

# Why Data Matters


## Generating Value from Retirement Plan Data

### Executive Summary

Retirement plans generate an incredible amount of data. From enrollment to retirement and every transaction in between, recordkeepers dutifully track what happens, when it happens and who makes it happen. Historically, these systems were focused on record-keeping and regulatory compliance, but with the recent abundance of electronic storage and analytical engines we can move beyond merely keeping track of data. With the help of these technologies, we can illuminate the processes that outline participant transactions and better understand how our participants prepare for retirement. By pairing automation with analytics there is a tremendous opportunity to maximize the amount of value derived from retirement plan data.

Developing automated pipelines and maintaining quality data is a process that can be achieved through collaboration with your plan provider and intermediary. The effects that quality data can have on a retirement plan are far reaching and benefit the sponsor, intermediary and the participant. They enable a holistic understanding of the processes and people that drive retirement plans, and allow you to focus your most valuable human resources on value-added activities. Sponsors and intermediaries are able to make decisions supported within a rigorous framework while participants are presented with a plan that helps to support them in their path towards a successful retirement.

This paper outlines the process through which retirement plan data can be used to generate value in helping sponsors to meet their fiduciary obligations by increasing employee engagement and understanding of plan dynamics while reducing sponsor workload. It is about the process through which data is turned into information and information is transformed into knowledge.



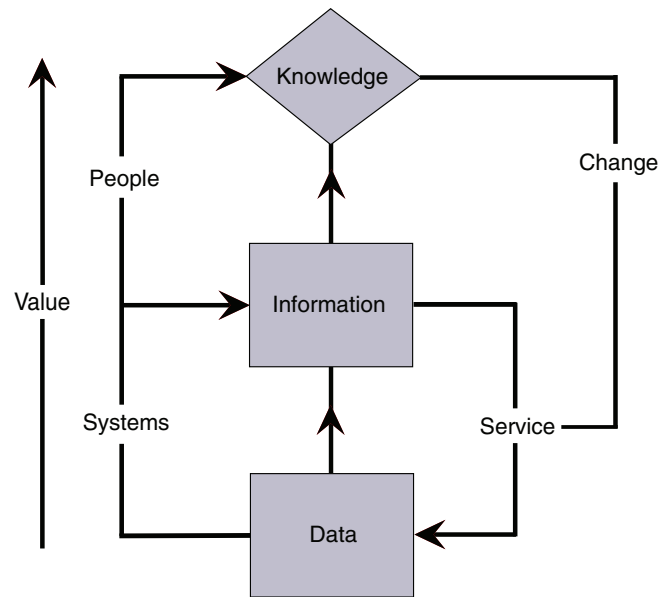
Working with a retirement recordkeeper means managing and sharing a great deal of data. Good data quality and data transfer are the cornerstones of a well managed plan. In addition to enabling critical administrative and fiduciary functions, they facilitate additional value-added services. These services include more actionable communications, targeted marketing of the retirement plan, streamlined data outsourcing and more proactive, consultative ERISA advisory services. Working together they can reduce your workload while increasing plan understanding and participant engagement. Moreover, value-added services can also make it easier to meet fiduciary obligations.

## Data's Bright Future

Within the retirement services industry, data management is often considered a commodity in which all providers have basic functionality, and differentiation comes primarily through pricing, investments and product features. During the past decade however, advancements in technology have opened doors for savvy providers, intermediaries and plan sponsors to break away from the crowd in the way they put their data to work. Electronic storage has become more abundant while at the same time, raw processing power has increased dramatically. For providers who have invested in these technologies, this convergence of abundant electronic records and robust analytical engines provides an opportunity for these providers, plan sponsors and intermediaries to gain fresh insight into retirement plans and participant behavior. And these insights pave the way for meaningful actions.

In today's retirement services industry, data is collected through a number of channels, principal of which are payroll feeds, sponsor and participant websites, paper forms, call centers, and participant meetings. These channels create an inordinately large amount of data which is supplemented and modified on a daily basis. Due to this large volume, the data in itself is not useful for making decisions because the sheer magnitude of elements creates a situation in which it is extremely difficult to make any cogent decisions. However, when it is summarized and analyzed raw data can become information – actionable data – that provides a window into participant behaviors and plan trends. This information, taken in context with the operating environment of the plan, can be used to shape services provided to plan participants, encouraging them to engage with the retirement plan. This engagement with plan services creates, in turn, additional data which influences the future application of this feedback loop. Ideally, data is referenced and available across various data sources so that a holistic understanding of participant behavior and plan trends can be compiled.

## The Data-to-Knowledge Feedback Loop



*This process maximizes the value of your data by optimizing the use of system and human resources. By focusing the use of the available resources it enables more value to be extracted from the plan data.*

## The Benefits of Accurate Data

*Increase participant engagement: help to prepare employees for retirement*

Engaging participants with their respective retirement plan, whether the topic is enrollment, increasing deferrals, or diversifying – is one of the most challenging, yet most important tasks that confronts the retirement services industry. Historically the focus has been on educating participants in the belief that an educated participant would make affirmative elections. In recent years, however, behavioral finance (the intersection of psychology with economics) has given us increasing insight into the drivers of economic decisions. Research has shown that education itself is not enough to spur action and an over-abundance of otherwise useful information may, in fact, hinder decision-making. In retirement services it has been most often applied to explain how participants make elections surrounding participation, deferral and diversification.

For example, one of the applications of behavioral finance has shown that, contrary to common belief, increasing the number of investment options available to participants actually decreases plan participation by 2% for every 10 investments<sup>1</sup>. This decision-making paralysis can result when a person is presented with too many variables with the result being that the decision is deferred leading, in this example, to the participant failing to make an enrollment decision.

In contrast to traditional economic theory, behavioral finance suggests that participants do not make decisions through an entirely rational process. Instead of focusing strictly on the facts of the situation, they will rely on the use of mental shortcuts (heuristics) and overemphasize the way a decision is presented (framing). By recognizing the ways in which participants make decisions we are able to use data to structure retirement plans to enable easier decisions.

Having ready access to accurate data about plan participants enables a plan sponsor to better utilize services to spur participants into action. Often, this means delivering a compelling message to a receptive target audience and allowing for clear actionable steps to achieve these objectives. In the context of diversification, for example, we must accommodate many factors when targeting participants to take action. This means not only targeting those participants with all of their assets in one investment, but also taking into consideration the type of investment they have selected, their age and the methods through which your plan participants most often act. Looking at the data in this detail ultimately enables plan sponsors to deliver a compelling message to a receptive target audience, providing clear, actionable steps to most likely induce group members to take action – in this case, to diversify their portfolios.

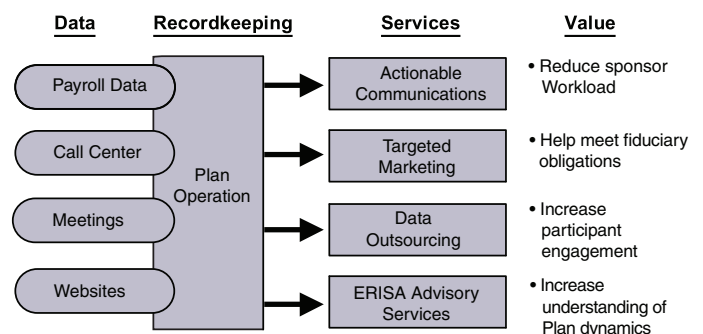
As your communication plan is implemented, having access to data allows you to monitor the effectiveness of the campaign and to fine-tune future communications to improve participant response. Although many of these techniques may have been possible in the past, they were often implemented using people to aggregate the data, and they often used hand-counting or anecdotal feedback to determine effectiveness. By leveraging automation it is now practical to gain more resolution around these targeted, actionable participant communication processes on a more timely, accurate and granular level, while redeploying human resources to other value-added activities.

### Better Plan Management

While behavioral finance is being applied to participant behavior, the concepts should also be kept in mind when examining other decisions made within the plan sponsor-intermediary-provider dynamic. At the administrative and strategic level, we encounter many of the same decision-making challenges that we find at the participant-level: inertia, decision paralysis, and information that is not presented in an actionable manner. Traditional analysis has often been driven by administrative reports which are designed to accommodate as much transactional data at as granular a level (often participant-level) as possible. Advances in analytical engines have facilitated more dynamic reports which enable a decision-maker to be confronted with high-level trends and observations into people’s actions while allowing the underlying data to be readily accessible.

Having access to historical data also enables a more proactive response to plan trends. By examining leading indicators of plan performance, it is possible to mitigate potential upcoming issues. Often transactional data is accurate, but only reflects actions that have already been taken. Aggregation of data is important not only from a recordkeeping system, but also using data accumulated through other systems such as call-center logs or participant web-site activity. Online and phone activity should be viewed as a precursor to future activities: increased loan modeling can be seen as predictive of future loans from the plan. Changes in the levels of predictive participant activity can be flagged through systemic reporting while any necessary action can be diagnosed by an associate involved with the plan.

### The Data-to-Value Chain



**Reporting:** Facilitates our understanding of each stage in the pipeline.

<sup>1</sup> Iyengar, Sheena S. and Wei Jiang and Gur Huberman. 2003. "How Much Choice Is Too Much: Determinants of individual contributions in 401K retirement plans" In Mitchell, O.S. & Utkus, S.P (Eds.) Developments in Decision-Making Under Uncertainty: Implications for Retirement Plan Design and Plan Sponsors. Oxford University Press, Oxford, England.

### *Reduce sponsor workload*

When applying the data-value feedback loop it is important to maximize the use of available resources, and to focus the most valuable resource within this cycle – the time and experience of the people who work with the plan. The adage, ‘an ounce of prevention is worth a pound of cure’ has always rung true in retirement plans, but by the automation of data collection and report generation, human resources can be focused where they create the most impact. By allowing analytical systems to clarify the immense quantities of data into actionable information we can empower people to make decisions based on this information. This allows plan sponsors, intermediaries and providers to create value by applying their human capital of accumulated knowledge in a more efficient, value-added manner for the betterment of the plan.

Leveraging automation, such as payroll feeds or transactions through participant websites, allows for quick and efficient capture of data with much less possibility of keying errors and in a much shorter time period. Where the rules for the collection and processing of data are clear-cut, technology is the most effective solution. Analytical reporting engines can then be used to transform this data into information while aggregating it across different platforms.

For example, by outsourcing salary deferral maintenance with a retirement plan provider, a Plan Sponsor can alleviate the tasks associated with collecting and maintaining deferral percentage change requests from individual participants. However, beyond the maintenance of deferral percentages, by allowing the deferral percentages to be tracked by the provider, those percentages can be combined via analytical engines with the rest of the data within the plan. That information can then be used as an index against which the effectiveness of plan initiatives can be measured on a dynamic basis.

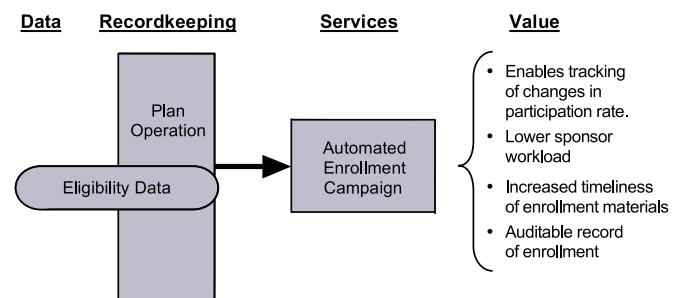
Using automation to accomplish bulk data collection, storage and aggregation is more efficient, and scales more effectively with the growth of the plan. It also, very importantly, allows the human resources assigned to the plan to be deployed against higher value analysis and/or processes. Ready access to timely, summarized information can allow administrators to proactively address situations before they turn into problems.

Increasingly, as data outsourcing became more prevalent, retirement providers began to collect data that was not directly necessary for the daily operation of the retirement plan. While data necessary for financial transactions and

plan operation is generally of the highest quality, data that is not necessary on a daily operational-basis may not pass such rigorous examination.

For example, marital status fields are rarely necessary from an ERISA perspective, and as a result the prevalence and accuracy (even of data as pervasive as marital status) is often lower than essential fields such as Social Security number. Higher quality data available to a record keeper can translate into greater plan insight and automation. In the case of marital status, automating this process leads to less paperwork for a Plan Sponsor, but also provides opportunities for that data to be used in more effective communication initiatives. One example is in extending meeting invitations to both members of a married couple; bringing both decision-makers together to facilitate on-the-spot choices that affect their joint retirement.

## The Data-to-Value Chain: Eligibility Data



**Reporting:** Facilitates our understanding of each stage in the pipeline.

*By providing eligibility data to a provider prior to employee eligibility, a sponsor can recognize many benefits.*

### *Help meet fiduciary obligations*

Data is important not only for the successful operation of a retirement plan, but also for the value that it adds to the decisions made by fiduciaries during their ongoing administration and strategic oversight.

By elevating raw administrative data through appropriate summarization it becomes information that can provide a framework for plan-level decisions. This framework lends consistency to the decision-making process and also clarifies the future consequences of administrative and strategic actions. Once decisions have been made, whether it is changing a default option or instituting an increase deferral campaign, the ramifications of that decision can then be tracked through the same automated systems. This tracking provides validation of the fiduciary decision or

## Value Creation Checklist:

Work with your provider and intermediary to:

### Evaluate the quality of your data

- Review a data integrity report on your plan for any missing or inconsistent data.
- For any missing or incomplete data, ask, “How can we correct this information, and keep it clean in the future?”

### Collaborate with your service provider to review your current usage of automated services

- Is there any information that would help you to make decisions that you do not currently track?
- Are there any opportunities to automate manual processes?
- Ask your provider about automated campaigns.

allows the administrator to quickly diagnose and resolve any complications that may arise.

For plan fiduciaries this data is particularly important as it enables quick, meaningful decisions to be reached that take into account the majority of plan participants as opposed to reacting based on anecdotal evidence raised by a vocal minority. Your retirement plan is more than a series of numbers, but analytics can complement the wealth of knowledge available through the people who work with your plan. Data that has been aggregated and transformed into information allows meaningful plan dynamics to be delivered across a hierarchy of decision-makers. This means key decisions can be made based on participant behaviors and plan dynamics.

## Conclusion

Wondering what to do next? What actions can you take to maximize the value created by your data? Take a look at the checklist below for some actionable items to set you down the right path.

Developing automated pipelines and maintaining quality data is an ongoing process that can be achieved through collaboration with your plan provider and intermediary. Customized reporting for all stages of the evolution from data to knowledge can help to keep you on top of the state of your data and see how your initiatives are working to prepare your participants for retirement. The effects that quality data can have on a retirement plan are far reaching and benefit the sponsor, intermediary and the participant. They enable a more holistic understanding of the people and processes that drive retirement plans, and allow all of us to focus our most valuable human capital on value-added activities. Sponsors and intermediaries are able to make decisions supported within a rigorous framework while participants are presented with a plan that supports them in their path towards retirement.

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