

How to Foster Saving and Participation to Pensions: A New Approach

Identifying barriers to saving.

By Annamaria Lusardi

Many studies have examined barriers to saving but few have focused on helping those who have the desire to save but whose lack of knowledge holds them back. Lusardi, Keller, and Keller from Dartmouth College found that using a social marketing approach can be successful in helping these employees. They employed different methods to “listen” to employees at a not-for-profit institution to determine their needs and difficulties with the savings decision and they identified specific employee groups that were less likely to save. Then, using their findings, they devised a cost-effective program to facilitate the employee savings decision. While this program was implemented only at a single institution, its success offers lessons that could be valuable to anyone trying to increase 401(k) plan participation.

Social Marketing Approach

A social marketing approach relies on classic marketing principles. In this case the following steps were taken:

1. identifying the target population,
2. listening by using multiple data-collection methods to discern barriers to saving,
3. designing a planning aid that overcomes the barriers,
4. pre-testing the planning aid within a subset of the target population, and

5. modifying the planning aid to maximize effectiveness for the target population.

The authors are in the process of gathering pretest data for a step six, which is to design a customized offering for other segments of the population. This article briefly summarizes the first five steps that were taken and the results that were achieved. For a copy of the entire project, please contact Professor Annamaria Lusardi at Annamaria.Lusardi@Dartmouth.edu.

1. Targeting Population

The first step toward identifying the employee segment at risk was a meeting with the top administrators and the head of the office of Human Resources (HR) at the institution where the study was conducted. The institution was considering changes to the benefit packages offered to employees that would require heightened individual responsibility, particularly concerning health benefits after retirement, and was eager to investigate new programs for their employees. The administrators voiced concerns about how to best serve the needs of the institution's employees. For example, while the institution hosts financial education and information sessions supplied by three retirement plan providers, including one-to-one counseling, only a handful of employees attend these sessions and take advantage of individual counseling.

The administrators identified three groups in the employee population that are disproportionately less likely to contribute to the employer's defined contribution plan: Employees with low income (less than \$35,000), young employees, and employees with short tenure. As in data covering other institutions or more representative samples of the U.S. population, these characteristics (income, age, and tenure) are strongly correlated with low employee retirement savings in employer plans.

2. Listening

Several methods were used to understand the barriers that prevent employees from saving. Few existing employee surveys collect detailed information about the barriers to saving, particularly among the specific segments of the targeted population and Lusardi, Keller, and Keller devised their own survey. Because short tenure was identified as an important determinant of participation to supplementary retirement plans, they chose to administer the survey during the orientation program that the institution provides for new employees. This approach increased access to the female employee population since they are more likely to attend the orientation seminar than male employees. The survey questions were structured to help those conducting the study understand employee beliefs, attitudes, and saving behavior.

The “barriers to saving” questions were followed by brief descriptions of hypothetical plans to assess what would prompt employees to take immediate saving action or instead delay the savings decision. Specifically, they tested whether employees would be willing to take immediate action to open a new saving account if they had to make only a short-term (one year) commitment or commit for the long-term.

In addition, the importance of self-control by respondents was tested by determining whether they would rather relinquish control by committing to a plan (e.g., walking to central administration at the first of every month to make a personal deposit, or receiving a bonus after opening the account.) This information was used to determine the effect of planning on timing of saving and the amount of optimal plan flexibility. The key barriers gleaned from the survey were further investigated in separate focus groups of men and women in different age cohorts.

3. Designing the Planning Aid

As a result of their “listening,” Lusardi, Keller, and Keller identified three saving barriers to address:

1. not having enough information and not knowing where to start,
2. not having enough income, and
3. not having enough self-control.

In order to overcome the first barrier (not having enough information), they investigated ways to simplify aspects of the benefits packet. For example, retirement saving information is provided in the same packet as the health information. Moreover, employees are asked to make their supplementary retirement saving decision before receiving their first paycheck. It is not clear that many employees know their net salary (net of taxes and all other contributions) at this point. Also, the enrollment process presents additional complexities: Employees have to access a provider Web site(s) where they have to be able to complete the enrollment process and make their

investment allocation determination in 20 minutes. For security reasons, the enrollment process automatically restarts if more than 20 minutes elapse. This is a short time span; to be able to complete the enrollment in this allocated time, employees need to have prepared in advance. In response, Lusardi, Keller, and Keller focused on providing information on how to do this task and ways to simplify it by dividing it into small steps. This can be particularly important for young and low-income employees, who represent the majority of the new employees’ population.

Another barrier to saving is low self-control. The evidence shows that employees are less likely to procrastinate if they are given a plan rather than left to their own devices. The inter-temporal discount rate is highest when the program requires high commitment and low effort/no planning.

The planning tool that was designed is an eight-step guideline for how to open a Supplementary Retirement Account. Several features of this plan are worth noting. First, they make a fuzzy, abstract goal, more specific and concrete. Moreover, it requires time



In order to overcome the income barrier, Lusardi, Keller, and Keller investigated ways to provide information on the minimum and maximum amounts that could be contributed to the plan. For example, the minimum is very low: \$16 per month, which is roughly the cost of two lunches in the cafeterias (or surrounding eating places) of the institution. They also identified the maximum because their research showed, and the discussion with the HR personnel confirmed, many employees are uninformed of defined contribution plan rules generally.

commitment, homework, locations, and information on how to open the retirement account. Findings show that these features increase the likelihood of participation. Furthermore, it is more likely to be effective because proximal goals are better than distant goals. Finally, conflicting goals are managed by integrating the goals (focusing on the effect of saving rather than recommending not spending). The decision to focus on the positive effects of saving and not threats about the future is important considering so many public campaigns focus on the latter.

4. Pre-testing the Planning Aid

They examined the effectiveness of the eight-step plan by comparing it to a control condition in which new employees had attended employee orientation and received the standard packet but not the eight-step plan. The control period was selected from January 1, 2006 to July 30, 2006. This group and those offered the new approach from August 2006 and thereafter had comparable demographic characteristics.

5. Modifying the Planning Aid

The next step was to redesign the saving planning aid based on employee feedback and implement the program fully.

The Evidence

The cost-effective planning tool significantly motivated employees to take immediate action to save in a supplement retirement account. The authors

observed a sharp increase in participation following the initial introduction compared to the control group. The election rate more than tripled in the 30-day period and doubled in the 60-day period. The revised implementation further improved participation in the 30-day period and sustained the improvement obtained with the first intervention in the 60-day period.

Discussion

The authors used a variety of data collection methods to identify saving barriers and to guide in the development of a planning aid. The survey highlighted three key barriers and also identified how these barriers posed greater saving difficulties to specific groups of employees.

The approach taken by the authors of this study is a significant departure from other initiatives that have been undertaken to promote retirement sav-

ing. Most of these initiatives rely on automatic enrollment. However, those conducting the study sought to confer control to employees by giving them a step-by-step plan to follow and help with gathering information.

Even though the sample is small and estimates are still preliminary, the 8-step program was effective in changing retirement saving behavior. The study indicates that addressing the three key barriers related to:

1. insufficient information on how to save,
2. the amount of income needed to open a saving account, and
3. conferring control to the employee by giving them a plan;

are effective in significantly increasing retirement plan participation. ➤

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