RESEARCH BRIEF:

Maximizing the Match

Let's Go to the Movies

We can learn from a pricing model experiment that was done in a movie theatre with popcorn sizes and pricing.

The first test group was offered a small popcorn for $3 and a large popcorn for $7. The majority chose to buy the small popcorn. When the customers were asked why they chose the small option, they either expressed that $7.00 was too expensive for a popcorn or the small was a better size for their appetite.

The second set of customers were offered ***three*** sizes. A small for $3.00, a medium for $6.50 or a large for $7.00. A majority now chose the large size. When the movie patrons were asked why they chose the large, they exclaimed, *"It was only 50 cents more to get the large!"*

Introducing a third option was a game changer. They perceived so much value in the extra popcorn for only $0.50, they were willing to spend a little more to get a better deal.

Customers are often more influenced by the fear of loss of savings than by actual savings.

Source: "You Decide – The Decoy Effect" Brain Games. National Geographic Channel. June 3, 2013.

In recent years, employers have begun exploring plan design strategies that encourage participants to save more for retirement. One of the strategies being discussed is restructuring **employer matching contributions**.

The concept of maximizing an employer match is gaining attention in the retirement plan industry. Plan sponsors are exploring whether revising matching formulas has the potential to help participants become better prepared for retirement by encouraging higher savings rates. This strategy does not require increasing the level of employer contributions, rather using behavioral economics, matching contribution formulas are revised so participants have an incentive to increase their deferral rates.

Can Employers Make Retirement Savings a Deal Too Good to Pass Up?

Using the popcorn experiment as a model, employers could structure the matching formulas in their defined contribution plans to encourage participants to increase their deferral rates. For example, Structure A may yield higher deferral rates than structure B:

Structure A

Employee Contribution	Employer Contribution	Total Contribution
3%	1.5% (50% match)	4.5%
6.5%	5% (77% match)	11.5%
7%	7% (100% match)	14%

Structure B

Employer will match any amount up to 7% of pay.

Employers who want to use their matching formula to encourage employees to save more for retirement need to consider the **outcome** they want to achieve, develop a plan to effectively **communicate** the change to their employees, and **motivate** employees to take action.

Define the Goal

When determining what the revised matching formula will look like, consider the following factors:

- The combined contribution level that will be encouraged – 10%, 15%, 20%, etc.
- The minimum employee contribution required to earn an employer match
- The maximum percentage the employer is willing to contribute
- The matching contribution ratios required to achieve the goal contribution level

Communicate the Change

Educating employees on retirement readiness will help employees perceive the change as encouragement to set aside enough money to enjoy a secure retirement, rather than a benefit reduction. Consider a multi-faceted communication approach including:

- On-site benefit education for employees
- Individual retirement readiness assessments
- Contribution calculators showing effect on take-home pay, retirement account balance, etc.

Combat Inertia

The goal of restructuring the matching formula is to encourage employees to increase their voluntary contributions. Employee inertia – the tendency to take no action – is the biggest threat to achieving that goal, and could actually result in reducing an employee's combined contribution level. When implementing the new matching contribution structure, asking all participants to re-elect their contribution rate requires each employee to make an active decision—one that has hopefully been influenced by effective retirement readiness education.

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