Beliefs and Behaviors

Overcoming the trust deficit: helping employees believe in retirement planning

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Thanks to the financial crisis, government bailouts and the housing bust — not to mention a steady stream of lesser errors and misdeeds — people today deeply mistrust financial institutions. According to Gallup, the number of people in the U.S. who said they had "a great deal" or "a lot" of trust in banks declined from 60% in 1979 to 26% in 2013.

This is clearly bad for financial institutions. But less acknowledged is how bad it is for consumers. Diminished trust in financial institutions makes consumers less willing to make decisions about their own finances, which can hurt their ability to plan for retirement. That's why retirement plan sponsors should take deliberate action to help employees overcome their mistrust and engage in retirement planning. One way to do that is to attack the roots of their disengagement: normlessness, meaninglessness and powerlessness.

The challenge is to design an engagement policy to overcome inertia and encourage employees to participate in building retirement readiness.

Normlessness is the feeling that the rules governing the financial system are broken or they simply don't matter. News about insider trading, manipulation of markets, and the perception that banks can thwart and shape regulations imply the game is "rigged," which can persuade people that making financial decisions is risky and perhaps foolish.

Meaninglessness is the feeling that, beyond the rules being rigged, the markets are inscrutable and plagued by a level of actual chaos. Cause and effect often doesn't make sense in the markets. Unemployment goes up, and the stock market rallies; the Federal Reserve makes a statement that the economy is improving, and the stock market swoons. Participation can seem pointless.

Powerlessness is the feeling that if there are no rules and no way to make sense of the market's dynamics, then individual consumers cannot make well-informed, rational financial decisions for their retirement or overall financial well-being.

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Sponsors can help build trust and engagement by showing they understand an individual's life stage and have something useful to tell them.

The loss of trust in financial institutions, combined with these frustrated feelings about the financial system in general, undermines the will of many individuals to participate in retirement planning. For plan sponsors, the challenge is to design an engagement policy that works on three fronts to overcome inertia and encourage employees to participate in building retirement readiness: empathy, education and experience.

Empathy: One of the most effective ways for plan sponsors to engage participants in retirement planning is to demonstrate empathy for the person's circumstances. A young, new employee will have much different questions and concerns than a 30-year veteran in his or her mid-50s. The former probably needs basic information such as how to make contributions, at what level, and how to allocate assets. Older employees may know all that but are uneasy about their impending retirement and wondering what more they can do to guarantee future income, such as directing some investment into annuities. Either way, sponsors can help build trust and engagement by showing that they understand an individual's life stage, and that they have something useful to tell them at every stage along the way to retirement.

Education: Another important message to convey to participants is that — despite the seeming chaos at times — the markets do operate by a set of rules and there are investment truisms that consumers can use to make sound strategic decisions about their retirement: the principle of asset allocation, the benefits of diversification, and the advantages of periodic rebalancing. Sponsors can provide interactive planning tools and calculators to help employees chart, evaluate and experiment with various investment scenarios to help them set and achieve the right goals to achieve retirement readiness. By making just a few proactive investment decisions employees will begin to see that these practices do work, which can reduce their own stress and increase their willingness to engage further.

Experience: Another critical way to engage participants in retirement planning and build trust is to interact with them in ways they can relate to, whether it's in-person counseling, online tools, or live and web-based seminars. Making information available and ubiquitous to employees empowers them to seek out that information when and where they want, whether during idle time while waiting for a train or at home after they've put the kids to bed. Another element of "experience" is the actual performance of the retirement account. There are few more powerful ways to encourage engagement than to deliver steady investment returns year after year. It makes employees feel smart and keeps them interested in the retirement plan.

Make no mistake; the economic upheavals and flawed decisions of recent years have created a deep-seated mistrust of financial institutions and the financial system itself. It may not be possible to instantly restore the public's trust. But employer policies that focus on empathy, education and experience can give employees the confidence and tools to engage in their own retirement planning and improve their long-term retirement readiness.

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