

# Perspectives on Retirement

## Employee Engagement & Alignment

A few times a year, Axia Advisory sits down with an expert in the retirement field to discuss trends, research and other findings important to retirement plans in America.

In our inaugural issue, we talk with Laraine McKinnon, Director of BlackRock's Acceleration and Engagement Program, about the research her firm has done in conjunction with Boston Research on employee engagement. While studies have shown there is a link between employee alignment with employer and overall operating margins, there was no research to show whether the defined contribution (DC) plan had a direct effect on employee engagement and alignment.

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**Axia:** Thank you for joining us. Can you tell us about your group's role at BlackRock?

**Laraine McKinnon:** We work with major plan sponsors, Advisors, and other service providers to help plan sponsors deliver the best from their DC plans. Investments are at the core of what BlackRock does and we have a lot of capital going towards our investments. In the same breath, we also understand that investments are just a part of the retirement landscape, so we've developed thought leadership and research around plan design and participant education.

**Axia:** What kinds of research has your group done?

**McKinnon:** We do an annual retirement survey asking participants and plan sponsors how they feel about their DC plan, in the past we've also asked retirees if they've had success saving for retirement – and what

they did right! The research we've done most recently with Boston Research has been on retirement engagement. In 2012, we did a national research study in which we surveyed over 1000 individuals who were active participants in their defined contribution plan. We asked them a series of questions pertaining to how they've done in retirement planning, how confident they feel about their ability to retire, if they appreciate their DC plan, and if they appreciate their employer for providing the DC plan. The theory we wanted to test was whether there was such a thing as engagement with retirement and whether this engagement had anything to do with the employee's relationship with the company they work for.

**Axia:** What did the research show?

**McKinnon:** The survey had two key findings. First, it proved that the defined contribution plan - the perception of its quality, the individual's level of involvement with the plan, and the plan's effect on perception of the employer - was clearly related to employee engagement. The plan design and overall quality of the plan had an impact on employee loyalty and engagement. The second big finding was that retirement engagement can actually drive employee engagement. For example, if people were very confident about their ability to retire, they were three times more likely to be aligned with their employer. If they valued or appreciated the plan, they were four times more likely to be aligned with their employer. Finally, if they saw their defined contribution plan had a positive effect on the view of their employer, they were six times more likely to be aligned. The research showed that not only is there an effect on employee

engagement due to the retirement plan, but there is a causal relationship between the two.

**Axia:** Did any of this surprise you?

**McKinnon:** Not necessarily. We had seen in past annual surveys that there was a connection between the retirement plan and appreciation of the employer, but we didn't understand whether it was relational or causal in nature. It was exciting to see that retirement engagement drives employee alignment!

**Axia:** What were you able to do with this research?

**McKinnon:** We knew our clients would want to understand how to further influence retirement engagement so we made the research actionable. We created a measurement tool: the BlackRock® Retirement Engagement Benchmark™ which allows plan sponsors to measure their employee's retirement engagement. The benchmark was built by Boston Research Technologies (BRT) based upon the research: they were able to identify the key areas in which retirement effectiveness and employer connectivity drove employee engagement and alignment. They put together four key components within the benchmark and weighted them appropriately. These four components were Retirement Planning Action (are participants taking an active role in their plan?), Retirement Confidence (are participants confident about their future retirement?), Perception of the Quality of Plan (do they think their DC plan is better than the DC plan at other companies, worse, or about the same?), and finally Effect on Perception of Employer (does the plan effect how they think of their employer?). Together these create the benchmark and each component can be measured separately. We created a survey tool that plan sponsors may use to survey their participant population.

**Axia:** In your research with the companies you've worked with, have the plan sponsors been surprised by the data?

**McKinnon:** To a degree, they were surprised. Though most plan sponsors had an idea of how their

participants viewed their DC plan, this was the first time they had measured it. This is an area where data has been lacking – and decision makers would rather use quality data points rather than perceptions when making plan design and communication decisions. So those who measured their population held their breath while waiting for the results! One of the bigger surprises for plan sponsors was that their employees didn't appreciate the defined contribution plan as much as they could or should. This was a clear indicator that plan sponsors have a great opportunity to do more marketing and showcase their plan. Plan Sponsors may have pre-conceived notions about their participants' usage of the plan, but our research with BRT over the years has shown the participants want and need help with their retirement plan. The Retirement Engagement Benchmark research indicates that growing appreciation and usage of the defined contribution plan – perhaps through strong communication programs, education or financial wellness programs which enable participants to learn and interact with the plan -- can help drive success for the participant and the employer

**Axia:** As it pertains to communication, the research also had another output, correct?

**McKinnon:** Yes. We came up with behavioral profiles, like personalities, of different investor types. First we identified the different ways in which participants feel about managing their retirement savings and investment responsibilities. We asked a series of questions about their self-perception around financial knowledge, how much they appreciate financial planning, and whether or not they have the desire to self-manage their money. Based upon the info we gathered, we developed four distinct behavioral profiles.

The first is the Driver. They have a desire for self-management and typically perceive themselves as having higher financial knowledge. The second is the Passenger, who admits they have limited knowledge and don't want to manage their money. They are typically the least engaged and just want it done for them. They appreciate automatic enrollment, auto

escalation and managed investment products. The third is the Delegator, who feels they have a good knowledge, but don't have a desire to manage their money and are happy to delegate. Lastly, there is the Validator. They are hands-on, want access to detailed information and want to double check the advice of others.

**Axia:** Do each of these behavioral profiles need to be communicated to differently?

**McKinnon:** That would be ideal, but probably not realistic given today's communication structures. If a plan sponsor finds a trend in their employee base where a certain type of behavioral profile is more apparent than others, they may use the type of language and themes that would be most appealing to that group. For example, the Passenger who wants someone else to 'do it for them' will really appreciate the plan that highlights the automatic features and target date fund. When an employer is communicating to all employees, they could include language that appeals to each of the behavioral profiles in some way.

**Axia:** In your mind, is there anything that could keep a plan sponsor from adopting these ideas?

**McKinnon:** There's always the question of timing and prioritization for plan sponsors who have many competing priorities. For example, if a plan sponsor finds their employees lack retirement confidence, haven't done much retirement planning, and are largely Passengers, then a re-enrollment into a QDIA could help employ greater diversification and offset the lack of knowledge and action. This would also allow the company the chance to educate their staff about the potential to improve retirement outcomes through the re-enrollment. For many plan sponsors, though, re-enrollment is a project that takes resources and planning which can make it tricky to prioritize despite all the evidence showing the benefits. Advisors can really help as a resource here.

**Axia:** In the end, what does all of this mean to the plan sponsor?

**McKinnon:** Plan sponsors have a great opportunity to empower their defined contribution plan! It's a critical benefit, not only because of the growing importance of the DC plan as the primary savings vehicle for American workers, but also because the DC plan has been proven to drive employee engagement. There's a series of tools and techniques for plan sponsors to get more out of their retirement plan – and many are at no additional cost to the employer.

The benefit is increased employee engagement. Studies have shown that alignment and engagement with the employer is particularly important because it is related to bottom line profitability. In a research study by Towers Watson, it was shown that companies with high sustainably aligned/engaged employees have 3 times greater operating margin. That is partly why companies offer benefits in the first place: to get a more productive and loyal workforce. The DC plan, as proven by our research, is a great way to do that. Employers can drive appreciation from their retirement plan and it has a causal effect on employee engagement.

**Axia:** What do you think is the most important take-away from this research for plan sponsors?

**McKinnon:** It is well worth the effort to provide a well-designed retirement plan and make sure your employees understand the benefits – it can help participants become better prepared for retirement and can drive employee engagement and alignment. It's a wonderful win-win.

**Axia:** Thank you for your time, Laraine.

**McKinnon:** Thank you.

*Disclosures:*

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