

Engaging Participants: Communication Strategies for Defined Contribution Plan Sponsors

Are Defined Contribution Participants Motivated More by Fear or Encouragement?

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INTRODUCTION

What makes a defined contribution (DC) plan successful? There are many factors that plan sponsors have used to define success over the years, from basic participation and deferral rates to more elaborate retirement readiness or financial wellness measures. And while all of these factors are important and can lead to success, perhaps a better measure of a successful DC plan is how effective the plan is at driving participants to become more engaged with it, or better still, to act on behalf of their own retirement. With success measurement largely limited to the accumulation phase in practice, participation becomes a major criterion; but helping participants to help themselves requires engagement. How do plan sponsors achieve this level of engagement or action from participants? Are defined contribution participants more likely to respond to messages of fear or encouragement? In this report, we explore key questions that plan sponsors often ask and offer recent research to help provide answers.

KEY FINDINGS

Question	Survey Finding
Do participant communications increase engagement?	Contrary to popular opinion, communications do indeed seem to work at increasing intended engagement in the plan and prompting action from participants.
What is the most effective communication strategy?	A consistent one. Survey data suggests that any type of communication, from cautionary to encouraging messages, can move the needle on engagement. While the cautionary messages were slightly more effective, plan sponsors may want to be selective in this approach and take into account certain participant demographics.
When tailoring a communication strategy, what should be considered?	Thorough knowledge of your own participant base is the best way to develop a communication strategy. Relying on resources from your recordkeeper to evaluate your communication strategy is key to success.

METHODOLOGY

DCIIA's Retirement Research Center (RRC) recently undertook a study to better understand the impact of different types of messaging on engagement among DC plan participants. The study focused on demographic characteristics pertaining to participant engagement, as well as on participants' increase/decrease in intended engagement, contingent on their prior behavior. We surveyed over 1,000 individuals, nearly three-quarters of whom were DC participants.

The participants were screened for age, income, employment status, marital status and DC participant status. Next, participants were asked to answer questions measuring financial wellness (to compile a score based on questions sourced from the Consumer Financial Protection Bureau, or CFPB). Participants were then asked to self-assess whether they felt the score captured their financial wellness appropriately; a similar process was repeated for Financial Health Network (FHN) measures.

The distinguishing factor of the study was a series of seven questions posed to survey respondents about how they engaged with plan sponsors or recordkeepers about their retirement savings.

- A. A first set of questions sought to gauge current engagement activity of respondents, followed by an intervention, which offered either (a) an 'encouraging' message citing an individual's progress toward funding retirement, or (b) a 'cautionary' message warning of a retirement savings shortfall.
- B. Respondents then answered another set of questions dealing with the same set of factors as in set I, this time indicating engagement intent. Those who had not already indicated engagement on any of the seven factors were given an opportunity to 'upgrade' their engagement intentions.

We found that:

- A. Either messaging approach (fear or encouragement) significantly improved engagement, suggesting that any type of communication is likely to improve engagement.
- B. Between fear and encouragement, fear led to greater post-engagement, an effect that was surprisingly robust across questions and persisted even when controlling for participant demographics.

OUTCOMES: COMMUNICATION IS EFFECTIVE

'Fear vs. Encouragement'

To test the relative impacts of fear versus encouragement messaging, the sample was broken into two identical sample groups regarding demographics. One group was exposed to a cautionary, or fear, message style and the other was exposed to an encouragement message style. Importantly each respondent was exposed to only one of the two messaging styles, to avoid contamination of the sample. The fear message focused the respondent's attention on the shortfall (29%), while the encouragement message focused the respondent's attention on the percentage of the goal that was already on track to be completed (71%). The messaging was designed to be similar.

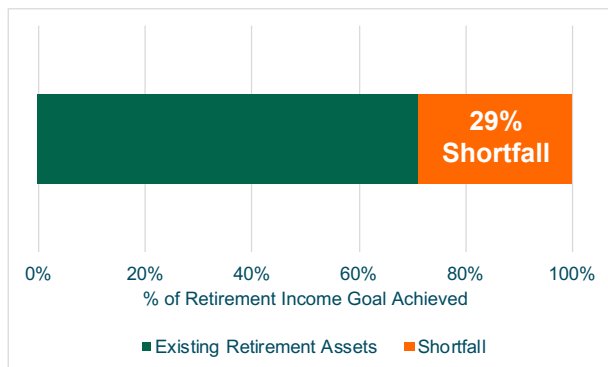
Respondents were asked how the information would change how often they would take the same engagement actions. Potential responses included: Much More Often, Somewhat More Often, No Change, Somewhat Less Often and Much Less Often.

Either message significantly improved likelihood of engagement actions. ***This strongly suggests that providing any type of retirement income statistic to participants, regardless of how it is messaged, is likely to improvement engagement.***

However, for each question, the subsequent intended engagement was higher among respondents who were shown the fear-based message. These differences are statistically significant when controlling for other variables, based on a series of regressions. **Therefore, of the two approaches tested, a “fear” messaging approach appears to result in higher subsequent intended engagement.**

Sample Rotation A

Caution! We project you’re going to have a 29% shortfall when it comes to achieving your retirement income goal. You will have to make a few changes in order to get to 100%.



Sample Rotation B

Great news! We project you’re on track to reach 71% of your retirement income goal. Although you are not at 100% just yet, a few changes can help you reach this goal.



Only respondents who were not “Frequently” engaged originally were asked the question. We also (again) included only participants who described themselves as participating in a defined contribution plan.

CONCLUSION

- Providing guidance on retirement readiness appears to significantly improve engagement/interest.
- Fear appears to be a better way to engage unengaged participants.

Helping participants to help themselves requires their engagement. This study confirms that communication does work to increase intended engagement in the plan and to prompt action from participants. While cautionary messages were slightly more effective than encouraging ones, both types of communication increased intended engagement. Thorough knowledge of your own participant base should be considered when developing a communication strategy.

This survey covered only intent to take action, so it is not clear what actions participants would actually take. And this analysis considers only one scenario, one that used the markers of participants being on track to achieve 71% of their retirement savings goal, or of being at risk to fall short of it by 29%. It does not necessarily provide context on participants that are on either more extreme end of the spectrum (i.e., significantly overfunded or underfunded). We anticipate a future research project will explore this issue further.

APPENDIX

In the following exhibit, we include information about participants' responses to each of the seven questions.

For reference purposes, the seven questions are:

How likely are you to:

- [A] Think about your progress toward retirement
- [B] Think about the percentage of your pay you contribute to your retirement account
- [C] Access the (recordkeeper) website
- [D] Speak with a financial professional
- [E] Look carefully at your retirement income statement
- [F] Take a look at the investment options to determine if a change in the way you are investing the money in your plan would make sense
- [G] Use the financial tools and calculators on the (recordkeeper) website

Exhibit 1

Messaging Approach Impact on Engagement

Response	Fear Message							Encouragement Message							
	A	B	C	D	E	F	G	A	B	C	D	E	F	G	
Much More Often	21.6	23.8	14.6	13.0	21.1	24.1	20.8	13.8	9.8	9.5	11.0	16.1	16.2	13.6	
Somewhat More Often	60.4	58.9	47.5	48.7	57.5	55.3	50.9	64.4	63.8	47.0	38.7	58.6	54.4	50.9	
No Change	14.3	14.5	32.5	34.6	18.2	16.7	24.7	19.0	22.3	37.5	44.1	21.3	25.4	32.1	
Somewhat Less Often	2.4	2.1	3.5	2.9	2.4	3.2	2.7	2.4	3.5	4.7	4.2	3.2	2.8	2.0	
Much Less Often	1.2	0.7	1.9	0.9	0.8	0.6	0.9	0.4	0.7	1.3	2.0	0.8	1.2	1.4	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	Total	100.0	100.0	100.0	100.0	100.0	100.0	
	n=245	n=282	n=314	n=347	n=247	n=311	n=332		n=247	n=287	n=317	n=354	n=249	n=327	n=346

For each of the activities, the fear messaging technique was more likely to prompt a "Much More Often" response, ranging from a 2.0% increase for question 4 to a 14.0% increase for question 2.

ABOUT THE DCIIA RRC

DCIIA's Retirement Research Center conducts rigorous, industry-informed research that is grounded in a practical approach focused on actionable insights. We adhere to a disciplined research methodology, governance and validation process. Our goal is to serve the industry as a reliable, unbiased, and authoritative research resource supporting improved retirement security—be it through plan design, institutional practices, investment solutions, or behavioral interventions. To learn more, visit: www.dciia.org/page/RRCHome.

ABOUT DCIIA

Founded in 2010, the Defined Contribution Institutional Investment Association (DCIIA) is a non-profit association dedicated to enhancing the retirement security of America's workers. To do this, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, record keepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: www.dciia.org.

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