And how can we prove whether plan design selections will ultimately allow participants to retire with a greater degree of financial security?

Especially since the market downturn in 2008, many sponsors have been grappling with how to design retirement plans that will have the most impact on participation and deferral rates and prepare employees to retire when and how they want. Sponsors with retirement plans administered by J.P. Morgan have adopted a variety of solutions to address these issues in the workplace.

To analyze the results of some of these decisions, J.P. Morgan Asset Management recently conducted a joint study with LionShare Marketing. The study, which analyzed changes to income replacement over time for more than 400,000 participants from 147 different retirement plans, identified plan design features and communication programs that could be statistically correlated to positive changes in income replacement projections.

The study’s findings may prove to be useful for plan sponsors when evaluating their retirement plan design and how
it can be optimized to help employees retire with financial security. To highlight the findings, the case study below describes one employer's plan design decisions and how those decisions are expected to impact their employees' retirement readiness, as measured by projected income replacement ratios.

Participation in this sponsor's plan in 2008 was higher than the national average—in the upper 70s—but below executive expectations. Many participants entered the plan through automatic enrollment, but failed to change their previous election of 1% default deferral rate and stable value allocation. Over time, the small percentage of deferrals resulted in a disproportionate percentage of the plan's total assets in the stable value option. As measured by income replacement, the retirement plan was falling short; only 2% of the employee population eligible to participate in the plan was on track to replace at least 70% of his or her income at retirement. Across all participants, the average income replacement ratio was only 32%.

**Re-enrollment can boost participation rates**

To increase participation, the sponsor conducted a re-enrollment. In the campaign, eligible non-participating employees were automatically enrolled with a 3% deferral rate rather than at the 1% rate of the previous campaign.

Additionally, the sponsor concluded that too few participants were planning to change their elections from the original default. Concerned that the 1% deferral rate was not going to enable participants to retire successfully, the sponsor increased the initial default deferral from 1% to 3%, and added an annual automatic increase program of 1%.

Based on J.P. Morgan's study with LionShare, the client made two key choices with regard to the new plan design. First, they conducted the re-enrollment, which quickly moved eligible non-participating employees into the plan—people who may not have otherwise taken the steps needed to begin saving for retirement for some time. According to the J.P. Morgan and LionShare study, participants who start early have a 10% higher income replacement average than their counterparts who wait to begin saving for retirement. Second, increasing the initial default deferral from 1% to 3% was also smart—the study showed higher deferral rates could lift income replacement by as much as 8% over time.

**Mapping participants to target date funds can improve asset allocation**

In addition to increasing participation and deferral rates, the sponsor also wanted to improve the plan's overall asset allocation. At the time, around 20% of the retirement plan's assets were held in its stable value option, most of it from younger employees who could have been in equity or more aggressive options that may have been more appropriate given the time period remaining before retirement.

To address asset allocation, the employer mapped participants in stable value funds to age-appropriate target date funds when automatic enrollment and automatic increase were implemented. The same participants were then enrolled into an automatic increase program, in which their deferral is set to increase 1% annually. Based on J.P. Morgan's study with LionShare, the client made another key decision by mapping participants into target date funds. The study showed that participants invested in an age-appropriate target date fund had 3% higher average income replacement rates than their colleagues who had not invested in target date funds. That difference may be small in terms of percentage, but for the average American household, it can equate to tens of thousands of extra dollars in retirement.

**Plan design features can significantly impact income replacement projections**

Thanks to the design features, the plan has experienced a significant increase in plan participation. For example, the decision to add re-enrollment has resulted in a
96% participation rate—a 20% increase from 2008. Additionally, the decision to map participants into target date funds has resulted in a more appropriate distribution among the target date funds, equities and the less aggressive options available in the plan. In fact, across younger age groups, the average allocation to stable value is now below 10%—half of what it was in 2008.

Even more encouraging, however, is the anticipated impact of these design changes on participants’ level of retirement readiness. Not only have income replacement levels increased from 32% to 74%, but also half of all participants are now on track to achieve greater financial security by receiving at least 70% of their current income replacement in retirement.