

Nationwide Uses Automatic 401(k) Features to Help Prepare Associates for Retirement

Here is a by-the-numbers look at Nationwide’s implementation of its Nationwide Savings Plan. It’s a statistical portrait of results before and after rolling out Nationwide’s automatic enrollment and automatic increase features.

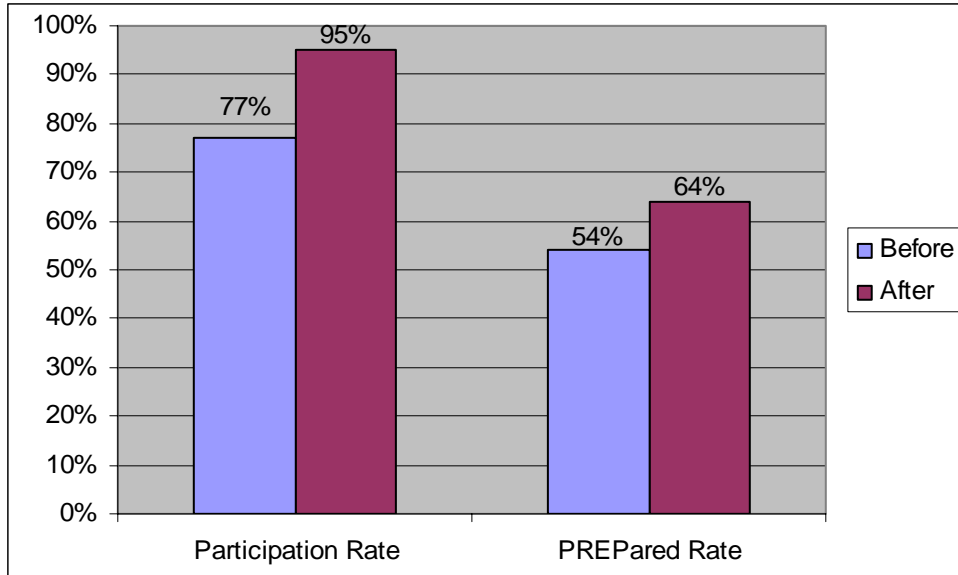
To determine the retirement readiness of its associates, Nationwide employed a methodology called PREP, which stands for **P**ersonalized **R**etirement **E**ducation and **P**lanning, developed by Aon Consulting, described in more detail below. Beyond the enrollment numbers and readiness estimates, this is a story of some of the challenges Nationwide faced, and results that ultimately exceeded expectations.

By the Numbers

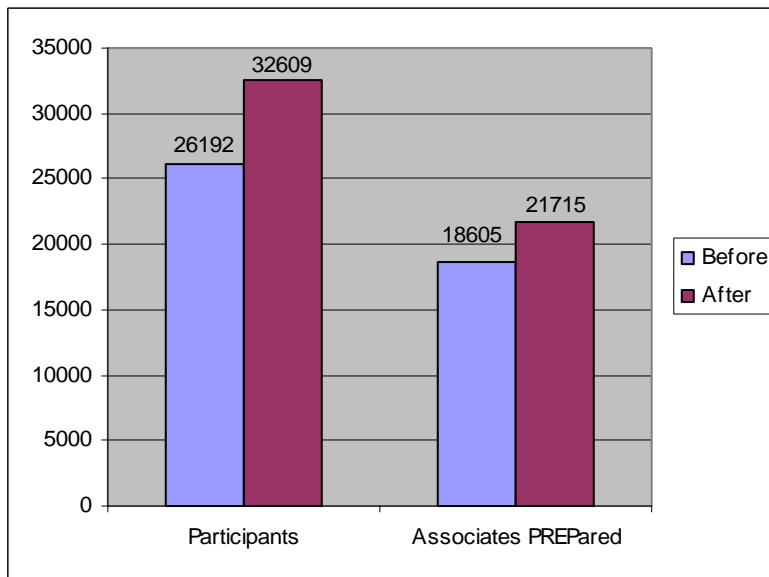
For those who just want the numbers, here they are:

Category	Pre-Auto Increase/Enroll	Post Auto Increase/Enroll
Eligible associates	34,151	34,151
Active participants	26,192	32,609
Participation rate ¹	77%	95%
Average deferral rate	5.8%	6.8%
Associates PREPared for retirement	18,605	21,715
% PREPared for retirement	54%	64%
% prepared by age group		
< 25	58%	76%
25 – 34	66%	83%
35 – 44	59%	67%
45 – 54	45%	48%
54 – 65	26%	26%

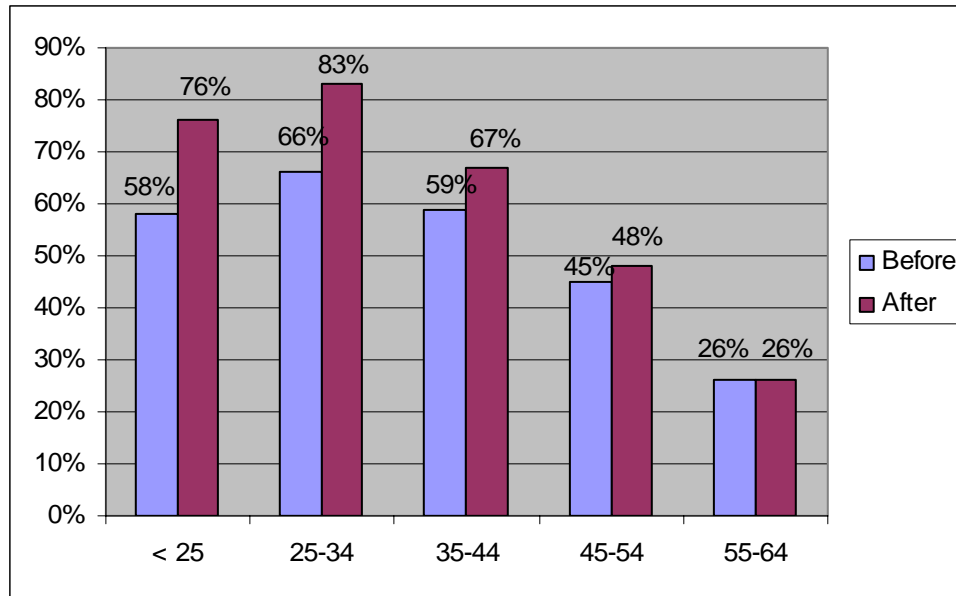
Before & After – Participation and PREPared Rates



Before & After – Number of Associates Participating and Number PREPared



Before & After – PREPared Rates by Age Cohort



Setting the Stage

Nationwide, headquartered in Columbus, Ohio, is one of the largest insurance and financial services companies in the world. The company focuses on domestic property and casualty insurance, life insurance and retirement savings, asset management and strategic investments. The primary plans providing retirement income benefits to Nationwide associates are the Nationwide Savings Plan (official name of the company's 401(k)) and the Nationwide Retirement Plan. Here's a little more on each of these plans:

Nationwide Savings Plan

- Adopted July 1968
- Immediate participation
- Match: 50% on the first 6%²
- Five year graded vesting (20% per year of vesting service)
- Pre-tax, Roth and after-tax contributions (after-tax limited to non-highly compensated employees). Maximum deferral of 80% (subject to applicable limits)
- Fifteen core investment options, ten target maturity options (comprised of the core options) and a self-directed brokerage account option.
- Assets - \$2.8 billion (as of June 30, 2007)

Nationwide Retirement Plan²

- Adopted March 1946
- Participation begins after 12 months of service.
- Better of two formulas for those hired prior to 2002³, Account Balance formula only for those hired after 2001:

Final Average Pay (FAP)
1.25% on FAP + .50% on FAP in excess of social security covered compensation * years of participation (up to 35).

Account Balance Formula Crediting Rates - As of Jan. 1, 2008		
Years of Service	Credit Rate (up to Social Security Taxable Wage Base (SSTWB))	Credit Rate (Compensation in excess of SSTWB)
First 3	3%	3%
Next 6	4%	4%
Next 6	5%	4%
Next 6	6%	4%
22+ years	7%	4%

- Interest credits based on 30-year Treasury weighted average.⁴
- No maximum participation service.

Changed Needed!

Prior to 2007, Nationwide had typical enrollment provisions. In the years immediately prior to 2007, Nationwide had added Easy Enrollment and Easy Increase provisions. Easy Enrollment was a “single click” enrollment process—electing 6% of pay pre-tax, 100% allocated to a fixed income investment. Easy Increase was an election to increase deferrals annually—by 1%, 2% or 3% of pay. Since 1998, despite considerable communications efforts and provisions such as Easy Enrollment, Nationwide’s active participation rate remained mostly unchanged—between 70% and 75% of eligible associates. Something needed to change.

For the past several years, the company learned from its total compensation statements that many associates were not adequately preparing for retirement. Nationwide had considered auto enroll/auto increase for a number of years. Issues such as fiduciary liability and inability to reverse deferrals worked to delay an earlier implementation. The qualified default investment alternative and 90-day revocation⁵ provisions in the Pension Protection Act (PPA) of 2006 resolved Nationwide’s issues with auto enroll/auto increase.

Solution: Auto Enroll/Auto Increase

At Nationwide, the auto enroll/auto increase provisions took effect with the first pay period in April—traditionally Nationwide’s common effective date for salary adjustments. For new hires, “auto enroll/auto increase” provisions are effective after 60 days of service. If no affirmative election was received, the following actions occurred in April 2007:

- If not currently participating – increase to 3% pre-tax
- If current contributions < 3% - increase to 3 %
- If current contributions = 3 %, 4% or 5%, increases to 4%, 5% or 6% respectively
- If current contributions => 6% - no change
- If current contributions are Roth 401(k), auto-increase is Roth 401(k), else pre-tax
- For auto-enroll, contributions are allocated to the target maturity model closest to the associate's 65th birthday⁶

How many associates Nationwide impacted by auto enroll/auto increase? Here's an overview:

Of those associates eligible for auto enroll, the number that:

- | | |
|----------------------------|-------|
| • Enrolled on their own | 1,631 |
| • Opted out | 1,058 |
| • Nationwide auto enrolled | 4,786 |

Of those associates eligible for auto increase, the number that:

- | | |
|--------------------------------|-------|
| • Opted the same deferral rate | 1,199 |
| • Affirmatively changed rate | 53 |
| • Auto increased to 3 % | 3,874 |
| • Auto increased to 4 % | 1,270 |
| • Auto increased to 5 % | 780 |
| • Auto increased to 6 % | 685 |

PREParedness

PREP stands for **P**ersonalized **R**etirement **E**ducation and **P**lanning, an analysis developed by Aon Consulting.

Aon's analysis of retirement PREParedness combines the Aon Consulting/Georgia State University Retirement Income Replacement Ratio StudyTM with associate-specific data. The study analyzes information about spending patterns, tax rates and other economic variables to develop benchmark income replacement ratios. These ratios vary by income, age and employment status of family members. Individual income replacement ratios based on projections (assuming retirement at age 65) of Retirement Plan, Savings Plan and Social Security benefits and future compensation are compared to the benchmark ratios.⁷ Using the various assumptions and date elements, an analysis is made to determine if the associate is PREPared.

PREP and Auto Enroll/Increase

While increasing participation was the primary goal in implementing auto enroll/auto increase,⁸ Nationwide was interested in evaluating the initial impact on its PREP numbers. Nationwide's PREPared rate since 1997 had declined from 67% (1997) to 54% (2007). Factors contributing to the decline include changes in the replacement ratio

factors used in the PREP calculations. Replacement ratios have increased since 1997 due to:

1. Relatively minor decreases in expenditure patterns after retirement (i.e., spending doesn't decrease that much in retirement).
2. An increase in the percentage of disposable income needed due to a decrease in tax rates and a drop in savings rates (in essence, Nationwide used to having more money in Nationwide's pockets that must be replaced in retirement).

The impact analysis began with compiling participation data from the second payroll following implementation of auto enroll/auto increase. This date was chosen to allow for the possibility that associates would change their deferral elections once they saw their pay impacted.⁹ Nationwide then updated the December 31, 2006 PREP calculations with the auto enroll/auto increase activity.¹⁰

To establish a benchmark measurement, an initial analysis was completed using the December 31, 2006 data assuming a 100 % auto enroll/auto increase opt in at the default deferral rates. This produced a projected increase in the PREPared rate of 54 % to 58 %. But, something great happened.

A Great Result

The final analysis used the actual deferral and opt-in data from the May payroll. Nationwide achieved a PREPared rate of 64%—10 points higher than the December 31, 2006 rate and 6 points higher than the projected result.¹¹ Something seemed odd. Nationwide expected a rate between 54% and 58%, a good result. But, 64% was a substantial improvement, and, while Nationwide didn't return to Nationwide's original PREParedness level of 1997, the substantial increase of the 2006 rate (while holding all other variables constant) was certainly a pleasant surprise.¹²

What was going on?

A comparison of the data revealed many participants who were not impacted by the auto enroll/auto increase activity had nonetheless increased their contributions. Auto enroll/auto increase was implemented to coincide with the common effective date for annual salary adjustments.

What else happened?

When introducing auto enroll/auto increase, Nationwide followed the adage of communicate, communicate, communicate.¹³ Communications Nationwide delivered to all associates—not just those impacted by the auto enroll/auto increase feature. Feedback indicates the communications encouraged those not impacted by auto enroll/auto increase to increase their deferral rates on their own volition.

Through Easy Increase or by their own actions, 1,287 participants increased their deferral rates. The actions by these participants are responsible for the significant increase in the number of associates PREPared for a more secure retirement.

Next Steps

Nationwide intends to s renew the auto enroll/auto increase effort each year. One might view the annual renewal effort as an opportunity for eligible associates to, once a year, revisit their decision to participate at less than 6%.

Should you implement auto enroll/auto increase at your company? Here are some things to consider, given the Nationwide experience:

- If you offer a match, the financial impact may be significant; so, you too have to run the numbers.
- Don't be afraid to include both current employees and new hires. Concerns about a negative reaction among current associates never materialized.
- It's not just about retirement. Saving for the future, in whatever form, will help buffer the inevitable financial bumps.

Was Nationwide glad it implemented auto enroll and auto increase features as part of its 401(k) plan? The resounding answer is yes.

¹ Rates shown are rounded for illustration purposes. The actual participation rates before and after Nationwide 76.69 % and 95.48 % respectively.

² The match was added in 1984.

² Nationwide Mutual Insurance Company also sponsors the Nationwide Life Insurance Company of America (NLICA) Retirement Plan. This plan covers eligible associates of The Provident Mutual Life Insurance Company (now NLICA) which was acquired by Nationwide Life Insurance Company in 2002. Terms of the NLICA Retirement Plan are substantially similar to those of the Nationwide Retirement Plan. The primary differences relate to benefits, rights and features under the NLICA Retirement Plan that existed prior to the acquisition.

³ Nationwide acknowledges the current IRS concern with 'better (greater) of' benefit structures and are closely monitoring the situation.

⁴ Internal Revenue Code § 417(e)(3)(A)(ii) rates determined at the beginning of each calendar quarter based on the rate published by the IRS for the second month preceding the beginning of such calendar quarter.

⁵ The 90-day revocation period allows penalty free distributions of erroneous contributions if the request is made within 90 days after the first pay period of automatic enrollment. The auto enroll/increase provisions Nationwide still implemented even though this provision is not effective until Jan. 1, 2008.

⁶ In cases where an associate had a current balance but was not currently contributing, future contributions Nationwide allocated to the appropriate target maturity model. There was no change to their existing allocations.

⁷ Functionality exists to allow associates to input additional information about their IRA's, other savings, other employer plans and spousal information so they can have a much better understanding of where they stand, and what they need to do to get PREPared if they aren't already on track for a successful retirement.

⁸ One success measure is to maintain a participation rate of at least 90 % over the next three years. Also, the implementation of 'auto enroll/auto increase' was "stand-alone" – it was not part of a larger change process that reduced retirement benefits elsewhere (retiree medical or the Nationwide Retirement Plan). Nationwide's prior deferral rates wereionwide sufficient to pass the applicable non-discrimination tests.

⁹ As it turned out, only 66 participants who Nationwide auto enrolled ended up opting out in the two pay periods following implementation of auto enroll/increase.

¹⁰ The data included an indicator noting if the participant made an affirmative election or was defaulted to a particular deferral %age. For participants making an affirmative election, there was no change to their future deferral rates. For participants who did not make an affirmative election and deferring 3 %, 4 % or 5 %, their deferral rates Nationwide projected to increase 1 % per year until they attain 6 % deferral rate. Savings Plan balances as of Dec. 31, 2006 Nationwide used for all projections.

¹¹ This translated into 3,110 more associates being PREPared.

¹² Just for comparison purposes, had the 1997 replacement ratios still applied, the 64 % PREP rate would have been 72 %.

¹³ Communications for the first annual auto enroll/increase period included:

- Initial preview mailing to all eligible associates (mailed to home)
- Targeted e-mails to those who would be affected
- Three “push” e-mails to all participants
- Six broadcast e-mails to all associates
- Two satellite broadcasts (broadcast also made available on DVD)