

**Principal®**

*Financial  
Group*



**2<sup>o</sup> Principal  
FORUM**

**MEJORANDO EL FUTURO DE  
LAS PENSIONES EN MÉXICO**

---

**EMBRACING OUR NATURE AND BEHAVIOR  
TO DRIVE BETTER RETIREMENT OUTCOMES**

**Jerry Patterson**

Senior Vice President

The Principal Financial Group

# AGENDA

U.S. retirement system current state and progress made.

---

Rebirth of behavioral finance.

---

Putting this learning into action.

---

Power of voluntary savings plan design.

---

Delivering education that works.

# THE U.S. RETIREMENT SYSTEM

- ▶ A long way.
- ▶ Era of personal responsibility is front and center.
- ▶ Millions of Americans are on track.
- ▶ Millions still need help.
- ▶ We are making exciting discoveries that have us very optimistic about the future of our largely voluntary system.

**Principal<sup>®</sup>**

*Financial  
Group*

THE MARCH TO PERSONAL RESPONSIBILITY

**1985-2005**

**CHOICE**



**CONTROL**

**EMPOWER**

*Photo Credit: Televisa S.A. de C.V.*

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*

THE MARCH TO PERSONAL RESPONSIBILITY

**1985-2005**

**TOOLS AND  
CALCULATORS**

**DETAILED TECHNICAL  
MATERIALS**

**GROUP MEETINGS AND  
ONGOING CLASSROOM**

**BROAD ARRAY OF  
INVESTMENT OPTIONS**

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*

THE MARCH TO PERSONAL RESPONSIBILITY

**1985-2005**



**LESS CHOICE**

**LESS CONTROL**

Do not copy, forward or duplicate without express permission.



THE MARCH TO PERSONAL RESPONSIBILITY

# 1985-2005



Do not copy, forward or duplicate without express permission.

**Principal<sup>®</sup>**

*Financial  
Group*

THE MARCH TO PERSONAL RESPONSIBILITY

**2005-2010**



**ASSET  
ALLOCATION  
PORTFOLIOS**



**WEB-BASED  
EDUCATION  
TOOLS AND  
CALCULATORS**



**EASIER,  
WEB-BASED  
TRANSACTIONAL  
PROCESSES**

Do not copy, forward or duplicate without express permission.







THE MARCH TO PERSONAL RESPONSIBILITY

**2005-2010**

Do not copy, forward or duplicate without express permission.



## REBIRTH OF BEHAVIOR FINANCE **2010**



Do not copy, forward or duplicate without express permission.

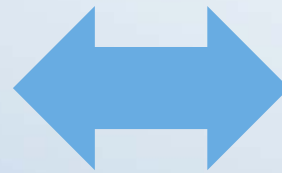
**Principal<sup>®</sup>**

*Financial  
Group*

BEHAVIOR FINANCE FINDS CENTER STAGE

**2010-2016**

**EDUCATION**



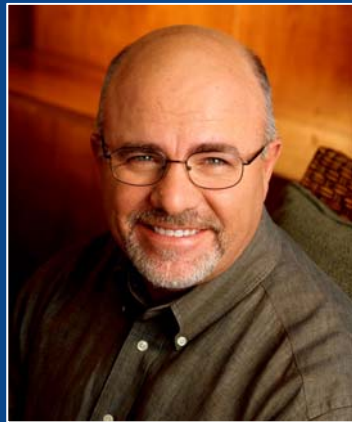
**BEHAVIOR**

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*



*Properly handling your  
finances is 80% behavior  
and 20% head knowledge.*

**Dave Ramsey**

Financial Author & Talk Show Host, 7/24/13

Do not copy, forward or duplicate without express permission.



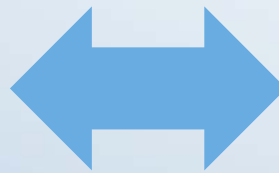
**Principal<sup>®</sup>**

*Financial  
Group*

BEHAVIOR FINANCE FINDS CENTER STAGE

**2010-2016**

**STATED  
BEHAVIOR**



**ACTUAL  
BEHAVIOR**

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*

BEHAVIOR FINANCE FINDS CENTER STAGE

**2010-2016**



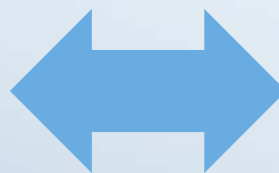
Do not copy, forward or duplicate without express permission.



BEHAVIOR FINANCE FINDS CENTER STAGE

**2010-2016**

**DON'T  
LIKE IT**



**DON'T FEEL  
COMFORTABLE  
DOING IT**

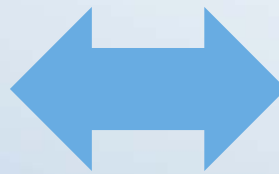
**Principal<sup>®</sup>**

*Financial  
Group*

BEHAVIOR FINANCE FINDS CENTER STAGE

**2010-2015**

**EMPLOYER  
VOLUNTARY  
SAVINGS PLANS**



**INDIVIDUAL  
SAVINGS**

Do not copy, forward or duplicate without express permission.



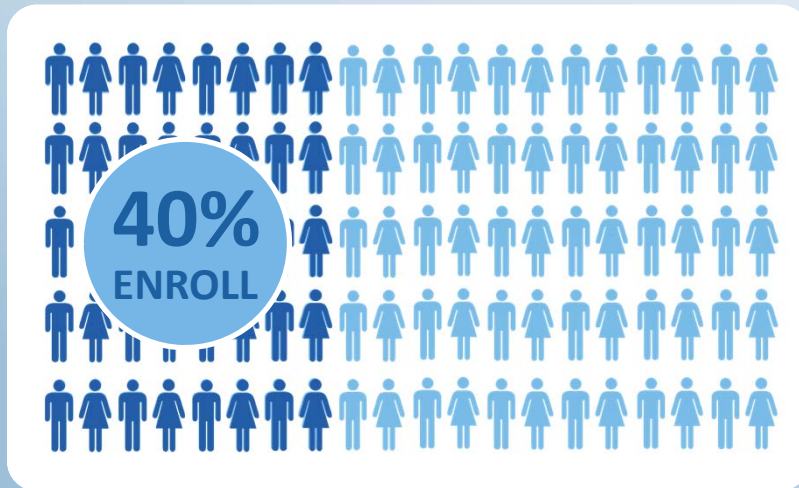


Principal®

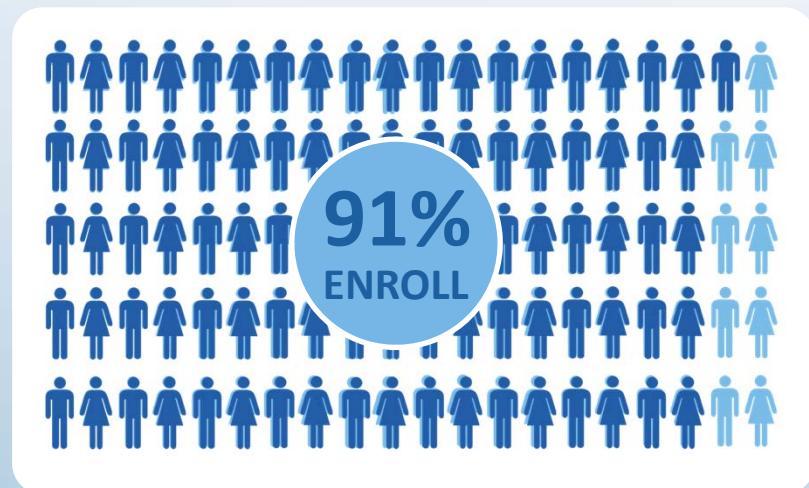
Financial  
Group

# 401(k) VOLUNTARY SAVINGS PLAN ENROLLMENT

## TRADITIONAL ENROLLMENT



## AUTOMATIC ENROLLMENT



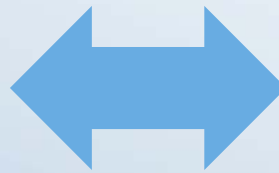
Do not copy, forward or duplicate without express permission.

**Principal<sup>®</sup>**

*Financial  
Group*

# 401(k) VOLUNTARY SAVINGS PLAN DEFAULT

3%



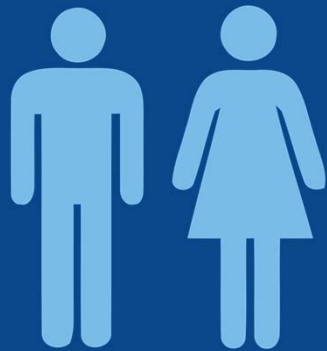
8%

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*



**HUMAN BEINGS  
WERE NOT  
BUILT TO SAVE.**

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*

PUTTING LEARNING INTO ACTION

# DRIVING BETTER OUTCOMES

**VOLUNTARY  
SAVINGS  
PLAN DESIGN**

**EDUCATION  
THAT WORKS**

Do not copy, forward or duplicate without express permission.



PUTTING LEARNING INTO ACTION

# VOLUNTARY RETIREMENT PLAN DESIGN

## FOCUS ON OUTCOMES:

70-85% target.

---

Save at least 10%.

## IMPLEMENT PLAN DESIGNS THAT WORK:

Auto-enrollment.

---

High starting rate (6-8%).

---

Stretch Match (.5% to 8%).

PUTTING LEARNING INTO ACTION  
**KEY LEARNINGS**

- ✓ It works!
- ✓ Employee reaction concerns - anti-climatic.
- ✓ Changing healthcare is helping.
- ✓ 89-94% participation rates.
- ✓ 6%+ for starters with low opt-outs.

**Principal<sup>®</sup>**

*Financial  
Group*

EDUCATION THAT WORKS

# EDUCATION THAT DRIVES BEHAVIOR

“**WHAT**”  
WE TEACH

“**HOW**”  
WE TEACH

Do not copy, forward or duplicate without express permission.



**Principal<sup>®</sup>**

*Financial  
Group*

“**WHAT**”  
**WE TEACH**

Stop trying so hard to make them experts. We need to focus of our efforts on making it easier and more intuitive and more likely that they will take action to save.

Do not copy, forward or duplicate without express permission.





**Principal<sup>®</sup>**

*Financial  
Group*

“**HOW**”  
**WE TEACH**

Simple, easy, quick, visual,  
interactive, digital, mobile,  
personalized, 24/7, tied to  
action.

Do not copy, forward or duplicate without express permission.



# KEY LEARNINGS

- ✓ Digital education that involves Interaction works.
- ✓ Personalization makes it even better.
- ✓ Defining clear outcomes works.
- ✓ Bringing education and decision-making together is key.

**Principal<sup>®</sup>**

*Financial  
Group*

EDUCATION THAT WORKS

# DEMOGRAPHIC BARBELL IN THE US

**80M MILLENNIALS**  
10,000/day @21

**80M BOOMERS**  
10,000/day @65

Do not copy, forward or duplicate without express permission.



## SHIFTING DEMOGRAPHICS

# KEY LEARNINGS

- ✓ Different, but adoption is fast.
- ✓ Behavioral challenges are life-long.
- ✓ Moment of retirement is underestimated.
- ✓ Workers and retirees need a different strategy.
- ✓ Investment scientists are just beginning.

# SUMMARY

- ▶ Its working.
- ▶ Behavioral finance is fueling rapid improvements.
- ▶ Education is transforming and there are new, and more effective ways to use education in preparing citizens for retirement.
- ▶ Employer-sponsored voluntary plans provide a unique and effective way to use plan design and education.
- ▶ Demographic differences require different solutions, especially for today and tomorrow's retirees.