CENTER *for* RETIREMENT RESEARCH *at* BOSTON COLLEGE

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HOW CAN EMPLOYERS ENCOURAGE YOUNG WORKERS TO SAVE FOR RETIREMENT?

By Nicole Votolato Montgomery, Lisa R. Szykman, and Julie R. Agnew*

Introduction

Workers under age 35 have the lowest 401(k) participation of any age group.[1] Failing to save for retirement at a young age means missing out on compounded investment earnings that can substantially ease the burden of building a nest egg.[2]

The reasons young workers save less for retirement range from college loan repayments and low starting salaries to a desire to save for a house. Another reason is deeply rooted in psychology: when an event such as retirement is far in the future, people tend to distance themselves from it and think about it abstractly.[3] In visual terms, it is more difficult to see the details of a photograph when one is far away – just as it is difficult for young adults to perceive old age. It will become more concrete only as they move closer.[4] For young workers, then, retirement security lacks the urgency older workers feel.

This *brief* reflects preliminary results from research positing that young adults' distance to retirement may discourage them from saving, and it tests what types of communication tactics might be most effective in promoting saving. The first section compares 401(k) saving patterns for young employees with their veteran coworkers and explores the psychology behind how individuals perceive future events. The second section describes an experiment using advertisements designed to expose younger and older employees to a variety of communications strategies that might encourage saving. The third section finds that two types of ads appear most successful in boosting young employees' saving intentions – one ad pairing abstract wording with a long-term saving goal (a total nest egg amount) and the other pairing concrete wording with a short-term goal (a bi-weekly payroll deduction). The final section concludes that communication techniques that reflect how young adults think about future events are likely to be more successful in boosting their saving.

Saving Patterns and Psychology

Young workers are much less likely to choose to participate in employer 401(k) plans.[5] The average 401(k) participation rate for workers age 45 and older

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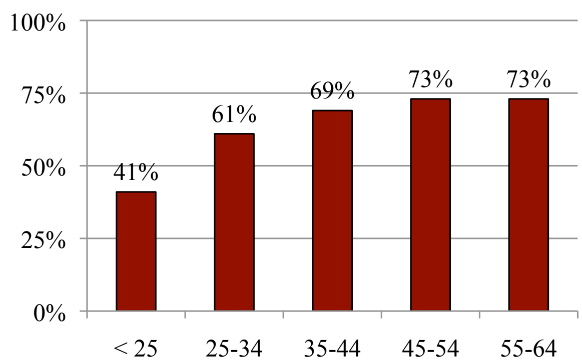
is 73 percent, according to Vanguard. In contrast, the rate for workers under age 35 ranges from 41 percent to 61 percent (see Figure 1).

Figure 1. Participation of Eligible Workers in 401(k) Plans, by Age, 2010



Source: Vanguard Institutional Investor Group (2011).

Even when young workers do participate, their saving rates are dramatically lower. While individuals 45 and older save about 8 percent of their earnings, on average, workers under 35 save about 5 percent.

A key concern then is determining how to boost retirement saving among young workers. The study summarized in this *brief* aims to identify what types of communication tactics are most effective in encouraging young workers to save. The inspiration for the experimental design is rooted in psychological research about how individuals think about future events based on how far off they are. This research suggests that if an event is going to occur in the near future, people focus on the specific steps needed to achieve the desired outcome – the feasibility of reaching the goal. If, instead, the event is going to occur in the distant future, people focus more on the desirability of the goal rather than the steps needed to achieve it.[6] This theory has been studied in a variety of contexts including the adoption of healthy eating, new products, and social plans.[7]

Applying this theory to retirement saving, the hypothesis is that younger workers, for whom retirement is far away, will focus more on the outcome of achieving an adequate nest egg rather than the steps needed to get there. In contrast, older workers, who are much closer to retirement, are expected to focus on the specific steps. For example, a younger worker might think "I need to save for retirement," while an older worker might think "I need to increase my 401(k) contribution by $100."

Because younger workers think in a more simplistic manner about a distant goal like retirement, abstract information about the desirability of a secure retirement coupled with a specific long-term savings goal might better guide their decision making. This hypothesis is tested in the experiment described below. An alternative notion also tested is whether changing the timeframe of the specific savings goal from long-term to short-term coupled with concrete guidance could also be effective for younger workers.

Survey Design

Using an online survey, the experiment asked participants to look at one of four advertisements that promote retirement saving and answer two questions: 1) did the ad make them more or less likely to save for retirement;[8] and 2) how much did they intend to save, as a percentage of their salary. Nearly 750 individuals participated, and they fell into two age groups: young workers between the ages of 18 and 34 and older workers between 50 and 64. All of them held full-time jobs, but their demographic characteristics varied.

To determine which ad was most effective, survey participants from each age group were randomly assigned to view one of the four ad combinations in Figure 2. All four ads were based on a similar template but each was altered to represent either abstract or concrete wording – or "framing" – about retirement and either a long-term or short-term savings goal required to get there. The concepts tested are described more fully below; each of the four ads appears in the Appendix.

Figure 2. Combinations of Ad Framing and Goals Shown to Survey Participants

Abstract framing/ Short-term goal	Concrete framing/ Short-term goal
Abstract framing/ Long-term goal	Concrete framing/ Long-term goal

Source: Authors' illustration.

Abstract versus Concrete Framing

How ads are framed is known to influence whether – and how – readers respond to them. Framing can take various forms. For purposes of this experiment, abstract and concrete framing appeared in two places. First, the headline for the two abstract ads said, "*Why you should save more now* to ensure you are on the right path to retirement (italics added for emphasis)." The two concrete ads said, "*How you can save more* to ensure you are on the right path to retirement."[9]

Second, abstract or concrete wording was embedded in descriptions of what participants could do to save. The two abstract ads gave vague, non-urgent directions: "If you haven't done so already, you may want to consider setting up a retirement account. ... You should consistently contribute an amount of money that you can afford. ... "

In contrast, the two concrete ads advised participants to take four specific steps:

- Set up your 401(k) or IRA through your employer or financial adviser.
- Aim to contribute 15 percent of your paycheck or consistently contribute what you can and slowly increase the amount if possible.
- Invest in a single balanced fund that automatically adjusts the level of risk as you age.
- Review your account each year to ensure it is meeting your objectives.

Short-term versus Long-term Goals

Finally, the ads presented each participant with either a short- or a long-term savings goal. A table showed the recommended dollar amount that employees should save, based on their salaries, to ensure they would have enough for retirement.[10]

To help participants determine their individual savings goal, each ad displayed goals for four sample salaries: $25,000, $50,000, $75,000, and $100,000. For example, the long-term savings goal for a $50,000 salary was $337,500 – the total to be saved over 45 years. The short-term savings goal for the $50,000 salary was $312.50 every other week. The small amount of remaining text and images – a photograph of a crossroads and a piggybank – were identical in all four ads.

The Results

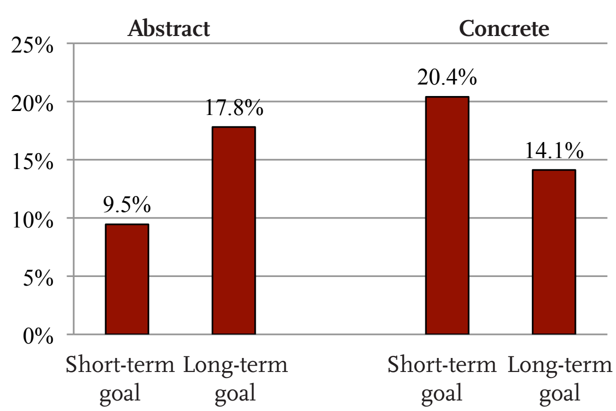
As noted above, each participant saw only one of the four ads combining either abstract or concrete framing with a long-term or short-term savings goal. To interpret the results, the sample was divided by age group. An analysis of variance (ANOVA) was used to determine how much of the variation in participants' responses could be attributed to each ad feature, and a t-test determined whether the variations in participants' responses were statistically significant.

The results showed that the saving intentions of younger workers were heavily influenced by the interaction of the communication frame (abstract vs. concrete) with the timeframe of the savings goal (long term vs. short term). Among the two ads with abstract framing, young employees were more responsive to the one that proposed the long-term savings goal. This ad was associated with both a higher intended likelihood of saving and a higher intended saving rate. Psychology theory suggests that young employees could better relate to this ad, which complemented the way they think.

However, young employees also responded strongly to the concrete ad that proposed a short-term savings goal – a biweekly deduction. In this case, it appears that the ad effectively switched their focus away from their distant retirement toward an immediate savings milestone. Note that in both of the most effective ads, the framing – abstract or concrete – matched up with the participants' processing style determined by the time element of the savings goal – long term or short term, respectively.

Figure 3 shows how much young employees intended to save after viewing their specific ad. Those who saw the abstract ad with the long-term goal – lifetime savings – reported they intended to save, on average, 17.8 percent of their salary, well above the

Figure 3. Intended Saving as a Percent of Salary by Type of Ad, Workers Age 18-34



Source: Montgomery et al. (2011).

9.5 percent saving rate for the mismatched abstract, short-term ad. The ad pairing concrete framing and a short-term goal – a bi-weekly paycheck deduction – was associated with a 20.4 percent saving rate, compared with just 14.1 percent for the concrete, long-term ad.

In contrast, older workers' intentions were not significantly influenced by the type of framing or goals presented to them. This result runs contrary to the hypothesis that older workers would be more receptive to a concrete, short-term ad because they are near retirement. Perhaps because their retirement is more imminent, they have already largely settled on their saving strategy, making them indifferent to the communications approach used.[11]

Conclusion

To encourage 401(k) participation and saving, employers routinely distribute educational materials to their employees. This research indicates that employers may want to ensure that their communication strategies take into account the mindset of younger workers, for whom retirement is a vague and distant event. Materials appealing to their abstract way of thinking may be more effective in persuading them to begin saving or to save more. But they may also respond to more concrete guidance if a savings milestone is presented as a short-term goal, such as how much to save each pay period.

Endnotes

1 Vanguard Institutional Investor Group (2011).

2 An early start on saving for retirement makes the task less painful. To replace 80 percent of his pre-retirement income in retirement, an individual who starts at age 25 and retires at 65 must save 15 percent of his income, compared with 41 percent for someone starting at age 45. See Munnell, Golub-Sass, and Webb (2011).

3 This is known in the psychology field as "temporal construal theory." See Trope and Liberman (2000, 2003).

4 This tendency was also shown in an experiment in which students viewed avatars of their virtual, older selves. See Hershfield et al. (2011).

5 However, 401(k) participation rates generally increase substantially when employers adopt automatic enrollment in their 401(k)s. See Madrian and Shea (2000).

6 Trope and Liberman (2003).

7 See Eyal et al. (2004) for research on healthy eating and social plans. See Alexander, Lynch, and Wang (2008) for research on the adoption of new products.

8 The likelihood of saving was measured on a seven-point scale from very unlikely to very likely.

9 Prior to this survey, a pretest had already determined the best wording to use, based on the perceived concreteness. In the pretest, participants viewed and responded to ads designed to be either concrete or abstract to ensure the two versions allowed for different reactions without influencing factors such as understandability, meaningfulness, and imagery. The pretest confirmed that the concrete version of the ad used in the larger survey was perceived as more concrete and the abstract ad as more abstract.

10 The ad explained that the calculation assumed a 45-year career and a fixed salary; it excluded any investment returns they would earn.

11 A separate online survey, conducted as part of this research, tested responses to another common framing device: negative or positive. Past research on non-financial decisions has shown that negative framing is often more effective but works only in some circumstances. The survey found that, for younger workers, negative framing was most effective when presented in abstract ads. The opposite was true for older employees; they responded better to negative framing of concrete ads. This result reflects the notion that individuals view retirement differently depending on how far away it is. For more details, see Montgomery, Szykman, and Agnew (2011).

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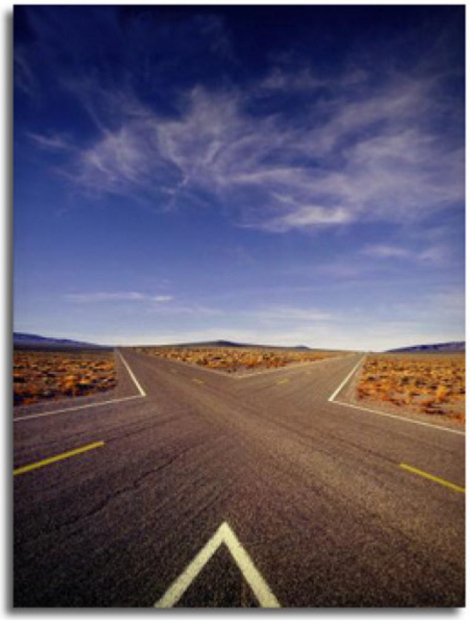
APPENDIX

Figure A1. Abstract Ad with Short-Term Savings Goal

WHY YOU SHOULD SAVE MORE NOW TO ENSURE YOU ARE ON THE RIGHT PATH TO RETIREMENT



Saving for retirement can lead to a retirement that is as enjoyable as you anticipate. You may be able to purchase luxury goods that you have always wanted, you may be able to retire when you planned, and you may be able to live in your home as long as you want.

You can prepare for retirement by saving now. On average, most people need an income of about 80% of their current salary for every year they live in retirement. Thinking about your retirement now will help ensure that you meet your future retirement goals.

If you haven't done so already, you may want to consider setting up a retirement account through one of the many available organizations offering retirement planning assistance. You should consistently contribute an amount of money that you can afford to your retirement account and slowly increase the amount you invest as it fits within your budget. Invest your money in a diversified portfolio that provides an appropriate level of risk for you, and remember to check your retirement account from time to time to assess whether you are meeting the saving objectives that you set.

What that means for you…

ANNUAL SALARY	YOUR BIWEEKLY CONTRIBUTION GOAL*
$25,000	$156.25
$50,000	$312.50
$75,000	$468.75
$100,000	$625.00

*This simplified calculation assumes a fixed salary and a 45 year working life. Based on a fixed savings rate, this figure provides a guideline for the total amount you should contribute to your retirement savings plan. The amount does not include the investment returns you should earn on your contributions over time.

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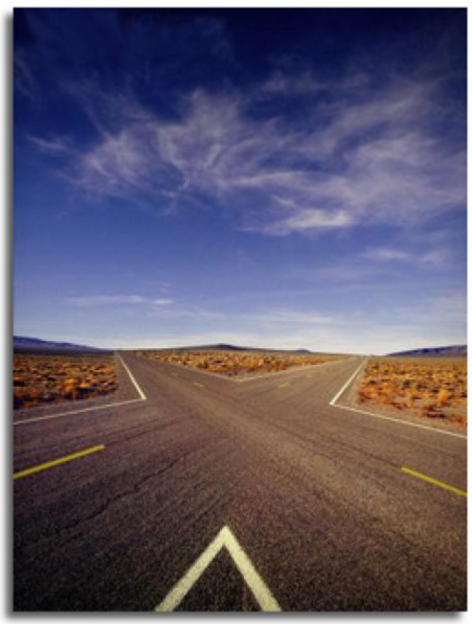
Figure A2. Abstract Ad with Long-Term Savings Goal

WHY YOU SHOULD SAVE MORE NOW TO ENSURE YOU ARE ON THE RIGHT PATH TO RETIREMENT



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What that means for you...

ANNUAL SALARY	TOTAL RETIREMENT CONTRIBUTION GOAL*
$25,000	$168,750
$50,000	$337,500
$75,000	$506,250
$100,000	$675,000

*This simplified calculation assumes a fixed salary and a 45 year working life. Based on a fixed savings rate, this figure provides a guideline for the total amount you should contribute to your retirement savings plan. The amount does not include the investment returns you should earn on your contributions over time.

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Figure A3. Concrete Ad with Short-Term Savings Goal

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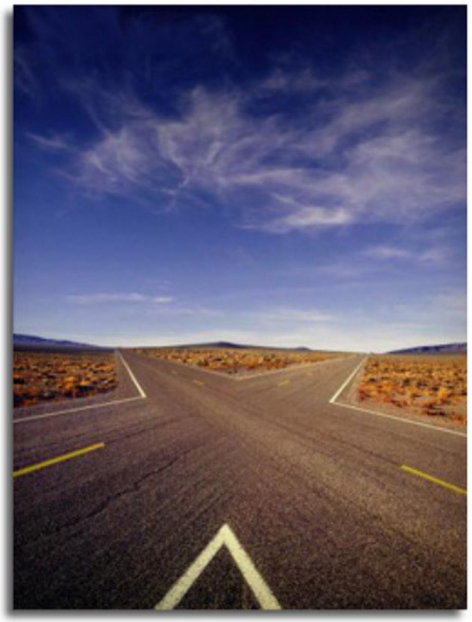

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You can prepare for retirement by saving now. On average, most people need an income of about 80% of their current salary for every year they live in retirement. Planning for retirement now through a couple of steps will help ensure that you meet your retirement goals:

Step 1: If you haven't done so already, set up your retirement account, like a 401(k) or Individual Retirement Account (IRA) through your employer or a financial advisor.

Step 2: Aim to contribute 15% of income from each paycheck to your retirement account, or consistently contribute what you can afford and slowly increase the amount if possible.

Step 3: Invest in a single fund that has a combination of stocks and bonds that automatically adjusts your level of risk as you age.

Step 4: Check your retirement account each year at tax time to ensure you are meeting your saving objectives.

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Figure A4. Concrete Ad with Long-Term Savings Goal

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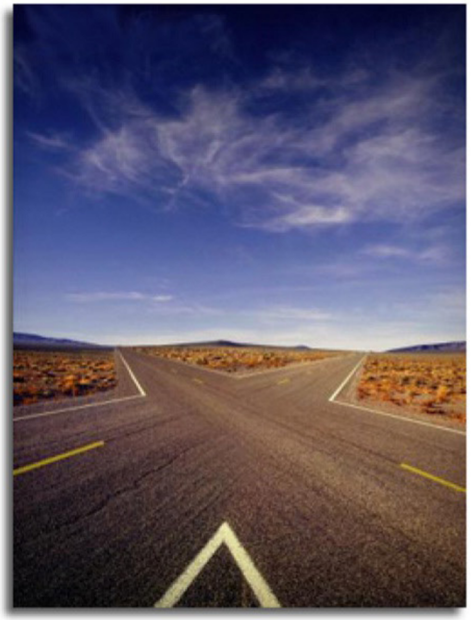

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