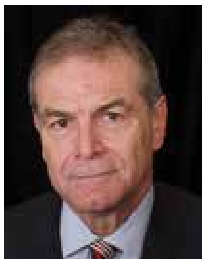
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The Shrinking Dependence on Participant Education

Is it hurting the industry, advisors, sponsors, providers — and most importantly, participants?

As the defined contribution industry goes deeper into automaticity to get the results it wants, education, as a potential change agent, has been pushed further and further into the background.

As we get more people saving through automaticity, we see engagement and savings rates declining on average. The tactics we thought were going to boost retirement readiness appear to be having unintended consequences. We have to go back to square 1: education.

Certainly, as fiduciaries we (I am one also) are required to provide a "reasonable" education to plan participants. But it seems more and more it is serving the purpose of keeping plan sponsors in compliance and less and less about changing behavior. The obvious trend is to use blunt force to get people involved by simply doing it for them. But does it really get them involved?

Our research is showing that people who are automatically enrolled via the "opt out" method, and say they would not have enrolled on their own, are less likely to visit websites, use online tools and make changes to the initial election defaults, and have a lower deferral rate. And perhaps even more problematic, some feel they have done what is required to have a reasonable lifestyle in retirement without doing more than merely not opting out.

More importantly, behavior-changing education is what plan sponsors want. In a recent choice model we developed at Boston Research Technologies, "behaviorally effective education" emerged as the number one record keeper selection factor among large and jumbo plan sponsors.

Why, then, has no one cracked the code on behavior changing education? We live in a world in which we have a staggering number of communication and engagement channels. Information travels at light speed. And still even the best behavioral economists have not been able to break through.

First, let's get something on the table: behavioral economics is not a program. Rather, it is a brilliant tool to understand what forces are at work on plan participants, and how they would react to a variety of stimuli. And although behavioral economists have enormously advanced the understanding of human condition, they have fallen far short on translating that understanding into practical, working and effective programs at the participant level.

After each annual session of the Behavioral Finance Forum (BeFi), the audience members often would approach me and say, "That was a fantastic conference with so many insights into my participants! Now, what do I do next? How do I apply these theories and experimental results to improve retirement readiness?" Sadly, that is where the story often ends. Until now.

Those of us at the National Association of Retirement Plan Participants (NARPP) see it differently. NARPP President Laurie Rowley, Dr. Punam Keller, Dean of Innovation at Dartmouth's Tuck School and I have applied behavioral economics, intuitive design and communications theory to crack the code on how to get behavioral change while getting participants engaged. It is called Intuitive Sustained Engagement, or ISE. Real applications of ISE have yielded astonishing results. The program has won several innovation awards and media attention. Many state programs have adopted it, as well as large plan sponsors, record keepers and DCIOs. So why is it different and why does it work?

The first step in answering this question is to understand why education has not worked thus far. Participants' decision-making processes are constantly assaulted by cognitive or mental biases and errors. These are sometimes called heuristics — stories we tell ourselves to simplify complex topics and decisions. We are all subject to them. In DC employee education program design, it is assumed that classic economics applies — that participants are rational human beings who do not make cognitive errors, and if we simply enlighten them with facts and dynamic models, they will make the right decisions. That is not true. In fact, that is precisely the reason we needed to create behavioral economics.

The other mistake the DC industry makes is that financial literacy is the key. That is, if only participants were financially literate, they would make the right choices. That is patently untrue. In a study released earlier this year by Retirement Clearinghouse, we saw that the vast majority of people who cashed out at the time of a job change were as aware of the penalties as those who did not cash out. Interestingly, people who smoke are only slightly less aware of the health hazards as people who do not smoke. Simply knowing the right thing to do does not in any way mean you'll do it.

A third mistake DC employee education programs make is called the Curse of Knowledge. We all suffer from it. Identified by Dr. Chip Heath of Stanford, the Curse of Knowledge simply states that, "We don't know what it is like not to know, what we know." If you look at the typical DC enrollment material you will see it is still loaded with jargon (which may seem commonplace to us) that, our studies have shown, less than a third of participants understand. Furthermore, DC employee education programs assume everybody wants to know everything there is to know all at the same time. And that participants need to make multiple decisions at the same time. This results in employee education programs that are behaviorally ineffective.

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Even worse, jargon-filled, densely packed materials that ask participants to make multiple decisions at one time undermine participants' trust in the communicator. This is clearly the worst position to be in for plan sponsors and providers. Embarking on a lifetime journey to and through retirement is probably one of the most trust-dependent decisions a participant will make. Trust levels of their record keepers among participants (reported in annual NARPP studies) are extremely low (12%). Employers enjoy a higher, but still low, trust level (35%). Until or unless it is established there is little hope of behavioral change, as in the absence of trust, people revert to heuristics. Everything we say and do either builds or erodes participants' trust.

So what are the keystones of ISE? Here are five of the basics:

1. It is visually disruptive. When plan sponsors see it for the first time they are struck (often hard) by the fact it doesn't look like anything they have ever seen from the DC industry.
2. There is very little text on each page, and what text there is is only sufficient to bring the participant's level of knowledge from where it is (usually low) to where it needs to be to make a decision (also typically low).
3. It does not use visuals that are a trigger to participants that "there is nothing new here, I guess I can move on to something else." Bar charts, pie charts and histograms appear to be the visual-of-choice for DC employee education programs. Trust me when I say it is reminding participants of something from their past they don't ever want to revisit: statistics and economics courses from high school and/or college.
4. It pulls the reader through a series of simple consecutive and connected messages that allow the participant to visualize a desired state and how it can be achieved. It also shows the clear path to transforming a decision into an action.
5. ISE employs Enhanced Active Choice (EAC). The hallmark of EAC is that it is a consequence-based choice architecture. That is, each choice is associated with a possible consequence. Interestingly, the plan sponsors we have been working with feel they want to state the consequences of their decision as strongly as possible while still passing compliance. That is, they feel that their participants do not understand the impact their decisions have on their lives.

As a final design note, all disclosures are placed at the end of the piece rather than at the front or interspersed throughout as is typically done. Importantly, ISE materials have been subjected to the strictest ERISA compliance tests by the country's best ERISA attorneys and have passed with flying colors.

Interestingly, some of the strongest interest in ISE has come from the advisor channel. Like plan sponsors, advisors are seeking proven techniques that break through to participants and change behavior. Advisors who are able to do this will see improved outcomes and higher levels of trust and loyalty from both sponsors and participants.

If you'd like to know more about ISE and NARPP, please contact me at wcormier@bostonrt.com.

» Warren Cormier is the president and CEO of Boston Research Technologies and author of the DCP suite of satisfaction and loyalty studies. He also is cofounder of the Rand Behavioral Finance Forum, along with Dr. Shlomo Bernartzi.