%	10%
My employer shouldn't communicate with me about this.	8%	7%

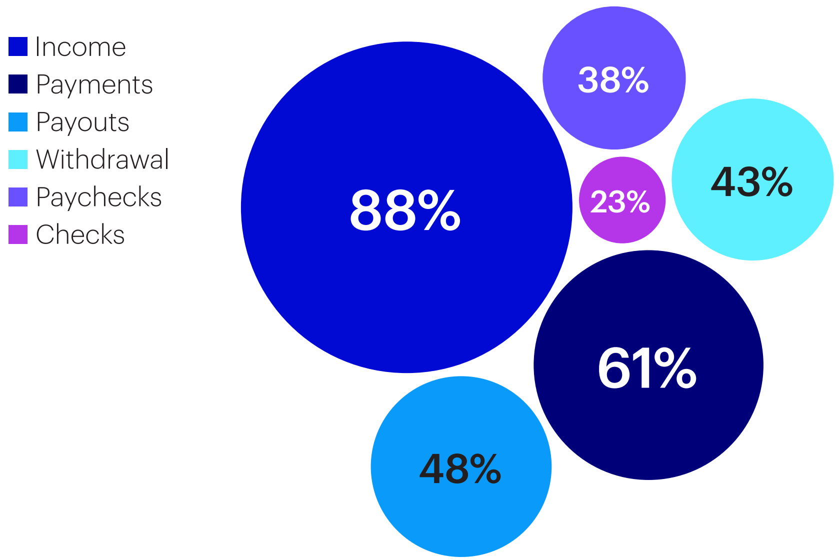
Only 2 in 10 participants recall receiving communications from their employer about turning their DC plan savings into income.

I want income, not a paycheck

Finally, participants also preferred a clear line to be drawn between working life and retired life when it comes to what they'll receive from their retirement savings. Terms like "income" were appealing, while "paycheck" was not.

> **"When I hear paycheck, it sounds like something I worked for. 'Paycheck' just doesn't sound like retirement."**
>
> **– Focus group participant**

Q Which is most appealing to you? Using my retirement plan savings to create retirement... (rank top three choices)



Putting it all together

Over the past 10 years of language studies, we've found that using the right words helps provide clarity to employees, which is critical as they navigate turning their retirement savings into retirement income. For plan sponsors who want to rethink how they communicate with participants, consider the following:

Insight **01** **Demystify the investment menu with the right language**

Insight **02** **Position target date + target risk clearly to help participants find the right fit**

Insight **03** **Jumpstart the retirement income conversation now**

Continue the conversation

To access the full white paper, contact your Invesco DC professional or visit Invesco.com/DCLanguage.

Methodology

Together with Maslansky + Partners, our research focused on plan sponsors and participants working for large employers with more than 5,000 employees. The in-depth research included interviews with seven US plan sponsors, five virtual participant focus groups across multiple cities in the US, and an online survey of 1,607 (997 US and 610 Canadian) participants of various genders, income levels and ages. Participant data and quotes reflect research conducted in the US.

Invesco

Invesco is a leading global investment management firm and a top provider of Defined Contribution solutions, managing more than $140 billion in DC assets.[1] With a thoughtful insights platform, one of the broadest investment offerings, and a commitment to a superior client experience, Invesco is helping plan sponsors, advisors and consultants achieve optimized participant outcomes.

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 20 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.

[1] As of December 31, 2020.

Invesco ReDefined Contribution Plans

Across the ever-changing world of defined contribution (DC), plan sponsors and intermediaries are seeking actionable insights and solutions to help optimize participant outcomes and strengthen their fiduciary responsibilities. Our ReDefined Contribution Plans Research Series is designed to assist with holistic decision-making by:

- Uncovering the drivers of participant behaviors and investment choices and
- Identifying language that resonates with participants and increases engagement.

Leverage our latest research to help move your DC plan forward. To access the series, visit invesco.com/dc or speak with your Invesco DC Professional.

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Source for all data unless indicated: July and August 2020 virtual focus groups, and a November 2020 online survey by Invesco and Maslansky + Partners of more than 1,600 employees of large companies in the US and Canada. Participant data and quotes reflect research conducted in the US. Percentages may not add up to 100 due to rounding.