

Testimony before the ERISA Advisory Council

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Plan Sponsor Education to Facilitate Lifetime Plan Participation

Introduction

My name is Punam Keller, and I am the Charles Henry Jones Professor of Marketing at the Tuck School of Business at Dartmouth College. I am honored to submit testimony to the ERISA Advisory Council on a subject that is extremely important to American's retirement security: facilitate lifetime plan participation by using more effective employee and plan sponsor education materials.

In my testimony I share research on a cost-effective communication format called Enhanced Active Choice or EAC. EAC is an effective and efficient communication tool to engage and empower employees to enroll in DC plans. It was designed as a substitute or complement for two prevalent choice architecture designs: opt-in and automatic enrollment. EAC essentially requires employees to make an explicit choice such as "I want to enroll in the company's 401k plan and take advantage of the employer match" versus "I don't want to enroll in a 401(k) plan and choose to forgo the employer match." From my research on EAC I make a series of recommended solutions.

The key points and recommendations of my testimony are:

- Employees are overwhelmed with lifetime planning education materials. The current materials are difficult to comprehend, interpret, or use. *Education materials that provide employees with a series of simple choices can effectively increase participation.*
- Behaviors such as lifetime planning are often avoided with the result financial planning information may be viewed as good ideas rather than personal decisions. *Education materials are more effective when they ask the audience to personally commit to or choose a course of action.*
- Employees often believe actions have costs whereas inaction is costless. *Education materials are more effective when they remind employees about the costs of doing nothing.*
- Even if employees understand lifetime planning information they do not use it to make decisions. *Education materials are more effective when they incorporate the pros and cons in the choice format.*

- Education that “tells” employees how to plan for retirement may feel more coercive than giving them simple choices. *Multiple choice options are viewed as less controlling than straight out advice in an opt-in format.*
- *Education materials are more effective when employees are prompted to take immediate action. Even small actions make employees feel more empowered, more accountable, more commitment, and more satisfaction. Leakage reduction starts with enabling employees when they first enroll in lifetime plans.*
- *Insights on why employees made certain decisions, such as transfer their retirement accounts to an IRA or cash out, should be the foundation for education on the pros and cons of different plan options.*
- *Selecting the right context for transmitting education is important because preferences may be constructed on the spot by the employee. Use EAC to highlight the costs of cashing out or not remaining in the employer sponsored plan.*

The retirement industry has gone to great lengths trying to accomplish three engagement goals: 1) Increase participation rates, 2) Increase savings rates, and 3) Decrease leakage. The broad scope of objectives presents an enormous challenge to basic and applied disciplines. We know that service providers utilize behavioral finance, and hire the brightest minds in communications, to develop education materials that are targeted, simplified and well executed. Yet despite doing all of these things, we still see engagement rates at sub-optimal levels. Why?

I believe the current choice formats, opting-in and automatic enrollment are insufficient to meet lifetime planning goals. My testimony makes the case for Enhanced Active Choice (EAC) - a new behavior change format. EAC interventions combine health communication, marketing, and choice architecture to increase active participation in initiating and maintaining healthy lifetime behaviors (Keller et al. 2011).¹ In a simple choice format, EAC advantages the option preferred by the communicator by highlighting losses incumbent in the non-preferred alternative. Although it may appear obvious, reminding employees of what they will lose if they opt for the non-preferred alternative can have a powerful impact on choice because decision makers are unlikely to seek out information about the costs of remaining with the status quo without prompts, especially if such thoughts evoke negative emotions like anxiety and regret. Dislike for the non-preferred alternative will be more marked when the costs of non-compliance are highlighted in the choice format.

¹ Keller, P. Anand, B. Harlam, G. Loewenstein, and K. Volpp (2011), “Enhanced Active Choice: A New Method to Motivate Behavior Change,” Journal of Consumer Psychology, 21, 4, 376-383.

EAC guidelines can be used with or without financial incentives to enroll in saving plans. Today, I will share support for EAC from six studies on health planning.² Three studies demonstrate how EAC can enhance enrollment in plans that do *not* offer financial incentives. Three additional studies show how EAC can increase enrollment in plans and reduce leakage without *adding* to existing financial incentives.

I expect the health enrollment and participation data will replicate for DC because there is considerable overlap between health and financial decision-making and choice. Health and financial literacy face a number of challenges: negative demand, invisible benefits, changes that take a long time, benefits to third parties, and public scrutiny. Health and wealth decision-making have common psychological biases including loss aversion, status quo and present bias, and the planning fallacy among others. Both health and wealth decisions, choices, and behavior fall into the “avoidant” category with serious consequences and accompanying negative emotions of guilt, regret, and fear.

EAC has several characteristics that can be easily applied to saving and investing. According to EAC the key behavior change categories should be personalized – for example, “I want to buy more with less money (instead of pay your credit card bills), and “I want to do what I want earlier (instead of save for retirement)”. Another big advantage of EAC: it bestows control on the individual by making the individual rather than the health issue the center of the message. In contrast to the traditional education message of telling someone what to do, EAC gives them the option and the control. And control can be further increased by providing an implementation plan. Most DC forms are not user-friendly. They do not tell the employee what information they will need, how long it will take, whether they will be transferred to another website, and whether they can change their mind (at least not legibly). Studies indicate employees are more able to enroll in saving plans when they are given user-friendly implementation plans (Keller and Lusardi 2010).³ In my testimony I will discuss EAC studies on retirement financial plans.⁴

² Keller, P. Anand (2015), “Social Marketing and Healthy Behaviors,” book chapter in “Handbook of Persuasion and Social Marketing: Applications and Uses”, Volume 3, David W. Stewart (ed.), Sage.

³ Keller, P. Anand, and Annamaria Lusardi (2010), “Employee Retirement Savings: What We Know and What We are Discovering for Helping People to Prepare for Life After Work” book chapter in “Transformative Consumer Research for Personal and Collective Well Being: Reviews and Frontiers” David Mick, Simone Pettigrew, Connie Pechmann, and Julie Ozanne (eds.), Taylor and Francis Group.

⁴ EAC has been incorporated into a new DC program called Intuitive Sustained Engagement (ISE). Created by a team including myself, Warren Cormier from BRT, and NARPP’s Laurie Rowley, ISE represents the next generation of DC communications. NARPP has been field-testing their innovative program with plan sponsors for the past year, and they are getting stunning results. ISE has been able to significantly improve voluntary enrollment in savings plans, and enrollment into auto-escalation programs. NARPP will be making ISE available to the plan sponsors in the coming months.

EAC Study 1: EAC Intervention to Reduce Fear Arousal and Increase Self-Efficacy

Background: An educational institution wanted to increase employee participation in a biometric screening program. Despite various attempts, benefit fairs, brochures, emails, face-to-face departmental visits, and a \$50 financial incentive to appear in the employees next pay check, only 30% of employees took advantage of the free biometric screening. The low participation rate motivated the educational institution to use EAC.

EAC Intervention: The EAC message identified three barriers: Insufficient time, privacy concerns, and lack of clarity/ease of making an appointment. Each of the barriers were acknowledged and addressed in a single page email. Health issues were not mentioned to keep the level of fear arousal low. Instead the focus was on increasing employee ability to get the biometric screening.

Results: To compare the effectiveness of the EAC tool, a study was designed to compare enrollment rates among employees who received the first communication with rates after the same employees received the EAC message (n = 4300). The EAC message resulted in a 37% increase in the number of employees who completed a screening, from 30% employee participation to 41% employees screened. This result was even more impressive because there was no change in financial incentive and there were only two opportunities to get screened.

EAC Study 2: EAC Intervention to Create Regret Aversion

Background: A hospital wanted to increase the effectiveness of flu shot reminders it sent to its employees. Hospital employees seemed to be inoculated against pleas to get a flu shot despite a \$50 copay deductible. Emphasis on the dangers of getting and passing the flu virus on vulnerable patients were not persuasive.

EAC message: Employees in the EAC condition were asked to choose between two options: Place a check in one box. "I will get a Flu Shot this Fall to reduce my risk of getting the flu and I want to save \$50" or, "I will not get a Flu Shot this Fall even if it means I may increase my risk of getting the flu and I don't want to save \$50". Employees also rated why they wanted to get a flu shot on several 1-7 scales including whether they would regret it later if they did not get a flu shot (regret aversion).

Results: To compare the effectiveness of the EAC message, flu shot intentions were compared for employees who were simply encouraged to get a flu shot (n = 30) versus the EAC mixed frame intervention (n=30). The EAC intervention resulted in significantly

higher intentions than the conventional health message (25% vs. 67%). Employees also expressed more concern about regretting not getting a flu shot when they received the EAC message (Mean = 4.95) than the conventional health message (Mean = 3.53).

EAC Study 3: EAC Intervention to Increase Personal Relevance and Commitment

Background: A Pharmacy Benefit Manager (PBM) wanted higher enrollment in an automatic prescription refill program. The PBM was inviting members who were receiving their maintenance prescription drugs via mail to join the PBM's free automatic prescription refill program, ReadyFill@Mail (the PBM's automatic prescription refill program) by simply clicking on each prescription or the red box "Enroll me in ReadyFill@Mail" for all eligible drugs. Enrolled members would then not need to call their doctors for prescription refills. The main health advantage for enrollees are convenience and a lower likelihood of drug non-compliance due to gaps in supply.

EAC intervention: EAC required members to question whether they liked managing their own prescriptions. This intervention was designed to prompt self-referencing and make the message more personal. Specifically, members were required to select one of two options: "I prefer to manage my own refills" or "Enroll me in ReadyFill@Mail" before they could complete their mail prescription drug requests on a subsequent web page.

Results: To compare the effectiveness of the EAC message, enrollment rates were compared among those who received the traditional invitation (n=4232) with those who were given the EAC message (n=6950) and could not navigate further within the website without making a choice. To assess commitment, disenrollment rates were compared for the two conditions.

The EAC message resulted in significantly higher member enrollment in the automatic prescription refill program than the conventional message (21.9% vs. 12.3%). Interestingly, those who received the EAC message also filled more prescriptions when they got the EAC message (Mean number of scripts = 2.12) than the conventional message (Mean number of scripts = 1.78). The EAC message did not result in lowering commitment. Members in both conditions could dis-enroll at any time. Average time to withdraw was 12 days. 84.8% of members remained enrolled in the EAC condition, whereas 89.8% of members remained enrolled in the conventional condition. This difference is statistically significant although not quantitatively very large. High rates of dis-enrollment were mainly due to discontinued prescriptions.

EAC Study 4: EAC Intervention to Facilitate an Implementation Mindset

Background: An education institute wanted to increase employee participation in a health and wellness assessment for a new insurance carrier. An EAC intervention with implementation guidelines was used because several employees expressed frustration

with the online registration and completion process. A typical response reflected unfulfilled desires – “I wanted to but could not get past registration”. Employees were ignoring requests to call the help line if they had any trouble

EAC Intervention: The EAC message consisted of six web page screen shots with a red circle around the main challenge on each enrollment step. For example, the identification number request was circled on the registration page to help members anticipate where they might get stuck. Solutions were provided for each of the six pages, for example, employees were told they could use their social security number instead of their employee identification number.

Results: Participation rates before and after the EAC message were used to test the effectiveness of the intervention. The EAC message significantly increased the number of employees who participated in the Health and Wellness Assessment (30% vs. 58%). These results were more impressive because the same employees had not responded to previous non-financial and financial appeals to complete the Health and Wellness Assessment, and the increase was observed in a mere two weeks after the EAC intervention.

EAC Study 5: EAC Intervention to Take Advantage of Context

Background: A hospital wanted to increase the number of employees who completed a health and wellness assessment. Despite a number of messages on the importance of understanding one’s health and a \$200 copay deductible for completion, only 37% of approximately five thousand employees completed the Health and Wellness assessment.

EAC Intervention: The EAC intervention was bundled with the annual health benefits enrollment at the hospital. Hospital employees had to make a commitment to either complete or not complete the HWA before they were able to access the benefits enrollment site. Employees were asked to choose one of two options: “I prefer to take advantage of this free tool to maintain or improve my health and save \$200” or “I prefer not to take advantage and decline this opportunity to get help in maintaining or improving my health and wellbeing”. A snapshot of the website prior to benefits enrollment is displayed below. The annual benefits enrollment context and deadline for enrolling in medical benefits was expected to increase employee Health and Wellness completion because it should be more difficult for employees to disregard learning more about their health when they were about to pay for their health care (health enrollment period)!

Results: After receiving the EAC message, an additional 30% of hospital employee (n = 1500) completed the health and wellness assessment in five weeks. This result was even more impressive because there was no change in financial incentive and the same employees had already rejected previous pleas.

EAC Study 6: EAC Intervention on Highlighting Status Quo Costs

Background: A Pharmacy Benefit Manager (PBM) was interested in increasing enrollment in their trademarked automatic prescription refill program, Readyfill@Mail. The PBM was inviting members who were receiving their maintenance prescription drugs via mail to join the PBM's free automatic prescription refill program. Enrolled members would not need to call their doctor for a prescription refill. The main health advantage for enrollees is convenience and less likelihood of drug non-compliance due to gaps in drug supply.

EAC Intervention: Prior to the EAC intervention, the PBM was using an automatic phone service to invite members to join the ReadyFill@Mail program. Unfortunately, rather than pressing 1 to be transferred to Customer Care and enroll in ReadyFill@Mail, members were hanging up or declining by pressing 2. An EAC intervention was used in the new phone message. Members in the EAC condition were asked to "Press 1 if you prefer to refill your own prescription by yourself each time" or to "Press 2 if you prefer the PBM to do it for you automatically". Compared to the web-page study (Brief 3.0), there was no forced choice in this study. The emphasis on "each time" was used to motivate members to deliberate on status quo costs.

EAC Results: All members who chose to enroll were transferred to the PBM's customer service representative. To compare the effectiveness of the EAC message, a study was designed to compare enrollment rates among members who did not receive the EAC intervention (n=5491) with members who were given the EAC intervention (n=4459). To assess commitment, members in both conditions were given a toll-free number to call if they wished to discontinue enrollment at any time. The EAC intervention resulted in significantly higher member enrollment than the conventional phone message (32.0% vs. 15.7%).

Conclusion

Retirement education materials to increase participation and reduce leakage will require a collaborative effort by all players in America's private retirement system. No one player can do it alone. It will require thought leadership to identify best behavior change messages to solve the motivation and ability problems. Government, financial literacy educators, planned sponsors, participants, recordkeepers, and advisors/consultants will need to look at the issue from their own perspectives, and then do their part in changing behavior.

This testimony demonstrates how EAC can be used to enhance lifetime planning. EAC is a highly cost effective behavior change choice format that is relatively easy to implement in settings in which there are regular opportunities to interact with employees. It is best implemented in conjunction with a mandatory task such as employee benefits enrollment. The studies reported in this testimony provide evidence on the robustness of the EAC effect using different methods of presentation: snail mail, face-to-face, phone recorded message, email, and web. Recent evidence for EAC indicates has the potential to be a

highly cost effective alternative to improve lifetime planning and as such further investigation of the relationship between default and non-default choice structures, and their effects on employees' perceived control, commitment, responsibility, and satisfaction.