

NARPP Hopes to Do What Auto-Enrollment Hasn't

By Jenna Gottlieb Thu, Oct 16, 2014

The National Association of Retirement Plan Participants aims to boost 401(k) deferral rates through behavioral finance techniques. Despite its name, its direct ties are to plan sponsors and providers. (Photo of NARPP founder Laurie Rowley by Rob Myers.)



Rank-and-file 401(k) plan participants may be the only constituency within the defined contribution industry whose needs and interests aren't championed by a specific association or advocacy group.

Plan sponsors, plan advisors, recordkeepers, asset managers, third-party administrators and even people over age 50 have trade groups. But, except perhaps for the labor-oriented Pension Rights Center, no one represents plan participants.

Now comes a new non-profit called the National Association of Retirement Plan Participants, or NARPP for short. But NARPP, despite the name, turns out to be more of a consultant-driven, behavioral finance-based, ERISA-compliant education effort designed to help plan sponsors and providers increase participants' retirement "readiness."

"NARPP is the only group in the country dedicated to the millions of people saving for retirement," said the association's executive director, Laurie Rowley, in a recent interview with *RIJ* from her San Francisco office.

"It's an idea I had about five years ago when you heard all the disaster stories around retirement savings during the financial collapse. I wanted to know who was advocating for the individual investor and realized that there was no one. We're going to launch a new website this month for participants. The content is like nothing else in the industry. It is engaging and innovative."

According to Rowley, the website will provide education and tools that incorporate behavior finance research. "We are using a combination of behavioral finance and intuitive design to redefine how financial information is accessed and delivered," she said.

NARPP's greatest strength is probably the connections and the expertise of the people who first brought it to life. These include long-time collaborators Warren Cormier, CEO of Boston Research Technologies, and Shlomo Benartzi of the UCLA Anderson School of Management.

Cormier, NARPP's unpaid "chief behavioral officer," is a consultant to large plan recordkeepers and one of the most influential people in retirement, according to *401kwire*. Benartzi, author of "Save More Tomorrow" and consultant to Allianz Global Investors, is one of the country's best-known experts on behavioral finance.

So far, Cormier told *RIJ*, about 900 large plan sponsors have signed on as supporters of NARPP, and he has extensive contacts with large plan recordkeepers. As potential licensees of the employee education materials that NARPP says it has been developing, those groups appear to be NARPP's most likely funding source. It will not solicit membership fees from participants.

NARPP's inner team thinks they can succeed where other efforts to raise America's "retirement readiness" have disappointed. But can they get equal amounts of buy-in from plan sponsors, plan providers *and* plan participants? NARPP's own research shows how little faith participants have in the financial services industry; will participants identify with a group with ties to the industry? And can NARPP make rank-and-file plan participants care as much about asset accumulation as the industry wants them to?

Why don't participants have a voice?

Perhaps because 401(k) plans are created and maintained at the discretion of employers, or because the 401(k)s originated as a perk for highly-paid owners and managers, or perhaps because participants are rarely unionized, the mass of participants per se don't have a real voice in the system. High-ranking managers may sit on the plan's fiduciary committee, but that's not quite the same.

"The incentives aren't really aligned" for the creation of a participant interest group, Rowley told *RIJ*. "Participants are fragmented and the financial incentive isn't clear."

But there's appetite for such a group. "I think this is something that should have happened decades ago," said a plan administrator at a large corporate 401(k) plan.

"Plan sponsors have a number of groups that protect our interests, and work toward making plans better," he said. "Plan participants have been left out of the conversation, and it's safe to say that they are the most vulnerable group. They need a group looking out for their interests and providing information. To me, NARPP sounds very promising."

Everyone seems to agree that lack of trust among plan participants acts as drag on the system. "NARPP recently collaborated with Stanford University on a study with 5,000

participants and found that trust is extremely low, with only one in four participants trusting their recordkeepers,” said Rowley. “Engagement is predicated on trust, and with low levels of trust, you’ll have a hard time with engagement.”

Auto-enrollment and auto-escalation aren’t an adequate substitute for such engagement, Rowley added. “The industry is relying too heavily on auto-features at the expense of innovation in education and communications. Auto features are great, but they have to be accompanied with appropriate support that allows participants to make financial decisions.

“There seems to have been a feeling among many providers that education hasn’t worked, so lets just rely on auto-features. Just because education hasn’t worked well or been successful doesn’t mean that education doesn’t work, it means we have to work on innovative solutions to make education more relevant to the user,” she said.

Another problem: the plan information is complicated and confusing. “For example, the industry makes a big mistake when using enrollment forms as education materials. There’s too much information, and people just shut down,” Rowley said.

“For instance, I don’t need to know how an iPhone works, I just need a simple explanation of how to use it. Same thing for retirement plans. People just need to know how to use them effectively, almost like a user’s manual it should be just that simple.”

NARPP doesn’t see itself as an advocate of participant rights. “There are organizations like the Department of Labor that address participant rights,” she said. “NARPP aims to give participants the knowledge and tools to optimize their retirement readiness and provide information that is easy to understand.”

“We have had some great early success with an education program called Engaged Active Choice,” Rowley told *RIJ* in an email. She described EAC as a “structured approach” that “transforms dense, complicated and misunderstood language into concise, accessible and relevant information by bridging the gap between behavioral finance and intuitive design.”

The team behind NARPP

Rowley has an entrepreneurial background. “I worked in research and financial services for the last 25 years,” she said. “I started a company at the age of 19 and sold it to Boston Research Group. In 2006, I was asked by Shlomo Benartzi and Warren Cormier to help launch the Behavioral Finance Forum (BeFi). I’ve worked with every recordkeeper out there and I know how the industry works. I also have a strong interest in public policy and

nonprofits. I was raised to believe that if you see a problem, try to fix it. That's what we're trying to do with NARPP." Though Rowley and Cormier were married when they and Benartzi first conceived the idea of NARPP, the couple has since divorced.

Others vouch for Rowley. "Laurie is known in the industry. That's a plus for making the organization credible to recordkeepers and advisors. But her name likely means very little to plan participants," said a plan administrator for a large corporate plan DC plan.

"Her background and knowledge of the industry is what counts, and it sounds like she's quite driven. Her enthusiasm, background and industry connections make her more than qualified [to lead NARPP]," he said.

Rowley won't be alone: "I'm recruiting colleagues from the behavioral finance side of the business," she told *RIJ*, adding that NARPP is also working with academics, financial analysts, economists, policymakers, engineers and designers.

"NARPP has a pincer strategy," Cormier told *RIJ*. "It's 'bottom-up' in the sense that we want participants to find us. There will be communications through social media to help people get to the site, where they can get education and tools. It's also 'top-down,' in the sense that we also want to collaborate with plans sponsors, broker dealers and recordkeepers. They're interested in helping the participant retire in the best way possible."

"The recordkeepers, plan sponsors, and advisors have representation, and it seemed to me that it would be a good idea for participants to have a voice," he said. "NARPP isn't a lobby. It started out as a group that uses research and information on how to nurture positive behaviors and discourage negative behaviors like cashing out." Education and information will be the key mission of NARPP, he added. "I don't see it as a Washington lobby group."

Given its newness and the magnitude of the retirement readiness challenge, it's not surprising that NARPP has inspired some skepticism.

At the Pension Rights Center in Washington, D.C., spokesperson Nancy Hwa noted that her organization already works on behalf of DC plan participants. "We consider ourselves the voice of workers and retirees, and their families, and of consumers in general. We're not a membership group, but we do work with a lot of grass roots groups and labor unions. We work on the issues surrounding 401(k)s. We weighed in on the 401(k) fee issue and the fiduciary issue," she said.

"Looking at the NARPP website, it looks like it could be 'astroturf,' as opposed to grass

roots,” Hwa added, suggesting that NARPP is more corporate than populist. “But the proof is in the pudding. What will their positions be? If they make claims like, 401(k)s are always better than DB plans, we’d think they were ‘astro-turfing.’”

Another industry expert was skeptical that any group can overcome participant inertia. “I like what NARPP is attempting to do, but psychology and behavioral finance studies time and again tell us that most workers are simply unengaged when it comes to their financial future,” said Rick Meigs, the founder of www.401khelpcenter.com.

“Drivers of this behavior include: a natural tendency toward the status quo, complexity of the decision and choice avoidance which leads to procrastination, and a preference for immediate payoffs. I don’t believe NARPP will have a major impact on this deep-seated behavior.”

However, Meigs notes that those same behavioral finance studies point towards plan design changes that make a difference, like better default investments, auto-enrollment, auto-escalation of contribution amount, simpler investment lineups, and limits on plan loans. “If NARPP can do anything to support and move these types of indicatives forward, they may have a positive impact on retirement savings,” said Meigs.

NARPP’s very existence, however, implies that those dramatic changes in workplace savings plans over the past 10 years haven’t raised the deferral rates of plan participants to the levels that plan sponsors, recordkeepers and asset managers, each for their own purposes, want to see. Whether NARPP can engage all of these parties remains to be seen.