# Behavioral interventions to increase retirement savings: Key findings from the research

CLEAR conducted a systematic literature search and identified, reviewed, and determined causal evidence ratings for research on interventions that use behavioral finance insights to influence individuals' retirement savings. This brief contains the key findings of this effort. A companion brief presents three major gaps this systematic review identified in the literature.

Boosts retirement savings

Personalized information on projected retirement income

People have relatively limited knowledge about saving for retirement and can be induced to save more when provided with additional information.

McKenzie and Liersch (2011) demonstrated that people often severely miscalculate hypothetical future savings account balances and the monthly contribution amount required to reach a specified savings goal. Evidence from lab and field experiments indicates that providing people with explicit information on the implications of their own savings behavior, the retirement account options available to them, or how savings account balances can grow leads them to report greater motivation and desire to save and increases actual savings rates (Duflo and Saez 2003; Goda et al. 2014; McKenzie and Liersch 2011). Results from one study, however, suggested that providing more nuanced information may not change behavior (Choi et al. 2011).
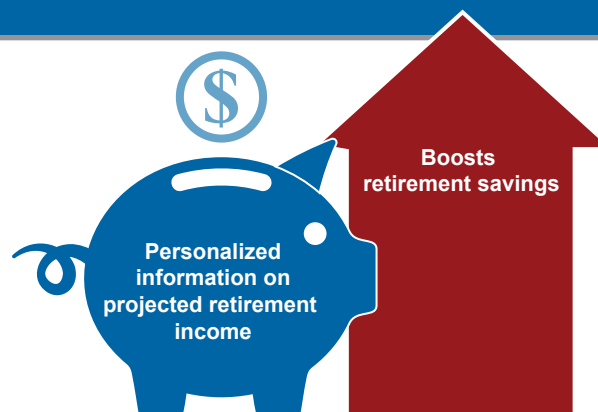
WHAT IS BEHAVIORAL FINANCE?

In business and government, policies often are developed based on the core assumptions of economic theory: that people carefully consider all alternatives before making a decision, choose the optimal action, follow through on their intentions, and consistently respond to incentives. In the real world, however, people do not always follow these rules. The study of the gap between how people actually behave and how they are predicted to behave based on economic theory is commonly referred to as *behavioral economics*. When applied to topics in finance, such as investment and saving, it is referred to as *behavioral finance*. Many studies in behavioral finance explore how individuals' choices about saving for retirement deviate from the behavior predicted by economic theory. Other topics include loss aversion and market bubbles.

Making retirement more salient, by having people think of themselves in retirement or providing a target retirement date, can increase intentions to save and alter investment choices.

Hershfield et al. (2011) conducted several lab experiments in which people were presented with age-progressed or current pictures of themselves and asked to make hypothetical savings decisions. When individuals saw a picture of themselves at an older age, they allocated more of their hypothetical pay to retirement (although the differences were not statistically significant in all experiments). Benartzi et al. (2007) found that the labels attached to investment funds can sometimes change the proportion of investments that people allocate to stocks rather than to less risky investments, such as bonds. People with access to investment funds labeled with a target date for retirement (for example, 2030) invested more in stocks when younger and less when older (holding total investment constant), consistent with optimal savings behavior. However, people with access to investment funds labeled as income or growth funds to indicate how risky they were did not adjust the proportion of income held in stocks over time.

People can become overwhelmed by the number of investment options they face; when this occurs, they tend to use simple rules to make decisions.

An experiment conducted by Iyengar and Kamenica (2010) found that, as people were presented with more and more gambling options, they were more likely to choose the simplest option. Another experiment found that, when people were asked to hypothetically allocate money to different investment funds, having more funds to choose from increased the probability that a person would simply allocate the same amount of money to each fund (Morrin et al. 2012). These studies suggest that because these simple rules can lead to less careful decision making, giving people more options can lead to worse outcomes overall.

CLEAR's Process

CLEAR worked with content experts to develop a review protocol defining the parameters for studies to be reviewed. Using the protocol as a guide, CLEAR searched the literature for studies published in 1996 or later. CLEAR identified and reviewed 25 studies of interventions that tried to influence hypothetical or actual savings behavior using behavioral insights. The review included both evaluations of traditional interventions and laboratory studies of how people react to certain characteristics of savings plans.

Using standards developed by statistical and policy experts, CLEAR reviewers assessed the quality of causal evidence presented in each study, summarized in a causal evidence rating of high, moderate, or low. For more information on CLEAR's procedures and causal evidence ratings, see the "About CLEAR" section at http://clear.dol.gov.

CLEAR causal evidence ratings of 25 studies in the Behavioral Finance: Retirement topic area
High: 6
Moderate: 2
Low: 17
Total: 25

For this brief, the 8 studies with high or moderate causal evidence ratings were further examined to determine whether they found evidence of favorable impacts of the programs studied on actual or hypothetical retirement savings behavior. A content expert then synthesized these findings across studies. A companion synthesis brief highlights gaps in the literature and common methodological flaws in studies that received low causal evidence ratings.

For all research reviewed in this topic area, CLEAR produced profiles that more fully describe the intervention, the study, and the estimated impacts. To access the profiles or companion synthesis brief, see the Behavioral Finance: Retirement topic area on the CLEAR website at http://clear.dol.gov/topic-area/behavioral-finance-retirement.

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