

Creating a 401(k)

# Engagement Engine

How a Rich-Media Outreach Program  
and Learning Center Increases 401(k)  
Plan Participation and Contributions



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## Introduction

Used wisely, a 401(k) plan can be an extremely effective retirement savings vehicle. Most eligible employees, however, are not making the most of their 401(k) plans, either because they contribute less than the maximum allowable amount, or they fail to participate at all. Up to 50% of eligible workers choose not to enroll in their employer's 401(k) plans, and of those that do, less than 10% contribute the maximum amount allowed by the plan.

Research reveals that while employees cite a variety of reasons for their reluctance to participate, a common theme emerges: inertia. Even basic 401(k) plans can be confusing, and most employees have questions. Providers and sponsors produce materials designed to answer such questions, but most fail to adequately communicate. Without answers, employees lack confidence — or a sense of urgency — and thus decline to act.

An effective 401(k) plan communications program can overcome employee inertia, helping companies maximize the potential of this important retirement savings vehicle and attract and retain key talent. There's another reason for making effective communication a priority. The passing of the Pension Protection Act of 2006 has put a spotlight on 401(k) plans. Plan providers and sponsors are under scrutiny by regulatory and legislative bodies calling for increased education and disclosure to plan participants.

This paper examines the strengths and weaknesses of common 401(k) plan communications strategies, and compares them to an innovative new solution designed to help plan sponsors and providers improve communication, meet fiduciary obligations, and increase employee participation.

# Common Communications Strategies

We reviewed some of the communication strategies commonly used by plan sponsors and providers to encourage eligible employees to participate and contribute to 401(k) plans.

## Enrollment documents and process.

This is the initial introduction to the employer's 401(k) plan for many participants and includes plan documents that detail the plan's structure, contribution guidelines, investment options, vesting schedule, employer's matching program, etc. The enrollment process may be accompanied with a seminar administered by a financial professional or human resource staff. It may also be completed online through a company sponsored website. In all cases surveyed, plan enrollment documentation appeared technical and complex, and lacked sufficient supporting or explanatory materials.

## Educational seminars.

Financial education seminars, typically organized by the employer and provider, allow employees can ask retirement experts questions about their individual situation, the different investment options, contribution limits, etc. But educational seminars can be very costly. Not only must a company pay for qualified financial professionals to visit company premises, employees must take time out of the workday to attend these seminars. Furthermore, as noted above, people are reluctant to share their personal "balance sheets" and seek advice regarding retirement planning from investment professionals provided their employer.

### Employee benefit statements.

Plan participants receive periodic statements detailing plan asset balances, fund allocations, performance information, and a market summary—a snapshot of the employee's 401(k) plan. Similar to the plan enrollment materials cited above, this material is often technical in nature, and offers scant assistance to a participant seeking answers to investment questions.

### Printed brochures and newsletters.

Most companies provide numerous printed materials covering plan details, information on investment options, and other retirement planning topics. Companies may also distribute newsletters updating participants on changes in the 401(k) plan, plan performance, or market summaries. These materials often contain useful information, but are typically read only by a small minority of plan participants.

### Access to a financial planning professional.

Some employers provide access to financial planners, investment advice and other types of seminars. Employees can receive personalized one-on-one counseling, either in person or via phone. As with educational seminars discussed above, employees are reluctant to engage a financial adviser provided by their employer.

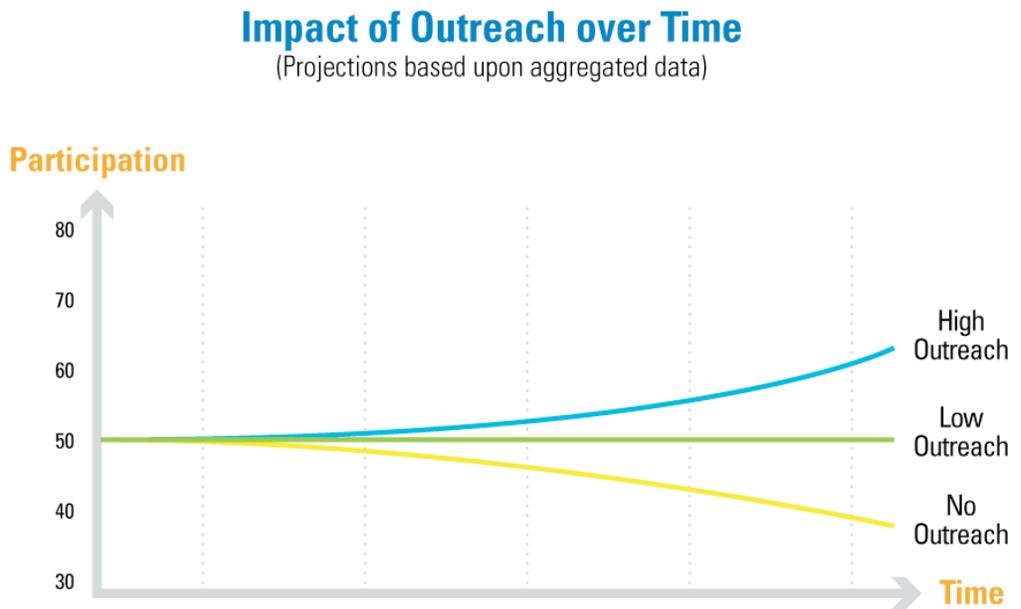
### Interactive tools.

Interactive tools available online or on the plan sponsor's intranet enable employees to see much greater detail regarding their 401(k) plan's performance, to project retirement income under various economic scenarios, and check on fund performance, asset balances, year-to-date contributions, etc. As with other communications strategies, developing custom interactive web applications can be challenging, with large initial costs for programming, as well as significant ongoing expenses for database management, software updates, and customer support.

Conclusion: All Communications Strategies Currently in Use Have Limited Effectiveness.

As detailed above, there are several different methods used by plan providers and plan sponsors to facilitate increased plan participation. As shown in Chart 1, using a combination of these methods in an integrated communications program yields the best results.

Chart 1



Because of the high costs involved, however, plan providers and sponsors are often reluctant to develop and maintain such programs. In the context of 401(k) plan management, a comprehensive, custom financial communications program can be viewed as a cost that just doesn't make sense.

## Barriers to 401(k) Participation

What keeps people from participating, or participating more fully, in their 401(k) plans? We have identified several reasons.

### Lack of general financial education inhibits plan participation.

Many people are stressed about their finances and barely make ends meet; this directly affects plan participation. Such employees need basic financial training on debt reduction and budgeting, before they can tackle more advanced topics like investment strategies, planning for a child's college education and, of course, saving for retirement. Of course, eligible plan participants come from a variety of different backgrounds and have varying levels of financial sophistication, and tailoring a communications program to address these complexities is, at a minimum, challenging.

### There is widespread lack of understanding about how decisions made today will affect financial health in retirement.

Most employees do not grasp their financial vulnerabilities with regards to retirement. People tend to live in the present, and delay making important decisions about retirement — often until it's too late. In fact, many experts worry that due to inadequate savings, future retirees could experience deteriorating standards of living during their retirement years. There's plenty of information out there available to anyone who's interested in learning about how to plan and prepare for retirement, but it is not being utilized.

### People guard their financial information more closely than they do information about their health.

Deploying personal advisors can solve many of the problems of under-participation in retirement plans; but advisors can sometimes be a hindrance, especially when the employer provides such advisors. Research has found that people are reluctant to share their personal “balance sheets” and seek advice

regarding retirement planning from investment professionals provided by their employer — more reluctant, in fact, than they are to share their health information. This reluctance is a reflection of the lack of trust felt by employees toward their employers, and cannot be overcome simply by hiring more financial advisors, or by sponsoring more enrollment seminars.

[Plan providers and sponsors must impart complex information to a diverse workforce.](#)

Companies have relied historically on the premise that more educated and higher income employees are better equipped to make sound financial decisions, and therefore will contribute more and participate at a higher level than less educated and lower wage workers. This isn't always the case.

For instance, a PhD research associate employed by a well-known biotechnology company understands that decisions made today will have a significant impact on his retirement lifestyle. Yet this employee remains in the default fund and does not contribute the maximum amount to his 401(k) plan. Why? Because, he reluctantly admits, he is too embarrassed to inquire about plan options that he believes — with his background and education — he should readily understand. By contrast, a low-wage employee of a large hotel and leisure company reported that she doesn't participate in her employer's 401(k) plan at all, simply because she doesn't understand the unique benefits of a 401(k).

[401\(k\) plan documents and the enrollment process are intimidating and confusing, even to sophisticated employees.](#)

Regardless of a participant's sophistication, plan documents and the enrollment process often present a roadblock to participation and contribution in a 401(k) plan. These documents are complex and difficult to understand, and the enrollment process can feel overwhelming. Combine employee confusion with a lack of personal communication by the provider or sponsor, and a formidable barrier to participation is created.

# Learning Styles & Methods

Employees need better education, if they are going to be encouraged to participate in their 401(k) plans. Plan providers and plan sponsors need tools that allow them to build platforms that satisfy their fiduciary obligations, and increase plan participation and contribution rates. And so the question: Which combination of the programs discussed above best increases participation and contribution rates? The answer: none.

## Multi-Sensory Experience the Key to Effective Learning

Research suggests that individuals, regardless of learning style or ability, learn best when information is presented in a variety of formats: a multi-sensory experience that appeals to the six different learning styles identified by researchers. Here is a brief overview of each:

1. Verbal learners need to see information in writing
2. Visual learners need diagrams, pictures, and other modules
3. Oral learners need opportunities to talk
4. Aural or auditory listeners need opportunities to listen
5. Tactile learners need to touch and manipulate
6. Kinesthetic learners need to move around or see movement

Additionally, an individual's habitual way of processing information affects learning. Once an individual absorbs information, he or she must process it. Left-brain-dominant thinkers are more likely to process information linearly, logically, and sequentially. They need to work with the parts that lead step-by-step to the whole.

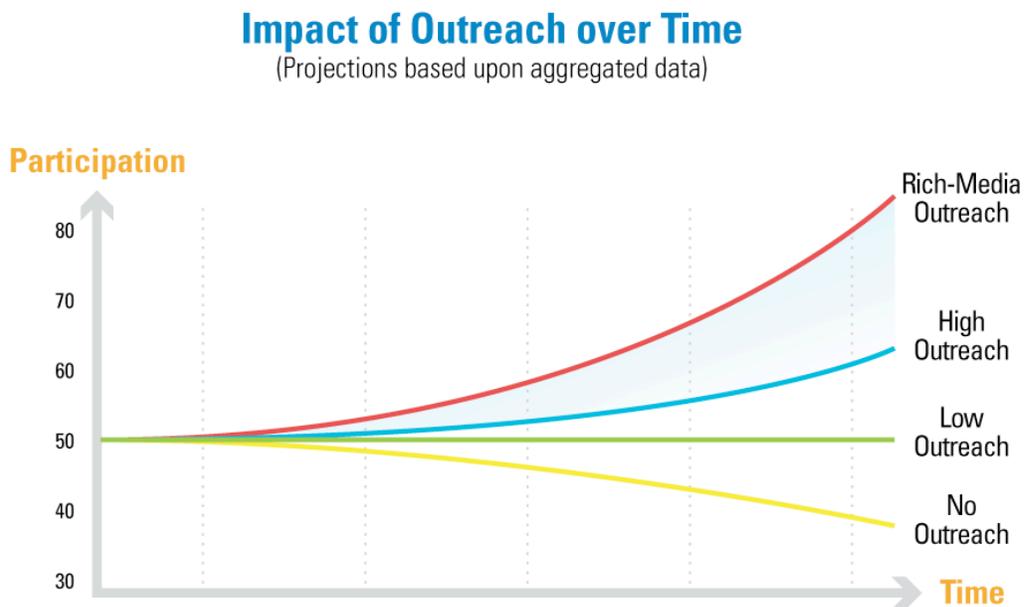
Those who are right-brain-dominant thinkers are more likely to process information holistically, intuitively, and simultaneously. They need to begin with the whole and make conclusions about the parts in the framework. It is important

to examine and understand how individuals learn, and why information presented in a rich media format is assimilated more effectively than the same information presented in other formats.

### Rich-Media Advertising: A Multi-Sensory Success Story

To further elaborate our belief that a multi-sensory approach to learning is the most effective, let's examine a modified version of Chart 1, shown here coupled with statistics aggregated from online advertising (Chart 2).

Chart 2



Studies of rich-media advertising indicate that rich media generates a higher response rate versus non-rich media. Individuals pay better attention, retain more information, and take action when a message is delivered in a format appealing to multiple senses.

Campaigns served in the platforms of rich-media ad providers were at least 50% more effective at improving purchase intent than were static ads, according to data drawn from Dynamic Logic's MarketNorms, a pool of hundreds of brand research studies. Video-formatted online ads, meanwhile, outperformed plain image ads by approximately two and a half times. Similarly, DoubleClick studies have found that online video ads experience click-through rates ranging from

0.4% to 0.74%, depending on the online video format; by comparison, the click-rate for plain GIF or JPG image ads is approximately 0.1%. And MarketNorms finds that rich-media ads significantly outperform static ads (20.0 v. 7.5) when it comes to increasing people's likelihood to remember seeing an ad.

#### Conclusions: Multi-Sensory is a Must

Again we ask, "What combination of financial communications programs maximize participation and contribution rates in 401(k) plans?" In response to that very question, a Watson Wyatt study concluded that an enhanced financial communication program can be an effective method of raising 401(k) plan participation rates and contribution rates. The largest impact was for companies that utilized the Internet and web-based tools as an information and financial education medium. Key to the usefulness of such resources is flexibility. Employees should be able to access their account information, software and educational material on their own time and at their own pace.

# Crafting a 401(k) Engagement Engine

Based on the conclusions from voluminous research cited above — to wit, people learn more effectively when information is presented in a multimedia format, with tools that give the viewer control over the pace and structure of the presentation — we have devised a blueprint for a 401(k) “engagement engine” that incorporates a regular schedule of outreach to drive eligible employees into a rich-media (i.e., video-based interactive) environment that engages them in a personalized investment plan development process, and facilitates the enrollment and updating process with the provider. (Chart 3)

Chart 3



### Interactive, Video-Based Environment

The single biggest factor in the success of any learning program is the accessibility of the information being presented. A Watson Wyatt study confirms this, finding that an enhanced financial communication program can be an effective method of raising 401(k) participation rates and contribution rates. The largest impact on participation and contribution rates was found through the use of the Internet and web-based tools. And key to the usefulness of such resources is flexibility—employees should be able to access their account information, software and educational material on their own time and at their own pace. Thus the first requirement for a 401(k) engagement engine is that it be built around an interactive, video-based user environment.

### General Financial Education

General financial education is a predicate to 401(k) participation, and must be included in any plan engagement scheme. One purveyor of comprehensive financial education programs reports that among employees who underwent general financial training, 90 percent planned to increase contributions to their retirement plan as a result of what they learned; and 100 percent reported they would recommend such education to someone else. The same survey showed strong increases in plan participation as a result of better financial education — especially among lower-compensated employees. One plan sponsor increased participation from 20 percent to 41 percent in less than a year.

### Quality of Information

As people respond more powerfully to information and news that applies directly to them, or is customized for their requirements, a 401(k) engagement engine must include the ability to discern user needs and requirements. This should be accomplished through interactive survey forms initially, and extended through the use of database technology and sophisticated user tracking mechanisms built into the system. For instance, a 401(k) engagement engine can be programmed to present contextual information, based on a user's viewing patterns. Depending on the level of integration with back-office systems, a 401(k) engagement engine can be programmed to proactively reach out to participants and prospective participants at key milestones or other trigger events.

Additionally, to perform adequately over time, a 401(k) engagement engine must offer fresh and timely information that helps participants make changes to their investments. News and updates relevant to participants — from general financial news to specific company announcements — should be published on a quarterly basis or more frequently.

### Stimulate Action

Finally, a 401(k) engagement engine fails unless it has the ability to stimulate particular action in viewers. Namely, it must convince them to participate in, or increase contributions to, a 401(k). To perform this role, a 401(k) engagement engine must rely upon a formula proven through more than a century of advertising: Attention-Interest-Decision-Action (AIDA). AIDA is a framework for organizing the presentation of information, so that it draws viewers in and carries them along to the desired conclusion. And the first step, capturing a viewer's attention, is arguably the most challenging step in the AIDA framework. Production technique must approach cinematic quality, to capture viewers raised on a steady diet of high-quality television and movies and whose interest in the subject matter is (typically) limited, at best.

## Conclusion

As stated at the outset of this paper, an effective 401(k) plan communications program can overcome employee inertia better than other mass marketing methods, helping companies maximize the potential of this strategic retirement savings vehicle and attract and retain key talent.

To be effective, a 401(k) engagement engine must utilize rich-media outreach and a rich-media environment that incorporates proven advertising methods and professional-quality production techniques.

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