

FINANCIAL PLANNING

# Boosting Retirement Plan Participation

Behavioral finance insights can boost employee participation and contribution.

Although employers, advisors and providers have educated employees to properly plan and save for retirement, employee participation and contribution rates remain low in defined contribution 401(k) or retirement plans. But with the help of a retirement plan provider that is focused on retirement readiness and expert insight from behavioral finance research, advisors can help individuals make better decisions when it comes to participating, saving and investing. This can lead to individuals meeting their long-term savings goals and eventually a comfortable retirement.

Behavioral finance insights, which use social, cognitive and emotional factors to understand an individual's financial decisions, can help explain what makes individuals tick when making retirement-planning decisions.

Three main challenges often prevent individuals from taking advantage of their 401(k) plan: deciding whether to participate, how much to save, and how and where to properly invest those savings.

## Challenges

**1. Choosing to participate.** Many factors can prevent an employee from choosing to participate in his retirement plan. First, individuals tend to dodge change. Many retirement plans still use the opt-in approach in which employees must make a conscious effort to enroll. In many cases, inertia kicks in and often deters individuals from enrolling.

**2. How much to save.** Even if an individual chooses to enroll in his company's plan, he still may not be saving enough to comfortably retire.

The problem is that although the participant establishes a plan contribution rate, he might not re-evaluate this contribution rate to determine if it will meet their long-term savings goals.

**3. How and where to invest.** To best determine how much money to save and where to invest it, participants need to make assumptions based on life expectancy, health status and income flows, among other things. Because these factors are highly variable, they are often forced to make less-than-optimal decisions that could have serious implications for their financial future.

## Applying behavioral finance insights

To overcome these challenges, advisors can help drive participants' decisions by working with a provider who offers retirement plans that utilize automatic enrollment and managed accounts. Automatic enrollment is a plan feature that changes the enrollment default from opt-in to opt-out. Employees are automatically enrolled in their employers' retirement plan unless they choose not to participate. Automatic enrollment helps reduce the number of active decisions an employee has to make, negating the hesitation and decision avoidance caused by complexity and procrastination.

While automatic enrollment is a step in the right direction, managed accounts take automatic enrollment a few steps further by getting participants to a state of retirement readiness. A managed account solution is a goal-based savings and investment plan that is professionally implemented and actively managed.

The approach offers a comprehensive retirement planning solution that is all about addressing the needs of each participant to determine an optimal savings rate and asset allocation.

To do this, managed accounts factor in an individual's future retirement income needs, current savings, future increases in income, cost-of-living increases and more. From this customized information, a retirement income gap analysis is created, which shows individuals their projected retirement savings. The analysis then compares this projected retirement savings with the amount of savings that the individual will actually need for retirement. This can often be an eye-opening experience for individuals and can reinforce why it is so important to take action now.

After this initial analysis, a savings and investment plan is produced that focuses on achieving the participant's projected retirement income needs. Once a participant's savings and investment plan is implemented, the participant's account is then reviewed regularly. If he is falling behind on his savings goals, tactical solutions can then be implemented, such as increasing the savings rate or revising the asset allocation strategy. And lastly, to keep the savings motivation high, a quarterly report may be given to each participant with a clear and simple illustration of the progress made toward reaching these goals. □

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*Dan Hall is vice president of Retirement Plan Sales at The Standard. He has more than 27 years of experience in retirement-plan sales and management. Contact him at [dan.hall@standard.com](mailto:dan.hall@standard.com).*