

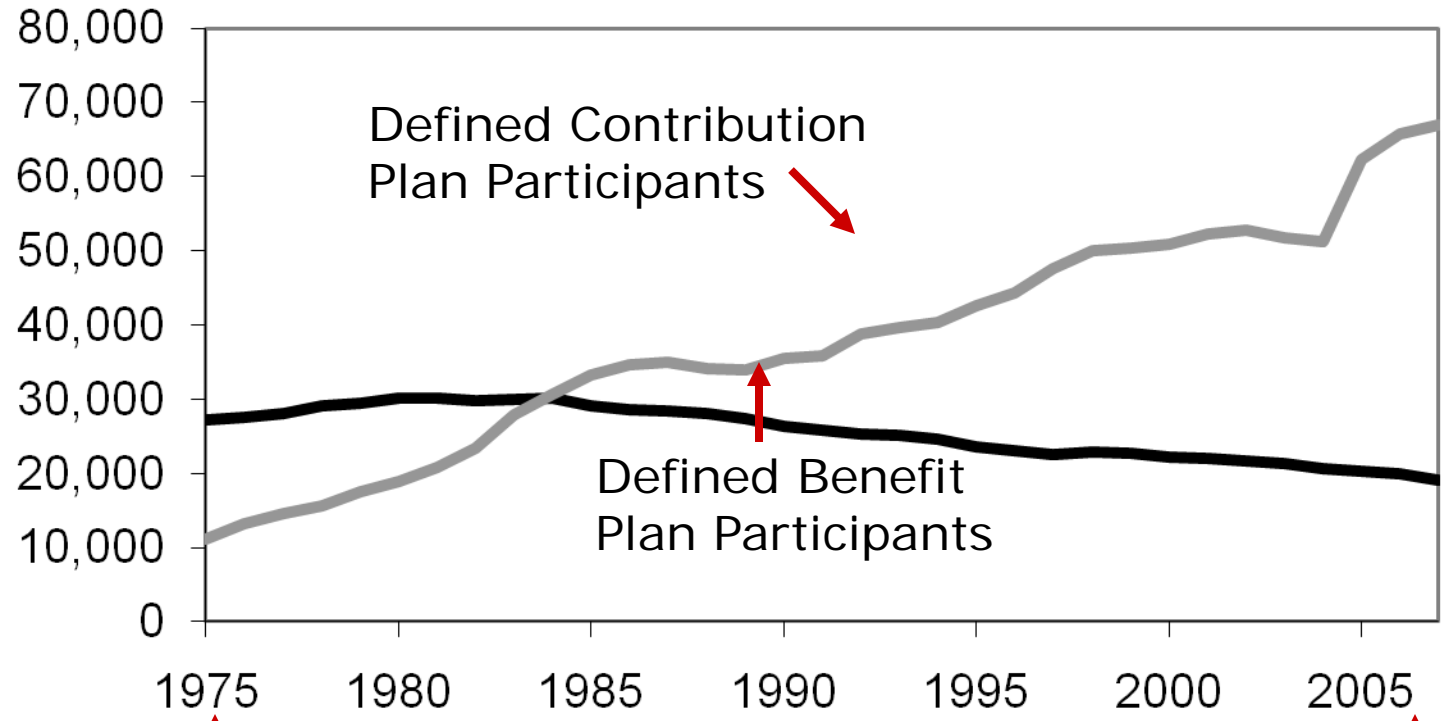
Individual Savings Behavior: Lessons from Economic Research and Implications for Public Policy

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The Changing Composition of Employer Sponsored Retirement Plans

Number of Active Plan Participants
(thousands)



2.4 DB participants
for each DC participant

3.4 DC participants
for each DB participant

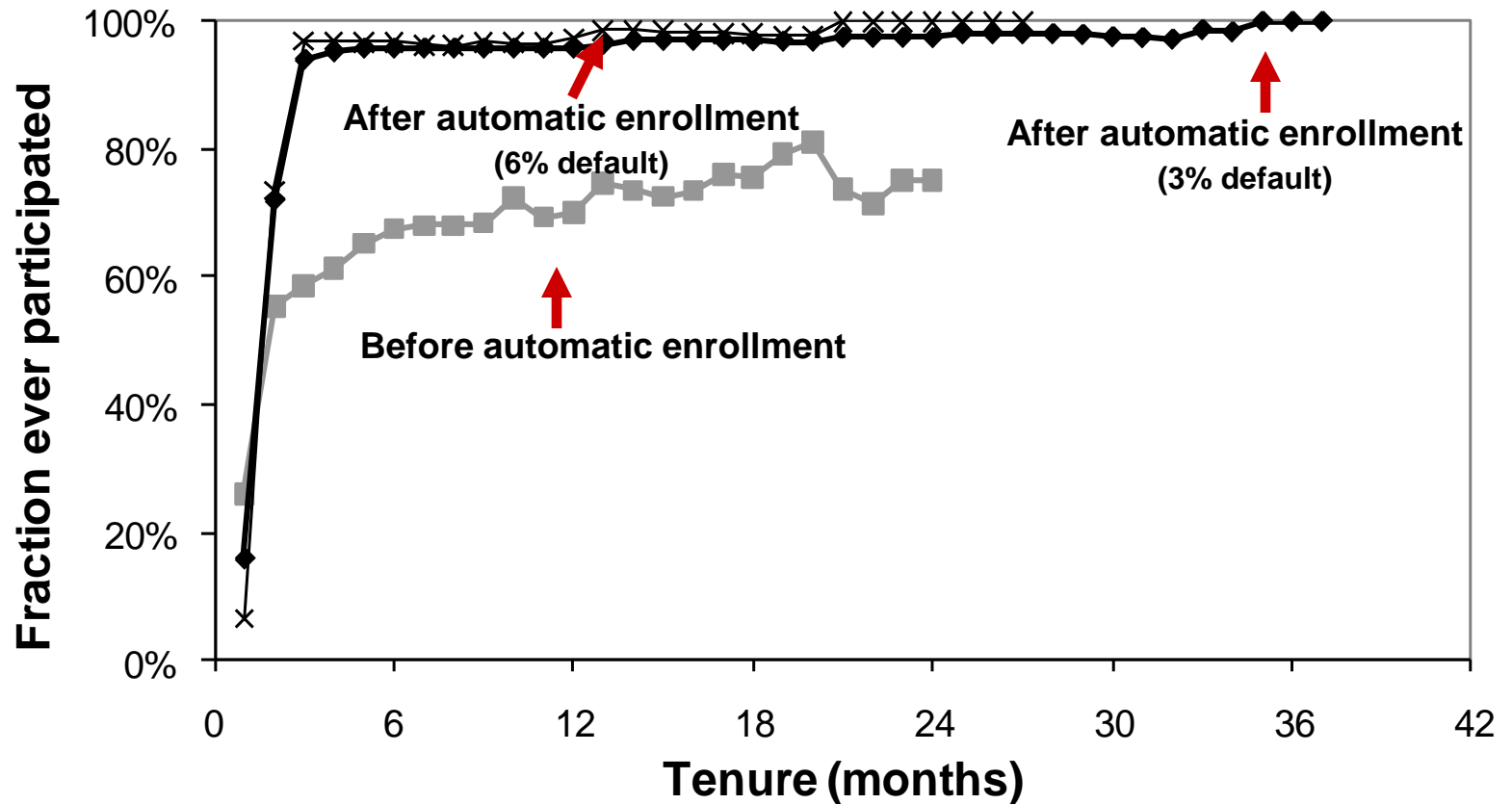
Are employees prepared for a defined contribution world?

- John Hancock Financial Services Defined Contribution Plan Survey (2002):
 - 38% of respondents report that they have little or no financial knowledge
 - 40% of respondents believe that a money market fund contains stocks
 - Two-thirds of respondents don't know that it is possible to lose money in government bonds
 - Respondents on average believe that employer stock is less risky than a stock mutual fund
 - Two-thirds report that they would be better off working with an investment advisor than managing investments solo
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Implications

- Savings outcomes heavily influenced by small changes in plan design
 - Savings plan participation
 - Contribution rate
 - Asset allocation
 - Mistakes—potentially large ones
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Automatic Enrollment for New Hires and Savings Plan Participation



Source: Beshears, Choi, Laibson and Madrian (2008)

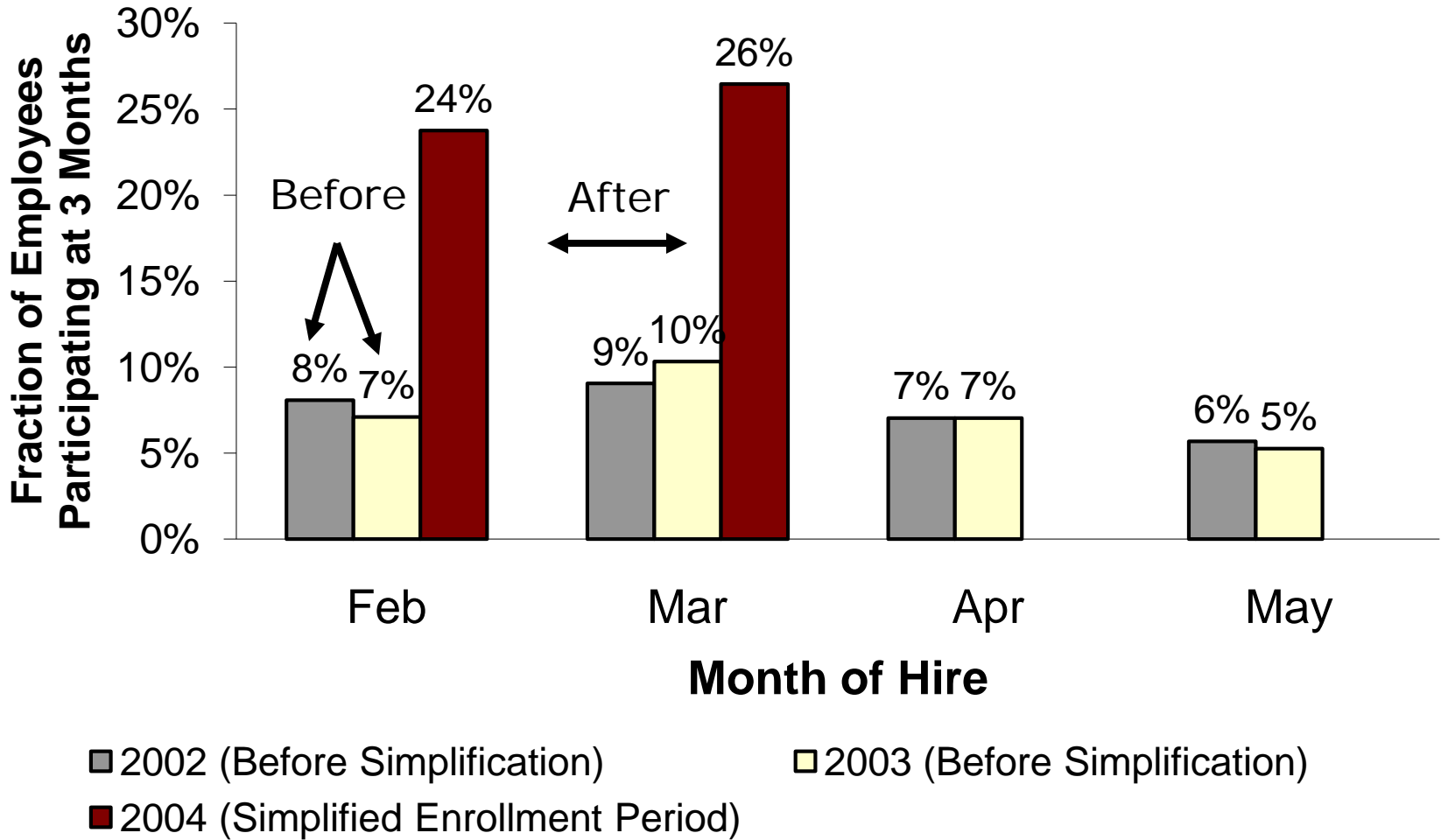
Automatic enrollment and savings plan participation

- Sizeable benefits to 401(k) participation
 - Tax benefits
 - Employer match (100% match up to 6% contribution for company above)
 - Striking difference in participation rates before and after automatic enrollment
 - Striking similarity in participation rates under automatic enrollment at 3% and 6% default contribution rates
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Automatic enrollment and savings plan participation—explaining the results

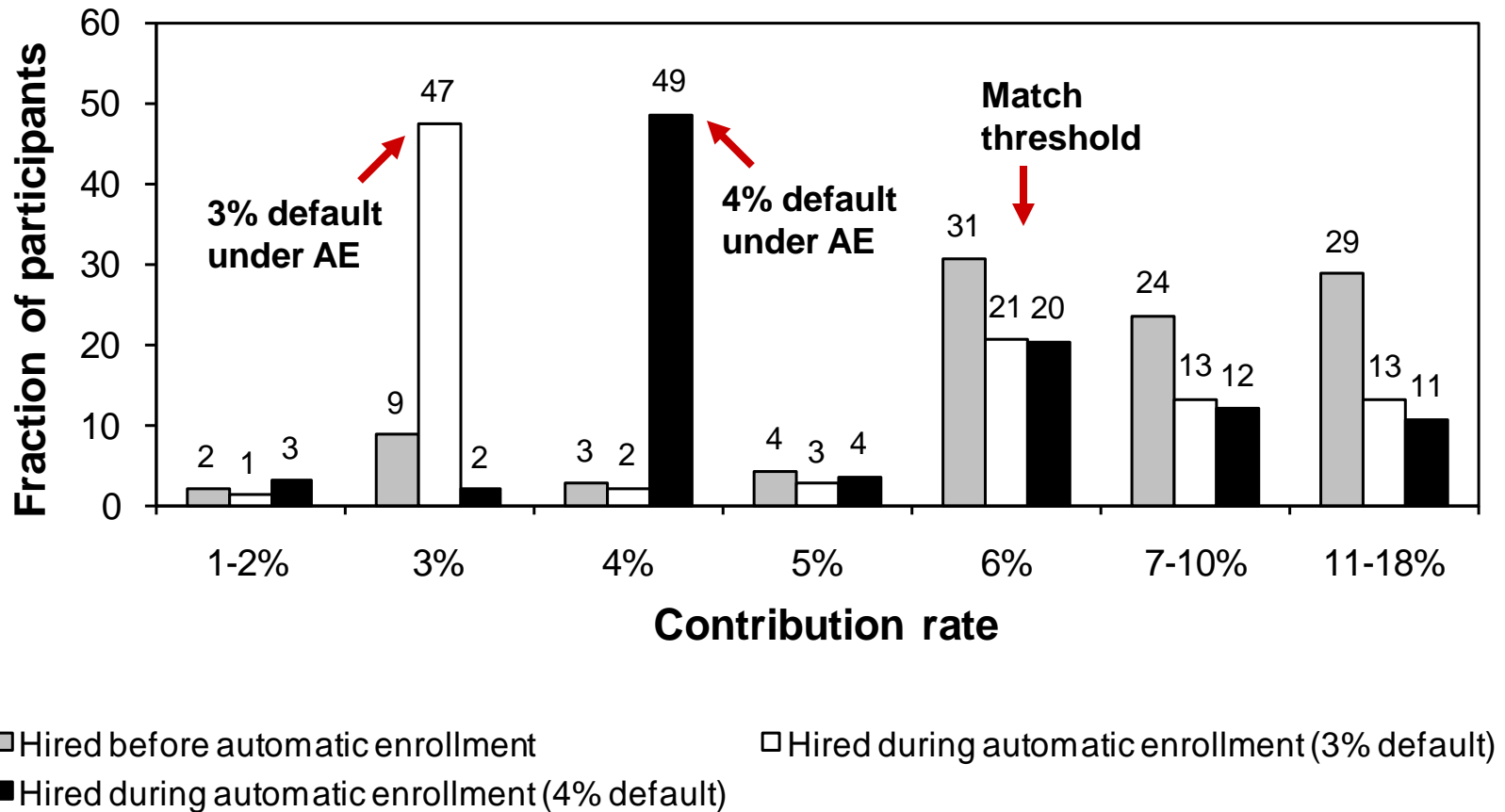
- ❑ Are individuals indifferent?
 - ❑ Unlikely....
 - Big financial implications: nothing vs. 12%
 - Opt-out rate from automatic enrollment low
 - Opt-out rate before automatic enrollment high
 - When required to choose, participation rates high (Carroll et al. 2007)
 - Individuals state a preference to save more
 - ❑ Collectively, evidence suggests that most individuals prefer savings plan participation to non-participation
 - ❑ Complexity of decision task leads to delay in the absence of automatic enrollment
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Simplification and Savings Plan Participation



Source: Beshears, Choi, Laibson and Madrian (2009)

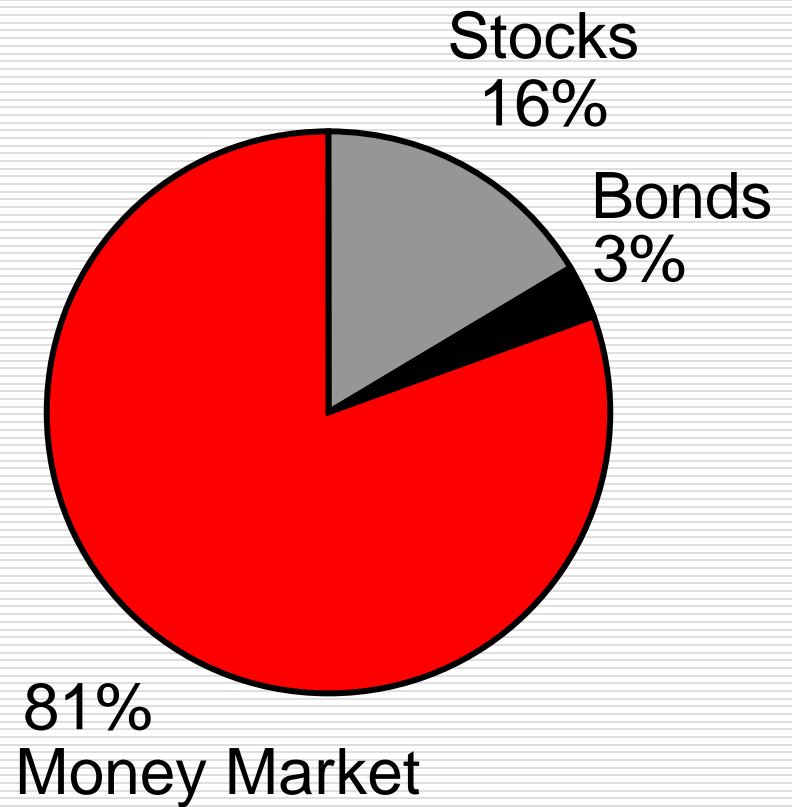
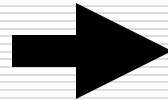
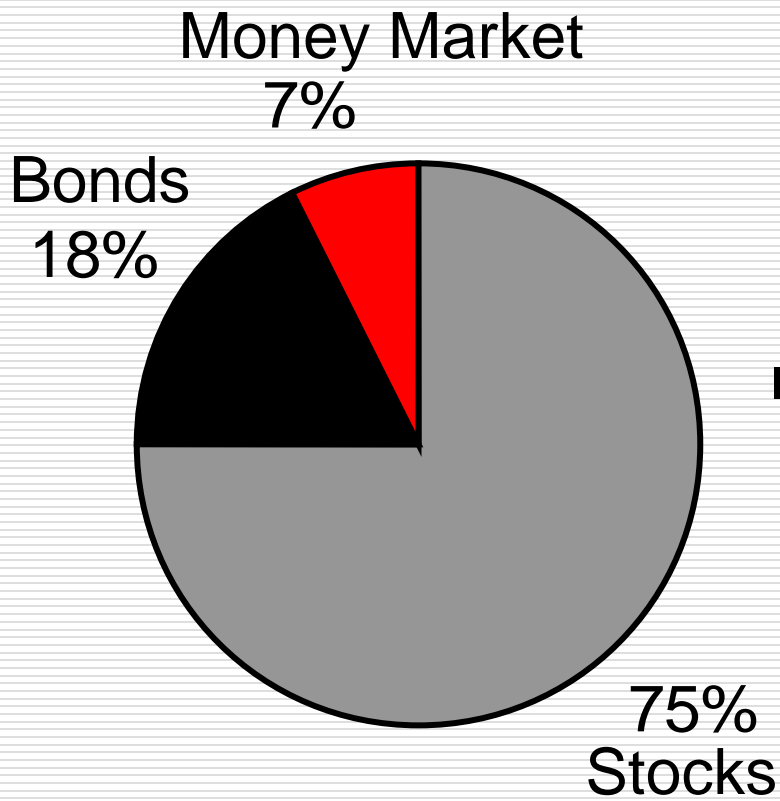
Automatic Enrollment and the Distribution of Savings Plan Contribution Rates



Source: Choi, Laibson, Madrian and Metrick (2006)

**Before
Automatic Enrollment**

**After
Automatic Enrollment
Money Market Default Fund**



Source: Madrian and Shea (2001)

Research Impact

- On design of employer-sponsored savings plans
 - On regulation of employer-sponsored savings plans
 - On savings policy more generally
 - In other domains
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Research Impact: Employer-Sponsored Savings Plans

- Plans rethinking importance of plan design
 - Fairly rapid adoption of “Autosave” plan features
 - In 2009, about half of participants are in plans using automatic enrollment
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Research Impact: Savings Policy

- ❑ Motivation behind the “Autosave” features of the Pension Protection Act of 2006
 - ❑ Motivation behind the “Auto IRA” proposal currently under legislative consideration
 - ❑ Kiwisaver plan in New Zealand
 - ❑ Pensions reform in the U.K.
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Research Impact: Other Domains

- Regulation of consumer financial markets
 - New banking reforms require consumers to opt-in to overdraft protection
 - Health
 - Education
 - FAFSA form (financial aid)
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