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2021 Participant Survey

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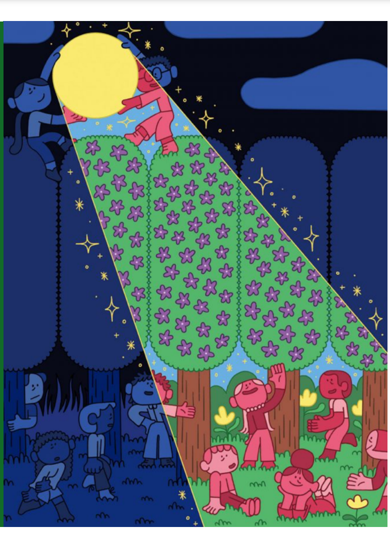

Navigation
- Introduction
- State of the Industry
- Respondent Profile
- Financial Technology
- Hypothetical Trade-Off Scenarios
- Methodology

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STATE OF THE INDUSTRY

Shining a Light on What Participants Want

The appeal and success of fintech companies could influence defined contribution plan design.

Over the past decade, many financial technology, or fintech, platforms—and the mechanics on which they're built—have gone from being the disruptors with innovative new ideas to the establishment with leading best practices.

In short, fintech refers to using new technology to improve the financial services industry. From Mint, which introduced website- and app-based budgeting in 2006 (before being purchased by Intuit), to more recent success stories, including digital brokers such as Robinhood and Acorns or robo advisers such as Personal Capital and Betterment, the popularity and influence of fintech providers continues to grow.

Fintech has broad acceptance among younger people. As digital natives, younger generations are more open to digital-first ways of managing their finances. Results from the 2021 PLANSPONSOR Participant Survey indicate that 87% of respondents age 23 to 29 reported using some sort of fintech, and that percentage also holds for the 30 to 39 age demographic. The number drops to 75% for the 40 to 49 age group and 58% for 50- to 59-year-olds.

Fintechs have created an environment that's more attainable for different populations, says Jessica Macdonald, vice president of thought leadership at Fidelity. "They have created a more accessible path to investing, and employers can learn from this to make their benefits more accessible and convenient," she explains.

"The PLANSPONSOR survey also suggests that the use of fintech has a correlation to participants' engagement with their plans," says Brian O'Keefe, director of research and surveys and co-author of this survey, "as findings indicate that participants under the age of 50 were twice as likely to have taken action with regard to their retirement savings over the past year."

They were also much more likely to take negative actions such as decreasing deferrals or stopping contributions. And, while the survey sample only covers 1,197 individuals who are age 23 and older, O'Keefe says it seems to support the idea that those who embrace fintech are more active savers.

The success of fintech products, particularly among younger Millennial or Generation Z investors, offers several lessons plan sponsors can use to boost engagement. Here's a look at some of them:

24/7 Mobile Engagement

Twenty- and thirty-somethings want to access their financial accounts any time they want from any device they want.

"With biometric authentication, it's so fast and easy to hop on and look at your account," says Scott Lind, vice president and head of digital experience at Ascensus. "Plan sponsors need to find ways to remove friction wherever they can."

Customization

Fintechs recognize that each customer is at a different point in his financial journey, Lind says. They offer targeted communications and nudges specific to the needs of individual users. Plan sponsors should also lean into the recognition that there's no "one-size-fits all" solution for plan participants and that by recognizing the individuality of users—and crafting their offerings to speak to that individuality—they may drive both better engagement and better outcomes.

For example, this year Ascensus tested an initiative in which participants who requested a decrease in their deferral rate got an instant message that included personalized data showing the potential impact the change would have on their current paycheck versus their future retirement income. Nearly a third of people who received the intervention changed their mind, Lind says.

"The decision to lower their deferral rate may have been the right one for some people, but we provided personal information that was helpful to them in that moment," he adds.

A Focus on the Consumer Experience

Fintechs—and technology companies more generally—have raised the bar in terms of the experience users expect when they log onto their account. Financial services firms are no longer simply competing with others in the retirement industry in terms of an experience, but also with the likes of Airbnb or Netflix. No matter which app they open, consumers today expect a fast experience that's intuitive to use and offers them the immediate ability to make account changes or contact customer service.

While having the best possible digital user experience is table stakes, Roger Marinzoli, head of product development at TIAA, says plan sponsors also can't ignore the human experience they deliver to plan participants, whether that's in person, via text or chat, or over a video conference.

"People still want people to reassure them about certain financial decisions," he says.

Automation

Young investors are increasingly comfortable with "set it and forget it" options or allowing an algorithm to guide them through choices and selections without having to engage with a human.

Plan sponsors that have seen the success of automatic enrollment and auto-escalation options have already been able to take advantage of this insight, but they should continue looking for ways to make it as easy as possible for plan participants to get the most from their plan. Participants, on average, end up with deferral rates of 7.3% after three years when auto-enrollment and auto-escalation are present, versus 5.8% for plans with auto-enrollment and no annual increase (a difference of 26%), according to Vanguard.

In addition to helping participants, plan sponsors may also benefit from automation, says Amber Czonstka, head of institutional investor advice and client experience at Vanguard.

"We continue to look at how to use things like intelligent automation to streamline operational practices and allow for plan sponsors to even further customize their retirement plan design to their unique workforce," Czonstka says. "That's one benefit of our move to a cloud-native platform, which allows us to apply deeper automation to more complex plan design."

Data-Driven Design

Fintechs iterate their offerings based on the data they collect from users. Plan sponsors can do the same, offering new features or tweaking existing ones based on the demographics of their participants. Plan sponsors can work with their providers to drill into their data and see if there are specific segments of their population struggling with certain issues with which they can help.

"We are using 'big data' to look at how participants are interacting with the website and to get a gauge on the sentiment of the workforce," Czonstka says. "Then we are looking at how we can use that data to help recommend changes to the plan design. That's the next wave in using data to actually inform plan design choices."

Multi-Provider Integration

Many fintech providers allow users to connect to accounts they may have on other platforms to get a broader view of all their finances in one place. Plan sponsors can work with their vendors to implement similar integration for a more seamless experience for participants.

"How can plan sponsors use a connected ecosystem to really offer a data exchange?" asks Deepak Agrawal, vice president of digital strategy and wealth management, U.S. Canada and global fintech, at Franklin Templeton. "Instead of creating a separate user interface or user experience for different management systems, maybe this is offered through the HR [human resources] and payroll provider."

Specialized Content and Education

Fintechs use multiple methods of digital communication when they reach out to users. Some fintechs focus on instant messaging, while other use text messages or email. They craft their messaging strategy for the preferred medium and help educate users on the platform, as well as their own financial picture.

"Many times, employers offer best-in-breed products but they're complex and they don't have the human power to reach out to participants and explain why they're so good," Agrawal says. "Creating interactive content can help engage the participant and explain some of the more complex solutions or offerings."

Agrawal says his firm has had success creating short videos, small quizzes and gamified offerings for clients to push out to plan participants.

"Plan sponsors feel confident rolling out that type of content to their employees, and there's been more adoption," he notes. "It can be a specific call to action, based on the unique profile of an individual, such as increasing their emergency savings or considering a managed account."

An Emphasis on Social

Many fintechs benefit from a vocal and engaged social media community that touts their products and helps users get excited about using them.

"Generation Y and Gen Z trust influencers over Wall Street," Macdonald says. "They want to see themselves in the information they're getting."

While plan sponsors may be able to reach participants via social media, they can also tap into the existing social connections that participants have in the workplace.

"Plan sponsors can't just stand up in front of the room and tell everyone to listen—they need to find advocates that are of similar age and ethnicity and gender, so that participants feel like the information that they are receiving is authentic and relatable," Macdonald says. "They need to understand how they can use this advice on their own life, and that this isn't just applicable to their parents."

An Eye Toward the Future

When asked about the factors that have contributed to the use of fintech products, O'Keefe says, "Fintech has succeeded in capturing the attention of people who might not otherwise have been engaged by the more stayed nature of DC plans."

He says plan sponsors should consider that survey respondents said they use fintech products because they're easy, fun and have the potential to earn higher returns.

"I think the industry is just now fully embracing 'easy' but is far behind on the fun side, and the 'higher returns' are likely a function of fintech's ability to show material progress in short windows—something that DC plans don't do well," O'Keefe says. "Cryptocurrency, for example, tends to be more volatile which, for some, makes it more fun and more engaging."

Since they're not subject to the Employee Retirement Income Security Act (ERISA) or many of the other regulations that govern plan sponsors, fintechs have more flexibility to jump into new categories, such as cryptocurrency or environmental, social and governance (ESG) factors. But while plan sponsors cannot necessarily roll out new offerings in this area, they can provide value to participants by providing content or education on them, Macdonald says.

Doing so shows participants that the plan sponsor is aware of broader trends happening in the financial world, bolstering its position as a thought leader in the space. —*Beth Braverman*