Using behavioral finance to change savings habits from bad to good

A Certified Behavioral Finance Analyst testimonial

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Behavioral finance and financial wellness are a powerful combination. Together, they can help turn plan participants' weaknesses into strengths, overcoming psychological obstacles such as inertia, loss aversion and myopia. At FiduciaryFirst, we have been using the PlanSuccess system since 2011 and we've seen dramatic results across small, medium and large retirement plans—at both blue-collar and white-collar employers.

The payoff? We're changing behavior. Using auto-enrollment (defaulting employees into their employer's 401(k) plan) and auto-escalation (stepping up contributions over time) has helped tens of thousands of employees better position themselves for retirement. At the same time, plan sponsors have the potential to better contain long-term healthcare costs, align plan goals with the most appropriate investment mix and retain (and attract) talented professionals. Plus, it may help reduce fiduciary risks and potential litigation. That gets the attention of CFOs.

Here's an example: A car dealership in South Florida became our client in 2012, when it had a 45% participation rate in its retirement plan and a 2.3% average savings rate among employees. In addition, only 17% of its employees had a well-diversified portfolio. We first implemented auto-enrollment at 4%, with 2% annual increases, and a QDIA re-enrollment to target-date funds. Today, the company has an 87% participation rate and the average employee savings rate has tripled to 7.3%. This year, we revised the default deferral rate to 6% with 2% annual increases. The company has also established a competitive corporate match to incentivize employees to participate.

The bottom line: We're helping transform bad savings habits into good savings habits. Thanks to the PlanSuccess system and the lessons of behavioral finance, more Americans are starting to save more money for retirement, choose more appropriate investments and increase their savings rates every year. This would not have been possible without our partnership with the Allianz Global Investors Center for Behavioral Finance and the astute academic research of Shlomo Benartzi. His book, "Save More Tomorrow," has taught us to look at plan success through a new lens—one that aligns the interests of plan sponsors, plan participants and retirement plan advisors. It's a win-win-win situation.

FiduciaryFirst
Where Process Drives Success

Allianz Global Investors
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