

# Creating a Savings Culture

New Research Shows a Surprising Return on Your DC Plan: Greater Employee Loyalty

by TONY MASTROGIORGIO



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*“Meeting fiduciary obligations is also good business.”*

Why do employers offer defined contribution plans? Some have a genuine, almost paternalistic desire to provide for employees in retirement. For others, the motivation has more to do with the here-and-now: you need to offer benefits—DC, health and so on—in order to be competitive in the labor market.

No matter what reasons an employer has for offering a plan, what's usually missing is any sense that a DC plan somehow benefits the employer. It's a business necessity or a well-deserved entitlement, but there isn't any ROI on cost incurred sponsoring a plan.

But what if that wasn't the case? What if it could be demonstrated that a DC plan can create more loyal employees, a more positive work culture and make participants in the plan more engaged, productive employees? The idea that a well-run 401(k) delivers value to the sponsoring company is one of the conclusions that plan sponsors may find most surprising from the research BlackRock has undertaken to develop the new Participant Engagement Benchmark.

## A NEW WAY OF MEASURING A DC PLAN

The Participant Engagement Benchmark uses a brief survey to generate a baseline reading on how deeply a given participant population is engaged with its retirement plan compared to the general working population. It breaks new ground by quantifying a participant population's engagement with their plan and providing a behavioral segmentation to help guide

participant communication and plan design efforts.

According to Allegra Heyligers, who heads the BlackRock team developing the research, this baseline reading can be used in a number of ways. “It's designed to measure how effectively plan design, investment products and participant communications are driving engagement,” she explains. “Better engagement drives better outcomes. Plan sponsors can make changes to their plan and use the baseline reading to measure how successful they are in influencing behavior.”

Participants are allocated into four, largely self-explanatory categories: Super Engaged, Engaged, Disengaged and Disconnected. “It doesn't give you the information at a participant level,” explains Heyligers. “It won't tell you that Joe in accounting is disengaged and that Betty in sales is super engaged. But it will give you a good idea about where to concentrate your efforts to improve overall participation.”

The survey also segments participants into four psychographic profiles, which are essentially personality types that describe attitudes toward their employer's workplace retirement plan. These were developed through research to help plan sponsors understand how various segments see themselves, what sort of messaging they respond to, and what sort of advice and support they want in making investment decisions. The psychographic profiles (see back cover) can help plan sponsors and providers further shape their efforts to increase engagement.

## A NEW WAY OF THINKING ABOUT DC PLANS

Proving that DC plans benefit the sponsor as well as the participant was not the goal of the participant engagement research, but it was something the team suspected it might find. “It became part of our hypothesis,” explains Warren Cormier, president of Boston Research Group and one of the leaders of the research effort. “Based on years of observing the way participants think about their plan, we believed that it did something more than just getting employees to show up to work.”

That may seem counterintuitive. Isn't it more likely that people form an opinion about their employer, positive or negative, and then look for reasons to confirm their bias? Not according to Cormier. The hypothesis validation emerged as a clear finding in the extensive surveys and research done to develop the Benchmark.

“At the risk of being too technical, we use a technique called structural equation modeling to determine the sequence of causation,” explains Cormier. In other words, he asserts that they can determine with great certainty that a positive view of the company flows from a positive view of the retirement plan.

The causal connection between benefits and corporate culture is something that's understood and accepted with HR disciplines, but it has never been applied to DC before. “We used a validated engagement model in the research,” says Cormier. “It was developed by LRN, a leader in corporate culture research.”

“One of the clearest results from the research is that a positive perception of the DC plan drives a positive perception of the company,” he adds.

## HOW TO BUILD A SAVINGS CULTURE

What does this mean for plan sponsors? Both Heyligers and Cormier agree that it should lead to new ways to think about your DC plan. Heyligers suggests, “Remind participants that their DC plan represents a significant benefit. It captures a lot of independent expertise and exercises fiduciary responsibility on their behalf.”

In a sense, she is arguing that it is worth “marketing” the plan to participants to remind them of its value. The extent to which the company is seen as “a good guy” can not only contribute to a more positive workplace culture, it can raise the plan's profile and possibly drive greater participation.

At the very least, Cormier says that it should add a new dimension to participant communications. “What it means is that providing a cursory education about the plan is a mistake,” he explains. “Simply describing the bare bones and saying ‘check the box’ is a missed opportunity.”

“You can enhance engagement by getting employees to think of retirement as a useful goal. Help them connect the plan to retirement and see the value of what you are trying to do for them,” he adds. “The greater the perceived value of the plan, the more positive the perception of the company.”

## UNDERSTANDING ENGAGEMENT

Understanding engagement may require a culture change for some plan sponsors, especially those more immersed in the investment side of plan administration. Engagement is usually measured in terms of participation and deferral rates, which remain critically important, of course. But they do not tell the whole story, nor do they tell us how to proceed.

“We're measuring stuff that is different,” says Cormier. “The Participant Engagement Benchmark quantifies engagement based on an empirically tested model. A lot of people talk about engagement, but now we can pursue it in a new way.



### WARREN CORMIER

President, Boston Research Group and cofounder of the RAND Behavioral Finance Forum

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We are bringing leading edge corporate culture analysis to the problem of helping participants save for retirement.”

Heyligers believes that the finding is exciting news for plan sponsors who want to make a case for improving their DC plans. “Meeting fiduciary obligations is also good business. There is a positive return on the investment in a quality DC plan through greater employee loyalty.” ♦

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