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"Behavioral Finance and the Future of Improving Retirement Outcomes in the Digital World" presentation by Conor Sullivan, SVP, Voya Investment Management

Tom Woolwine, Vice Chairman, July 2019

At our June Research Workshop in Philadelphia entitled "Reality Check: Retirement Readiness in Turbulent Markets," Conor Sullivan of Voya Investment Management presented thought-provoking behavioral research for DC Plans. This paper will focus on the presentation he delivered, which shared innovative ideas from the Voya Behavioral Finance Institute for Innovation and what it means for Plan Sponsors.

Mr. Sullivan's presentation highlighted that, by understanding our psychology, we can design effective solutions for plan participants. Behavioral Finance examines how human psychology influences the behavior of investors and ultimately affects the workings of financial markets. The conventional assumption is that people make choices in their self-interest allowing markets to function efficiently. The reality is that our behavior is often governed by mental shortcuts together with cognitive and emotional biases.

Voya Financial has formed the Behavioral Finance Institute for Innovation in collaboration with academics from UCLA, Penn, Duke and Carnegie Mellon business schools. The Institute is focused on gaining deeper insights into the decisions of Americans regarding their financial and retirement planning activities. Mr. Sullivan's presentation highlighted key takeaways and ideas from Dr. Shlomo Benartzi's whitepaper, "Using Decision Styles to Improve Financial Outcomes." Dr. Benartzi is a behavioral economist, and the Institute partners with him to help position Voya at the forefront of behavioral finance. In this whitepaper, Dr. Benartzi introduces the "Reflection Index," which measures digital decision-making style, discusses how the human mind has two modes of thinking, and explores a dual-process model that integrates Instinctive and Reflective decision making. Instinctive captures fast, automatic decisions like walking or hitting a baseball. Reflective addresses slow, deliberate decisions like taking a test. Voya has determined there is a positive relationship between the Reflection Index scores and projected retirement income!

So what does this mean for Plan Sponsors? Mr. Sullivan stressed the importance of plan design and used the analogy of building a home.[i] The best practice process consists of five steps:

- Laying the foundation → Automatic Enrollment
- Building the frame → Default Investments
- Adding the walls → An Effective Employer Match
- Adding the details → Automatic Escalation
- Completing the structure → Re-enrollment

Mr. Sullivan concluded by suggesting that there are two sides of a Retirement Readiness program:

Participant Behavior

- Savings level
- Years of Savings
- Withdrawal/Loans
- Retirement Withdrawal

Investment Strategy

- Glide Path
- Asset Allocation
- Underlying Managers
- Product Vehicles/Fees

If you would like more information on this workshop or DeMarche investment consulting services, please contact Tom Woolwine at twoolwine@demarche.com or (913) 384-4994.

[i] Fred Reish and Bruce Ashton, *A Blueprint for Retirement Success*, October 2016