THE TOP FIVE REASONS TO FAVOR ELECTRONIC DISCLOSURE

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Electronic delivery is the best and most efficient way to provide required financial information to retirement plan participants, not to mention its invisible environmental footprint.

For a wide range of financial services, federal regulations set rules for how individuals should receive required information or notices. For example, the Department of Labor (DOL) administers rules about disclosure to individual participants in employee benefit plans under the Employee Retirement Income Security Act (ERISA) of 1974. These disclosures are extensive, including information about the investment options offered by plans, quarterly account statements, and other episodic information and notices.

Required disclosures should present and deliver this information in ways that work for the individual. The overall system of delivery should be highly accessible, highlight key content, and make it easy for the recipient to understand and act on the information received. It should provide secure storage and, where possible, fit well with other relevant goals, such as enhancing the rate of retirement savings, reducing overall costs,

and reducing the effect of discarded paper on the environment.

As Internet access spreads, electronic delivery is becoming the norm in many settings. There are many, growing advantages of electronic over paper delivery. Based on our detailed testimony to the DOL, here are five key reasons why electronic delivery should be adopted over paper delivery.

1 Electronic notices provide access better than paper notices.

Today, electronic delivery sends information to computers, smartphones, and other devices in ways that allow for more immediate and continuous access—anywhere, anytime, with any device, and with a better filing system than paper notices. Participants can receive electronic notices and interact with their accounts regardless of location, which provides much desired flexibility and convenience. They also have 24/7 access to electronic notices and websites, through a diverse and growing variety of devices. The current variety of electronic devices enables individuals to choose the delivery systems they prefer. Electronic storage of data also provides a better filing and searchability system than the tedious, traditional paper approach.

Electronic notices also provide better access for visually impaired participants and those who prefer to access notices in a language other than English. Individuals with vision impairment can increase font size, use screen magnifiers, or use high contrast fonts or colors to view online information. For those with more serious visual impairment, many software and hardware tools are available, including screen readers that convert visual information into speech or refreshable Braille displays to mimic the functionality of a computer monitor. (A listing of screen readers for the blind is available at www.abilityhub.com/vision/blind.htm.)

For the large percentage of Americans who are foreign born and may prefer to access their disclosures in a language other than English, software-based translation programs are widespread and continue to improve rapidly.

Also, once access exists, electronic delivery provides better notice than paper delivery. Electronic notice can easily be "layered," with a short and simple notice on top, and click-through to more detailed disclosures where the participant wants to dig deep. This layering means that the top layer of information is simpler and easier to read than a paper document. Electronic notice can also be "just-in-time," giving information at the moment and in a manner that helps the participant make decisions.

2 Most working households have access to the Internet, and though differences persist, access is increasing dramatically for minorities.

One major objection to switching from paper to e-delivery is the fear that workers may not have reasonable access to the Internet. However, access is expanding dramatically. First, the Internet is following the adoption patterns of other transformative technologies, such as the telephone, radio, and the television. After a period of early adoption, these technologies become widespread in society.

The arc of Internet adoption has been much swifter than that for the telephone. Commercial activity on the Internet was prohibited until 1992, and use of the Internet rose steeply from a tiny level at that time to 42 percent of all American households by 2000. A major survey by the Investment Company Institute found that 91.5 percent of working U.S. households had access to the Internet in 2010. For working households, this means that access to the Internet today is only 1.4 percent less than the portion of U.S. households who had a telephone in 1980, and 4.2 percent less for 2009.

To be clear, the comparison is between the 91.5 percent of working households who had access to the Internet and the 92.9 percent and 95.7 percent who had a telephone in 1980 and 2009, respectively. Although our research hasn't found good statistics on telephone penetration for working households, the basic point holds: Internet penetration has risen swiftly and access to the Internet is roughly as widespread today as telephone ownership.

Though differences in Internet access for African-Americans and Latinos persist, widespread adoption and use of mobile devices is speeding convergence. With the emergence of the Internet, access for African-Americans and Latinos lagged behind that of whites. In 2000, access to the Internet was 40 percent for Latinos, 36 percent for African-Americans, and 50 percent for whites. According to a December 2010 Pew survey, those numbers had shifted to 66 percent for Latinos, 69 percent for African-Americans, and 80 percent for whites. (These statistics were for both working and non-working individuals, and were collected by individual rather than the per-household statistics cited above.)

One factor reducing this digital divide is the relatively rapid uptake of mobile Internet devices by African-Americans and Latinos. According to a Pew survey from July 2010, almost two-thirds of African-Americans and English-speaking Latinos were wireless Internet users, outstripping the percentage for whites at 57 percent. (The precise percentages were 64 percent for African-Americans and 63 percent for English-speaking Latinos.) At the end of 2010, about 87 percent of African-Americans and Latinos owned a cell phone, compared to 80 percent of white Americans, and these groups are

more likely than whites to use cell phones to access the Internet. Laptop ownership is now at 47 percent for whites, 46 percent for African-Americans, and 48 percent for Latinos. Moreover, today, there are no longer any noticeable differences in laptop ownership among Latinos, African-Americans, and whites. Laptop ownership is now at 47 percent for whites, 46 percent for African-Americans, and 48 percent for Latinos.

3 Electronic delivery improves the user experience.

Electronic delivery shifts the user experience from managing a large stack of papers to a clear and organized display of information. With paper disclosure, the participant collects a stack of documents over time and must determine which papers should be kept long term (and for how long), while also maintaining an effective filing system. Online disclosures, however, provide users with the perspective of a financial advisor, with information arranged accordingly. They include precisely the funds currently held by a participant, while making disclosure accessible for all other available plan investments. Holdings are updated continuously, which is preferable to the once-per-quarter updates that arrive by mail.

Calculators and other tools are also easier to deploy online, allowing participants to view outcomes of different savings scenarios. In recent testimony, Edmund Murphy of Putnam Investments described Putnam's Lifetime Income Analysis Tool, which highlights a participant's monthly retirement income needs compared with monthly income if he or she keeps saving at current levels. Putnam's analysis of aggregate behavior of participants who used the tool on their own on the Putnam website in July and August 2010 shows that about one-third changed their deferral rate after using it.

Further, online display integrates with a user's other financial accounts, enabling participants to integrate information from one financial service provider with other financial records. Perhaps the best-known commercial example is Quicken, but at least 25 software packages are currently available, including free software such as Mint. This sort of integration directly helps a household plan for its overall financial goals, including retirement security. (For a review site of 25 personal finance software offerings, see http://personalfinancesoftwarereviews.com/.)

4 There are clear financial and environmental benefits of electronic disclosure.

There are also other external benefits to electronic disclosure, including direct savings from lower costs and environmental benefits. The clear trend toward electronic delivery in similar settings is further evidence that other decision-makers are reaching the conclusion that electronic delivery is better than paper delivery.

Direct cost savings. Electronic delivery generally costs less for the sender than paper does. In economic terms, the fixed costs of electronic or paper disclosure are similar—the recordkeeper must prepare the disclosure in a way that complies with legal requirements. The marginal cost (cost per incremental notice), however, is far lower for electronic delivery. Paper delivery incurs the costs of physical operations—notably paper, printing, postage, and labor—to get the notice to the recipient. Electronic delivery, by contrast, has close to zero marginal cost. Once the document is formatted, it costs almost the same to send to a few or a few million recipients by email or through a website.

Environmental benefits. Along with significant direct savings, the shift to electronic delivery would greatly reduce the use of paper. Environmental considerations are becoming increasingly important in business decisions. In 2008, close to one-fourth of Fortune 500 companies had a board committee devoted to considering environmental implications, compared with less than 10 percent in 2003. Shareholders are also more concerned with the environment—the number of investor proposals related to the environment almost doubled between 2004 and 2008.

A range of evidence shows the benefits of shifting from a paper to an electronic system. According to recent research by PayItGreen (www.payitgreen.org), if one in five households went paperless, 151 million pounds of paper would be saved, 8.6 million bags of waste would not be thrown out, and the environment would be saved from 2 million tons of greenhouse gas emissions. "Collectively," says a PayItGreen press release, "the production and transportation of those paper documents consume 755 million pounds of paper, 9 million trees and 512 million gallons of gasoline." By going paperless, the average American household would save these resources: 6.6 pounds of paper, 63 gallons of water, 4.5 gallons of gasoline, and 171 pounds of greenhouse gases.

5 E-notice provides important cybersecurity advantages compared to risks from paper notice.

One concern about a shift from paper to electronic records is that the electronic approach will be less secure than paper delivery. A steady stream of press stories and government reports has drawn attention to data breaches and other cybersecurity problems. However, for many reasons, electronic-based delivery is safer than paper-based delivery. Electronic delivery provides a fuller set of security precautions, and allows for updating and additional layers of security over time. Data

breaches occur at the enterprise level; the breach happens when the central computer system is compromised. Notices, by contrast, are sent to the individuals, and delivery of the notices isn't the way that hacking or other data breaches occur.

In particular, bouncebacks for email are more effective than paper change-of-address forms. One prominent advantage of electronic records is that the recordkeeper learns more quickly and effectively when a communication has gone awry. With delivery through email, the recordkeeper receives an instantaneous "bounce back;" the sender learns immediately about the delivery failure when an email goes to a no-longer-current account.

One major recordkeeper reported to the authors that their bounceback rate is about 2 percent per year. For a national population of 72 million participant-directed accounts, this means approximately 2.8 million accounts would get a bounceback and thus attention to possibly changed addresses per year. These bouncebacks have a major security advantage: They allow the recordkeeper to detect a problem immediately, stop sending to the incorrect email address, and begin a process to learn an up-to-date address for communications with that plan participant. The bouncebacks also are a customer service advantage; a customer's account is quickly flagged for action so that current account information will get to the customer at a new location.

The substantial advantages today for electronic delivery of financial transactions illustrate how electronic delivery of account information is highly preferable to paper delivery. Due to technological changes and widespread current access to the Internet, the time has come for a major shift toward greater reliance on electronic delivery of required information. Individuals should have the flexibility to choose electronic delivery as the default, while retaining the right to receive information or notices in paper if they prefer. **PC**

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