

Nationwide



Auto Enrollment & Auto Increase

The Impact on Retirement Preparation

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Savings & Ownership Caucus



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Executive Summary

Great results from adopting auto-enrollment, auto-increase provisions:

1. Prior Situation:

- 77% participating, 23% not participating
- 54% on track for retirement, 46% not on track for retirement
- 5.8% Average Deferral Percentage - passing ADP tests

2. Added Automatic Features (April 2007 and **perennially** thereafter):

- Auto enroll at 3% anyone not already at 3% or more,
- Auto increase 1% anyone at 3%, 4% or 5%

3. Results:

- 95% participating (23% increase), 5% waived (78% reduction)
- 64% on track for retirement (19% increase), 36% not on track (22% decline)
- 6.8% Average Deferral Percentage (17% increase)
- Company match increased from \$46MM to \$54MM (17% increase)

What Nationwide & Aon Did

Perennial Auto Enrollment – Each April (CED)

- Default 3% pre-tax for those not enrolled in the plan
- New hires and existing associates
- Target maturity model (age 65) = default investment
- Refund option for those auto-enrolled after 1/1/08

Perennial Auto Increase – Each April (CED)

- If enrolled at < 3%, increase to 3%
- If enrolled at 3% - 5%, increase 1% (match up to 6%)

Re-test Participation & PREParedness after change:

- Held all other assumptions constant
- Metrics: “PREParedness” would increase from 54% to 58% if no one opted out

Participation & PREParedness by Age Pre- & Post- 2007 Automatic Provisions

Category	Pre-Auto Increase/Enroll	Post Auto Increase/Enroll
Eligible associates	34,151	34,151
Contributing	26,192	32,609
Participation rate ^{li}	77 %	95%
Average deferral percentage	5.8%	6.8%
Associates PREPared for retirement	18,605	21,715
Percent PREPared for retirement	54%	64%
Percent PREPared by age group		
< 25	58%	76%
25 - 34	66%	83%
35 - 44	59%	67%
45 - 54	45%	48%
54 - 65	26%	26%

Participation By Age & Compensation 2007 vs. 2006 Plan Years

Age	2007 Participatin	2007 Not Participating		2006 Participating	% Change	2006 Non-Participating	% Change
All	94%	6%		74%	27%	26%	(77%)!!!
< 30	90%	10%		59%	53%	41%	(77%)!!!
30's	94%	6%		75%	25%	25%	(76%)!!!
40's	96%	4%		79%	22%	21%	(81%)!!!
50's	96%	4%		81%	19%	19%	(79%)!!!
60+	93%	7%		78%	19%	22%	(68%)
Pay	2007 Participatin	2007 Not Participating		2006 Participating	% Change	2006 Non-Participating	% Change
< \$20,000	72%	28%		41%	76%!!!	59%	(47%)
\$20 - \$30,000	93%	7%		58%	77%!!!	42%	(83%)!!!
\$30 - \$40,000	95%	5%		70%	36%	30%	(83%)!!!
\$40 - \$50,000	97%	3%		79%	23%	21%	(85%)!!!
\$50 - \$70,000	98%	2%		85%	15%	15%	(86%)!!!
\$70,000+	99%	1%		91%	9%	9%	(88%)!!!

2007 Industry Reports: Automatic Features - Prevalence & Success

- Spectrum Group Survey - 50% of large 401(k)s, 80% by 2010
- Vanguard *Measuring the Effectiveness of Automatic Enrollment* – 90+% only apply to new hires, half start at 3% & half use auto-increase, 40% have total contribution rates < 9%, too low to generate adequate retirement savings
- Profit Sharing Council of America - 41% have auto-enrollment
- Wells Fargo - 66% will auto-enroll by 2009
- EBRI – Automatic features increase 401(k) accumulations 11% - 28% for those in low income groups, 5% - 12% for those in high income groups
- Principal *Total View* – By 12/31/06, 30,000 plan sponsors enrolled for one or more Principal automatic features.
- Fidelity – *Building Futures* – Auto-enrollment raised participation rates 28%, 50% where pay < \$20,000, 47% for those < age 30
- AARP / FINRA – Of those auto-enrolled - 98% happy automatic features were added, 95% say saving is easier, 85% report they started saving at earlier age

Possible Low Cost Initiatives To Increase Retirement Preparation

401(h) for 401(k) – Company-paid, funded, defined contribution retiree medical

1. Permit long-standing, pension plan retiree medical accounts within 401(k) plans

Retirement-savvy Roth only 401(k) Plan Changes:

1. Exclude from IRC 401(a)(9) minimum required distribution provisions
2. Consolidation – permit Roth IRA rollovers into Roth 401(k) accounts
3. 2009 asset retention – Permit “cashless conversion” of taxable 401(k) assets to Roth 401(k) – allow loan for withholding tax (exclude from IRC 72 \$50,000 limit)

Diversity Changes – Women:

1. Permit Roth 401(k) contributions (with match) from long term disability benefits
2. Change catch-up age limit - from start after age 50+ to any 15 year period & after age 65

Other Retirement-savvy – Likely Changes:

1. Loans - index maximum (unchanged 30+ years), separate maximum per tax-qualified plan
2. Where post-termination assets in 401(k) or DB < \$5,000, allow consolidation into 401(k)
3. For those eligible for “Savers Credit”, allow tax preparation service as retirement education
4. Extend auto-IRA to all wage earners – Treasury to facilitate as a “connector” to vendors / recordkeepers, annual selection process (similar to Medicare Part D), annual individual default of supplemental withholding to “auto-enroll”, opt out via annual W-4.

Questions?

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Nationwide *On Your Side* Promise

Nationwide makes it ***easier*** for you to build safety and security around ***what matters to you most***, so you can live **comfortably**.

Three strategic drivers at the heart of the *On Your Side* message:

1. Advocacy – Understanding, guiding and anticipating your customers' needs.
2. Simplicity – Seeking ways to unburden customers' lives.
3. Transparency – There's nothing to hide. Make things easier to understand.

Nationwide®, headquartered in Columbus, Ohio, is one of the largest insurance and financial services companies in the world. Nationwide focuses on domestic property and casualty insurance, life insurance and retirement savings, asset management, and health & productivity initiatives.

What Nationwide / Aon Found

Human Resource Issues Identified:

- Less than optimal productivity due to personal financial stress
- Lower engagement among those who do not participate in 401(k)
- > 50% believe they are NOT “PREPared”, NOT on track for retirement – study showed 54% “PREPared” based on an annual, conservative estimate

Subject Matter Expertise:

- Apply Behavioral Finance concepts AND ***perennially*** address inertia
- Ensure changes are consistent with PPA 2006:
 1. Default investment option - target maturity model nearest age 65
 2. Substantial notice and opt out periods
 3. Consider but have yet to implement option to reverse deferrals

Goals: Deliver / demonstrate:

- An “On Your Side” experience – deliver change & implementation process that meets goals of advocacy, transparency, & simplicity
- Improved retirement preparation:
 - Mass-customized & group reports of results – More “PREPared”
 - Confirm successful retirement IS possible – “spillover” to prompt others
 - Improved associate engagement thru improved economic security

Are You PREPared? - Aon Consulting

What is PREPared?

1. Stands for **P**ersonalized **R**etirement **E**ducation and **P**lanning.
2. Benchmark income replacement ratio - Aon & Georgia State
 - Varies by income, age & employment status of family members
 - Replacement Ratio at age 65 varies from 89% at \$20K to 75% at \$90k
 - Social Security provides 65% replacement at \$20K, but only 33% at \$90k
 - Replacement income needs increasing - lower taxes, higher medical costs
 - More savings for early retirement – more medical costs, lifetime inflation
3. Being *PREPared* means sufficient income during retirement to maintain/improve his/her pre-retirement standard of living.
5. Income sources include projected benefits from Social Security, Retirement & Savings Plans – but excludes income from IRA's, prior employers, a spouse, & other sources.

Aon Consulting – US Results

“Are You PREPared?” Studies

1. Almost 200,000 distinct employees (12/31 – ‘04, ‘05 & ‘06) in databases
 - Multi-year data allows for longitudinal analysis
2. PREParedness increasing over time:
 - 58% PREPared in 2005, 72% of those participating
 - 67% PREPared in 2006, 81% of those participating
3. PREPared more likely if “save early, save often”.
Among participants – 2006 data:
 - >90% of age 25 – 34 are PREPared, ADP < 6%
 - <75% of age 45 – 54 are PREPared, ADP avg. of almost 8%Among non-participants – 2006 vs. 2005, average annual shortfall grew:
 - < age 25, shortfall grew \$950 to \$1,350/year, 3.3% - 4.5% of pay
 - 55 – 64, shortfall grew \$34,000 to \$38,000/year, 50% - 70% of pay
4. 2006 Trend Survey – 39% of employers believe 50+% of employees will have insufficient income to retire at a reasonable age (62 – 65)

Retirement Benefit Plan Summaries

Savings (401(k)) – Adopted 1968:	12/31/07	12/31/06	% CH
Total assets / average account:	\$2.9B / \$51,471	\$2.7B / \$69,265	7.6% / (26%)
# eligible / # deferred (in that year):	41,420 / 38,980	41,494 / 30,551	N/A / 28%
Pre-tax & Roth 401(k)	1% - 80% of pay to \$15,500 limit, catch-up to \$5,000 limit		
Investments	15 core, 10 target maturity & many risk-based models, brokerage		
Company match	50% of 1 st 6% of pay deferred		

Pension (DB) – Adopted 1946:	12/31/07	12/31/06	% CH
Total plan assets / PBO:	\$3.37B / \$3.36B	\$3.16B / \$3.2B	6.4% / 5.1%
Active participants / TV & Retired	30,325 / 14,786	-	-
Post-2001 hire formula:	Cash balance formula – credits of 3% to 7% of pay based on service plus 3% or 4% of pay > Social Security Wage Base		
Pre-2002 hire formula:	“Indefinite Greater of” – automatically use better formula – Cash Balance (above) or Final Average Pay: 1.25% / .5%, 35 yr max		

Retiree Medical – Adopted < 1966	12/31/07	12/31/06	% CH
401(h) Account Assets / APBO (MM):	\$158 / \$285	\$157 / \$298	N/A / (4.4%)
Pre-2000 hire:	Access w/company-paid support, retiree & family, service-based		
Post-1999 hire:	Access only, retiree & family, term after age 55 & 10 yrs service		

Nationwide Savings Plan

Future Changes

Confirm PPA Compliance

1. Continue to annually solicit using auto-enroll / auto-increase
2. Add refund within 90 day provisions

Possible Future Auto-Enrollment / Auto-Increase Changes (after 2009)

1. Change default from pre-tax to Roth 401(k)
2. Increase rate of match (today, 50% of 1st 6% of pay) or increase the maximum deferral that qualifies for match (today 6% of pay)
3. Remove 6% of pay cap on auto-increase

Possible Future Changes to Nationwide Savings Plan (2008 or later)

1. Tax Increase Prevention and Reconciliation Act of 2007 (TIPRA) – After 2009, no income limit applies to Roth IRA conversions – consider adding “deemed” IRAs to the 401(k) – tax-deductible, after-tax & Roth IRAs.
2. Add a 50% match on the 1st 6% of pay “catch-up” contributions
3. Reconsider profit sharing component

Baseline Comparison

What Do Other Studies Show?

- EBRI/ICI 401(k) study shows:
 - Active participant average account balance grew 17% in 2006 - 8.7%/year since 1999, median balance grew 15%/year over this period.
 - For most individuals, 401(k) was their only company-sponsored plan. DB plan coverage continues to shrink - especially for new hires.
- Within the plans:
 - Equity makes up about 2/3rds of plan assets.
 - Lifecycle funds are growing in popularity.
- Automatic enrollment and automatic increases are being used more.
- Many resources available for individuals to estimate preparedness and take action – Recordkeeper & employer tools, Choosetosave.org, retirementmadesimpler.org, financial institutions, universities, etc.

Baseline Comparison

What Do Other Studies Show?

- The EBRI 2007 Retirement Confidence Survey showed:
 1. > 50% of Americans have < \$25,000 in their retirement accounts
 2. Only about 40% have performed a retirement needs calculation
 3. Just over 40% of workers have a 401(k) account or an IRA account
 4. Just work longer? 2 in 5 retirees had to leave the workforce before planned
 5. 1 in 5 experienced a pension benefit cut – most common response = inaction
 6. Widespread underestimation of needs in retirement – survey response median 6.5 x pay needed to retire @ age 65, Ballpark E\$timate-Monte Carlo Simulations averaged 14 x pay @ 65

Conclusion: Despite modest assets, lack of preparation and inertia, confidence remains high – 2 in 5 somewhat confident will have enough money in retirement

- Most recent IRA contributions are rollovers, not new contributions.
- Modest use of the Saver's Tax Credit

Baseline Comparison

What Do Other Studies Show?

- **“National Retirement Risk Index” (Center for Retirement Research, Boston College): Measures working age households at risk of not having adequate retirement income. Updated in 2008 to incorporate retiree medical costs:**
 1. Retiree health costs are high and are expected to rise rapidly
 2. Health costs drive up the share of households “at risk” from 44% to 61%
 3. Behavior changes – work, saving & healthy habits – can make a big difference
- **At risk, defined:**
 1. Survey of Consumer Finances data, assumes no change in Social Security, Medicare
 2. Assumes work to age 65, annuitize all assets, includes reverse mortgage home equity
 3. Risk - 10+% short of income replacement goal (life-cycle smooth consumption model)
 4. Increases if conservative assumptions not achieved, assets not annuitized, retire early
- **Surprise – If People Don’t Plan, Change Habits & Save to Meet Health Cost:**
 1. NRRI – Population at risk increases from 61% to 67%;
 2. Percentage At Risk:

	NRRI	w/Retiree Med	w/Ret Med & Surprise:
1. Early Boomers (1948 – 1954):	35%	50%	54%
2. Late Boomers (1955 – 1964):	44%	61%	68%
3. Gen X (1965 – 1974):	48%	68%	76%

Baseline Comparison

What Do Other Studies Show?

Automatic Features Needed Because – (also see page 17):

1. Onus on associate to act, overcome inertia – due to decisive shift to 401(k)*:
 - 1983: DB Only – 62% DC Only – 12% Both DB & DC – 26%
 - 1992: DB Only – 44% DC Only – 43% Both DB & DC - 16%
 - 2004: DB Only – 20% DC Only – 63% Both DB & DC – 17%
2. In theory, 401(k)'s could work well, but to date, they have not – 401(k)/IRA Actual and Simulated Accumulations by Age Group, 2004**:
 - Age 35 – 44: Actual: \$25,000 Simulated: \$ 63,500
 - Age 45 – 54: Actual: \$49,000 Simulated: \$163,900
 - Age 55 – 64: Actual: \$60,000 Simulated: \$314,000
3. 2005 Fidelity study shows people are inert***:
 - 36% don't enroll, 19% don't diversify investments, 92% do not defer the maximum, and
 - 86% don't rebalance their portfolio even once a year

* Alicia H. Munnell, based on U.S. Board of Governors of the Federal Reserve System, Survey of Consumer Finance

** Alicia H. Munnell and Annika Sunden, 2006. "401(k) Plans Are Still Coming Up Short", Center For Retirement Research at Boston College

*** Fidelity Connections, Volume VII, Issue 1, 2007