

# Case Study

Understanding Psychology to Understand  
the User Experience of Retirement  
Enrollment and Participation



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# Case Study in Using Psychology to Understand the User Experience of Retirement Enrollment and Participation

## Introduction

“Look, I know I should have started putting away some money for retirement, or at least for a rainy day, but I just don’t even know how to get started,” said Jason Miller\*, a 33-year-old sales manager for a mid-level product distribution company when he was asked about what kind of retirement plan he has. His company has a 401k or an IRA, he wasn’t really sure, and to him it was all the same anyway. He thought about 1% of his paycheck is going into his savings plan, but wasn’t really sure. It’s not that Jason wants to be careless with his money, but over the last few years he got married, had a baby, and started taking care of his ailing mother as well. On top of all of his personal life stresses, a badly needed promotion now meant he is working 50 to 60 hours a week. “When am I ever going to have the time to read all the manuals and workbooks on retirement planning?” Then he nervously laughed, “And even if I had the time, I’d probably screw it up and end up losing money.”

As Americans face more economic instability and uncertainty, stories like Jason’s are commonplace. According to the Aegon Retirement Readiness Survey 2014, “about half of Americans are behind in retirement savings” and “55% of Americans are worried about losing money if they invest it”. A study on 401(k) balances found that at yearend 2012, the median balance was only \$17,630 and the average was \$63,929.<sup>1</sup> Though most old-school financial planning experts believe, almost unsympathetically, that people are not motivated to take a serious look at their finances, the reality is, like Jason, most people’s cognitive resources and spare time are simply spread too thin.

Traditionally, when people like Jason learn anything about their company-sponsored retirement plan it is by receiving a seminar-style presentation, a thick workbook, and a pat on the back. The expectation from plan sponsors is that employees will figure it out on their own from there. It’s no wonder so many individuals continue to view saving for retirement as a daunting task.

A March 2013 Fidelity Client Panel Survey of 563 employers of all sizes determined the two biggest challenges with company-sponsored retirement programs are: 1) low employee interest in retirement topics; and 2) low savings levels. Billions of dollars spent on retirement education and enrollment meetings have largely failed to increase

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<sup>1</sup> Investment Company Institute, ICI Research Perspective, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2012”, December 2013

participation rates and contribution levels. The retirement industry has been unsuccessful in creating a solution that motivates and engages users to break through retirement planning limitations.

In 2010, vWise Inc. based in Aliso Viejo, California, sought to make the process of retirement planning easier by introducing SmartPlan. SmartPlan is an interactive multimedia application that educates users on their employer's retirement plan, enrolls them, guides them through plan options, and helps them select investments. In short, it provides an easy and accessible way for employees to create a custom retirement plan.

SmartPlan has successfully increased user enrollment; retirement plan provider Envoy Financial recently implemented SmartPlan and increased employee participation by almost 25% across a large number of different clients. SmartPlan has also proven to increase employees' retirement savings amounts. By using SmartPlan, employees of PNC Bank increased the average percentage of retirement savings from 6.27% to 9.25%, an increase of 47%.

How is SmartPlan able to increase participation and savings when the industry has failed for so many years? While a focus on behavioral design and user experience can show the rate of change in a user's behavior, it is understanding the psychology behind the user's behavior that informs why the design of the application is successful and how improvements should be made.

## Understanding the Psychology behind the User Experience

A study was conducted in early 2015 to understand SmartPlan's ability to affect some of the biggest challenges in retirement planning – increasing plan enrollment and deferrals. The first step was to identify those who are active in their retirement planning and those who are inactive. We then tested some of the current assumptions about retirement participation to quantify the differences between Active and Inactive plan participants.

### *Inert Vs. Active Planners*

One of the biggest challenges for the retirement industry is that many people simply do not have a sufficient grasp on how much they need to save for the future and their fear of making the “wrong” decision negatively impacts their plan enrollment, thus making employee inertia a formidable barrier to plan success.

There are, however, people who do plan their retirement with the optimal savings levels and investment choices, which will enable them to achieve their retirement goals. The industry belief is that these “active plan participants” think differently about financial planning and/or are more knowledgeable about finances and retirement than those who do not actively engage in their retirement planning.

## Study Methodology

### *Participants*

The survey pool of 256 participants were randomly selected from a census of 500 participants prescreened to include only those who speak English, live in the USA, and have some education.

Of those who completed the study, 55% were male and 45% were female. The average age of the participants was 32. More than half finished some form of college education. Approximately 45% of participants were single (never married) with no children in the home. The ethnic background of this study was 70.6% Caucasian, 11.8% Asian, 10.8% Hispanic, and 6.9% African American/Black. The average income was \$55,000 per year, ranging from \$12,000 to \$105,000. In this phase of the study, there were no significant differences between our test variables and gender, ethnicity, and education.

### *Active Planning Score to determine Active vs. Inactive*

An Active Planning Score was established by administering a survey that listed 10 ways in which a participant could interact with their retirement plan. Participants were asked to check every way in which they have participated. Options included: enrolling in a plan; speaking to an advisor; modifying contributions; and reviewing account balances. A point was given for each interaction. Participants' total scores could range from 0 to 10. A scoring rubric was used to assign each participant into either an Active, Inert, or Inactive group. Approximately 30% (76 people) of our survey pool were categorized as Active plan participants, 126 (49%) were categorized as Inert plan participants (have a retirement plan available to them but are not contributing to it) and 54 of the study's participants (21%) were completely Inactive.

### *Retirement Readiness Confidence Scale*

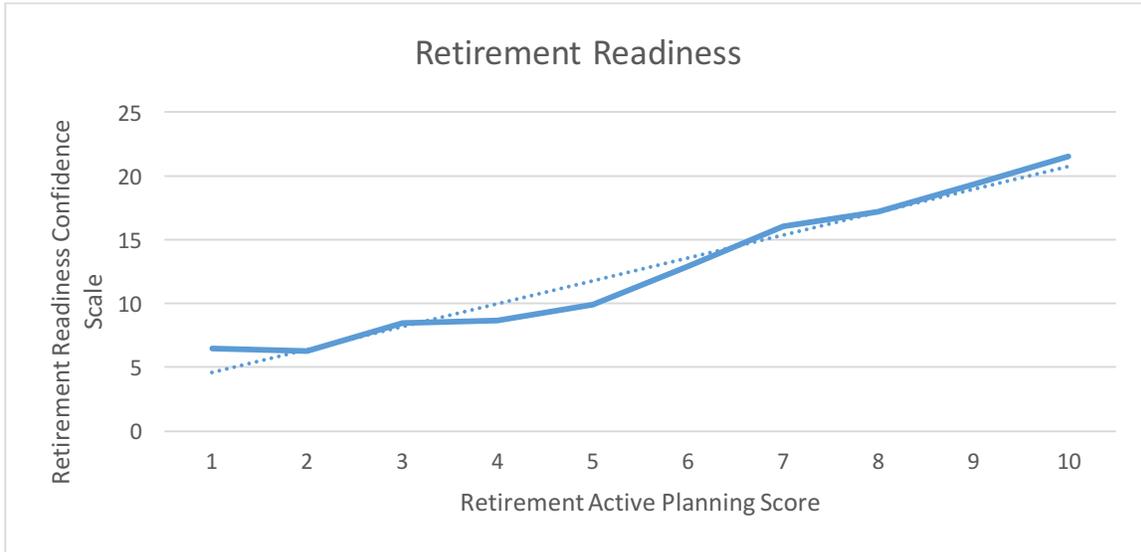
Those who are active and successful in their retirement planning share a common core of characteristics that revolve around their Retirement Readiness Confidence (RRC). These characteristics include a belief in being competent in the skills required for adequate retirement planning, as indicated by the following statements.

- I know how to prepare to meet my retirement goals.
- I know how much to save and where to invest it.
- I know how to create a retirement plan so I can track my progress.
- I know how monitor my retirement plan and adjust it as necessary.

Based on these factors we created the RRC scale. To measure RRC, we created a survey with 5 statements on retirement. We asked each participant to rate their feeling about each statement using a scale of 1 to 5: 1 representing strongly disagree and 5 representing strongly agree. The highest RRC score achievable was 25 and the lowest 5.

### Relationship between Retirement Ready Score and Active Planning Score

There is a strong relationship between a person's Active Planning Score and their Retirement Readiness Confidence. The more confident a person is in their ability to successfully plan for their retirement the more active they are in actually saving, investing, and planning for it.

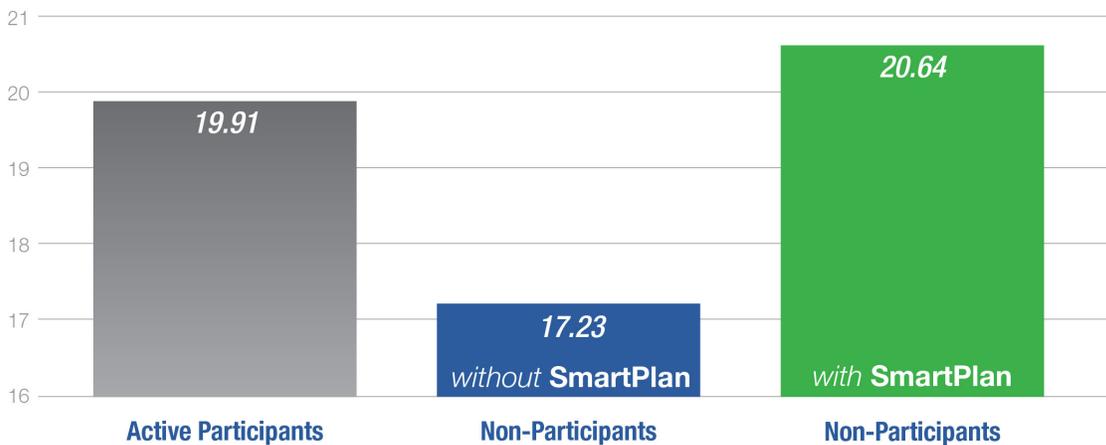


### Before and After Testing of the Retirement Readiness Confidence Scale

After devising the Retirement Readiness Confidence (RRC) scale we asked 50 of the participants to use the SmartPlan software program. We wanted to see if using SmartPlan changed the RRC scores of all participants, but particularly those of the Inert participants.

### Confidence is More Effective than Education

#### SmartPlan's Impact on Retirement Readiness Confidence



### ***Before SmartPlan***

Before using SmartPlan, there was a significant difference between Active and Inert users' RRC scores. Inert participants' RRC scores were 15% lower than those of Active participants' (17.23 versus 19.91).

### ***After SmartPlan***

One day after using SmartPlan, we gave 25 of the Inert participants the RRC survey. In addition, we gave the RRC survey to 25 randomly selected Inert users from the first phase of the study who had not used SmartPlan. The RRC score of the Inert participants who used SmartPlan went from an average of 17.23 to 20.64, an 18% increase. The average RRC score of the Inert participants who did not use SmartPlan remained the same (17.23 versus 17.62).

### ***SmartPlan Creates RRC Score Equivalent to Active Participants***

After using SmartPlan, the Inert participants' RRC scores rose so significantly they surpassed the RRC scores of Active participants (20.64 versus 19.91). Statistically, there was no difference between the RRC score of Inert participants who used SmartPlan and those of Active participants.

## **Data Analysis**

The impact SmartPlan had on Inert participants' RRC was significant. In a single day, SmartPlan succeeded where traditional plan sponsor education has failed for decades. Within 24 hours of interacting with SmartPlan, Inert participants' Retirement Readiness Confidence score was the same as Active participants. The boost in confidence enabled them to actively engage and participate with their retirement plan. This dramatic increase in RRC scores reinforces the positive impact made by increasing an employee's confidence in his or her abilities to manage their retirement account. Actually increasing their knowledge is not necessary. Getting people to take action toward pursuing their retirement goals is all about instilling in them the confidence they need to overcome fear and inertia.

## **Conclusion**

It is well known in the behavioral sciences that frustrations lead to inaction. In the retirement industry, inaction over months or years costs participants significant financial opportunities. Removing frustrations from retirement planning is not an easy task. For years, attempts to make retirement planning less frustrating and more effective have failed. Historically, the focus of plan sponsors has been limited to "educating" employees on their workplace retirement plan to spur action. The traditional educational tools designed to improve financial literacy - seminars, booklets and newsletters - can inadvertently fuel the frustration that employees feel and further perpetuate the cycle of inactiveness.

Retirement planning is something many people find stressful and prefer to avoid. When faced with situations that are unavoidable, like retiring, stress can be mitigated if a person feels confident they have some control over the outcome of the event. In the case of retirement planning, reducing stress and increasing confidence are the actual benefits of improving financial literacy.

We know from this study that stress in the form of frustration can negatively influence a person's confidence, which prevents them from becoming active in their retirement planning. Traditional methods of educating people on retirement options, such as employer-sponsored seminars, provide a plethora of information but are failing to increase employees' Retirement Readiness Confidence (RRC). A high RRC is what inspires employees to become active plan participants.

The research reinforces it is not increasing a participant's actual knowledge that spurs an Inert participant to become active. We tested for financial literacy and both Inert and Active participants tested about the same. Rather, it is the increase in confidence that enables participants to enroll in their retirement program and engage in planning their future. An increase in RRC is the true driver of making an Inert participant an Active one.

Users may not necessarily know the exact effect using SmartPlan has on their attitude and behavior, but for people like Jason Miller, their reaction after using SmartPlan speaks volumes about its ability to move people toward taking action concerning their retirement planning, "I really liked the videos. Everything was so easy and straightforward. It was over in like 15 minutes. I would use it again, without a doubt!"

SmartPlan proved to alleviate the stress that comes with retirement planning, but more importantly, boosted an Inert participant's confidence to that of Active participants. The result was action. SmartPlan offered Inert users control in their retirement planning and improved their Retirement Readiness Confidence to a level that spurred them to enroll and manage their retirement plan.

*This study was directed by Melanie Beaussart, a user experience ("UX") researcher and experimental psychologist at the Social Behavior and Cognition Consortium in Temecula, California. Melanie has consulted with companies such as Clear Channel and Entercom Communications on market research, customer development, & user experience for the past 10 years.*