

Reducing Suboptimal Employee Decisions Can Build the Business Case for Employee Benefits

Suboptimal employee decisions are prevalent in employee benefit plans. Poor decisions have significant consequences for employees and employers. Improving participant decisions produces beneficial outcomes such as lower labor costs, higher productivity and better workforce management. The business case for employee benefits can be strengthened by applying lessons learned from the field of behavioral economics to employee benefit plan design and to workforce communication. This article explains the types of behavioral biases that influence suboptimal decisions and explores how enlightened employee benefit plan choice architecture and vivid behavioral messaging contribute to human and better organizational outcomes.

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Employee benefit plans significantly affect the health and financial well-being of working Americans and their families. Classical economics and traditional theories about judgment and decision making assume that people make rational, well-thought-out consumer choices. Employers and service providers construct benefit plan designs and communicate them in a manner that assumes people carefully study the materials provided, conduct their own microeconomic analyses and make informed decisions.

The trouble with this assumption is that people do not make rational decisions, even where their benefits are concerned. Many make suboptimal decisions that adversely affect their health, their finances and their lives. This article focuses on the suboptimal decisions people make with their

employee benefit plans and how the field of behavioral economics can be applied to improve outcomes for people and the organization. (See the sidebar, “Employee Benefits Can Transform an Organization’s Culture.”)

Typical Suboptimal Decisions

It is no secret that most employees undersave for the day when they will stop working. Almost one-third of all workers have no savings earmarked for retirement, and more than 50% have accumulated less than \$25,000.¹ Retirement plan sponsors may not be helping as much as they would like. Although more than 80% recommend an optimal employee retirement savings rate of 10% of salary or higher, 70% peg their default employee contribution rate at 4% of salary or lower.²

Employee Benefits Can Transform an Organization's Culture

Imagine a midsized business rebounding from the recession with working capital and plenty of reserve capital and sources of credit, but hampered with a downsized, anxiety-ridden workforce. Unpaid furlough days, salary cuts and significant employee benefit plan cost shifting have converged to weaken the employee value proposition, defer retirements and age the workforce. At a time when the business wants to invest and grow, the workforce is risk-averse and making suboptimal decisions.

Now imagine an equally well-capitalized company supporting a thriving, healthy workforce with teams of people successful in high-pressure, fast-changing environments. The workforce is performing at a high level, the organizational culture is strong and there is appropriate risk taking and autonomy coupled with transparent, open lines of communication.

Why are the two organizational cultures so different? Partly because employees are making individual decisions about the application of discretionary effort, risk taking, workplace behavior, lifestyle and personal health. Is there a role for employee benefits in transforming an organization's culture? Yes, for these three reasons:

1. Employee benefits are essential for satisfying basic financial security needs. Without financial security, there are too many distractions that keep employees from performing at a high level.
2. Employee benefits are effective tools for driving workforce change through retirements, voluntary separations and health improvement. Healthier people perform better.
3. Changes to employee benefits get noticed; they also prime the workforce with messages about what is important.

Even the qualified automatic contribution arrangement (QACA) safe harbor plan design may produce suboptimal contributions. During the first three years of participation, the combined employee default and employer contribution may start at a low 6% of salary and grow to just 8% of salary during the third year.

Many health decisions that should be rational clearly are not. In fact, irrational decisions that involve health benefits

and health care are prevalent throughout people's lives. The following are a few examples:³

- Although children receive numerous public health messages, many young adults still become tobacco and drug users and/or obese and diabetic.
- While people understand the value of preventive health care and like the fact that many health plans now offer preventive care services without deductibles, copayments or coinsurance,⁴ many still fail to obtain free health screenings or physical exams.
- Few consumers access the substantial amount of data that is available about hospital costs and mortality, re-admission and hospital-acquired infection rates when they make decisions about hospitals and surgeons.
- Many people with addictions relapse into addictive behavior following lengthy periods of abstinence and sobriety.
- When some people reach the age of 65, they ask a friend which of the many Medicare plans to purchase instead of researching the options and making an informed decision.

In each of the above examples, behavioral biases cloud rational judgment. Quantifying the type and extent of suboptimal decisions is an important first step for employers. Understanding behavioral tendencies can help organizations redesign how they configure and communicate their employee benefit plans to "nudge" people toward better decisions.

Employers that mine their employee benefit election data, defined contribution (DC) plan reports and health insurance company reports will find many examples of suboptimal decisions. Following are a few examples of questions employers can answer through data mining. The answers to these questions will reveal what kind of decisions employees are making.

- What percentage of employees are not adequately saving for retirement?
- Are lump-sum DC plan distribution elections much more prevalent than annuity elections?
- Do participants combine lifestyle funds with investments in other asset classes not possessing a similar risk/return profile?
- What percentage of adults over the age of 40 are not obtaining important preventive exams?

- Is utilization within the employee assistance plan disproportionately low compared to the use of antianxiety and antidepressant medications?
- Do diabetics without recent visits to their physician have emergency room usage substantially higher than other diabetics?

Optimal, Reasonable and Suboptimal Decisions

It is important to understand what constitutes an *optimal decision*, a *reasonable decision* and a *suboptimal decision*. For example, to produce an income replacement ratio at 75% of final pay, an individual at the age of 30 who is a new participant in a 401(k) plan with a 50% company match to a maximum 3% of pay might make decisions characterized as follows:

Optimal Deferral: 9% of salary

Reasonable Deferral: 6-8% of salary

Suboptimal Deferral: Less than 6% of salary.

A deferral of less than 6% of salary is suboptimal for two reasons: It is far below the optimal savings rate and it fails to fully leverage the employer’s matching contribution.

With respect to health care consumption patterns, employers should be concerned about suboptimal use of the emergency room (ER). As many as one-third of ER visits are actually not emergencies or are inappropriate.⁵

The matrix in Table I classifies decisions as suboptimal when diabetics with an emergency room visit that does not result in a hospitalization have not

TABLE I

Decisions of Individuals With Type II Diabetes Having an ER Visit Without an Immediate, Subsequent Hospital Admission

Participate in Disease-Management Plan	Visited Primary Care Doctor in Prior Three-Month Period	
	Yes	No
Yes	Optimal	Reasonable
No	Reasonable	Suboptimal

seen their primary care doctor recently and have not participated in a disease-management program.

The Organizational Impact of Suboptimal and Optimal Decisions

Individuals nearing retirement who have a history of low retirement savings rates, poor asset allocation decisions, terrible investment market timing and in-service withdrawals resulting in excise taxes very likely have inadequate DC plan account balances. The implication for many older workers making suboptimal decisions may be deferred retirement.

Recent evidence of deferred retirement patterns exists. The trend toward early retirement has reversed. While the percentage of eligible Americans aged 62 and older who began receiving Social Security benefits increased steadily from 2007 to 2009, it dipped in 2010 and dipped again in 2011. This measure, the *Social Security claiming rate*, is at its lowest level since 1976.⁶ The impact to the employer of deferred retirements may include:

- An aging workforce with higher labor costs

- A growing older-age cohort in the workforce that may be associated with declining vigor, decreasing financial aptitude and increasing cognitive impairment⁷
- Fewer advancement opportunities for everyone behind them in the workforce.

Value Gains From Optimal Decision Making

Employees who make optimal decisions can help their organization become a healthy enterprise. The business case for becoming a healthy enterprise is supported with the following favorable outcomes. Organizations with a Healthy Enterprise Index score in the highest quartile realize:⁸

- 9% lower health costs (per capita)
- 22% lower health care cost increases (per capita)
- 33% lower turnover
- 36% lower rates of extended absence
- 17% lower workers’ compensation costs.

Healthy enterprises focus on optimizing lifestyle choices, workplace behaviors and organizational culture. They

attract, retain and develop healthy, high-performing employees. Impeding factors include:

- Suboptimal employee decisions about personal health and lifestyle
- Suboptimal management decisions about acceptable workforce behaviors and creating a thriving organizational culture
- Ineffective population health management strategies, poor coordination among stakeholders, poor results with outreach and inefficiencies with the health coaching process.

Similarly, the business case for developing emotionally resilient employees and work teams is compelling for organizations rebounding from the global recession. Emotional resiliency is:⁹

- “The ability to succeed personally and professionally in the midst of a high-pressured, fast-moving and continuously changing environment”
- “The attitude and skill set of individuals allowing them to cope with great efficiency and effectiveness in periods of change and stress.”

The United Kingdom-based Business in the Community, an organization working with more than 800 companies to promote corporate social responsibility, documents emotional resiliency and demonstrates outcomes from organizational efforts at improving human resiliency. Table II highlights two case studies where organizations realized significant business outcomes from investments in employee benefits as part of an effort to improve emotional resiliency.

Explanations From the Field of Behavioral Economics

Behavioral economics is a field of study that blends psychology and microeconomics. It explores optimal and suboptimal consumer and lifestyle decisions. The field is both descriptive (Why do people make suboptimal decisions?) and prescriptive (Under what conditions might decisions improve?).

Nonrational decisions are characterized by human biases and heuristics. *Heuristics* are mental shortcuts or “rules of thumb.” They work well most of the time in everyday life. Decisions based on heuristics involve intuitive thinking, which is very fast and emanates from the more “primitive” sections of the brain. Ra-

tional thinking is more deliberate, much slower and involves the prefrontal cortex, the portion of the brain that is most advanced in humans.¹⁰

Many types of biases have been observed in research. Table III highlights a few biases and heuristics that may lead to suboptimal employee benefit decisions. Table IV highlights a few biases and heuristics that may lead to better employee benefit decisions. And, as shown in Table V, plan sponsors and service providers are not immune to biases that may stifle innovation and impede good organizational decision making.

These biases and others manifest themselves in suboptimal decisions related to employee benefit plans:

- Some retirement plan providers present lengthy lists of investment options to plan participants in alphabetical order in an attempt to be “unbiased.” The unfortunate consequence of such framing is complexity aversion and reliance on default options.
- Some health insurance companies offer websites with tremendous decision-support tools. Unfortunately, many are difficult to navigate and visitors give up.
- Some plan sponsors focus on administrative ease and employee benefit process simplicity. The unintended consequence may be inadequate workforce training related to financial literacy, healthy lifestyles and effective consumerism. The result could be an unhealthy workforce that lacks the resilience necessary to sustain a challenging business cycle.

Examples of Choice Architecture in Retirement Plans

The naming and ordering of plan options, plan provisions, use of color, framing of decision factors and selection of default options all influence employees’ benefit elections and lifestyle choices. Behavioral economists refer to this configuration design process as *choice architecture*.

The best known examples of applied behavioral economics and choice architecture in employee benefit plans are with 401(k), 403(b) and 457(b) plan QACAs and qualified default investment arrangements (QDIAs). These arrangements partially address the issues of undersaving for retirement and poorly chosen investment options by

TABLE II

Case Studies in Developing Emotionally Resilient Workforces

What Was Done?

AstraZeneca

- Health promotion activities
- Home/work balance initiatives
- Ergonomic work designs
- Fitness opportunities
- Healthy eating options
- Health assessments
- Counseling/life-management program
- Fast-track health care insurance
- Rehabilitation program
- Integrated occupational health and human resources interventions
- Focus on personal and team resilience
- On-site health centers
- On-site fitness centers
- Ergonomic improvement
- Flexible working arrangements

GlaxoSmithKline

- Family support services
- Health risk appraisals
- Health care benefits focus:
 - Prevention
 - Musculoskeletal
 - Smoking cessation
 - Walking program
 - Weight management
 - Blood pressure.
- Health promotion and sleep road shows

Business Outcomes

AstraZeneca

- £500K to £700K saved through improved productivity after counseling
- £80,000 saved on mental health costs
- Global accident and occupational illness rates reduced by 61%
- 84% of employees proud to work for AstraZeneca
- 82% would recommend the company as a good place to work.
- 80% of employees said they had enough flexibility in their job to be able to balance work and personal life.
- 88% said AstraZeneca demonstrated commitment to the health and well-being of employees.

GlaxoSmithKline

- Global work-related mental illness levels dropped 60%.
- Lost working days fell 29%.
- Staff satisfaction increased 21%.
- Performance and productivity increased 7-13% across business units.
- 53% in the United States reported significant improvement in physical, emotional, mental and spiritual performance.

Source: Business in the Community.

permitting plan sponsors to specify a default retirement savings percentage and a default investment option for plan participants who have not made affirmative elections. These arrangements work as follows:

- Default arrangements generally are applied to newly hired/newly eligible participants.
- A precommitment contribution escalation strategy allows employees to commit now to allocating a signifi-

TABLE III

Biases and Heuristics Leading to Suboptimal Employee Benefit Decisions

Bias or Heuristic	In DC Retirement Plans	In Health Plans
<p>Hyperbolic discounting: People overvalue current costs and benefits. Future costs and benefits are excessively discounted.</p>	<p>People undervalue the importance of saving for the future and overvalue the small loss in current income.</p>	<p>People are reluctant to give up today's pleasures for improved health in the future.</p>
<p>Complexity aversion: When people are presented with too many and/or complex options they procrastinate, give up or default.</p>	<p>With too many investment options, people will select the default option.</p>	<p>With too many complicated wellness requirements or processes, people will give up on earning an incentive.</p>
<p>Clue-seeking bias: When faced with complex decisions, people look for clues, which they hope will be relevant to rational decision making.</p>	<p>People may choose the first option on a list of options, thinking that is what the company "recommends."</p>	<p>If the default is "same plan as last year," people will be reluctant to try new options.</p>
<p>Sentinel event bias: Viewpoints and decisions are heavily influenced by emotionally impactful events.</p>	<p>An early death of a popular retiree who chose an annuity may cause others to question the value of annuities.</p>	<p>A death due to an unexpected, rare disease may bias others to get screening for that condition to the exclusion of other, more important preventive exams.</p>
<p>Optimism bias*: A tendency to overestimate the likelihood of favorable outcomes.</p>	<p>People may hope for a future investment windfall and undercontribute to their retirement plan.</p>	<p>People may assume their health condition will remain stable while they procrastinate on life-style change decisions.</p>
<p>Probability neglect: People tend to ignore or discount the effect of probability in decision making.</p>	<p>People selecting lump-sum distributions ignore the probability of living a very long life. They may plan for average or lower life expectancy.</p>	<p>Statistics do not trigger emotions or influence intuitive thinking. Showcasing them has little impact.</p>
<p>Endowment effect: People place a greater value on a possession than on what they would pay for the same item.</p>	<p>People may stick with a poorly performing investment option and be influenced by sunk costs.</p>	<p>People overvalue the medical plan option they have this year and undervalue new options during open enrollment.</p>
<p>Risk seeking/avoidance bias: People seek risk when examining alternative loss positions. People avoid risk when comparing alternative gains.</p>	<p>After a substantial loss in portfolio value, people may take excessive risks to regain lost wealth.</p>	<p>Consumer-directed health plan accounts are positioned as potential gains. People focus on the risks of higher deductibles.</p>

*There is also a pessimism bias. It is a tendency among people with depression to overestimate the likelihood of many bad outcomes. This could be a major cause of disengagement in the workforce.

Source: Sibson Consulting.

TABLE IV

Biases and Heuristics Leading to Better Employee Benefit Decisions

Bias or Heuristic	In DC Retirement Plans	In Health Plans
Comparative competence bias: People compare their knowledge in one subject to other subjects. With feelings of ignorance, decisions are avoided.	Preretirement counseling and financial literacy training may provide people with the confidence to make consumer financial decisions.	Value-based health plan designs can provide people with the competence to make smart consumer decisions.
Availability heuristic: People weigh recent evidence and readily available information at decision time.	Unveil a 401(k) plan reenrollment campaign when themes such as “saving,” “tax deferral” and “investor confidence” are positive.	“Prime” people in advance of open enrollment with messages and clues consistent with smart decisions.
Regressive bias: People overestimate low-probability events and overvalue low-cost items. They underestimate high-probability events and undervalue high-cost items.	Hybrid distribution options combining annuities and lump-sum features may help people who overestimate the likelihood of a very long life or an early death.	Lotteries and raffles can be a low-cost way to deliver wellness incentives that promote awareness and engagement.
Halo effect: People admire a few qualities in another person and generalize that admiration to unfamiliar attributes.	Select people who are familiar and admired as champions for financial literacy initiatives.	Select people who are familiar and admired as champions for healthy enterprise initiatives.
Bandwagon effect: People tend to do what others in their social community do.	Influence social communities to pursue financial literacy.	Influence social communities to pursue nutrition, exercise and wise consumer decisions.

Source: Sibson Consulting.

cant portion of future pay increases to the retirement plan.¹¹

- Far less common, but allowable, is a plan reenrollment feature where all participants must make an active election or be placed in the default options. Just 6% of employers participating in a 2010 study of large plan sponsors by the Defined Contribution Institutional Investment Association (DCIIA) had conducted plan reenrollment campaigns.¹²

An Example of Framing the Point of View

A common observation about retirement plan choice making is that new retirees seem to underchoose annuities. Part of the problem is that plan participants have been conditioned to focus on return on investment. Framing choices differently can have a substantial impact on decisions about

retirement plan distribution options. Table VI highlights research by Jeffrey Brown addressing preferences among study participants aged 50 or older for annuities versus investment returns.¹³

Although the actuarial values of the two choices (an annuity and an investment return) were identical:

- When presented with the investment framing, 21% of the study participants chose the annuity.
- When presented with the consumption framing, 71% of the study participants chose the annuity.

Clearly, word choice influences the participant’s point of view, and framing has a significant effect on decision making.

Vivid Communication Establishes Relatedness

Communicating vividly in a manner that helps people relate to life in retirement dramatically increases savings rates.

TABLE V

Sample Biases

Confirmation Bias	People seek evidence and rationale to confirm a belief or the status quo.
Expert’s Certainty Bias	People ignore or discount strong evidence that competes with a deeply held view.
Outcome Bias	People judge a previous decision based on the outcome rather than on the decision-making criteria and process used at the time of the decision.
Hindsight Bias	People use known past events as predictive of a current situation when at the time of the past event it had no predictive value for the current situation.
Small Sample Size Bias	People forget or ignore the possibility that extreme outcomes may occur in very small populations.

Source: Sibson Consulting.

TABLE VI

Framing Language Used in Brown et al. Research Study, 2008

Consumption Framing	Mr. Red can spend \$650 each month for as long as he lives in addition to Social Security. When he dies, there will be no more payments.
Investment Framing	Mr. Red invests \$100,000 in an account that earns \$650 each month for as long as he lives. He can withdraw only the earnings he receives, not the invested money. When he dies, the earnings will stop and his investment will be worth nothing.

TABLE VII

Sample Presentations of Distribution Options

Typical Presentation	<p>If you are married when your benefit begins, your benefit will be paid to you as a Qualified Joint and Survivor Annuity. A Qualified Joint and Survivor Annuity provides reduced, equal monthly payments to you during your lifetime and, if your spouse lives longer than you, to your spouse for your spouse’s lifetime. Although your monthly benefit payments are reduced, the payments to you and the survivor benefit for your spouse have the same actuarial value as the Single Life Annuity described above. If you are married and your spouse consents, you may elect to receive one of the optional forms of payment described below. All of the optional forms of payment have the same actuarial value as the Single Life Annuity.</p> <ul style="list-style-type: none"> • Single Life Annuity: Monthly Benefit = \$1,000 • Joint and Survivor Annuity = \$667 reducing to \$500 survivor benefit
Jargon-Free Presentation	<p>Choose one of the following monthly income streams for your retirement benefit:</p> <ul style="list-style-type: none"> • \$667 monthly income while you and your spouse are both living. \$500 monthly income for your spouse after you pass away. • \$1,000 monthly income while you and your spouse are both living. \$0 monthly income for your spouse after you pass away. (This option requires your spouse to sign a notarized consent form.)

Source: Sibson Consulting.

For example, realistic age progression software can help 20-year-olds visualize what they might look like at the age of 70. Hershfield et al. conducted several studies using this novel technology and measured retirement savings allocations¹⁴ in which half the subjects saw images of their current self and the other half saw images of their future self. Among the results:

- One study found that 20-year-old participants who saw themselves at the age of 70 contributed twice as much to a hypothetical retirement plan as participants who saw their current selves.
- Another study gave participants aged 18 to 35 realistic retirement planning education with current and future income modeling scenarios, with the following results:
 - Participants who saw their current selves contributed an average of 4.41% to their hypothetical retirement plan.
 - Participants who saw their future selves contributed an average of 6.17% to their hypothetical retirement plan.

Avoiding Jargon Reduces Complexity Aversion and Eases Decision Making

Eliminating jargon improves the quality of retirees' financial decision making.¹⁵ Compare the two presentations of distribution options in Table VII. While one is full of jargon, the other provides context for retirees and helps them make meaningful comparisons.

TABLE VIII

Focus Group Results With Different Choice Architecture

	Group A	Group B
Which of the following medical plans would you choose during open enrollment?		
Preferred Provider Organization (PPO) Plan	32%	8%
Healthy Living or Consumer-Directed Plan	68%	92%
How many servings of fruits and vegetables does the average American eat per day?		
Average	1.8	3.0
Will Americans reduce their tobacco consumption in the next three years?		
Optimistic	57%	77%
Pessimistic	43%	23%

Source: Sibson 2012 Behavioral Economics Focus Group Findings.

Choice Architecture in Health Care Plans and Personal Health Decisions

The objective with choice architecture is not to restrict choice. The objective is to nudge people toward better decisions without economic coercion. Thaler and Sustein refer to this principle as *libertarian paternalism*: “Libertarian paternalism is a relatively weak, soft, and nonintrusive type of paternalism because choices are not blocked, fenced off, or significantly burdened.”¹⁶

Introducing Behavioral Economic Applications to Health Care and Health Benefits

To introduce human resource (HR) professionals to applied behavioral economics, Sibson Consulting conducted focus group meetings with

HR generalists and specialists in Indiana, Oklahoma and Colorado. In each of the three focus groups, participants were divided into two groups and asked three questions. Although Group A and Group B were asked the same questions, they were exposed to very different choice architecture (which is shown later in the article). Results in each focus group were consistent with the aggregate results in Table VIII.

In each focus group, more subjects in Group A were inclined to remain in the preferred provider organization (PPO) plan than in Group B. Participants in Group B were more willing to try one of the new medical plans, thought that their consumption of fruits and vegetables was higher and were more optimistic about tobacco cessation.

Which of the Following Medical Plans Would You Choose During Open Enrollment?

The naming and ordering of plan options, use of colors, framing of decision factors and selection of defaults all influence choice making with medical plans. All of these techniques were used with the materials shown to Group B, as illustrated in Figure 1.

How Many Servings of Fruits and Vegetables Does the Average American Eat Per Day?

Nutritionists generally suggest that Americans should eat more fruits and vegetables. In Figure 2 the presentation for Group B was designed to influence perceptions about a societal norm. The goal was for people who eat few fruits and vegetables to develop a belief that they should eat more to be “normal.” Priming was accomplished with color and page positioning. Anchoring was accomplished with the leading questions:

- Group A: Does the average American eat more or less than two servings a day?
- Group B: Does the average American eat more or less than nine servings a day?

Will Americans Reduce Their Tobacco Consumption in the Next Three Years?

The final focus group question was designed to test how negative versus positive messaging influences optimism. Tone in messaging (positive or negative) influences how people react to and appraise stimuli.¹⁷ A person’s

TABLE IX

Triggers and Methods That Lead to Workforce Motivation

Motivation Type (Sample Thought)	Emotional Triggers That Lead to a Response	Methods to Gain Attention
Intrinsically motivated (“This will help me!”)	Appeal to personal intellect and curiosity	Inspire thinking about new possibilities
Extrinsically motivated (“What’s in it for me?”)	Appeal to financial gain and personal	Provide incentives and vanity socialization
Disengaged (“Are you talking to me?”)	Instill fear and convey hope	Intervention

Source: Sibson Consulting.

emotional response to a message determines whether he or she gladly accepts a message or resists and must carefully analyze pros and cons. In Figure 3, the text presented to Group A was an actual script segment prepared by an insurance company for one of its large clients. This messaging creates pessimism and resistance to change.

Unintended consequences from negative framing may include employee defensiveness, resistance to change or a self-fulfilling acceptance of failure. Lessening such resistance should increase participation in health coaching programs. Positive messaging makes attractive corporate cultures work well.

Behavioral Segmentation

A key foundation for effective choice architecture is understanding that different people are motivated differently. Employees generally fall into one of three groups: (1) *intrinsically motivated*, those who are generally self-motivating; (2) *extrinsically motivated*,

those who respond predominantly to rewards such as incentives and approval; and (3) *disengaged*,¹⁸ those who will change only when confronted with strong personal intervention. To effect behavior change, organizations must trigger a person’s emotions.¹⁹

Table IX illustrates the emotional triggers and methods organizations can use to capture the attention of the three different types of motivations.

People think in different ways with different parts of their brain, alternating between two types of thought:

- *Rational thinking*: Sometimes, people make decisions with great care, taking into account a range of information and logically processing that information.
- *Intuitive thinking*: More often, people make quick judgments based on the limited information in front of them and previous situations they think are analogous. This pattern-based, representative type of thinking is automatic, unconscious, fast and easy.

FIGURE 1**Traditional Communication Style Versus Intentional Framing****Group A (Traditional Communication Style)**

Option	Description and Cost	Key Provisions
Preferred Provider Organization (PPO)	This is the same plan as last year. It has a broad provider network. Your monthly cost is \$150.	Deductible: \$500 Plan Payment: • In-network: 80% • Out-of-network: 60%
Healthy Living Plan	This new plan requires you to complete a health risk appraisal, biometric testing and an online wellness program. The provider network is smaller; it consists of doctors and hospitals meeting high standards for quality care. Your monthly cost is \$125.	Deductible: \$400 Plan Payment: • In-network: 85% • Out-of-network: 60%
Consumer-Directed Health Plan (CDHP)	This new plan provides you with a \$500 Health Savings Account; you can spend it now or save it for future years. The provider network is smaller; it consists of doctors and hospitals meeting high standards for quality care. Your monthly cost is \$100.	Deductible: \$1,500 Plan Payment: • In-network: 85% • Out-of-network: 50%

If you do not make an election, your current plan choice will continue next year. Review the official plan documents for more details.

Group B (Intentional Framing)

Plan Name and Option	Your Annual Payroll Deduction	Company Deposit	Annual Deductible	Plan Payment Percent in Network	Provider Network
Healthy Living Plan	\$1,500	\$0	\$400	85%	Doctors and hospitals in network meet "elite" quality standards. Lower coverage for others.
Thrifty Consumer Plan	\$1,200	\$500	\$1,500	85%	Doctors and hospitals in network meet "elite" quality standards.
Legacy PPO	\$1,800	\$0	\$500	80%	No "elite" status designations.
No Coverage	\$0	\$500	N/A	N/A	N/A

If you do not make an election, you will be automatically assigned to the Thrifty Consumer Plan. [The quality standards behind "Elite Provider" status and the "Healthy Living" standards are explained in your Benefits Guidebook.](#)

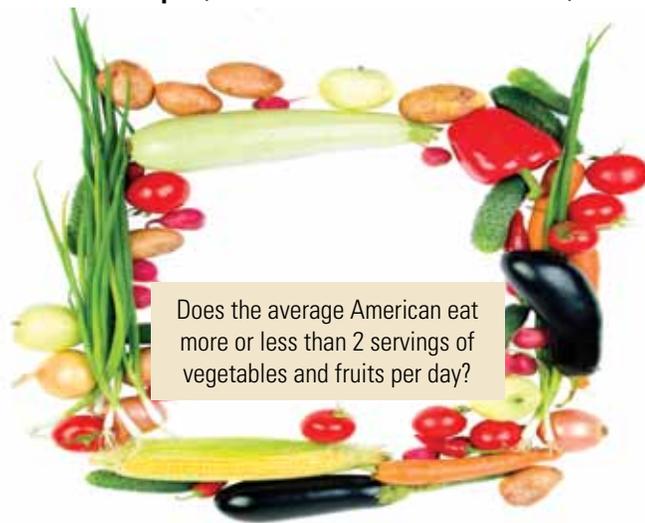
Review the official plan documents for more details.

Source: Sibson Consulting.

FIGURE 2

Prime and Anchor to a Low Value Versus Prime and Anchor to a High Value

Group A (Prime and Anchor to a Low Value)



Does the average American eat more or less than 2 servings of vegetables and fruits per day?

Group A: Write down your answer to this question.

How many servings of vegetables and fruits does the average American eat per day? _____

Group B (Prime and Anchor to a High Value)



Does the average American eat more or less than 9 servings of fruits and vegetables per day?

Group B: Answer this question!

How many servings of vegetables and fruits does the average American eat per day? _____

Normal human thought involves a combination of rational and intuitive thinking. When people perceive that a situation does not fit an expected pattern, the conscious, rational mind springs into action, alters behavior and forces a decision.

Nobel laureate Daniel Kahneman has chronicled many techniques for influencing rational and intuitive thinking.²⁰ Table X summarizes several of the techniques.

When do organizations prefer employees to be slow and analytical or quick and intuitive?

- If employees with unhealthy lifestyles or poor consumer behaviors might be nudged to rethink their choices, communicating in a manner that forces rational thinking is a good strategy.
- If employees are on the right paths toward health and being effective health care consumers, they deserve the cognitive ease associated with intuitive thinking.

Prochaska's stages of change model,²¹ shown in Figure 4, is useful for understanding that different segments of the workforce are at different levels of readiness for change.

Table XI integrates motivation, rational versus intuitive thinking and readiness for change into a model for behavioral messaging and improving workforce engagement. This model characterizes the importance of different types of messaging and framing for different behavioral segments in the workforce.²²

The differences in engagement techniques for various behavioral segments in the workforce are striking:

FIGURE 3

Negative Messaging Versus Positive Messaging



Quitting tobacco is hard. With our insurance, you have the personal support of your Health Coach to help you finally kick the habit as well as a customized program complete with realistic goals, helpful tools and counseling to help you through the tough times. If you're ready to quit, call your Health Coach today and take the first step to becoming tobacco free.



Pain **Challenge** **Difficulty** **Stress** **Effort** **Cost**

Ease **Hope** **Life** **Success** **Vibrant** **Simple**

TABLE X

Techniques for Influencing Thinking

To Encourage Rational Thinking

Establish cognitive strain.

Use difficult-to-read fonts.

FORCE A BAD MOOD.

Ask your audience to shake their heads from side to side.

MAKE THEM BROWN.

USE RATIOS AND DESCRIPTIVE STATISTICS.

Use pale blues, mid green and yellow colors.

To Encourage Intuitive Thinking

- Establish cognitive ease by using easy-to-read fonts.
- Set a good mood and ask your audience to smile.
- Ask your audience to agree by nodding their heads up and down.
- Use **reds** and **bright blues**.
- Use "numbers of people" for impact statements and avoid statistics.

- Intrinsically motivated people demand high-quality resources. Poor resources cheapen their experience.
- Extrinsically motivated people, who may be following a fad or

- reacting to a financial incentive, demand easy-to-use resources. Otherwise, they give up.
- Disengaged people need personal intervention during all phases of behavior change.

Behavioral Messaging

Although DC retirement plan service providers, financial advisors, wellness vendors, health coaches, physicians and other entities play an important role

TABLE XI

Behavioral Segmentation Model for Healthy Enterprise Workforce Engagement

Stage of Behavior Change	Intrinsically Motivated	Extrinsically Motivated	Disengaged
Precontemplation	Inspire with messaging and imagery	Advertise to get attention	Intervene to capture attention
Contemplation	Provide high-quality resources and support	Provide rationale and incentives	Frame the choice architecture with consequences
Preparation	Allow the employee and advisor relationship to flourish	Provide easy-to-use resources	Reinforce gains and lost opportunities
Action	Satisfy basic security and psychological needs	Eliminate barriers during change process	Monitor compliance and enforce accountability
Maintenance	Invite them to help others	Create new workplace social norms	Advance to new goals

What the cell colors signify:

Encourage intuitive thinking

Encourage rational thinking

Source: Sibson Consulting.

in human well-being, the employer also plays a key part, that of the “behavioral-change messenger.” Employers spend a great deal of money on employee communications and organizational change initiatives. Employers can generate more value for their communications dollars by using the following choice-architecture techniques to shape their messages effectively:

- **Message repetition and priming.** With repetition, a communication campaign conveys consistent messages multiple times, using different media and channels. Priming is a simple, easy concept—The choice architect makes an impression by establishing a familiar pat-

tern that people later recognize during decision making. The impression ideally is visual, verbal and experiential. It may be subtle, so that the conscious, rational mind is oblivious to it. Priming sets a mood, influences how people make decisions and influences the decisions people make.

- **A vivid, provocative communication style.** Capturing employee attention on health care and retirement matters requires a communication style that employees will remember. For example, “To participate or not to participate in a smoking-cessation program” is not a very vivid

choice. “To quit now or to die young and in pain,” as shown in Figure 5, is much more vivid.

- **Communities of interest.** To engage employees effectively, organizations should recognize and nurture various communities of interest associated with the workplace. These communities are defined by cohorts—by generation, geography, a hobby, a particular health condition or some other characteristic. Communities of interest, which can be formal or informal, exist because people are inherently social and biased toward cooperating within their peer group.

FIGURE 4

Prochaska’s Stages of Change Model

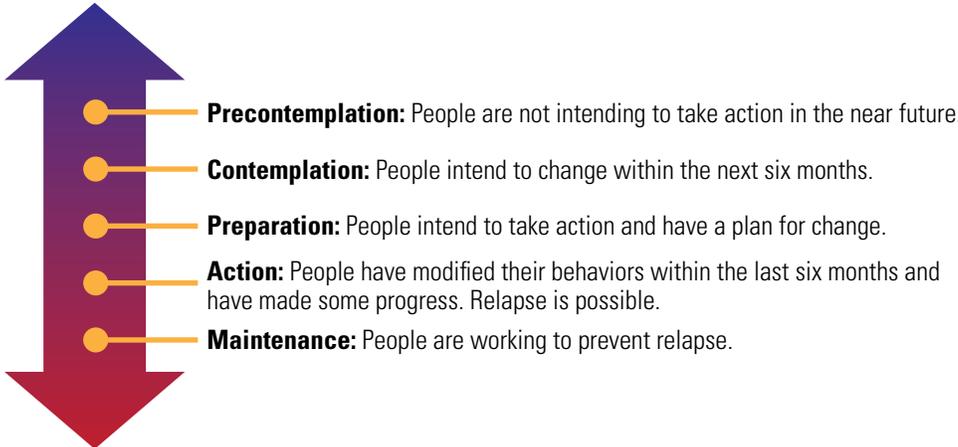


FIGURE 5

Example of Provocative Communication

QUIT NOW OR DIE YOUNG AND IN PAIN

Ladies, smoking harms nearly every organ of your body. It smells bad. It’s expensive. It ruins your looks, your breath and your clothes.

If you don’t quit, chances are you’ll die younger and in pain. Plus, it harms other people around you.

You have a choice. Do us one small favor? Take a new cigarette, crumble it and crush it!

You are on your way to quitting!

Call Human Resources now at 555-1212. We will introduce you to your personal health coach.



The *halo effect* occurs when a person who excels at one trait is perceived to excel at many traits. One role for HR is to discover these communities and their leaders who are praised as a consequence of the halo effect. These leaders should be selected as ambassadors: They are the individuals to involve, to coach, to prime and to an-

chor beliefs in a positive way about the virtues of a thriving workforce.

- **Anchoring to influence beliefs, convey numerical values that edge toward desired targets.** The context in which numbers are presented is very important. Compare the following two statements:

- The average American eats 2.7 servings of fruits and/or vegetables per day.
- Serve up fruits and vegetables! Eating five will keep you alive, but nine is divine.

If the goal is to influence employees to eat more fruits and vegetables, the key is to anchor their thinking to the

higher numbers in the second statement. It is memorable because it is catchy and contains two rhymes.

Conclusion and the Role for HR

Suboptimal decisions relating to employee benefit plans by employees and employers threaten employee well-being and organizational success. Organizations must understand human decision making and behavioral biases before they can develop an effective choice architecture with their employee benefit programs.

The employer is not exclusively responsible for all employee lifestyle and financial security decisions. However, employers and HR functions clearly influence organizational culture and define the boundaries of acceptable and preferred behaviors. To be an effective behavioral messenger, HR should:

- **Establish personal relevance** by using familiar references and consistent branding and involving caring leaders, who are admired and liked, from various communities of interest.
- **Trigger emotional responses**, including hope, fear, excitement, love, greed and caring.
- **Define clear choices** about health versus illness, safety versus disability, consumerism versus waste, living comfortably during retirement versus struggling to find food and shelter.
- **Convey the value of making smart choices** that save employees time and money while helping them feel and perform better.
- **Ask employees to complete a small, relevant task**, such as crumbling up a cigarette, identifying an urgent care center near home, programming their wellness/health coach's number into their phone or committing to put half of next year's pay increase into the 401(k) plan.
- **Guide employees to the best available resources** by scheduling an appointment or providing directions and a map.

Becoming an effective behavioral messenger will help employees optimize their own benefit choices, generate better workforce outcomes for the employer and further build the business case for employee benefits. 

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