

## Effectiveness of Employer Provided Financial Information: Hiring to Retiring

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### What We Know About Financial Literacy in the U.S.

- ▶ Level of financial literacy among American workers is low
- ▶ Workers can learn and enhance their financial knowledge
- ▶ Much of what workers need to know concerns company benefit plans
- ▶ The worksite is an excellent place for financial education and retirement planning programs

## Critical Times for Informational Programs

- ▶ Hiring
  - Learn about retirement saving program
  - Know the value of the match
  - Understand the value of compounding
  - Make plans for retirement income security over entire career
- ▶ Nearing Retirement
  - Understand key aspects of company retirement plans, retiree medical, SS, and Medicare
  - Recognize decisions may be irreversible
  - Understand impact of inflation on retirement benefits

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## I. Research on Information Provided at Hiring

- ▶ Formed partnerships with 6 large national employers
- ▶ Gathered data for all workers hired 2008 to 2010
- ▶ Examined participation and contribution rates in optional retirement savings plans
- ▶ Assessed the role of information and plan characteristics

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## Administrative Data Provided by Employers

- ▶ Each employer provided administrative data on all employees hired in 2008 and 2009 and still employed in 2010 – approximately 10,000 newly hired employees and then for 2010 new hires
- ▶ Data included: hire date, gender, date of birth, current contribution to retirement plan, salary date enrolled in retirement plan, and job classification

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## Retirement Plans

- ▶ Two employers had adopted automatic enrollment in 401(k) plans
- ▶ All but one of the employers provided an employer match
- ▶ All but one offered a DB plan in addition to the optional retirement saving plan

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## 401(k) Participation: Employer Adopts Automatic Enrollment

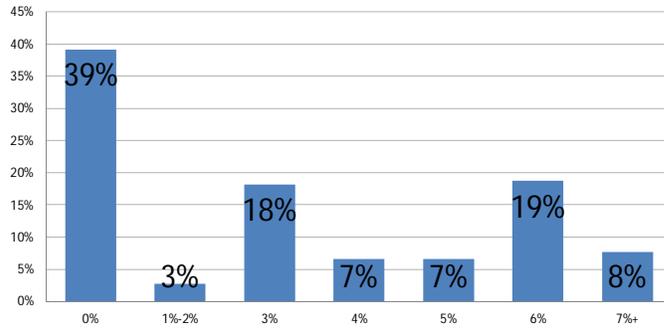
Full Sample Summary Statistics	2006	2007	2009	2010
Number of New Hires:	196	182	187	231
Average Age	32.0	33.2	31.9	31.2
Number of Females Hired	16	25	16	21
Number of Males Hired	180	157	171	210
Average Salary	38,807	33,309	33,207	28,315
Participating as of <b>April 13, 2011</b>	118	111	179	218
<b>Participation Rate</b>	<b>60.2%</b>	<b>61.0%</b>	<b>95.7%</b>	<b>94.3%</b>

## 401(k) Participation and Contribution Rates

New Hires Statistics	2006-2007 (Opt-In Policy)		2009-2010 (Opt-Out Policy)	
	Percent Participating	Average Deferral for Participants	Percent Participating	Average Deferral for Participants
New Hires	60.5%	5.0	95.0%	3.6
Female	63.4%	5.2	91.9%	4.2
Male	60.1%	4.9	95.3%	3.6
Salary – Low	59.3%	4.6	95.5%	3.3
Salary – High	62.4%	5.6	94.0%	4.3
Age: <25	55.1%	4.6	95.8%	3.3
25-34	68.9%	4.7	96.6%	3.6
35-44	58.8%	5.3	91.7%	3.8
45-54	54.8%	6.0	91.2%	4.0
55-65	44.4%	7.0	100.0%	5.9

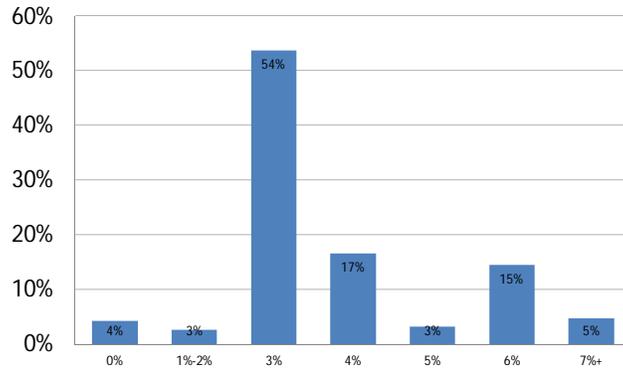
## Contribution Rate Before Automatic Enrollment

### 2007 New Hire Deferral Percentage



## Contribution Rate After Automatic Enrollment

### 2009 New Hire Deferral Percentage



## Observations

- ▶ Employers provide extensive information at orientation but subsequent efforts to encourage participation are mostly ad hoc.
- ▶ Employees are responsive to when employer match begins and its size.
- ▶ Auto-enroll policies increase retirement saving plan participation rates.

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## Retirement Saving Decisions

- ▶ Women are less likely to enroll in 401(k) plans and tend to contribute at lower levels
- ▶ Younger new hires are slower to enroll in 401(k) plans
- ▶ Lower income workers are less likely to enroll in 401(k) plans and contribute a smaller percentage of their salary
- ▶ Contribution rates tend to rise over time in opt in plans

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## Time to Participation

Large Bank Length of Time Between Date of Hire and 1 <sup>st</sup> Contribution (in months)—Includes only those hired in 2008	New Contributors	Percent of 2008 New Hires
0-3	642	24.9
4-11	245	9.5
12-15	203	7.9
16 to 24	522	20.3
Not Yet Enrolled	962	37.4

## Employees Hired in 2010–2011

- ▶ We surveyed all employees hired between December 2010 and May 2011 at four of our employer partners
- ▶ Surveys sent by employer 60 to 90 days after hiring

## Survey Results: 2010-2011 New Hires

<b>All Respondent, N = 467</b>	
<b>Q: How would you rate the info you received?</b>	
The information I received was very comprehensive.	59.3%
I would have benefited from more information.	30.8%
I received information regarding my employer's 401(k) plan but did not read it.	6.9%
I did not receive any information regarding my employer's 401(k) plan.	2.6%
Blank: N = 2	
<b>Q: Did the information you received influence your participation decision?</b>	
Yes, the information I received influenced my decision to participate.	37.1%
Yes, the information I received influenced my decision to NOT participate.	1.9%
No, the information did not influence my participation decision.	60.8%
Blank N = 1	
<b>Q: What sources of information influenced your participation decision?</b>	
Family and relatives	54.8%
Colleagues and friends	23.6%
Benefit office, website, other employer resources	33.6%
Internet	10.3%
Newspapers, books, magazines	15.9%
Financial advisor	19.1%

## Survey Results: 2010-2011 New Hires

<b>Q: If you are <u>not</u> currently contributing to the 401(k) plan, why are you not currently contributing to the plan? (N = 155)</b>	
I was not aware my employer provided this saving option.	0.7%
I plan to start once I am eligible for the employer 401(k) match.	51.2%
I am concerned about the volatility of the stock market.	6.5%
Taking into account social security, employer pensions and spouse's retirement benefits, I expect that I will have sufficient retirement income.	2.6%
Instead of saving for retirement, I am paying off credit card debt.	15.5%
Instead of saving more for retirement, I am paying of student loans, mortgages, or other debt.	17.4%
I am primarily concerned with saving for a large purchase such as a car or a home.	9.7%
I plan to start saving more in the future when I am closer to retirement.	5.8%
My salary covers my monthly living expenses with no extra room for retirement savings.	27.7%
I am unsure of whom to contact with questions or how to learn more about the 401(k).	5.2%
The enrollment procedures were unclear or cumbersome.	5.8%
Other (write-in)	17.4%

## Survey Results: 2010-2011 New Hires

<b>Q: If you are contributing to the 401(k) retirement plan, what factors limit the amount you contribute to the 401(k) plan? (N = 312)</b>	
I plan to increase my contribution amount once I am eligible for the employer 401(k) match.	19.8%
I am concerned about the volatility of the stock market.	8.7%
Taking into account SS, pensions, and spouse's retirement, I expect that I will have sufficient retirement income with the amount I am currently contributing.	9.6%
Instead of saving more for retirement, I am paying off credit card debt.	12.5%
Instead of saving more for retirement, I am paying off student loans, mortgages, or other debt.	23.1%
I am primarily concerned with saving for a large purchase such as a car or a home.	11.9%
I plan to start saving more in the future when I am closer to retirement.	7.7%
My salary covers my monthly living expenses with little extra room for retirement savings.	29.8%
Other (write-in)	16.4%

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## Survey Results: 2010-2011 New Hires

<b>Q: How important was the match in your decision to participate? (N = 467)</b>	
Very important	59.1%
Important	15.9%
Somewhat important	7.7%
Somewhat unimportant	1.5%
Not at all important	6.2%
Blank/Missing	9.6%

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## Survey Results: 2010-2011 New Hires

Financial Literacy Questions	Full Sample	Participants	Non-Participants	Difference
Interest Rates	86.3%	87.2%	84.5%	2.7
Inflation	77.3%	85.1%	67.7%	17.4***
Investment	82.2%	85.3%	76.1%	9.2**
401(k) Tax Advantage	39.6%	40.4%	38.1%	2.3
401(k) Employer Match	63.6%	63.5%	63.9%	-0.4
Knowledge Score out of 5 (N = 446)	3.6	3.7	3.5	0.2*

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## An Informational Nudge

- ▶ In early 2011, we obtained data on all persons hired between 2008 and 2010 who were not contributing to the 401(k) plan in one of the employers
- ▶ These employees were randomly divided into three groups, one control group and two groups who received slightly different flyers providing information on 401(k) plan participation

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## Response to Intervention

- ▶ Two months after the flyers were sent, the employer provided a new data file indicating the participation status of these employees
- ▶ Results showed increase in participation by all groups but those that received the intervention had a greater increase in participation than the control group

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## Key Observations From Study of New Hires

1. Group receiving informational nudge had higher proportion of workers participating in 401(k) plan than control group (6.8% vs. 5.9%) after the intervention
2. Young workers aged 18-24 receiving the intervention were significantly more likely to increase participation (7.7% vs. 3.3%)
3. Interventions need to be tailored to specific economic and demographic groups

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## Importance of Employer-Provided Financial Education to New Hires

- ▶ Plan characteristics are important determinants of participation and contribution decisions
  - Auto enroll and auto escalate
- ▶ Employer interventions and policy changes can alter retirement saving behavior
- ▶ Need for more research on each of these points

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## II. Retirement Planning Seminars for Older Employees

- ▶ Research funded by the FINRA Investor Education Foundation
- ▶ Four year study of the impact of seminars on financial knowledge and retirement plans
- ▶ Seminars increase financial knowledge and alter retirement plans

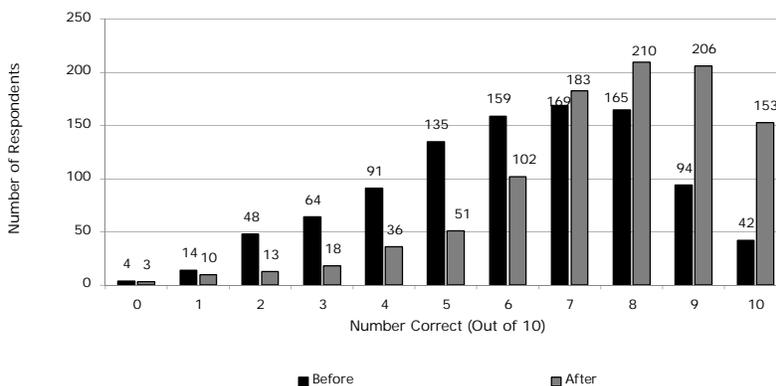
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## Older Workers Show Significant Increases in Financial Knowledge

- ▶ We developed a knowledge index based on 10 questions concerning basic financial literacy, employer retirement programs, SS, and Medicare
- ▶ Workers learn when they participate in seminars
- ▶ Learning occurs for all types of workers

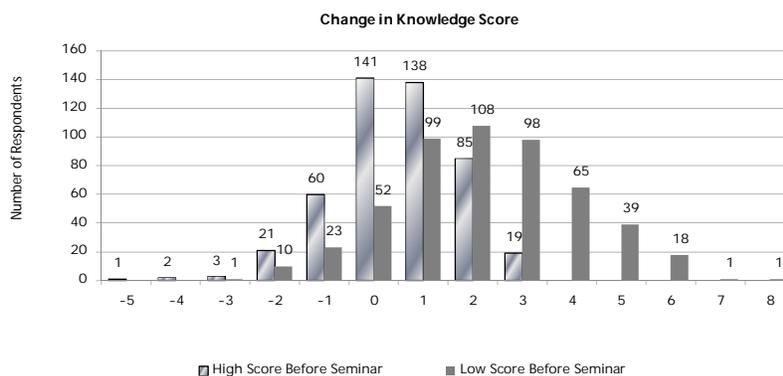
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## Knowledge Scores Before and After Seminar



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## Change in knowledge based on pre-seminars: Low 6 and below, High 7 and above



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## Planned Changes in Behavior After Seminar

- ▶ ***35.2% of Respondents Changed Planned Retirement Age***
- ▶ ***37.9% of Respondents Changed Planned Age to Start Receiving SS Benefits***
- ▶ ***Expect to Work after Retiring:***
  - *before seminar 40.8%*
  - *after seminar 50.8%*

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## Positive evaluation of programs

The program provided all or most of information needed for retirement. 94.9%

Overall very good or excellent program. 86.3%

Overall very good or excellent presenters and program leaders. 92.8%

Will be able to make better choices. 87.2%

Plan to change some retirement plans because of program. 76.9%

Participation raised awareness of benefits provided 72.2%

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## Key Findings: From Retirement Planning Seminars Project

- ▶ Career workers exhibit significant knowledge gains after the seminar
- ▶ Based on new knowledge, workers indicate changes in retirement plans
- ▶ Workers give seminars high marks for the information provided and value programs as an employee benefit

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### III. Important Conclusions

- ▶ Financial literacy among American workers is low
- ▶ Workplace financial education can improve knowledge and alter retirement saving and plans for retirement
- ▶ Education provided at the beginning and end of working careers is essential to improving retirement saving decisions

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### Important Conclusions

- ▶ The workplace is an excellent location for financial education programs:
  - important information is related to company benefits
  - we spend much of our day on the job
- ▶ In many firms, the employer is a trusted adviser and good source of information
- ▶ But firms can also employ outside presenters for programs

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## References

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- ▶ Robert Clark, Jennifer Maki, and Melinda Morrill, "Can Simple Informational Nudges Increase Employee Participation in a 401(k) Plan," *Southern Economic Journal*, forthcoming.
- ▶ Steven Allen, Robert Clark, Jennifer Maki, Melinda Morrill, Golden Years or Financial Fears? Decision Making After Retirement Seminars," NBER Working Paper 19231, July 2013.