

Advisor Connect | Consider Behavioral Bias in Retirement Plan Design and Communications

MAKING IT ACTIONABLE

As an investment professional, you may already know a great deal about how behavioral biases affect investor decision-making and how they perceive their account performance. Behavioral finance tells us that many people are influenced by their emotions, their aversion to risk, their own social peer group, and sometimes by a skewed perception of control or investment skill.

ACTIONS TO TAKE NOW

Focus on two strategies we can employ to improve outcomes, while subtly addressing these natural biases:

1 **How we can address plan design**

When we focus on plan design, our first goal is participation. To that end, auto-enrollment has been proven to be effective in getting people to start along their savings path because most people don't opt out. Add an auto-increase feature and we nudge participants from a starting rate to a more meaningful savings rate over a few years – hopefully as their incomes grow as well. Both auto-enrollment and auto-increase features take the emotional decisions out of the equation and establish a savings habit. This is especially meaningful for younger savers, as we know well that those first contributions have the most years to grow and compound.

2 **How we can communicate to help set expectations**

When it comes to communications, perhaps the most obvious message is that saving for retirement is truly long-term investing. The opportunity to save on a pre-tax basis now or on a post-tax basis with a Roth account takes a long-term approach that looks past short-term news events that move markets. Messages about dollar cost averaging and diversification also underscore this idea of saving for the long-term. It's an essential topic to cover as we try to help savers fully appreciate the rationale behind their periodic payroll contributions.

Your role as a trusted advisor is crucial to both your relationship with the plan and plan sponsor, but also to help employees navigate past their own biases. Talk to us about expert plan design and plan communications that can help drive better outcomes.