

Comments for the
Advisory Council on Employee Welfare
and Pension Benefit Plans (ERISA)
US Department of Labor

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Dear Advisory Council on Employee Welfare and Pension Benefit Plans:

Thank you for the opportunity to comment on the draft Lump Sum Notice and Pension Transfer Notice. It is an honor to serve the Council and provide feedback.

We believe that the model notices contain vital information for the financial security of millions of Americans, and strongly support the development of the notices. Since we were asked for our particular recommendations on translating behavioral science concepts into effective communications and product designs, most of our comments won't focus on changing that core information. Instead, we'll focus on how to make the current information more impactful, given lessons from the behavioral research literature.

Before we begin, here is a brief introduction about each of the authors:

- Steve Wendel is the Head of Behavioral Science at Morningstar and author of *Designing for Behavior Change*, a step-by-step manual on how to apply lessons from behavioral science to product design and communications.
- Aron Szapiro is a finance and policy expert, who has written numerous reports on retirement and pensions. He currently serves as a subject matter expert at Washington DC-based HelloWallet, a subsidiary of Morningstar.
- Alex Blau is a Senior Associate at ideas42, a social enterprise that brings together practitioners, industry leaders, and policy experts with economists and psychologists from top-tier universities.

More detailed biographical information is available at the end of this document.

¹ ideas42 is member of Morningstar's Behavioral Science Advisory Board. We extend our gratitude to Alex and the rest of the ideas42 team for their comments and their valuable research in the field.

Framework

We use a four-part framework to think about the impact of communications like these, and how to increase their effectiveness.

1. **Information.** Is the necessary *information* being conveyed?
2. **Understanding.** How can we ensure that readers will *understand* that information?
3. **Persuasion** (If relevant). If there is a specific goal to *persuade* with that information, is it effective?
4. **Action.** What behavioral obstacles are likely to hinder individuals from *acting* on that information, and how can those obstacles be overcome?

Too often, we've found that communications are designed narrowly with the goal of conveying information that the reader needs to make a decision. However, much of the behavioral research literature, especially the literature on financial decisions, illustrates how "everything else" intervenes, and renders even the most valuable information ineffectual. Individuals may fail to understand, fail to make a decision, or fail to act on that decision, all for reasons which have little to do with the information itself.

One of the primary areas of research, in our own work and the broader behavioral literature, concerns the challenges that individuals have on *acting* on information; for example, how small details of when and how a message is conveyed can undermine its use. We'll start there, and then work our way backwards to discuss issues of persuasion, understanding, and finally, the underlying information being conveyed. Also, because the Lump Sum notice concerns the more consequential decision, we will direct most of our comments to that notice; we briefly discuss the Pension Transfer notice as well, below.

Potential Obstacles to *Action* (with the Lump Sum Notice)

Behavioral researchers have found that there is a tremendous difference between the decision or intention to act, and people actually following through on it. We call this the "intention-action gap". We have repeatedly found that seemingly minor details in the decision making environment can halve or double actual follow through rates.

For example:

- **Time of day.** In randomized control trials at HelloWallet, we found a 75% change in response rates when varying communication times by a few

hours.² Available cognitive resources vary throughout the day, based on meal times and demands placed on the mind.³

- **Defaulting in or out.** Defaulting employees into a 401(k) plan can double the number of employees who save for retirement.⁴
- **Changing the wording.** Adjusting the “call to action”, i.e., the request made of the reader to take the next step, can change response rates by 50-300%.⁵

To that end, we have a few recommendations for the Council on helping readers put information within the notice into action. They are built around three core cognitive barriers that limit action: inattention, procrastination, and forgetfulness.

Bringing Attention to the Action

A call to action that is too abstract reduces the likelihood that one will actually follow through or follow through completely because the necessary next steps are not salient.^{6,7}

Toward that end, we recommend:

- **Make the request to decide – and act – clear, active, and near the beginning of the notice.**⁸
 - Ask readers to answer the core question: Which do you choose, (a) normal pension benefit or (b) lump sum distribution. That question is implied throughout the text, but not explicitly asked.
 - Make it active – ask them to check a box, circle an answer, or even write in when they expect to follow through and how; such an approach helps the individual set an explicit intention.⁹
 - Ask readers to set intentions and make active plans about how to execute them; such an approach has been shown to increase follow through by making the mention feel more like a commitment.¹⁰

² Wendel, S. and Balz, J. (2014). *Communicating for Behavior Change: Nudging Employees Through Better Emails*. HelloWallet Whitepaper.

³ See, for example, Danziger, S., Levav, J., & Avnaim-Pesso, L. (2011). *Extraneous factors in judicial decisions*. *Proceedings of the National Academy of Sciences*, 108(17), 6889-6892

⁴ Nessmith, W., Utkus, S., & Young, J. (2007). *Measuring the effectiveness of Automatic Enrollment*. Vanguard Center for Retirement Research, 31.

⁵ See WhichTestWon.com for a repository with numerous randomized control trials in this area.

⁶ Buhrau, D., Sujar, M. (2015) *Temporal mindsets and self-regulation: The motivation and implementation of self-regulatory behaviors*. *Journal of Consumer Psychology*, 25 (2): 231-244

⁷ Trope, Y., Liberman, N. (2010) *Construal-Level Theory of Psychological Distance*. *Psychological Review*, 117 (2): 440-463

⁸ Oppenheimer, D. M., (2010) *The Secret Life of Fluency*. *Trends in Cognitive Sciences*, 12 (6): 237-241

⁹ Milkman, K., et al. (2011) *Using implementation intentions prompts to enhance influenza vaccination rates*. *Proceedings of the National Academy of Sciences of the United States of America*, 108 (26): 10415-10420

¹⁰ Ashraf, N., Karlan, D., Yin, W. (2006) *Tying Odysseus to the Mast: Evidence From a Commitment Savings product in the Philippines*. *The Quarterly Journal of Economics*, 121 (2): 635-672

- **Break the follow-up action into clear, manageable next steps.** What *exactly* does the reader need to do next? Is there paperwork to give their employer? Where can that paperwork or online form be found? Do they need to decide on spousal benefits (or make other follow-up decisions)? Are there deadlines or timing they should know about?¹¹ To support follow through, make these next steps explicit, or ask plan sponsors to do so.

Overcoming Procrastination

If the notice is sent without an explicit deadline for action,¹² or is sent when the next steps cannot be attended to,¹³ it is more likely that the consumer will procrastinate on making the decision.

Recommendation:

- **Provide an explicit deadline for the decision and for the follow up actions.** Explicit deadlines can help to motivate follow through in a timely manner.¹⁴ Currently, there are no such deadlines in the notice, nor instructions for plan sponsors to set deadlines (beyond the default separation date) for their employees. Additionally, there may be more meaningful and actionable dates to receive this notice than the prescribed 90 days until retirement.

Overcoming Forgetfulness

Reminders about decisions to be made, deadlines to be met, and plans / intentions previously decided upon, can each help keep readers on track and help them complete the task as planned.¹⁵

Recommendation:

- **Provide basic reminders.** Researchers have found that people may fail to follow through simply because they failed to remember when to do so.¹⁶ Reminders can be as straightforward as a follow-up notice, containing substantially the same information, an automated email, or a text message.

¹¹ Buhrau, D., Sujan, M. (2015)

¹² Ariely, D., Wertenbroch, K., (2002) *Procrastination, Deadlines and Performance: Self-Control by Precommitment*. American Psychological Society, 13 (3): 219 - 224

¹³ Dismukes, R. K., Loukopoulos, L. D. & Jobe, K. K. (2001) *The challenges of managing concurrent and deferred tasks*. In R. Jensen (Ed.), *Proceedings of the 11th International Symposium on Aviation Psychology*. Columbus, OH: Ohio State University

¹⁴ Ariely, D., Wertenbroch, K., (2002)

¹⁵ Guynn, M. J., McDaniel, M. A., & Einstein, G. O., (1998) *Prospective memory: When reminders fail*. *Memory & Cognition*, 26 (2): 287-298

¹⁶ *ibid*

BJ Fogg, head of Stanford's Persuasive Technology Lab, has a useful phrase for thinking about how to ask people to take action: the hot trigger.¹⁷ A hot trigger is something that gets their attention, provides a clear next step, and comes at a time and manner that they can actually act on it, immediately. Providing the opportunity to act immediately and completely (such as in the office, and in reach of the plan sponsor and when next step materials are available) will reduce procrastination and deferment, along with the need to remember.¹⁸

Looking Beyond the Page

This model notice seeks to help readers take action appropriate to them – either to elect to receive a lump sum, or retain their pension. While the recommendations above can increase the power of that notice, and support follow through, we also have to be cognizant of the limitations. The notice itself is only one aspect of the decision-making environment – along with other communications sent by the employer, conversation among peers, the steps the reader would take to actually execute their choice, etc. The impact of this particular notice decreases with:

- 1) distractions from competing or conflicting messages from other sources;
- 2) the vividness of other competing messages, especially from direct recommendations by other people;
- 3) the delay between when the notice is read and when they are asked and able to take action; and
- 4) the more real-world work required to take action (in terms of effort, time, and number of discrete steps).

Thus we encourage the Council to look beyond the page, and consider how they might provide information and guidance to shape that larger decision making environment. For example, the Council could:

- Develop a simple, blunt summary statement about lump sums versus pensions (e.g., “pensions often provide better lifetime value than lump sum distributions under most standard assumptions, unless the recipient dies sooner than average”), that should be included in *other* employer communications about the pension / lump sum decision.
- Work with employers to ensure that the steps required for action – talking with the HR representative, filling out a form, etc. are as straightforward and frictionless as possible.
- Either ensure that affirmative responses are required from individuals (e.g., “active choice”¹⁹), and inappropriate defaults are not used. Or if default actions are in place, ensure that the default action is in line with the Council's analysis of the most favorable action for the individual.

¹⁷ See, for example, Fogg, B. J. (2010). *Hot Triggers and New Habits: The Steps to Behavior Change*. In Medicine 2.0 Conference. JMIR Publications Inc., Toronto, Canada.

¹⁸ Dismukes, R. K., Loukopoulos, L. D. & Jobe, K. K. (2001)

¹⁹ Keller, P. A., Harlam, B., Loewenstein, G., & Volpp, K. G. (2011). *Enhanced active choice: A new method to motivate behavior change*. *Journal of Consumer Psychology*, 21(4), 376-383.

How Can (Or Should) the Document *Persuade*?

The model notice speaks to the individual's choice between retaining their pension or receiving a lump sum payment. In many cases, the notice appears to take a neutral stance, trying to solely provide readers with the information they need to make a choice. That is laudable, but fraught with practical challenges. In short, there is no true "neutral language". There is language used without knowledge of its impact, and language used in a manner to try to hide its impact; neither is truly neutral, however. From that, we have one overriding questions when reading this notice:

Does the Council seek to be "as neutral as possible", or to explicitly make clear the actions that will be most advantageous to readers under each set of circumstances? I.e., does the Council intend to focus solely on raw information, or does it hope to help the individual make a "good" decision, based on their circumstances?

That is not a question we can answer ourselves, of course. However, the current text seems to be a mix of both goals, and that undermines its effectiveness at either one. For example, in the text, the introduction appears to prime people to think positively about taking a lump sum (their pension plan is only a "promise", but individuals can "accept" the lump sum). Also, later in the text, it asks whether "you need cash now", and hence should take a lump sum. Naturally, for most people the answer to that question is always yes. Yet, in other cases, the language clearly favors retaining a pension ("it is very hard for individuals to get superior returns to the Plan's returns").

It is also important when "interpreting" the language and its implicit persuasive power, to recognize that people have a tendency to be overconfident and optimistic about their predictions and outcomes, especially with financial decision-making. When surveyed, the vast majority of people tend to think they have superior intelligence, health habits, driving habits, immunity to cognitive biases, and chances of succeeding in a start-up business.^{20 21 22} Such overconfidence plays a major role in retirement planning as well. For instance, one of the top two reasons survey respondents reported wanting to receive a lump sum deposit was a desire to manage funds themselves,²³ despite the fact that retail investors tend to underperform in the market over long time periods due to untimely trading

²⁰ Hoorens, V. & Harris, P. (1998) *Distortions in reports of health behaviors: The time span effect and illusory superiority*. *Psychology and Health*, 13: 451-66

²¹ Pronin, E., Lin, D.Y. & Ross, L. (2002) *The bias blind spot: Perceptions of bias in self versus others*. *Personality and Social Psychology Bulletin*, 28: 369-81

²² Cooper, A.C., Dunkelberg, W.C. & Woo, C.Y. (1988) *Entrepreneurs' Perceived Chances for Success*. *Journal of Business Venturing*, 3(2): 97-108.

²³ Sabelhaus, J., Bogdan, M. & Holden, S. (2008) *Defined Contribution Plan Distribution Choices at Retirement: A Survey of Employees Retiring Between 2002 and 2007*. Investment Company Institute. Washington, DC.

behavior and associated fees.²⁴ Thus, if the Council wishes to support effective decision making, simply saying that “it’s hard to beat the plan” isn’t enough; people will often assume they can, even if others don’t.

It is tricky to make explicit recommendations in this section, since we do not know the Council’s aims. The following are based on the assumption that the Council does not have a universal stance for or against lump sum distributions (or pensions), but wishes to support actions which they have calculated are the “best” for individuals given reasonable financial assumptions.

Recommendations

- 1. Frame “Lump Sum” to highlight the immediate costs. As noted above,** people are generally overconfident about their ability to reap the benefits from investment, and taking a lump sum can be seen as an avenue for investment and wealth growth, especially as compared to taking the plan’s annuity.²⁵ However, people are also highly loss averse,²⁶ and thus framing a lump sum as a loss can potentially counteract investors’ overconfidence. One way to do this might be to reframe “lump sum” as a “one time withdrawal,” or a “lump withdrawal,” to highlight the immediate costs to the consumer.
- 2. Frame annuitization in terms of consumption.** People are more likely to understand annuitization when it is put into consumption framing, and compared to a lump sum in the same way, as opposed to an investment framing.²⁷ For instance, discussing annuities as a “way to protect your ability to consume later in life,” and lump sums as “increasing your risk that you won’t have money for consumption later in life,” can help to mitigate the general biases against annuities, and for lump sum distributions.
- 3. Provide clear apples to apples comparisons of costs and benefits.** Even choices between two options can be complex and can lead people to exhibit choice overload or choice paralysis, and increasing the likelihood that someone will make a suboptimal choice, or not choose at all.²⁸ One way to help mitigate this is to make comparing between options easier by providing apples to apples comparisons of various criteria, and helping consumers limit the criteria for comparison to those most important for their consideration.²⁹ Practically, this

²⁴ See Morningstar’s analysis at <http://news.morningstar.com/articlenet/article.aspx?id=710248>

²⁵ Brown, J.R., et al. (2008) *Why don’t people insure late life consumption? A framing explanation of the under-annuitization puzzle*. American Economic Review Papers and Proceedings, 98 (2)

²⁶ Kahneman, D., Tversky, A. (1979) *Prospect theory: An analysis of decision under risk*. Econometrica, 47 (2): 263-291

²⁷ Brown, J.R., et al. (2008)

²⁸ Chernev, A., Bockenholt, U. & Goodman, J. (2015) *Choice overload: A conceptual review and meta-analysis*. Journal of Consumer Psychology, 25 (2): 333-358

²⁹ Greifeneder, R., Scheibehenne, B. & Kleber, N., (2009) *Less may be more when choosing is difficult: Choice complexity and too much choice*. Acta Psychologica, 133 (1): 45-50

could be made possible by moving the table at the bottom of the document up to the top.

- 4. Use vivid examples that are relatable to the consumer.** Vivid examples are not only more illustrative, but they are more visceral and less abstract, meaning that consumers may find it easier to apply the examples to themselves than warnings about potential outcomes. For instance, discussing taxes in terms of the percent loss, and then directing consumers to learn more on their own, may be less impactful than going through a hypothetical example of someone with \$X in retirement savings, and framing the loss in terms of dollars instead of a percent. Additionally, making vivid what “not having enough towards the end of life” might mean, such as “not being able to afford groceries,” or “inability to cover medical expenses,” can help make the risks more comprehensible and relatable to the consumers.

How Can The Document Improve *Understanding*?

The model notice provides valuable information to individuals about their distribution options. That information is inherently difficult to digest, however, and a few changes could considerably improve its understandability. One of the core lessons of applied behavioral science, especially randomized control trials with mass communications, is that the small details of presentation matter. The best ideas can be ignored or misconstrued if they are difficult to access.

Potential Changes to the Organization of the Text

- Summarize the core message, and place it at the beginning. People have limited attention and will scan messages for the key takeaways.
- Make it easier to scan and navigate the information, with two levels of headers, and bullets. Less attention is paid to the body text of a communication than headings, boxes and images.³⁰ Relatively small changes in headers and bullet points lead to surprisingly large changes in behavior.³¹
- Use images to depicting the core issues where possible.
- Make each level of heading, visually distinct and in decreasing size with decreasing importance. Currently, the various header levels are all of the same size, and indented in reverse order of importance (see annotated version).
- Extract and visually distinguish **key information, such as plan attributes, comparative tools, or other personal data.** Things like rates of return and

³⁰ UK Behavioural Insights Team (2012) *Applying behavioural insights to reduce fraud, error and debt*. Cabinet Office Behavioural Insights Team, London, UK

³¹ For example, see a randomized control trial conducted by ING, in which reorganizing information into bullet points increased uptake of a savings account by 27%. See WhichTestWon.com for a publically available version of the study.

interest, which the consumer will need to make comparative decisions should be readily accessible for those who wish to make their own calculations

- **Bold and color important points or text.** Using bolding and color can help draw attention to important document points and features. However, a heavy-handed application of this rule can backfire, especially if color and bolding are used throughout large text blocks and without a strict prioritization of the most important information.³²

Sample Structure

One way to organize the content, to support scanning, would be:

1. **Purpose.** One or two line summary with the purpose of the document.
2. **Outline.** A brief outline of the subsequent sections, and instructions on where to take action for those who are ready to do so.
3. **Summary table.** Currently on the last page, this is an excellent summary of the information; move it earlier. Note – ideally the table would be action oriented, asking readers which option they prefer (check box) for each attribute, thus prompting them to think through the information.
4. **Summary analysis.** For example, “for most people, pensions provide a better lifetime value than receiving a lump sum; lump sums are better when the recipient and their spouse expect to die sooner than average.”
5. **Frequently Asked Questions.** The current content under “what should I consider” and “What are my benefit options”?
6. **Appendix.** Detailed calculations and data (mortality tables, etc.).

Language

Potential changes to the language employed include:

- **Make the language more concise and straightforward.** Many lines could be shortened to make the point clearer
- **Avoid jargon and terms of art.** Often when drafting documents such as these, the authors of the documents assume certain knowledge of those for whom the documents are intended, and are therefore more inclined to include hard-to-understand language and terminology. The current document includes a number of terms and ideas that are quite complex, and may only be accessible by the financially literate.
- **Section headings should be takeaways instead of questions.** Where possible, headings should be able to provide the “so what?” to the consumer so they immediately understand the intention of the section instead of formulated as a question.^{33 34} Unless the questions can be quickly answered

³² UK Behavioural Insights Team (2012)

³³ Oppenheimer, D. (2010)

with a Yes or No, questions-as-headers provide little information to the consumer, except to signal that the information they need is buried within a block of text. Presenting information this way, which creates hassles for the reader³⁵, makes it even more likely the consumer will procrastinate on reading the information if they read it at all.

Looking Beyond the Page

Finally, as with the section on “Action”, the document alone does not need to carry the full weight of helping readers understand the text. Ideally, other qualified professionals would be available to walk employees through the various decisions and actions. Especially when the process is complex, ongoing support from someone who can answer questions can facilitate good decision-making and follow-through.³⁶

In fact, a simple change would be to make explicit that there is someone to call or talk to for help at the top of the notice, and to prominently provide contact information. The challenge, of course, is that some plan sponsors may not have incentives to provide this guidance, or may have a strong preference about the employee’s choice. To address this issue, the notice can direct readers to unbiased online resources or, where available, resources for in-person guidance.

What Additional *Information* Might be Required?

While analyzing the behavioral aspects of the model notices, we also came across a few issues that are relevant to the core information being provided to the individual. In particular: inflation risk, sequencing risk, spousal benefits, bequests, and taxes.

Inflation risk

For participants that have deferred annuities, we believe the model notice should include information about inflation risk. Inflation risk is often not very apparent to ordinary people but is an important factor, particularly for participants that have a long-deferred annuity. Almost no private sector DB annuities are adjusted for inflation. This problem is particularly acute for participants that have

As an illustration, consider a 45 year old, with a \$10,000 annual annuity, paid monthly, due at age 65. (I chose this example in part to discount the annuity entirely at the 3rd segment rate.) The present value of the annuity is about \$44,000 (using

³⁴ Barnett, R. (2007) *Designing Usable Forms: Success Guaranteed*. Robert Barnett and Associates Pty Ltd, Australia

³⁵ Liu, P., Li, Z. (2012) *Task complexity: a review and conceptualization framework*. International Journal of Industrial Ergonomics, 42: 553-568

³⁶ Bettinger, E., et al. (2009) *The role of simplification and information in college decisions: results from the H&R block FAFSA experiment*. NBER Working Paper 15361

the 417(e) static mortality table the June 2015 third segment rate of 5.2 percent.) However, the participant is subject to large amounts of inflation risk he or she could hedge if he took the lump sum and invested it. For example, if inflation were 2 percent (which is about what is implied by the TIPS curve), the future annuity would be worth about \$6,730 annually in today's dollars. However, if inflation were closer to its historical levels of 3 percent then the annuity would be erode to only \$5,535 in today's dollars in the first years. In subsequent years, inflation would further reduce the value of this annuity. Participant should consider inflation risk in making their decision, since the only way they can hedge against inflation risk is to take a lump sum.

Sequencing Risk

People tend to think about the average return, without considering the sequencing risk. Although the example of the 2008 crash is useful, it may be counterproductive. DC participants with positive cash flows into their accounts (i.e., people continuing to contribute) probably could handle the 2008 crash with little problem, and have largely been made whole as the market has recovered. If they continued to contribute to their accounts, they might have achieved particularly high returns as their contributions during the trough of the market rebounded. Therefore, the model notice could explicitly make it clear that the timing of market ups and downs matters more for a person that needs to withdrawal money to pay for retirement expenses than for someone with more flexibility on their withdrawals from an investment account.

Spousal Benefits

The spousal benefits section could be improved by making it clear that electing a "subsidized" spousal benefit is a way to ensure that a surviving spouse has enough to live on after the pensioner has passed away. Suboptimal spousal benefit election—particularly with Social Security benefits—are a key reason that many widows have inadequate retirement income.

Bequest Motive

Although the chart discusses bequest motives, this may be a strong motive, particularly for people with relatively small lump sums compared to their other retirement assets. This consideration should be more-clearly explained in the model notice.

Taxes

The model notice should make it clearer that most people should roll their money into an IRA, regardless of whether they have attained age 59 1/2 because this option

provides the most flexibility for structured withdrawals when the participant attains retirement age.

Comments on the Pension Transfer Notice

With the Pension Transfer Notice, we can apply the same theoretical framework introduced at the beginning of this document to improve its effectiveness: information, understanding, persuasion, and action.

Overall, the information seems appropriate and useful for recipients. However, it is unclear what *action* the communication is intended to support. If anything, in scanning the document, we first noticed the line that says:

Will my pension benefit change?

Your pension benefit will remain the same.

Which implies that nothing is needed. Thus, the document runs the risk of being glanced at, discarded, and forgotten. However, if one starts to read the text in detail, then other questions arise. Should individuals review the financial health of the insurance company, as is implied in a later questions? Should they contact their company if they have concerns with the transfer? If there is a follow up action, then we recommend making that more explicit, and providing the situations under which that action is appropriate for the individual.

In order to improve the understanding of the information, we would also suggest providing a concise summary, preferably as bullet points or a table (as in the Lump Sum Notice) of the key points, at the top of the document. In addition, the comments we've made above about avoiding technical language, using a clear hierarchy of headers, moving calls to action to the beginning, etc. can apply to this document as well.

Measuring Effectiveness, and Iteratively Improving It

Thus far, we have tried to provide practical advice to the Council on how to make the Lump Sum Notice and Pension Transfer Notice more effective. To that end, we've provided a series of recommendations on how to apply lessons from behavioral science to the document.

However, there is one very important caveat: *there are no magic wands in the behavioral community that will always make communications more effective*. In fact, our research shows that the truth is quite the opposite. In the research community, we've compiled an impressive set of theoretically grounded, empirically tested

techniques that *can* work in practice. That does not mean that any particular technique *does* work, in a specific context.

The authors have run hundreds of well-designed, large-scale randomized control trials using many of the documented techniques in the literature. In any given context, most of them do not have a practically significant impact. Instead, collectively, across a range of changes and improvements, we find that a handful of the changes have outsized impact. And, unfortunately, no one has the ability to predict which specific interventions are going to have that outsized impact in a particular context.

How do we approach this complex scenario – changes that have shown tremendous promise in the field, but are context-dependent? We approach this problem in three ways which together have provided a path for consistently impactful communications:

- 1) **Try to gain a deeper understanding** of the particular behavioral obstacles that a population faces in that specific context, rather than trying to devise solutions in the abstract. I.e., conduct user research – go out into the field, and conduct qualitative interviews and observations, ideally with a draft version of the communication in hand, to see where people struggle.
- 2) **Plan for iteration.** Inherent in that user research process is the assumption that the first version often won't solve the problem. Instead, we plan for iteration – refining the communication over time as it is exposed to new (ideally randomly selected) subsets of the population. Also inherent in that process is the understanding that we will usually need to employ multiple techniques from the behavioral literature; one technique or approach often isn't enough or isn't effective.
- 3) **Test rigorously.** In the research community, the gold standard for measuring the impact of an effort like this model notice is the randomized control trial (RCT) or *experiment*. In such an experiment, randomly selected employees receive the communication on day one, and others don't. Then, the company tracks outcomes for the two groups, and compares them. The random assignment process controls allows the company to look squarely at the impact of the program itself, and factor out any other influences — like the demographics of the employees, their prior interest in the program, their current habits, etc. This approach is increasingly used by leading companies — and retirement plan providers — around the country, and is the best way we've identified to get a clear understanding of what works and what doesn't, in practice.

Conclusion

Thank you again for the opportunity to provide feedback to the Council on Employee Welfare and Pension Benefit Plans. We find that the Lump Sum Notice, in particular, has extremely valuable information that can help guide the decisions of

Americans. As behavioral researchers, however, we have found that information is often not enough to help individuals take meaningful action in their lives. Instead, we should examine:

- Do the individuals actually process and *understand* that information, given limited attention to the task.
- Are individuals are effectively *persuaded* by the argument, when relevant?
- Are individuals likely to *act* on that information?

In each area, we believe the Council can make relatively small changes to improve the impact of this communication, and to help Americans reach their own retirement goals.

We hope that our comments have been useful for the Council's deliberations and notice development, and would be happy to provide additional information or assistance as appropriate.

About the Authors

Stephen Wendel is the Head of Behavioral Science at Morningstar, where he leads a team of behavioral researchers and practitioners applying behavioral science to the practical challenges of engaging individuals in their financial decisions, and improving their financial outcomes. His team has conducted over two hundred randomized control trials in this area, particularly around communications with plan participants. He is the author of the books *Designing for Behavior Change*, and *Improving Employee Benefits*, which demonstrate how behavioral lessons can be applied to product design and employee communications, respectively. In 2013, he founded the Action Design Network, a non-profit organization that holds monthly events in six cities for over 3,500 members on how to apply behavioral science to product design for social good.

Aron Szapiro is a finance and policy expert, who has written numerous reports on retirement and pensions. He currently serves as a subject matter expert at Washington DC-based HelloWallet, a subsidiary of Morningstar. In this role, he oversees the development of software that helps American workers make the most of their salary and benefits by providing guidance on topics from budgeting to retirement savings to using Health Savings Accounts. Mr. Szapiro previously worked for the U.S. Government Accountability Office (GAO) specializing in retirement security issues and pension plan policy. In that role, he worked on a diverse array of retirement security issues from examining questionable practices in the pension advance industry to evaluating the effectiveness of the Saver's Credit.

ideas42 is a social enterprise that brings together practitioners, industry leaders, and policy experts with economists and psychologists from top-tier universities. Our mission is to apply our expertise in behavioral science to invent fresh solutions to social problems in a variety of domain areas including consumer finance and financial inclusion. Our work draws upon decades of experimental scientific research in decision-making and the most rigorous methods in program and policy evaluation.