



Emotion, Behavioral Finance, DC Behaviors and Potential Solutions...

Summary

Defined Contribution Behavior

Reasons/Emotions Affecting Behavior

Potential Solutions

Participant Behaviors

- Failure to participate at all
- Not maximizing contributions, or even contributing up to the level of an employer match
- Not increasing contributions over time

- **Perception of affordability, immediacy**... more pressing demands on income; mental compartmentalization of financial decisions.
- **Procrastination**... good intentions about enrollment but failure to act; retirement may be a long way away.
- **Inertia**... failure to increase contributions on a regular basis as salary increases.
- **Understanding**... failure to grasp the benefits of DC participation, especially early, i.e., compounding of assets, tax deferral and taxable reduction of current income; in a match environment, many know that there's a match, but do not understand how it works.
- **Information overload and analysis paralysis**... too many decisions to make, too many options to choose from and too confusing; it's easier to do nothing.

- **Communication (an ongoing process), not education (point in time)**... a robust, multi-tiered approach to building participant empowerment about their own futures and making them feel good about participation decisions.
- **Automatic enrollment**... making non-participation, rather than participation, the active decision.
- **Automatic contribution increases**... tying incremental increases in contribution percentages to salary increase cycles.
- **Target-date or lifecycle funds**... making the investment decision to understand and act upon.
- **Free money**... an employer match.
- **Other plan design considerations**... rollovers, loans, vesting schedules.

continued on back



IRR SUMMARY

Defined Contribution Behavior	Reasons/Emotions Affecting Behavior	Potential Solutions
<p>Investment Behaviors</p> <ul style="list-style-type: none"> • Failure to invest at all (see above!) • Remaining in, or actively choosing, conservative defaults • Over-allocating to, or actively choosing, company stock • Irrational investment allocation decisions • Buy high and sell low... following, too late, market trends <p><i>You should consider the investment objectives, risks, and charges and expenses of the funds carefully before investing. Prospectuses containing this and other information about the funds can be obtained by contacting your local representative. Please read carefully before investing.</i></p>	<ul style="list-style-type: none"> • Inertia... not actively managing asset allocation; accepting conservative defaults. • Fear of loss... even at the expense of potential gain, can lead toward actions that result in selling low and buying high account activity as participants attempt market timing. • Endorsement effect... gravitating toward what's familiar, i.e., company stock. • Heuristics/the law of averages... investing evenly across available asset classes or options rather than making a measured decision. • Too much choice... and so participants tend to gravitate toward the extremes... purchasing company stock or choosing a safe and Stable Value route. • Overconfidence... attempting to time markets; failing to consider the long-term nature of retirement investing; alternately, investing too aggressively (i.e., in company stock). 	<ul style="list-style-type: none"> • Communication, not education... is again the crux of this dynamic, empowering participants with easier, intuitive and meaningful exploration of their options; making it simple to take actions and make appropriate decisions. • Lifecycle funds... can make investment decisions intuitive for participants who would otherwise either choose the most conservative investment path, attempt to market-time, or choose not to invest at all because it's just so complicated. • Plan design... automatic enrollment into appropriate, age-based lifecycle funds versus conservative defaults or risk-based options that don't migrate over time (which could lead, in later years, to overly aggressive investment for participants who do not periodically rebalance or migrate to more conservative risk-based options). • Fund selection... not so many available options to overwhelm participants with complex allocation models and decisions, and not so few as to impede adequate diversification.

www.ing.com/us www.ingretirementplans.com

Securities offered through ING Financial Advisers, LLC (member SIPC) and other broker-dealers with which it has a selling agreement. Products and services offered through the ING family of companies. © 2008 ING North America Insurance Corporation. C08-0502-007R (5/08)



WWW.ING.COM/US