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July 5, 2005

Office of Participant Assistance  
Employee Benefits Security Administration  
U.S. Department of Labor  
Room N-5623  
200 Constitution Avenue, NW  
Washington, DC 20210

Attention: 2006 National Summit on Retirement Savings

Dear Sir or Madam:

Hewitt Associates is a global human resources outsourcing and consulting firm delivering a complete range of integrated services to help companies manage their total HR and employee costs, enhance HR services, and improve their workforces. We are the second largest employee benefits consulting firm in the world.<sup>1</sup> We are the largest independent recordkeeper—i.e., not an affiliate of an investment management organization—for 401(k) retirement plans. In that capacity, Hewitt serves 5.5 million defined contribution participants, representing \$200 billion in assets.<sup>2</sup>

As we understand it, the purpose of the National Summit is—among other things—to identify the barriers that employees face in saving for retirement and to examine the impact and effectiveness of efforts to promote personal savings and encourage participation in employment-based savings options. The ultimate objective is to develop recommendations for government and private sector actions to promote pensions and individual retirement savings.

As a global expert in the area of retirement plan design, delivery, and communication, Hewitt respectfully suggests two proposed topics for the agenda for the third National Summit on Retirement Savings:

- 1) ***Creating a Path of Least Resistance: How behaviorally-based communication, education, and plan design can overcome barriers in saving and investing for retirement.***

The field of behavioral economics has provided numerous important insights into reasons that people fail to save for retirement. The issues may be as simple as procrastination, or as complex as unwillingness to save rather than consume. An emerging trend in employer plan design, communication, and delivery is to employ findings from behavioral economics to create a “path of least resistance” when it comes to saving and investing through employer-sponsored retirement programs. Successful behaviorally-based initiatives include streamlining decision making,

<sup>1</sup> *Business Insurance Magazine*, July 28, 2003.

<sup>2</sup> *Plansponsor.com's America's Top 10 Recordkeepers* survey.

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targeting and personalizing communication, sensitizing messaging by age and ethnic cohort, and automating plan features.

There are numerous real-world examples to cite as success stories, where plan sponsors have dramatically increased participation in their retirement programs, increased savings levels, and improved diversification by moving from traditional communication, education, and plan design models to a behaviorally based “path of least resistance” model. In addition, academic literature supports the concept that people fail to save adequately not through rational choice, but because of behavioral barriers that can be overcome through adaptive techniques. These approaches are demonstrated to particularly benefit low-income workers, minorities, younger workers, and older workers, who may be least likely to otherwise save and invest for retirement.

For further information, refer to the following papers, which include a white paper by academic researchers on behavioral investing, and case studies of successful implementation of behavioral techniques in 401(k) plans:

<http://post.economics.harvard.edu/faculty/lairson/papers/savingretirement.pdf>

[http://was4.hewitt.com/hewitt/resource/articleindex/retirement/breaking\\_down\\_barriers.pdf](http://was4.hewitt.com/hewitt/resource/articleindex/retirement/breaking_down_barriers.pdf)

- 2) ***The Real Deal: How the national savings rate may be undermined by current approaches to retirement forecasting and needs assessment—and how to create a more realistic and integrated picture of the savings need for Americans.***

Numerous studies indicate that important gaps exist in the way people view the need to save for retirement. (See, for example, the following Hewitt studies: *Total Retirement Income at Large Companies: The Real Deal*, the 2005 research report on *How Well Are Employees Saving and Investing in 401(k) Plans*; and the 2005 survey on *Your Future Financial Security*.) Many individuals have never calculated their likely retirement need. Among those who have, it is common to underestimate the saving need—in particular, workers may misunderstand how long they will spend in retirement, what it will take to maintain their pre-retirement standard of living, and the cost of retiree medical. Employees also frequently tend to fail to understand the role of their personal saving in relation to employer-sponsored and government-sponsored retirement income.

Without an accurate understanding of the retirement need, it is far less likely that people will grasp how much they may need to save for retirement. Studies show that



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workers who do have an accurate picture of their retirement need tend to be more robust savers. Helping people to understand their retirement need involves proactively pushing out to them the necessary tools, education, and information through multiple channels that accommodate the learning style of various demographic groups (younger versus older individuals, low-income versus higher-income). It also involves providing creative mechanisms for individuals to fill the retirement savings gap—again, measures, that acknowledge demographic as well as personal learning style differences.

For further information, the following papers summarize findings from a study on retirement income adequacy of large companies and also the Employee Benefits Research Institute's issue brief on the 2005 Retirement Confidence Survey.

[http://was4.hewitt.com/hewitt/resource/articleindex/retirement/staying\\_the\\_course.htm](http://was4.hewitt.com/hewitt/resource/articleindex/retirement/staying_the_course.htm)

[http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content\\_id=3496](http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3496)

Thank you for considering our suggestions. We would be happy to discuss these topics with you further. I can be reached at 847 295-5000, or by e-mail at [Lori.Lucas@Hewitt.com](mailto:Lori.Lucas@Hewitt.com).

Sincerely,

Hewitt Associates LLC

Lori L. Lucas

Sent via e-mail at [saversummit@dol.gov](mailto:saversummit@dol.gov)