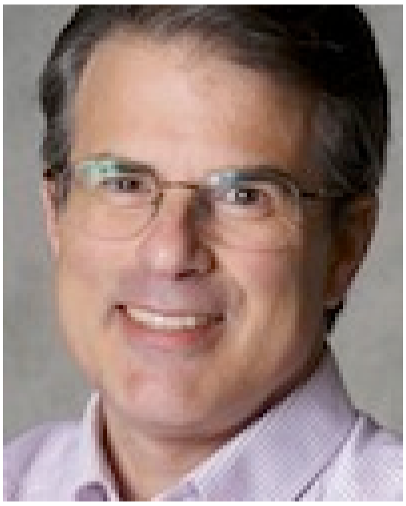
The Missing Participant

By Kerry Pechter *Thu, Oct 16, 2014*

An arena should exist where participants can express their opinions or preferences about plan design, investment options and perhaps even the amount of match they'd like to see. Sounds crazy, I know.



When the name of the National Association for Retirement Plan Participants surfaced recently, it looked as though the retirement unicorn had appeared: an organization that would give participants the kind of voice that AARP has given to people ages 50 and older.

While NARPP (the subject of today's lead story in *RIJ*) has a worthy mission—to apply the know-how of behavioral finance to participant education materials and thereby raise savings rates—it doesn't appear to be that unicorn. A vacuum continues to exist.

Every player in the retirement industry seems to fret that the typical retirement plan participant isn't adequately engaged in the savings and investment process. I would submit that engagement would be higher if participants had a seat at the plan committee table.

You may say that almost everyone at the table *is* a participant. But senior executives can't serve as proxies for the rank-and-file participants; executives' loyalties lie elsewhere. You may also argue that, in a post-union world, no process exists for choosing or appointing a participant representative. That's probably true.

But as long as participants have all the responsibility for saving for retirement but none of the control, their buy-in will be limited—especially if there's no employer matching contribution and if they don't earn enough to make tax deferral exciting. Which brings us to an equally important matter: cash incentives to save.

The best way to encourage employees to save more is to model the behavior you want—by putting more money into their 401(k) accounts, either through a match or through a voluntary contribution. If plan sponsors implore employees to contribute but don't themselves contribute, employees will see the disconnect.

Participants may be innumerate. They may be child-like in their inertia and their myopia about the future. But they're not stupid. They know that talk is cheap. According to a recent report from Cerulli Associates, a "salary increase or bonus" is the biggest motivator of increased plan contributions, followed by "tax savings" and "company match."

Employees may not understand exactly why plan sponsors, recordkeepers and asset managers are so eager for them to save—they probably don't know about non-discrimination rules, economies of scale, workforce management or the impact of long-term demographic trends on asset manager profitability—but they are likely to be wary of such pressure if they don't see other players making tangible contributions. Especially if they feel excluded from the decision-making process.

Some sort of arena—not just HR surveys—should exist where participants can express their opinions or preferences about plan design, investment options and perhaps even the amount of employer match or contribution they'd like to see. You can call my suggestion naïve. But as long as participants have so little voice in their plans, we shouldn't be mystified by their lack of engagement.