John Rekenthaler: If you look at how plans used to be, the idea used to be do you want to educate the investors and the employees as much as possible and give them choices, essentially turn them all into very skilled and knowledgeable investors? Well, only a minority of people really want to become investors or need to become investors. The rest need to have a very basic idea of risk and return and equities, stocks will make more money than cash and as will more risk, but they don’t need to know more than that. Well, and they need to know that they should be saving constantly. Education is partially the answer but not the complete answer to what people need in 401k plans. And behavioural finance says, okay, you’ll educate some people. Some of them will take the lesson that they need to do and get there completely on their own. Those who don’t, as I said, the word is “nudge,” to nudge or move them along.

One example would be to automatically default them into a fund or into an investment, if they don’t make their own choice. They can always leave, but just drop them in there. They might not get there on their own, because even checking a box
sometimes just seems like a hassle to people. But once they’re there, they’re grateful that they are there generally.

The components of nudging tend to be moving people to where they might not get on their own. An example would be defaulting them into an investment. You know, sometimes, we don’t want to fill out paperwork, or we’re faced with choices, and we don’t want to check a box. And so we end up not being in a 401k plan. Just drop them into an investment. Don’t force them to choose that investment. If they want to leave, they can. Most of the time, they’ll stay.

Another example of a nudge would be if somebody has a contribution rate, just move it up year by year a little bit and, again, if they decide they don’t want to do that, they can opt out. But what we’ve found is most people when they’re defaulted into an investment in the first place, and then when their contribution rates are automatically raised, they’re fine with that. They don’t really miss it. It just comes out of the paycheck a little bit, and they look up one day, and they’ve got a much larger balance than they thought they would ever have. And they’re pretty happy with things.

Auto enrolment, auto escalation are the biggies. There are probably some others that we’ll learn and discover. I mean, the whole applying behavioural finance to 401k plans are really to people’s investments. It’s just the last 15 years.