

ARA Calls for Electronic Delivery Update to 401(k) Disclosure Default

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ARLINGTON, VA — *The American Retirement Association is calling for a change in retirement plan disclosures that could save American workers millions and enhance their retirement security.*

The nation's premier association of retirement plan professionals today broadly releases a new study it commissioned with the Investment Company Institute (ICI) that concludes that shifting the default medium for 401(k) disclosures from paper would save 401(k) participants hundreds of millions of dollars annually. The study, "Why the Time Has Come to Prefer Electronic Delivery," by Professor Peter Swire and DeBrae Kennedy-Mayo updates and expands on a 2011 study, and concludes that the advantages in cost, effectiveness and efficiency of electronic disclosures are even more compelling today than outlined in the original study.

Among the study's findings:

Current regulations requiring paper delivery of participant 401(k) information can cost investors between \$350-500 million per year, which can reduce the average account balance by 2.4% over a 40-year work life. Working from the study's estimated cost of paper delivery, the ARA finds that eliminating the cost of delivering paper notices to 80 million participants annually can translate into additional retirement savings of about 2.4% over a lifetime of work. In contrast, once a participant notice is drafted, the incremental cost of sending an email to one person is essentially zero.

E-delivery improves access for the visually impaired and others with disabilities. Electronic notices provide better access than paper notices for the large population of participants with disabilities by allowing all users to adjust the font size and other settings. For the elderly and those with modest vision impairment, the ability to read online, with larger text and brighter light, is often crucial to effective reading. For those with color blindness, with electronic delivery, participants can shift to high contrast fonts or colors.

E-delivery improves access and the quality of information for those who speak English as a second language. Translation software, available for free online, dramatically improves the availability and quality of notices to the millions of Americans for whom English is not their first language. As of 2016, about 42 million, or 14% of the total U.S. population, were foreign-born and nearly 21 million of them reported that they do not speak English "very well." The study notes, for example, that Google software translates over 100 languages, accounting for over 99% of the online population.

E-delivery can lead to increased saving and investing. The interactivity of e-delivery helps achieve public policy goals for DC plans of increasing retirement savings and enabling participants to better manage their accounts. Participants could receive just-in-time notices, layered notices, contribution prompts and online calculators – with hyperlinks, allowing the user to simply click on a link when interested in learning more or taking an action. That interactivity can translate into higher savings rates; according to ICI's survey of a cross-section of 401(k) plan recordkeepers conducted in the winter of 2017/2018, the average participant contribution rate among participants not interacting with the plan website was 5.8% of salary, compared with an average 7.8% contribution rate among participants who had interacted with their plan website. Moreover, according to a 2011 survey by the Principal Financial Group, Principal plan participants who used the firm's online tool saved an average of 39% more than participants who did not use the tool.

Internet access – especially among DC account holders – is nearly universal. A 2017 ICI survey shows that over 91% of working U.S. households have access to the internet, and it's even higher among households owning DC accounts. Moreover, ICI tabulations of the 2016 Federal Reserve Board Survey of Consumer Finances show that 82% of households owning DC accounts with household income below \$20,000 use the internet. In addition, ICI's tabulations show that

households owning DC accounts also overwhelmingly use the internet for sensitive financial transactions. In 2016, 88% of households owning DC accounts engaged in online banking, up from 83% in 2013.

The federal government recognizes substantial cost savings from e-delivery – why shouldn't 401(k) investors? In 2015, the Centers for Medicare and Medicaid Services required notices to be sent to all Medicare recipients about its Electronic Medicare Summary Notices (eMSNs). Moreover, the Social Security Administration and the 401(k) plan for federal workers use electronic delivery as the default method for communicating participant/beneficiary information unless an individual requests mail delivery.

“From reducing costs, providing greater access and improving the quality of notices, the benefits of e-delivery are overwhelming and undeniable,” explains American Retirement Association CEO Brian Graff. “Under our proposal, those who prefer paper delivery would still have that option. But we strongly believe the time has come to unleash the power of e-delivery. After all, if electronic delivery is good enough for the Centers for Medicare and Medicaid Services and Social Security, it should be good enough for 401(k) participants.”

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