



Increasing Employee Confidence in Retirement Plans

by Tom Mosher, FSA, and Ken Pflug, March 2010.

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The economic turmoil we experienced in 2008 and 2009 was a wake-up call to many workers who not only saw steep declines in their savings and investments but also experienced job losses — their own, family member's or friend's. The economy has had a negative impact on the funding of defined benefit plans and the value of 401(k) plan assets. Few employers are creating new defined benefit plans, and many existing defined benefit plans are either being terminated or frozen.

Is it any wonder that workers are worried about their ability to sustain a comfortable retirement? Several recent surveys* reveal the following findings about retirement attitudes and activities:

- The greatest fears about retirement include not having enough to pay for medical expenses, having to move from one's home, inability to provide for long-term care, and outliving one's assets and having to depend on others.
- Common responses to sharp decreases in 401(k) asset values are to reallocate to conservative investments and reduce or cease contributions altogether.
- Workers of all ages are planning to retire later than in years past.
- Retirement plan features that workers value include control over investments and portability.
- Workers would be willing to make additional contributions in return for a greater guarantee of retirement income.
- Workers who do financial planning are significantly more optimistic than those who do not.

These are important clues about worker fears, desires and behaviors that employers can leverage in their efforts to improve retirement saving behaviors and help restore plan participants' confidence in retirement.

This article explores ways to improve awareness and perceptions of the employer's retirement program. Infrastructure, communication and education, and plan design need to be innovative and aligned. It also touches on intriguing methods for increasing engagement in retirement planning that can be derived from an application of behavioral economics concepts.

Infrastructure

Survey information indicates that employees who actively plan for their retirement are considerably more confident about retirement. Employers who sponsor retirement programs often provide retirement planning tools and resources; however when it comes to using these resources, employees are not engaged and typically spend more time planning vacations than retirement. To incent employees to plan for retirement, employers can provide scaled rewards based on the degree to which the worker uses available tools and resources.

Comprehensive Web portals are effective and engaging means of improving retirement planning. The best designed portals allow a participant to project total retirement income simultaneously under all employer plans, personal savings plans and Social Security — using variables such as level of participation, compensation and retirement dates. These tools also include a capability of reflecting a spouse's retirement plans and historical employer plan information. In addition, they provide the ability to model longevity risk, to inform and educate individuals on their income needs in retirement. These tools empower employees to explore "what if" scenarios efficiently.

A Web portal can also help a participant understand his/her risk tolerance and how the investment funds offered in a 401(k) plan can be aligned to personal goals. Different asset mixes (including target funds), rates of return and changing risk posture can be modeled and shown graphically, allowing easy comparison of projected account balances.

Information on the portal can also utilize the behavioral tendency to follow the “herd.” For example, to increase participation in a 401(k) plan, a visual representation of the count of participants and non-participants (large pie, small pie) could appear on the home page of the benefits portal. Seeing oneself as part of the smaller group of non-participants could motivate an individual to migrate toward participation, or at least become curious enough to learn more about the plan.

Education and Communication

Better understanding of the full retirement package furthers appreciation of employer contributions and may help alleviate some of the anxiety of retirement. Workers need to be educated in their retirement plans and more involved in the decision-making process. Effective tools for engagement include individual and targeted group educational sessions, tax-planning seminars, specialty call centers, and interactive Web sites.

Education should be continual and aimed at needs and experience. Frequent messaging on the portal may help overcome the tendency to leave things as they are. Targeted messages can be sent to non-participants showing the advantages of participation, encouraging increasing contributions and accessing financial planning services. Splash pages that pop up on the company Intranet home page can be constructed to provide personalized information and individualized messaging. If employees don't have confidence in their own ability to plan wisely, provide easy access to a financial advisor.

Setting up a blog, or a shared comment space, on the benefits portal might also help improve confidence and engagement. A blog containing positive testimonials can be compelling and may motivate those on the fence.

Plan Design

Retirement plan features can be designed to address obstacles to participation borne by human nature. Greater confidence in retirement will be generated by greater participation in retirement programs during active employment. According to a 2007 “Turning Workers Into Savers” paper in the National Tax Journal, simply providing matching contributions to 401(k)s is not enough to substantially increase or even ensure participation, particularly among the lower-paid. Participation in 401(k) plans seems to be mostly a matter of an individual's general propensity to save, and is only marginally improved by incentives such as matching contributions, loan features and investment fund alternatives.

What can employers do to their plan design to improve the propensity to save? Auto-enrollment has proven to significantly increase participation in 401(k) plans. In addition, with the contribution directed to a default investment such as target retirement date investment funds along with auto-rebalancing within a 401(k) plan, employers address another core behavioral issue — decision paralysis. Another intriguing alternative for employers to consider is phased retirement. Easing into retirement through a phased retirement program could improve confidence in retirement.

A Manageable Retirement

Economic recovery in general is slow, but workers and employers alike cannot afford to be paralyzed by fear or complacency. Both should be proactive to take advantage of the lessons of the past and recover from the swoon.

A program that increases an employee's awareness and understanding of future financial needs can make retirement planning a priority and seem more manageable. Employer-sponsored retirement benefit programs can improve workers' confidence that they can retire in comfort if they are fully utilized. Besides the obvious advantages to the workers' sense of well-being, employers benefit from a more engaged and productive workforce, resulting in an improvement to the bottom line.

* ING survey, The Hearts and Minds of Retirement Investors; 2009 Retirement Confidence Survey; The Hartford, the Hartford Investments and Retirement Survey; Watson Wyatt, Effect of the Economic Crisis on Employee Attitudes toward Retirement, Part III: Retirement Plan Design Preferences

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