

VIDEO

June 5, 2015

Focus on Funds: New Insights on 401(k) Participant Knowledge and Engagement

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The June 5, 2015, edition of *Focus on Funds* offers fresh research and analysis from a recent ICI summit on 401(k) investors. Senior Director of Retirement and Investor Research Sarah Holden outlines their levels of financial literacy, and surprising new information about their engagement with their savings plan.

Transcript

Stephanie Ortbals-Tibbs, Director, ICI Media Relations: Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

The 401(k) is a key retirement savings vehicle for so many American workers and recently, many of the top experts on 401(k)s convened at an ICI summit to discuss ideas and insights on how to ensure workers are engaged and saving for retirement through this important vehicle.

ICI Senior Director of Retirement and Investor Research Sarah Holden shared with me some insights from that discussion, beginning with the results of a new survey on financial literacy.

Sarah Holden, ICI Senior Director, Retirement and Investor Research: Dr. [Annamaria] Lusardi from the George Washington University School of Business presented results from a survey that's done in this country that is designed to determine how financially literate we are. There's three core questions that are asked. The first one has to do with interest and do you understand compounding; the second one has to do with inflation; and then the third one has to do with risk. And so a person is considered basically financially literate if they can answer all three of these questions correctly. Surprisingly, few individuals can and, particularly, we see amongst the younger workers the lowest levels of financial literacy. Only 28 percent of Millennials are able to answer all three of those basic concept questions correctly. Now, things improve as we look at older workers, so by the time we get to pre-retirees, about half of them know those key concepts. But you can see

that this really presents a challenge as we're trying to introduce people to saving and investing.

Ortbals-Tibbs: Sarah, looking at financial literacy and knowing that's not going to be the complete answer, there's also a whole school of thought about using behavioral economics to help people invest in their 401(k). You all spent a good deal of time on that—what did you focus on in that discussion?

Holden: We know from our surveys that many people are first introduced to saving and investing through that 401(k) plan at work and then we know that there's this low level of financial literacy. So we want to take advantage of that moment where the person arrives at their job and they're going to be introduced to that saving through that plan, and behavioral economics helps us with that. Behavioral economics helps us know how to educate, how to motivate, how to nudge, or how to default people to get them on the right path. So we educate them when we tell them about the plan. We make the investment option simple, we recognize that the order in which we present things matters, and we make it easy to sign up for the plan. In terms of motivation, we immediately have tax deferral and eight out of ten plans have an employer contribution so you immediately see some return to putting money into the plan. And then we can motivate them or nudge them by sending them emails, saying "Did you sign up," "Are you contributing enough to get the match," "Are you making sure you've rebalanced," "Are you taking advantage of all the features of the plan." And then at the end of the day, we can actually use the default option to put people on the right path even if they do nothing. So, many plans have automatic enrollment, where if you do nothing, we actually sign you up for the plan and you're put on that path to saving.

Ortbals-Tibbs: You know Sarah, we've been talking about how financial literacy is not terribly high, we've been talking about these behavioral economics as a tool to help workers regardless, but what's surprising and important and heartening is to see that actually there's also survey data showing that workers are pretty engaged with these plans.

Holden: TransAmerica did a survey where they interviewed employers and then the workers in the plans and they asked about what kind of information people wanted about retirement saving, when they wanted it, and who they wanted it from. And it was really encouraging to see that workers really are thirsting for this information—so while only 38 percent of the plan sponsors thought that the workers wanted to get information and advice about retirement saving in the plan, 63 percent of workers said, "Please, give me that information in the plan; I don't want to go outside for that." And similarly, many of the employers were worried or thought that their workers didn't want to focus on saving for retirement until they were older, but the workers said, "No, we want to focus on that now." So I think that we've got a lot of material being developed and given to the workers and we should just keep at that because the workers actually do want to receive this and learn.

Ortbals-Tibbs: That's this week in funds. See you next week.

Additional Resources

- [Highlights: 2015 ICI Retirement Summit: Improving Retirement Outcomes Through Education and Innovation](#)
- [ICI Retirement Research](#)
- [Graphic: Financial Literacy Is Lowest Among the Young](#) (pdf)
- [Graphic: Workers Are More Engaged Than Plan Sponsors Think](#) (pdf)

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