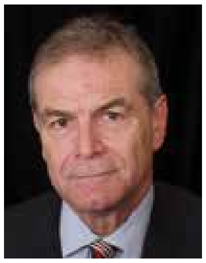
The Participant Experience: A Different World



WARREN CORMIER

When it comes to how plan sponsors and participants view participants' "customer experience," there are far more differences than similarities.

Naturally, we all want participants to have a positive experience on their journey to retirement readiness. We are all working hard to make it so. Unfortunately, very often that goal isn't achieved. Furthermore, evidence shows that the quality of the participant customer experience can be worlds apart from the plan sponsor's. This is particularly important when you consider that the people who are ultimately responsible for providing high-quality products and services to participants (that is, plan sponsors) often differ from participants, by wide margins, in their day-to-day experience with their plan.

When plan sponsors and advisors see service weaknesses, they act. But what if they don't see the differences?

Over the past 13 years of DCP studies, I have been tracking participants' satisfaction with the products and services they receive from their record keepers. I have also been tracking, in parallel, plan sponsors' satisfaction with the same participant products and services. When we compare the findings of plan sponsors and participants, we find there are far more differences than similarities. Let's look at some of the specifics.

Relationship is Key

First of all, the participants' overall experience with the same record keeper is vastly different from that of their employer. In 2013, 65-70% (depending on asset size) of plan sponsors said they were "very satisfied" (measured on a five-point Likert scale) with their overall relationship with their record keepers. However, when participants are asked the same question, only 40% gave their record keeper a "very satisfied" rating. A key causal factor in creating this difference is the process by which plan sponsors, compared with participants, formed their relationship with the record keeper. This process difference leads to differences in engagement.

As you know, the process of a plan sponsor's forming a relationship with a record keeper begins with an arduous sales process, often with the assistance of an advisor or other consultant vetting the candidates and pointing out their strengths and weaknesses. In a very detailed proposal process and finals presentation, the plan sponsor has the opportunity to form interpersonal relationships and select the record keeper that is the best fit along the lines of brand image, product lineup and partnering intent/skills. To say the least, the plan sponsor is fully engaged with the new record keeper from the beginning of the relationship.

Contrast this with how a participant forms a relationship with a record keeper. Essentially, participants are introduced to their record keeper in a group meeting or in a memo, enrollment kit or benefits handbook. The participant enters into an "arranged marriage" with little or no brand perception of the record keeper. Furthermore, they are essentially told they have no choice of the company or people who will shepherd them along the journey to retirement readiness. It is fair to say that there are few other relationships on a subject as important as retirement readiness where the consumer (that is, the participant) has no choice in the matter of provider selection. Not surprisingly, the participant is not "engaged" with the record keeper at the brand, product or partnering levels.

To dramatize this point, I think back to the early years of the DCP Participant Satisfaction survey. Essentially, record keepers would provide Boston Research Group with random samples of their participant base. We would then call the participants and ask them to name the company that administers, services and keeps records for their retirement plan at work. Using this line of questioning, we often found that 70-90% of participants *could not correctly identify their record keeper.* We resolved this situation by simply asking the participant to tell us what company sends them their quarterly statement. In this case, more than 90% of participants *could give us the correct answer.* The point is that the participants' engagement with their record keeper was fairly weak and entirely different from the plan sponsor's.

Another causal factor leading to the vast differences between plan sponsors' and participants' satisfaction with the relationship is the available response to poor services, products or pricing. That is, if the plan sponsor receives poor services, etc., for a period of time, the company has the option to, and often does, change record keepers. In a sense, the system purges itself of bad relationships and new, more satisfying relationships are established. As a result, satisfaction scores remain high. However, if the participant receives poor service, doesn't like the products or finds the pricing too high, he or she has no option to switch to another record keeper. They could drop out of the plan, of course, but that would deny them access to a valuable employee benefit.

Over time, this toxicity of unhappy participants builds in the employee base as unhappy customers cannot seek out more satisfying providers. This results in a significant reduction of the overall satisfaction percentage score. Essentially, the participant operates in a monopolistic market; the plan sponsor operates in a purely competitive market.

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Satisfaction: Sponsors vs. Participants

Let's look at some supporting data proving that with respect to specific participant service channels satisfaction, sponsors are far more pleased than participants. Looking at the participant website, 70% of plan sponsors are "very satisfied" while only half (54%) of participants feel the same way. The same is true for satisfaction with the participant statement – 75% of sponsors are "very satisfied" while only 50% of participants agree with plan sponsors. The two groups also vary somewhat on education services: 41% "very satisfied" among participants; 51% among plan sponsors. Lastly, although low in both cases, 50% of plan sponsors are "very satisfied" with the performance of the plan's investment options, compared with only 31% of participants.

The point is that participants and plan sponsors live in different service-quality worlds. Plan sponsors obviously receive a far different level of handholding, explanation and customized treatment than do participants. And it is worth reiterating that if participants are unhappy with the service they receive from the record keeper, they have little choice about what they can do next, other than complain to HR or to their co-workers or leave the plan.

Advisors and record keepers should keep these different worlds in mind, and encourage (and possibly assist) plan sponsors to keep their participant feedback loops open as wide as possible to detect the need for quality improvement.

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And what future innovations does the Center for Behavioral Finance have its eye on? We continue to build on the strategies presented in *Save More Tomorrow,* but we're also taking on the challenge of financial decision-making for those who have already reached their spend-down years. This new program, the Retirement Trail, is a multi-step, multi-year program, in part because the challenges facing retirees are much more complex than those facing people saving for retirement. In addition, there is comparatively less academic research directly addressing this phase of financial life. Our team, guided as always by Benartzi and our academic advisory board, is hard at work plumbing the deep well of research on topics like decision-making under uncertainty, values and risk, and grappling with how to most effectively apply all of this knowledge to improve the welfare of retirees.

Since identifying a clear set of goals is the critical first step for advisors and their retired clients, that's also the starting line for the Retirement Trail. Our goal setting system will encompass content, but will also include a user-friendly app for advisors to use with their clients. Future stages in the retirement trail may also include virtual reality games and other digital solutions. "The future of behavioral finance lies at the crossroads of science and digital technology," says Benartzi. "And that's where we'll be focusing a lot of our attention."

We believe effective, science-based tools like our behavioral audit tool for DC plans and the apps we're now developing for the Retirement Trail can help transform the retirement industry. "It's still early but we are seeing a growing impact," says Glenn Dial, head of U.S. Retirement for Allianz Global Investors. "Early adopters in the DC world have seen how well applied behavioral finance works, and that they can spend fewer resources to affect major changes," he says. "For example, we're not seeing participation rising from 73.5% to 75%, it's rising to more than 90% — and without an army of people working to enroll employees." He sees that many industry leaders recently have become believers, too. "This is quickly catching fire."

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