



HOW CAN BEHAVIORAL NUDGES BE USED TO IMPROVE RETIREMENT PROGRAM DESIGN?

EXPAND EMPLOYER-BASED SAVINGS



AARP reports that workers are **15 times** more likely to save if they have access to retirement savings plans through their employers.*



When employees are offered a plan, about **70 percent** voluntarily participate; when workers are automatically enrolled in a plan with an option to opt-out, participation jumps to about **90 percent**.

KEEP IT SIMPLE, EASY



Behavioral Science Tells Us**:

1. Workers weigh the present more than the future and make investment decisions today that reduce their welfare in the future.
2. Because people tend to take whatever option requires the **least effort** when faced with overly complex choices, retirement plans should adopt **simplifying** strategies to present information.

MAKE THE DEFAULT AUTOMATIC



An empirical study with 13 companies that administer retirement plans shows that **Save More Tomorrow (SMT)**, a program utilizing auto-enrollment with an opt-out feature and auto-escalation has a noticeable effect in boosting annual savings.***



Emails redesigned by the Social and Behavioral Science Team (SBST) with timely and clear messaging led **22 percent** more people to re-enroll in Thrift Savings Plan (TSP) within a week. ****

PROVIDE FINANCIAL EDUCATION OPPORTUNITIES



Reports have suggested that workplace-based plans and **financial education** are the most effective in improving financial literacy and thus increasing retirement savings.*****

Source:

*AARP, "Letter to the U.S. Department of Labor regarding the Proposed Rule on Savings Arrangements Established by States for Non-Governmental Employees," January 19, 2016.

**Ramos-Merado, Jorge D. and Sass, Steven A., Center for Retirement Research at Boston College, "Are Americans of All Ages and Income Levels Shortsighted About Their Finances?" May 2015.

***Thaler, Richard R. and Benartzi, Shlomo, "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving," The University of Chicago, 2004.

****Social and Behavioral Sciences Team, Executive Office of the President, National Science and Technology Council, "Annual Report," September 2015.

*****GFLEC, "Employee Financial Literacy and Retirement Behavior: A Case Study," August 2015.