Behavioral Design Guides

A Financial Health Approach to Employer-Sponsored Retirement Savings Plans

finhealthnetwork.org

Authors

Hannah Gdalman
Manager,
Financial Services Solutions

Riya Patil
Associate,
Workplace Solutions

Zaanish Pirani
Manager,
Financial Services Solutions

Heidi Johnson
Senior Director,
Behavioral Economics

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Contents

About Our Behavioral Design Guides

This guide is part of a series designed to provide product managers, designers, and strategists with a behavioral framework for building finhealth-minded financial products.

What Is Behavioral Design?

We are all behavioral. The field of **behavioral science offers powerful insights** into what drives consumers' decisions, including the cognitive biases and mental shortcuts that help us all process and act on information. Behavioral biases don't mean consumers are unsophisticated or making bad choices; on the contrary, it means that people weigh many factors when making decisions. It is up to business leaders to understand these mechanisms and design products and services to support consumers' financial health.

Why Behavioral Design?

It supports consumers *and* unlocks business opportunities.

Improving financial health outcomes with behaviorally informed products and services is a route toward developing longer and better relationships with customers. Consumers who believe that their primary financial institution supports their financial health are:[1]

- **3x** more satisfied
- **3x** more likely to refer a new customer
- **5x** more likely to buy additional products and services

It supports financial institutions' equity strategies.

Research demonstrates that consumers with lower socioeconomic status, financial literacy, and numeracy skills are more influenced by choice architecture, or a decision's structure.[2, 3] Companies can reduce financial health disparities by structuring consumer choices in supportive – rather than harmful – ways.

How To Get Started

Integrating behavioral science into product design can be **effective and low-cost**. Nudges can influence consumers' choices without restricting their options or changing their economic incentives, such as:

- Determining which options to highlight.
- Updating whether a service is opt-in or opt-out by default.
- Reframing messaging.

Behavioral science is one tool that product leaders can use to support financial health, alongside practices such as transparent pricing and developing products and features that cater to demographically and financially diverse populations. Ongoing customer research is also important for helping companies identify how the recommendations in this guide might impact their specific customers. This guide is intended to highlight promising approaches to integrating behavioral science into product design for product leaders to learn from and adapt to their own context and customers' financial health needs.

1 Marisa Walster, Nadia van de Walle, & Stephen Arves, "Building Valuable Customer Relationships Through Financial Health," Financial Health Network, August 2020.

2 Kellen Mrkva, Nathaniel A. Posner, Crystal Reeck, & Eric J. Johnson, "Do Nudges Reduce Disparities? Choice Architecture Compensates for Low Consumer Knowledge," Journal of Marketing, January 2021.

3 Socioeconomic status is a measure combining educational attainment, occupational status, and income. Numeracy is the ability to apply mathematical concepts like probability and percentages.

Retirement Savings and Financial Health

Employers can support their employees' financial health by designing retirement savings plans that improve participation, savings behavior, and savings balances.

Many Americans struggle to save enough for retirement. According to the Financial Health Network's annual Financial Health Pulse® survey, in 2023, only 39% of people were confident they were on track to meet their long-term financial goals, a key indicator of overall financial health.[4] In fact, the majority of non-retired Americans (71%) are worried about having enough money to retire, which jumps to 88% of respondents with incomes in the lower third of the sample who report concerns about their retirement readiness.[5]

Most people obtain access to retirement savings tools through their employers, such as 401(k)s, 403(b)s, or other defined contribution plans.[6] Employers therefore have an important opportunity to design retirement plans that maximize employee uptake and savings. Designing retirement plans that support employee financial health can help employers attract and retain talent. Over three-quarters (76%) of workers say it's extremely or very important to them to have a job that offers an employer-sponsored retirement program.[7] Additionally, 60% of workers report that they are more likely to stay with their current employer if the company offers a retirement savings plan.[8]

Employers also have an opportunity to address disparities in retirement savings. Though almost three-quarters of workers have access to retirement savings benefits, only about 56% end up enrolling and participating in these plans.[9] Recent research finds that even after controlling for salary and tenure, Black and Hispanic workers have lower overall savings balances than white workers, with Black and Hispanic women contributing lower portions of their earnings toward their retirement savings than their white counterparts.[10, 11] Closing these gaps is particularly important given the fact that employer-sponsored retirement savings make up a larger portion of overall household wealth for Black households than households overall.[12] One way plan sponsors can address these inequities is by designing retirement plans that leverage behavioral economics principles to overcome some of the key barriers faced by employees who are participating or saving at lower rates.

4 The Pulse asks people to consider a range of longer-term financial goals including saving for a vacation, starting a business, buying or paying off a home, saving up for education, putting money away for retirement, or making retirement funds last. See Kennan Cepa et al., "Financial Health Pulse® 2023 U.S. Trends Report," Financial Health Network, September 2023.

5 Megan Brenan, "American's Outlook for Their Retirement Has Worsened," Gallup, May 2023.

6 Throughout this guide, we use the term "retirement savings plans" to refer to defined-contribution plans that include 401(k)s, 403(b)s, and other similar plans.

7 Juliana Menasce Horowitz & Kim Parker, "How Americans View Their Jobs," Pew Research Center, March 2023.

8 "Amid the war for talent, don't forget the retirement plan, Voya survey finds," Voya, November 2022.

9 "73 percent of civilian workers had access to retirement benefits in 2023," Bureau of Labor Statistics, September 2023.

10 The Financial Health Network recognizes that language evolves and different communities identify using different terminology. We typically use the terms Latinx or Latine to refer to people who identify as Spanish, Hispanic, or Latino. To refer to the Latino/a/e community in this report, we also use the terms Hispanic and Latino to reflect the terminology used by cited sources.

11 "Same Income, Same 401(k), Different Account Balance: The Critical Role of Retirement Plan Design in Addressing Racial and Gender Retirement Savings Gaps," The Collaborative for Equitable Retirement Savings, March 2024.

12 Hope Bodenschatz, Jeffrey Thompson, Aja Kennedy, & Luc Shuster, "Inequality and Insecurity in Retirement: Racial disparities in retirement plan coverage, assets and adequacy in the U.S. and Massachusetts," Boston Indicators, June 2024.

Though retirement plan design can help support employee retirement savings, it is not a singular solution. Retirement savings success also depends on other key factors such as adequate wages and access to plans, which directly impact a household's ability to save. Even with wages held constant, systemic inequities in how much households pay for goods and services also determine how much disposable income a household has to set aside for the long term. For example, Financial Health Network research found that Black and Latine households pay more on interest and fees for financial services than white households, both in absolute dollar terms and as a share of annual income.[13] Ensuring retirement savings success for all will require coordinated efforts from policymakers, employers, and recordkeepers.

This guide features recommendations across **four key opportunity areas** for policymakers, employers, retirement advisors, recordkeepers, and innovators to consider to support workforce retirement readiness and overall financial health:

1	2	3	4
Encouraging Enrollment	Building Savings Balances	Simplifying Asset Allocation	Protecting Balances
Employers should implement enrollment strategies, such as automatic enrollment and active choice, that streamline enrollment processes and boost participation rates.	Plan sponsors should set defaults and offer features that boost employee participation and savings rates.	Employers should simplify investment decisions to improve retirement outcomes and increase participation rates.	Employers can safeguard their workers' retirement savings by offering opportunities to replenish savings after hardships and preventing pre-retirement distributions when they change jobs.

Employer-Provided Retirement Savings Plans Are One Solution to a Broader Issue

This guide focuses on the behavioral design of employer-sponsored defined-contribution retirement plans – an important savings tool for many Americans. However, to ensure retirement security for all, the retirement savings solutions landscape must also include well-designed solutions that extend beyond traditional workers, such as state-sponsored individual retirement accounts. We urge stakeholders to continue innovating to ensure that there are tools that cater to those without access to an employer-sponsored plan.

Furthermore, the recommendations within this guide are intended as a jumping-off point. We encourage employers to test the outcomes of these approaches across different employee characteristics (e.g., race/ethnicity, income level, gender) to ensure positive retirement savings outcomes for their entire workforce.

[13] Meghan Greene, Wanjira Chege, MK Falgout, & Necati Celik, Ph.D., "FinHealth Spend Report 2023," Financial Health Network, June 2023.

Behavioral Design for Retirement Savings Plans

Opportunities and Guidelines

1 Encouraging Enrollment

Why It Matters

Enrollment in a retirement plan is a critical first step for building savings. However, even among workers with access to retirement plans, there are still gaps and disparities in plan uptake. One study found that among workers offered retirement plans by their employers, Black and Hispanic workers are 7.3 and 9.6 percentage points less likely to participate in a plan, respectively, than white workers.[14]

What's Challenging About It

Most people understand the importance of saving for retirement. In fact, a 2023 Gallup poll shows that among eight financial matters, U.S. adults are most concerned about having enough money for retirement.[15] However, barriers such as not knowing how much of their salary to contribute or how to choose investments can stand in people's way of taking action on their retirement savings intentions (this is also known as the intention-action gap).[16] Other challenges include:

- **Jumping through hoops:** Even for employees who have access to a retirement savings plan, complexities in the enrollment process – such as completing paperwork or linking accounts – can get in the way of plan participation. Also known as hassle factors, these factors slow down the enrollment process and can make it more difficult for employees to participate in the plan.[17]
- **Avoiding the process:** People who feel they are not on track to meet their retirement savings goals may avoid seeking information or taking steps that might confirm their fears. Known as the ostrich effect, this means that employees may put off taking action to enroll in a retirement plan if they are intimidated by the information or process they may encounter along the way.[18]

[14] Sudipto Banerjee, "Race, Retirement, and the Savings Gap," T. Rowe Price Associates, Inc., March 2024.

[15] Lydia Saad, "Americans Remain Discouraged About Personal Finances," Gallup, May 2023.

[16] Peter M. Gollwitzer & Paschal Sheeran, "Implementation Intentions and Goal Achievement: A Meta-analysis of Effects and Processes," Advances in Experimental Social Psychology, May 2006.

[17] James Choi, David Laibson, & Brigitte Madrian, "Reducing the Complexity Costs of 401(k) Participation Through Quick Enrollment(TM)," National Bureau of Economic Research, January 2006.

[18] Arna Olafsson & Michaela Pagel, "The Ostrich in Us: Selective Attention to Financial Accounts, Income, Spending, and Liquidity," National Bureau of Economic Research, January 2023.

How To Help

Employers that offer a retirement benefit – also called plan sponsors – can promote participation and savings through several facets of their plan design, such as matching employee contributions (see Building Savings Balances). Plan sponsors also influence uptake through the enrollment process design.

Below we discuss two options for designing enroll ment to drive participation in retirement plans.

Option 1: Automatically Enroll Employees

Automatic enrollment is the gold standard for improving participation rates.

With voluntary or opt-in enrollment design, employees do not participate in a retirement savings plan unless they take action to complete the necessary steps to enroll. With automatic enrollment design, however, employees are enrolled in the company retirement plan unless they take action to opt-out. This helps employees follow through on intentions because a lack of action results in employees being enrolled and saving into the plan. Auto-enrollment removes friction and eliminates the need for employees to make complex plan choices – such as choosing how much to save from each paycheck and how to invest retirement funds – without restricting their options.

Automatic enrollment has steadily increased in popularity among plan sponsors over the past decade and a half, and research has continually shown that it is by far the most effective strategy for increasing employee participation rates.[19]

As of 2022, over half (58%) of Vanguard defined-contribution (DC) plans permitting employee-elective deferrals use automatic enrollment, up from just 10% in 2006.[20] Overall, Vanguard auto-enrollment plans boast an average participation rate of 94%, compared with 67% for plans using opt-in enrollment.[21] In fact, auto-enrollment can have larger effects on plan uptake than costlier strategies like incentivizing participation through employer match rates.[22]

Auto-enrollment is particularly effective at increasing retirement plan participation among workers who are less likely to opt in on their own, such as young employees, employees of color, and those with lower incomes.[23, 24] Research shows that automatic enrollment benefits employees overall without causing financial harm. To examine whether auto-enrollment could result in employees being opted into savings plans they can't afford, a study measured indicators of financial distress, namely credit scores or auto and mortgage debt balances, and found that autoenrollment did not lead to meaningful changes in these indicators.[25]

While automatic enrollment is clearly effective at increasing plan participation, the success of auto-enrollment in improving retirement savings balances hinges largely on how plan sponsors set their auto-enrollment plan defaults; see the following sections for more guidance on this topic.

[19] John Beshears, James J. Choi, David Laibson, & Brigitte C. Madrian, "The Importance of Default Options for Retirement Saving Outcomes: Evidence from the United States,"Lessons from Pension Reform in the Americas, 2008.

[20] "How America Saves 2024," The Vanguard Group, Inc., June 2024.

[21] Ibid.

[22] Brigitte Madrian, "Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective," National Bureau of Economic Research, July 2012.

[23] Richard W. Patterson & William L. Skimmyhorn, "How do Behavioral Approaches to Increase Savings Compare? Evidence from Multiple Interventions in the U.S. Army," National Bureau of Economic Research, November 2022.

[24] Brigitte C. Madrian & Dennis F. Shea. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." Quarterly Journal of Economics, November 2001.

[25] John Beshears et al., "Borrowing to Save? The Impact of Automatic Enrollment on Debt." The Journal of Finance, February 2022.

SPOTLIGHT IDEA

Automatic Re-Enrollment

In addition to auto-enrolling workers into a retirement savings plan upon hire (or upon gaining eligibility), plan sponsors can also automatically *re-enroll* workers each year to promote participation among workers who have previously opted out or stopped saving. Automatic re-enrollment can be a way for plan sponsors to strategically re-engage employees whose circumstances may have changed since they last opted out and may be more inclined to participate. For example, a case study by USI Consulting Group indicated that re-enrollment increased the rate of participation in one employer's retirement plan from 75% to 95%.[26]

One concern about automatic re-enrollment is that it could lead to financial hardship if workers are unknowingly re-enrolled in a plan after they had previously opted out. However, another study on auto re-enrollment conducted in the UK found that workers who had opted out initially were likely to opt out again when re-enrolled.[27] This suggests that those not ready to participate will likely continue to opt out, rather than being passively swept into a plan they cannot afford.

[26] "Employer Support Can Help Employees Attain Financial Wellness." USI Consulting Group, May 2024.

[27] Jonathan Cribb & Carl Emmerson, "Requiring Auto-Enrollment: Lessons from UK Retirement Plans," Center for Retirement Research at Boston College, March 2019.

Option 2: Use Active Choice

Prompting employees to make active choices can also increase participation rates.

For plan sponsors who choose not to use automatic enrollment, encouraging employees to make an active decision about enrolling in retirement plans can also help drive participation, though to a smaller degree. Also known as active choice, this strategy can help to overcome some of the barriers employees face in the voluntary enrollment process by engaging employees to make an explicit decision between a set of options at onboarding. This strategy increases attention to the choice and prompts consideration of long-term implications, which can help overcome procrastination.

Research indicates that using active choice in enrollment can improve employee participation and savings rates. In one study of active choice design, employees were required to submit a form within 30 days of their hire date indicating whether they wished to participate in the company's retirement savings plan. (Employees had to submit the form whether they wished to enroll or not.) This approach increased enrollment rates by 28 points compared with opt-in design (69% versus 41%), leading more employees to start saving.[28] Another study with U.S. Army employees found that prompting workers to make an active choice about signing up for the retirement savings plan doubled participation rates (from around 11% to 22%) and increased contribution rates from an average of 5.63% of income to 10% of income compared with voluntary enrollment (notably, auto-enrollment increased participation by approximately 1,000% and savings rates by over 800%).[29]

[28] Gabriel D. Carroll et al., "Optimal Defaults and Active Decisions," The Quarterly Journal of Economics, November 2009.

[29] Richard W. Patterson & William L. Skimmyhorn, "How do Behavioral Approaches to Increase Savings Compare? Evidence from Multiple Interventions in the U.S. Army," National Bureau of Economic Research Working Paper, November 2022.

SPOTLIGHT IDEA

Messaging Tactics

To maximize the impact of active choice, plan sponsors can consider supplementing active choice with "light-touch" messaging tactics, such as informational emails and planning prompts, to stimulate interest and encourage action.[30] The same study with the U.S. Army found that sending emails to employees that included clear action steps to start contributing to their retirement accounts led to a slight increase in participation, compared with employees who didn't receive these action steps – from 5.6% to 6.2% of employees.[31] The study also found that sending emails with target contribution rates (e.g., "Many employees like you start by contributing at least 5% of their pay into a retirement account") increased average employee contribution rates from 3% to 3.4% of income compared with employees who didn't receive this message.[32] Though these messaging tactics have smaller effects on participation and contribution rates than active choice enrollment or automatic enrollment designs, plan sponsors can consider how to layer them in with these other strategies.

Unlike autoenrollment, active choice doesn't solve for some of the decisions involved in the enrollment process, such as choosing a contribution rate or how to invest retirement funds. (We provide further guidance on contribution rates and asset allocation in the sections to follow.) When applying active choice within an opt-in enrollment design, employers can streamline the enrollment process and reduce the cognitive load on employees by highlighting certain options for these decisions that employees can easily select. Hewitt Associates' Quick Enrollment™ is an example of a program that applied this strategy by prompting employees to opt into a default or pre-selected contribution rate and asset allocation, therefore reducing the complexity and time required to complete enrollment.[33] Quick Enrollment nearly quadrupled employee participation rates from 9% to 34% at one company and nearly tripled participation rates from 6% to 16% at another.[34]

[30] Richard W. Patterson & William L. Skimmyhorn, "How do Behavioral Approaches to Increase Savings Compare? Evidence from Multiple Interventions in the U.S. Army," National Bureau of Economic Research Working Paper, November 2022.

[31] Ibid.

[32] Ibid.

[33] John Beshears, James J. Choi, David Laibson, & Brigitte C. Madrian, "The Importance of Default Options for Retirement Saving Outcomes: Evidence from the United States," Lessons from Pension Reform in the Americas, 2008.

[34] Ibid.

2 Building Savings Balances

Why It Matters

Employee contribution rates, or the percentage of income that employees divert from each paycheck into their retirement savings accounts, directly influence the amount of retirement savings a person can accumulate as they approach retirement. Research by the Collaborative for Equitable Retirement Savings (CFERS) identified disparities in contribution rates as one of the main drivers of gaps in overall retirement balances; namely, Black and Hispanic females have lower average contribution rates than men and white women after controlling for age, salary, and other characteristics.[35] Though plan design cannot solve barriers related to disparities in wages and cost of living, ensuring plans are designed to encourage higher contribution rates is one way employers can encourage higher employee balances in the long term, since even small increases in contribution rates compound over the course of a career (see Figure 1).

What's Challenging About It

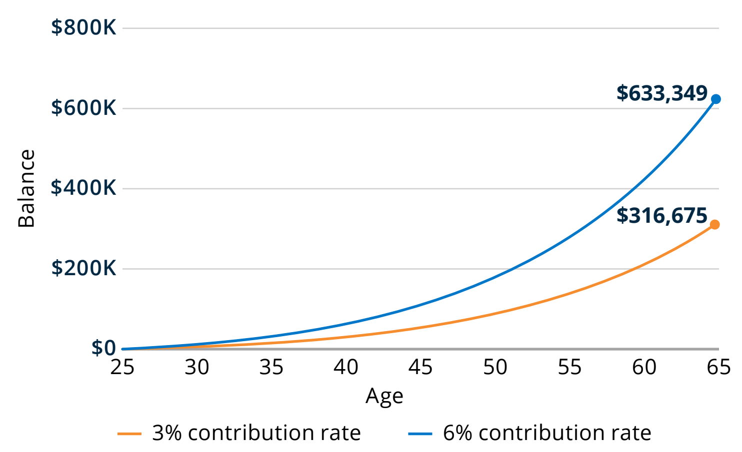
Deciding what portion of one's salary to divert into retirement savings is challenging. Employees must consider their current financial obligations as well as how much they'll need in retirement, all while factoring in the role of compound interest in growing their balance over time. Key barriers facing employees when choosing a contribution rate include:

- **Anchoring on the default contribution rate:** For retirement plans that implement a contribution rate default, this default can act as an anchor that draws down the amount people choose to save.[37] Researchers found that when a large U.S. employer introduced a 3% contribution rate default as part of an auto-enrollment design for new employees, average savings rates decreased because more employees were drawn to the low 3% anchor amount.[38]

Figure 1. Contribution rate simulation.

40-year retirement balance simulation with 3% and 6% contribution rates.

Note: Calculations assume a starting balance of $0, a starting salary of $35,000/year with an annual 3% salary increase and a steady 7% rate of return, with growth compounded annually.[36] This simulation assumes that contribution rates stay consistent over time and do not account for an employer match.



[35] "Same Income, Same 401(k), Different Account Balance: The Critical Role of Retirement Plan Design in Addressing Racial and Gender Retirement Savings Gaps," The Collaborative for Equitable Retirement Savings, March 2024.

[36] The $35,000 starting salary is roughly based on the median usual weekly earnings (second quartile) for full-time wage and salary workers 16 to 24 years old as reported by the Bureau of Labor Statistics, series LEU0252886300. See: "Data Retrieval: Labor Force Statistics," U.S. Bureau of Labor Statistics, September 2015.

[37] Amos Tversky & Daniel Kahneman, "Judgment under uncertainty: Heuristics and biases," Science, September 1974.

[38] Brigitte C. Madrian & Dennis Shea, "The Power of Suggestion: Inertia in 401(K) Participation and Savings Behavior," National Bureau of Economic Research, December 2022.

How To Help

When faced with complex decisions, people often look for external cues or 'rules of thumb' about how to proceed.[39] For contribution rates, this means employees are quite sensitive to defaults, which act as a cue or endorsement of how much they should save. People also tend to stay with the current state of things (see status quo bias), which means that employees aren't likely to revisit their contribution rate choice over time. Employers can combat low savings rates by setting higher default contribution rates during enrollment and encouraging rate increases over time with an auto-escalation feature.

'Push the Envelope' With Default Contribution Rates

When setting savings rate defaults, erring high leads to better outcomes.

Plan sponsors must set default contribution rates as part of auto-enrollment or when sending cues about contribution rates within other plan enrollment designs. When encountering a default contribution rate, employees either accept the default or choose another savings rate that is either higher or lower than the default amount (including a savings rate of zero, thus opting out altogether). The contribution rate set by employers not only influences the savings rates for the employees who accept the default, but it can also influence the custom amounts employees choose when they decline the default. In order to avoid anchoring employee savings rates on a low contribution rate when auto-enrolling them into a plan, plan sponsors should set default contribution rates in a way that draws up the amount most employees choose to contribute to retirement savings while pulling only a few down (see Choosing a Default Contribution Rate).

Plan sponsors have begun recognizing the benefits of setting higher default contribution rates: As of 2022, over a quarter (28%) of Vanguard defined contribution plans with automatic enrollment used a default contribution rate of 6% of income or higher, more than double the share of plans that did so in 2013.[40] Although employers may be concerned about the budget implications of matching a higher default contribution rate, there are opportunities to mitigate this cost; see Raise the Match Threshold for further discussion.

For voluntary enrollment plans that don't default employees into a set contribution rate, plan sponsors can still highlight higher contribution rates to similarly pull up savings rates. A study tested the effects of sending employee email messages with different suggested contribution rates or "cues" and found that emails with higher suggested savings rates increased employee contribution rates from an average of 8.4% to 10.7% of income over the next pay period.[41] For plans that use active choice to promote enrollment, including an active choice between one or more suggested savings rates and a custom rate can similarly provide employees with a helpful reference point and encourage them to save more.

[39] Alejandro Drexler, Greg Fischer, & Antoinette Schoar, "Keeping It Simple: Financial Literacy and Rules of Thumb," American Economic Journal: Applied Economics, April 2024.

[40] "How America Saves 2023," The Vanguard Group, Inc., June 2023.

[41] James Choi, Emily Haisley, Jennifer Kurkoski, & Cade Massey, "Small cues change savings choices," Journal of Economic Behavior & Organization, October 2017.

CHOOSING A DEFAULT CONTRIBUTION RATE

One risk to consider when setting a high contribution rate is that it could sway employees to opt out of the plan altogether, but research indicates that pushing the boundaries with higher default contribution rates can lead to higher savings without harming plan participation. A study with Voya Financial tested contribution rates ranging from 6% to 11% of employees' salaries and found that overall, higher defaults led to higher employee savings rates two months later, with only the 11% contribution rate being associated with a slightly increased chance of employees opting out of plan participation.[42] As contribution rates increased from 7% to 11% of income, a higher share of employees declined the default and chose a custom, lower rate, suggesting that employees won't adhere to defaults that aren't within their means.[43]

Generally speaking, an ideal default contribution rate should be slightly higher than the rate employees would choose in the absence of a default or suggested rate. Using employee enrollment data, researchers estimated what contribution rate default would be the best at raising the average contribution rate of a given employee pool. Their model identified that a default contribution rate of 6% or 7% of income would be ideal for the employees in their study.[44] Similarly, a working paper on Oregon's state-sponsored retirement plan, OregonSaves, which serves a predominantly low- to moderate-income population, posits that a 7% default contribution rate would be best for increasing overall savings rates while preventing too many participants from opting out of the program altogether.[45]

Whenever possible, plan sponsors should examine retirement saving outcomes across different employee segments to ensure that default contribution rates positively impact their entire workforce.

[42] John Beshears, Shlomo Benartzi, Richard Mason, & Katherine L. Milkman, "How Do Consumers Respond When Default Options Push the Envelope?," October 2017.

[43] Ibid.

[44] John Beshears, Richard T. Mason, & Shlomo Benartzi, "How to Choose a Default," Behavioral Science & Policy Volume 8 Issue 1, 2022.

[45] Mingli Zhong, "Optimal Default Retirement Saving Policies: Theory and Evidence from OregonSaves," Wharton Pension Research Council Working Paper, April 2021.

SPOTLIGHT IDEA

Reframing Contribution Rates

Plan sponsors also have an opportunity to increase employee retirement savings by presenting the recommended or default contribution rates in more relatable terms. Instead of framing savings as a percentage of earnings, which can be abstract, employers can find ways to frame savings in simpler, more tangible terms.

A field study found that when contribution rates were framed as pennies per dollar earned rather than percentages, employees' overall savings rates increased.[46] For example, a contribution rate of 6% would instead be framed as saving 6 pennies for every dollar earned. This approach was particularly effective for employees with lower incomes: among those earning less than $46,000 annually, average savings rates increased from 6.88% to 8.03% when savings were framed in terms of pennies on the dollar.[47]

Implement Automatic Savings Rate Increases

Auto-escalation leads to higher savings rates.

Another way plan sponsors can promote higher savings rates is by setting a default option at enrollment that increases participants' retirement contribution rates steadily over time. While employees can increase their retirement contributions at any point, this requires extra effort and isn't likely top-of-mind. Instead, employers can make it easier by implementing an auto-escalation feature that increases employee contribution rates by a set percentage at a set cadence (e.g. a 1% increase once per year or each time an employee receives a salary increase). For one, auto-escalation features remove friction by making savings rate increases happen in the background without requiring direct action from employees. Secondly, employees may find it easier to agree to increase their savings rate in the future than in the present moment because planning to save more later doesn't impact their current spending.[48]

Automatic escalation features are common among both auto-enrollment and opt-in enrollment plans. Seventy percent of Vanguard automatic enrollment DC plans default participants into an annual increase feature, and 65% of Vanguard opt-in enrollment plans offer an auto-escalation feature.[49] Participants who were automatically enrolled in Vanguard DC plans with an automatic escalation feature had higher average contribution rates than those who were auto-enrolled into plans with no escalation feature after three years (6.9% versus 5.8%). [50]

[46] Stephen Shu, Hal Hershfield, Richard Mason, & Shlomo Benartzi, "Reducing Savings Gaps Through Pennies Versus Percent Framing," Cornell SC Johnson College of Business, January 2022.

[47] Ibid.

[48] Richard H. Thaler & Shlomo Benartzi, "Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving," Journal of Political Economy, February 2004.

[49] Jeffrey W. Clark, "How Americans can save more for retirement," The Vanguard Group, Inc., October 2023.

[50] Jeffrey W. Clark & Jean A. Young, "Automatic enrollment: The power of the default," The Vanguard Group, Inc., February 2018.

Typically, employer plans use a 1% automatic escalation rate per year (66% of Vanguard DC plans with automatic enrollment used a 1% escalation rate in 2022), and many will halt automatic increases when contribution rates reach a cap of 10% or more (41% of Vanguard plans cap automatic increases at 10% as of 2022, and 32% halt escalation when savings reach a rate between 11%-20%).[51] Plan sponsors can consider how higher escalation rates and caps might benefit employee savings: new research with Voya suggests that pushing auto-escalation rates to 2% per year could increase employee savings faster without increasing the chance that employees will opt out entirely. [52]

As with contribution rates, auto-escalation options can also be highlighted to employees in plans using opt-in enrollment or active choice design to help increase savings rates gradually over time.

Raise the Match Threshold

Setting higher match thresholds can drive participation and savings.

Another tool that employers use to incentivize employees to save into retirement accounts is the company match. These features can increase overall plan participation as well as savings rates.[53] Specifically, match thresholds – or the maximum amount an employer will match employee savings within a given year – act as an important cue for employees when they are deciding how much to save toward retirement.[54] When an employer changed its match threshold from 5-6% to 7-8% of pay (exact rates depended on employee roles), employee contribution rates followed suit: before the change, fewer than 10% of employees were saving at 7-8% of income; after the change, over 30% of employees were saving at that level.[55]

Changes in the match threshold had a dramatic impact on employee savings rates, likely because the threshold acts as a target or anchor that informs employee savings behavior. [56]

Given this, employers using autoenrollment design should consider how their company match interacts with their default contribution rate, another key factor for employee savings rates. If the match threshold is lower than the default contribution rate, for example, plan sponsors risk drawing down employee savings rates. Of course, increasing the match cap comes at a cost to employers, so one approach is to lower the match rate while increasing the match threshold (e.g. a 50% match up to 8% of pay instead of a 100% match up to 4% of pay) to lower total costs. However, plan sponsors should pay attention to how this approach impacts savings

[51] "How America Saves 2023," The Vanguard Group, Inc., June 2023.
[52] "How to auto-escalate your 401(k)," Voya Financial, February 2023.
[53] Brigitte C. Madrian, "Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective," National Bureau of Economic Research, July 2012.
[54] James Choi, Emily Haisley, Jennifer Kurkoski, & Cade Massey, "Small cues change savings choices," Journal of Economic Behavior & Organization, October 2017.
[55] Brigitte C. Madrian, "Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective," National Bureau of Economic Research, July 2012.
[56] Ibid.

outcomes for different groups of employees, such as lower-income versus higher-income earners. For plan sponsors prioritizing the needs of lower-income employees, setting high default contribution rates and integrating other features like immediate eligibility and vesting may be more beneficial than raising elective matches.[57]

Another strategy that doesn't risk interacting with contribution rate defaults is to offer non-matching contributions (also known as non-elective contributions). Non-matching contributions aren't tied to employee savings rates such that all employees receive the same income percent 'match' (e.g. 4% of pay) regardless of how much they can contribute in a given year. This tactic may also be more equitable for employees with less disposable income who may not be able to save as much toward retirement. (Dollar thresholds are another consideration for employers focused on equity – see Dollar Match Thresholds for Equity.)

SPOTLIGHT IDEA

Dollar Match Thresholds for Equity

While many plans structure match thresholds as a percentage of salary (e.g., $1.00 per dollar up to 6% of annual pay), another option is to structure match thresholds as a maximum dollar amount (e.g., $1.00 per dollar up to a $3,000 maximum match). From an equity perspective, dollar amount match thresholds can benefit lower-income earners because the maximum match represents a higher percentage of their salaries compared to their higher-paid counterparts. This can help address current disparities in retirement savings balances by worker income level, especially given that women, Black people, and Hispanic or Latino people are more likely to earn low incomes than their male or white counterparts.[58, 59]

Savings rates held constant, whereas percentage match thresholds benefit the highest earners the most, dollar amount match thresholds can spread plan sponsor dollars more equitably across employees and provide an important boost for employees earning lower incomes.[60] Dollar amount thresholds can also offer a more straightforward maximum cost for the plan sponsor because they don't function as a share of employee incomes.[61]

[57] Fiona Greig et al., "Are employers optimizing their 401(k) match?," The Vanguard Group, Inc., May 2024.

[58] "Older Workers: Retirement Account Disparities Have Increased by Income and Persisted by Race Over Time," United States Government Accountability Office, July 2023.

[59] "A profile of the working poor, 2021," U.S. Bureau of Labor Statistics, November 2023.

[60] Fiona Greig et al., "Are employers optimizing their 401(k) match?," The Vanguard Group, Inc., May 2024.

[61] Ibid.

3 Simplifying Asset Allocation

Why It Matters

The distribution of a retirement savings balance across different asset categories like stocks, bonds, and cash investments is a key determinant of retirement portfolio growth over time. Successful investing generally involves diversifying investments and adjusting the mix of assets over time based on proximity to retirement age. However, differences in investment knowledge and experience can lead to disparities in investment performance. Designing plan features that help employees make optimal investment decisions is crucial for ensuring equitable retirement outcomes for all employees.

What's Challenging About It

Deciding how to allocate retirement savings across different types of investments is a critical yet complex decision for employees. This process requires a good understanding of investment principles and risk management, which can be overwhelming for many employees. The burden of making informed choices often falls heavily on employees who may lack the necessary investment knowledge and experience. Other barriers facing employees when deciding how to invest their retirement savings include:

- **Too many fund choices:** Employees may face an overwhelming number of investment options in their retirement plans. The complexity of evaluating multiple funds with varying characteristics can lead to choice overload, which can result in employees struggling to make any decision at all, thus failing to complete enrollment to participate in a retirement plan.[62]
- **Not revisiting fund mix over time:** Typically, as employees approach retirement, they should reallocate a larger share of their assets to more stable investments, thus decreasing the risk of lacking money at retirement. However, after making their initial investment choices, employees may fail to adjust their asset allocation and instead leave things as they are, also known as status quo bias.[63] This can result in portfolios that are either too risky or too conservative, impacting the growth and stability of their retirement savings.

[62] Barry Schwartz, "The Paradox of Choice: Why More Is Less," Ecco Press, 2004.
[63] William Samuelson & Richard Zeckhauser, "Status Quo Bias in Decision Making," Journal of Risk and Uncertainty, March 1988.

How to Help

To assist employees in making informed investment decisions and achieving better retirement outcomes, employers can streamline the asset allocation process by reducing the number of fund choices they present to employees and by offering target-date funds (TDFs) as an option. These strategies and resources can help employees, regardless of their investment experience, avoid decision paralysis and ensure their investments are automatically adjusted over time to match their retirement goals.

Reduce the Number of Fund Choices

Optimizing fund selection can lead to informed decisions and higher participation rates.

Having too many investment choices can overwhelm employees, leading to lower participation in retirement plans. The average Vanguard DC plan offered upward of 27 options for investment funds in 2022, remaining generally unchanged since 2013.[64] However, more choices are not always better: a study comparing participation rates across a set of Vanguard 401(k) plans found that each additional 10 investment fund options were associated with a 1.5% to 2% decrease in employee participation rates.[65] Furthermore, plans with fewer than 10 options had significantly higher average participation rates than plans with more options. [66]

Plan sponsors should ensure employees have a well-balanced mix of fund options, including low-fee funds, without overwhelming them with too many options. By reducing the number of available fund options, employers can make the investment decision process less daunting and more manageable. As a complement to this approach, offering access to financial advisors can also help employees invest their savings. A study by Morningstar found that employees who opted into a financial advice platform had more diversified portfolios after receiving expert guidance.[67]

[64] "How America Saves 2023," The Vanguard Group, Inc., June 2023.

[65] Sheena S. Iyengar, Wei Jiang, & Gur Huberman, "How Much Choice is Too Much?: Contributions to 401(k) Retirement Plans," Pension Research Council, The Wharton School, University of Pennsylvania, July 2004.

[66] Ibid.

[67] David Blanchett, "The Impact of Expert Guidance on Participant Savings and Investment Behaviors," Morningstar, August 2024.

Simplify Asset Allocation With Target-Date Funds

Offering TDFs can simplify choices and improve retirement outcomes

Simplifying the asset allocation process through the use of target-date funds (TDFs) can enhance employee's retirement outcomes and reduce complexity. TDFs are a managed fund that automatically adjusts an employee's asset allocation over time (based on their current age and target retirement date), shifting from higher-risk assets to lower-risk options as the employee approaches retirement. A working paper from the National Bureau of Economic Research estimates that allocating assets into a TDF could increase retirement wealth by as much as 50% over a 30-year period, compared with an employee-managed portfolio.[68]

The popularity of TDFs has surged in recent years, with assets growing from $5 billion in 2000 to $734 billion in 2018, partly due to regulations that recognize them as suitable default investments for automatic enrollment plans.[69] In fact, TDFs are the most common Qualified Default Investment Alternative (QDIA); among Vanguard DC plans with a designated QDIA, 98% use a TDF as the default option in their retirement plans.[70] Additionally, 96% of all Vanguard DC plans offer a TDF option, and 83% of all Vanguard DC plan participants use TDFs as their investment choice.[71]

While TDFs are personalized based on the target retirement date, they may not fully account for each employee's overall financial picture, risk tolerance, and retirement plan. For employees looking to minimize fees and maximize returns through a customized approach, TDFs might not be the best solution. However, target-date funds are a particularly important option for employees who might not otherwise adjust their fund allocation over time or who may avoid enrolling in a retirement plan altogether if they are unsure of how to choose a fund allocation.

Offering target-date funds as one option among a selection of investment choices can provide convenience for those who need it while still allowing flexibility for those who prefer a more customized approach. Given the complexity of the asset allocation decision, employees likely seek external cues to guide them when selecting their investment options. Employers can also highlight the benefits of TDFs during active choice enrollment, presenting them as a low-maintenance option due to their automatic portfolio adjustments.

[68] The researchers based their estimate on a hypothetical 30- year-old participant earning $35,000 per year with a contribution rate of 10%. See: Olivia S. Mitchell & Stephen P. Utkus," Target Date Funds and Portfolio Choice in 401(k) Plans," Center for Financial Studies, Goethe University, May 2021.

[69] Ibid.

[70] "How America Saves 2023," The Vanguard Group, Inc., June 2023.

[71] Ibid.

4 Protecting Balances

Why It Matters

Given the importance of compound growth for retirement savings, employers also have an opportunity to design plans that protect employee retirement balances from pre-retirement distributions, or leakage. The Joint Committee on Taxation estimates that as much as 2% of net retirement contributions (made by employees aged 50 or under) is lost to leakage each year.[72] Two primary drivers of retirement plan leakage are cash distributions that occur when employees with small retirement balances change jobs and fail to roll over their funds into a new plan or individual retirement account (IRA) and pre-retirement withdrawals to cover financial hardships.[73]

When workers leave a job with less than $1,000 in their retirement accounts, they generally have 60 days to transfer the money to another retirement account. If employees fail to act, the plan provider often automatically closes their account and sends them a check with the balance.[74] These automatic disbursements can disrupt savings momentum, in addition to incurring tax penalties for pre-retirement withdrawals. A study by Alight using data from 2008-2017 found that only 11% of DC plan participants with retirement balances less than $1,000 executed a rollover of their balance upon leaving their employer.[75, 76] Younger employees are particularly vulnerable to leakage resulting from failure to rollover funds during job changes.[77]

Additionally, an increasing number of workers take hardship distributions from their 401(k) plans, with a record-high 3.6% of Vanguard-managed plan participants doing so in 2023.[78]

What's Challenging About It

Especially for workers with lower incomes, a need for more liquidity can trump longer-term retirement savings goals, leading to pre-retirement withdrawals. Additionally, a lack of solutions that allow employees to easily roll over retirement savings from one employer's retirement plan to another – also known as portability – can disrupt savings growth, particularly for employees with low retirement balances or those who change jobs frequently. Other challenges include:

[72] "Estimating Leakages From Retirement Savings Accounts," Joint Committee on Taxation, April 2021.

[73] Ibid.

[74] Workers with account balances less than $1,000 are subject to mandatory cash distributions and associated tax penalties if they fail to rollover within 60 days of leaving their employer, and those with balances between $1,000-$7,000 are subject to automatic distribution to an IRA. This threshold increased from $5,000 to $7,000 in 2024 under the Secure 2.0 Act. See: "SECURE 2.0 Act of 2022," Senate Finance Committee, 2022.

[75] "What do workers do with their retirement savings after they leave their employers?," Alight, 2019.

[76] ERISA similarly estimated that as many as 60% of plan participants with balances under $1,000 cash out their balances upon leaving their job. See: "Auto Portability Research & Simulation: Automating Plan-to-Plan Transfers for Small Accounts," Retirement Clearinghouse LLC, and Employee Benefit Research Institute, June 2016.

[77] Angela A. Hung, Jill E. Luoto, & Jeremy Burke, "Defaulting In and Cashing Out?," RAND Labor & Population, 2015.

[78] Jeffrey W. Clark, "How America Saves 2024," The Vanguard Group, Inc., 2024.

- **Underestimating the potential for compound growth:** People tend to underestimate how much the interest on their retirement investments can add up over time. Also known as exponential growth bias, this can contribute to retirement balance leakage or cause people to be less inclined to replenish leaked balances quickly.[79]
- **Barriers to rolling over funds:** When leaving or changing jobs, employees face a significant amount of friction when rolling over their retirement account balance to a new provider, such as choosing a new plan provider, opening an account, filling out forms with their current and new plan administrators to initiate the rollover, or manually depositing their balance into the new account in the case that a direct transfer between providers isn't possible. A survey among workers who had recently completed a 401(k) rollover found that a quarter (25%) of respondents said that there were too many steps to follow in the rollover process.[80]

How To Help

Employers can integrate features into their plan design that help protect employees' retirement balances over time. To ensure employee retirement balances don't suffer at the point of leaving or changing jobs, employers can integrate automatic portability. Additionally, offering repayment options can help rebuild balances after pre-retirement withdrawals.

Integrate Portability

Automatic portability can prevent unintended leakage from job changes.

Employers can help avoid leakage when employees leave their jobs by integrating fund portability into their workplace retirement plan savings design, which simplifies the rollover process and minimizes the risk of cashing out (and the tax penalty associated with that).[81, 82] Similar to automatic enrollment, automatic portability means that if an

[79] Victor Stango & Jonathan Zinman, "Exponential Growth Bias and Household Finance," The Journal of Finance, November 2009.

[80] "401(K) PLANS Additional Federal Actions Would Help Participants Track and Consolidate Their Retirement Savings," United States Government Accountability Office, January 2024.

[81] Benjamin Roth, Andrew Green, & Angela Antonelli, "Auto-Portability: What it is, Why it's Needed, and How it Will Strengthen Retirement Security," Georgetown University Center for Retirement Initiatives, January 2020.

[82] Riya Patil, Tanya Ladha, & Matt Bahl, "The State of Retirement Security in America," Financial Health Network, June 2024.

employee takes no action, their retirement balance is rolled over to the new employer's account. This is especially important for small-dollar accounts that may otherwise be automatically cashed out by the provider. Further, this process can help prevent workers who change jobs frequently from having multiple small-dollar retirement saving accounts spread across various providers, instead consolidating accounts and making it easier to keep track of retirement savings balances and growth.

In the case that a worker does not have access to an eligible plan with their new employer, plan sponsors can instead automatically roll over small balances into a qualified individual retirement account that allows for automatic enrollment and payroll deferrals (also known as an auto-IRA). Auto-IRAs are tied to the individual, not the employer, which means they can be carried over from one job to another. Auto-portability combined with auto-IRAs can help reduce cash-outs when employees change jobs and encourage workers to continue growing their retirement savings.[83]

Recently, requirements for seeking employee consent in advance of moving balances to portable IRAs were relaxed, making it even easier for employers to enact automatic portability.[84] In fact, a simulation study finds that auto-portability shows promise for reducing retirement savings shortfalls when combined with auto-IRAs, especially among younger households.[85] While auto-IRAs simplify the process of rolling over funds and help employees avoid tax penalties, they do not assist with investing those funds. As a result, IRA balances may not grow over time if the employees fail to invest their rolled-over funds.

As part of automatic portability, plan sponsors can enact active choice at offboarding and prompt employees to make an active decision about whether to roll over their savings account balance to a new employer's plan or an IRA. Prompting employees to actively choose can help solve barriers like friction and inattention.

Figure 2. Manifest's digital rollovers.

Manifest is an employer add-on platform that ensures workers can quickly and easily consolidate and roll over their retirement accounts when switching jobs. By facilitating provider-to-provider rollovers, Manifest enables retirement account consolidation and aims to reduce cash-out risks and simplify investment management.

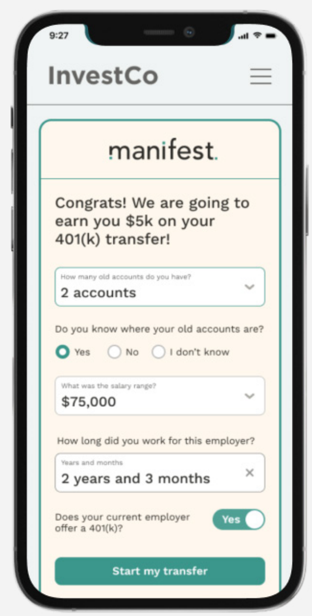


Image from usemanifest.com/partners.

[83] Jack VanDerhei, "The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage," Employee Benefits Research Institute Issue Brief, August 2019.

[84] Lee Barney, "DOL Exemption Paves Way for Auto Portability," PlanSponsor, August 2019.

[85] Jack VanDerhei, "The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage," Employee Benefits Research Institute Issue Brief, August 2019.

Offer Repayment Options for Retirement Account Withdrawals

Including options to pay back withdrawals can boost participation and savings behavior.

When experiencing a financial shock such as loss of income, medical expenses, or other unexpected hardship, workers may turn to their retirement savings to help cover the shock. This is especially true for workers with lower incomes who may have limited access to other sources of liquidity. In addition to offerings that provide a source of liquidity so that employees don't have to make the tradeoff between accessing funds and maintaining their retirement balances (such as emergency savings programs), plan sponsors should provide solutions that allow workers to access their retirement savings during times of hardship while minimizing the long-term effect on retirement balances. Integrating loans into a plan design can allow employees to borrow funds from their retirement accounts to cover present-day needs (without incurring tax penalties), while committing to paying themselves back, therefore replenishing balances and the potential for compound growth over time.

In fact, having the option to borrow from one's retirement account has positive impacts on employee participation and savings rates, regardless of whether they actually take out a loan. A study of over half a million Vanguard retirement plan participants found that having the ability to take a 401(k) loan increased the likelihood of participating in retirement plans by 24 percentage points (auto-enrollment was the only other plan feature with such a significant effect on participation) and increased contribution rates among participating employees by 17%.[86] Offering plan loans has become increasingly common among employers: as of 2022, 82% of Vanguard retirement plans offer the option to borrow from their plans, up from 78% of plans in 2018.[87]

Hardship withdrawals are another plan feature that recognizes employees' need for emergency liquidity and have similarly grown in popularity over the last several years, with 95% of Vanguard plans offering options for penalty-free hardship withdrawals as of 2022. Additionally, the SECURE 2.0 Act of 2022 makes it easier for plan sponsors to offer employees access to emergency hardship withdrawals of up to $1,000 per year, penalty-free.[88] Plan sponsors should consider structuring emergency hardship withdrawals like loans and prompt employees to repay the balance over time, on top of their normal elective deferrals. New research examined employee savings behavior when taking a retirement savings loan or hardship withdrawal and found that overall, most workers do not reduce their retirement contributions after taking a withdrawal.[89] This was particularly true among lower-income workers, who were least likely to reduce their contributions following a loan or emergency withdrawal.[90] This suggests that workers who turn to their retirement savings to weather financial shocks are still capable of repayment over time. As with plan loans, this can help rebuild workers' retirement balances in the wake of a financial setback.

[86] Angela A. Hung, Jill E. Luoto, & Jeremy Burke, "Defaulting In and Cashing Out?," RAND Labor & Population, 2015.

[87] "How America Saves 2023," Vanguard, June 2023.

[88] "SECURE 2.0 Act of 2022," Senate Finance Committee, 2022.

[89] John Beshears et. al., "Does 401(k) Loan Repayment Crowd Out Retirement Saving? Evidence from Administrative Data and Implications for Plan Design," March 2024.

[90] Ibid.

Building on Best Practices: What's Next?

Employers play an important role in promoting retirement security through the design of workplace retirement savings plans.

The recommendations in this guide lay the foundation for employers who want to design retirement savings plans that support the financial health of their employees. While 401(k) plans and other employer-sponsored defined contribution retirement plans cannot solve the broader issue of lack of access to retirement savings tools for some workers (such as nontraditional workers and part-time workers), they can help address disparities in contributions and savings accumulation among eligible workers through innovative plan design.

Behavioral research on retirement savings has come a long way, yet there is still more to learn. There is plenty of space for plan sponsors and providers to continue to innovate and test new strategies to help close retirement savings gaps by age, gender, and race/ethnicity. Employers should also explore how retirement savings success is interconnected with other facets of employees' financial lives, such as their ability to save for short-term needs or balance income and spending needs, a topic of a previous behavioral design guide, Tools To Manage Spending.

Other retirement plan design strategies are garnering interest in the industry and could warrant further exploration as to how they might support employee decision-making and financial health. A few examples include:

How might employers use guaranteed income retirement plans (i.e., defined contribution annuities designed like a pension) to solve disparities in uptake and savings?

What are the financial health implications of Employee Stock Ownership Plans (ESOPs) and other alternatives when paired with defined contribution plans?

Can plan sponsors use artificial intelligence to help them evaluate the effectiveness of plan design features across different segments of employees?[91]

As always, we urge plan sponsors to integrate these recommendations into their retirement plan design and share back learnings about their financial health impacts across various employee segments.

[91] "Using artificial intelligence to power the retirement savings plan of the future," Invesco, September 2019.

Glossary of Behavioral Science Terms

Anchoring: Exposure to a number (anchor) can influence a decision, even if the number is unrelated to the decision itself. People's choices are pulled toward the anchor, whether up or down, from what they would have chosen without seeing the anchor.

Choice overload: A state where someone's decision-making abilities are compromised because their options are too complex or too numerous. Choice overload can result in disengaging from the decision.

Exponential growth bias: The tendency to underestimate exponential growth, such as the impact of compound interest over time. This can contribute to people saving less and borrowing more.

Friction/hassle factors: Factors that slow down a process or decision or make it more difficult to complete. Encountering friction can lead decision-makers to abandon the task or decision at hand.

Intention-action gap: When what someone intends to do doesn't align with what they actually do. An intention-action gap can happen because people are naturally inclined to favor immediate gratification over long-term goals or the barriers to action are seemingly high.

Ostrich effect: Based on the idea that ostriches bury their heads in the sand, this cognitive bias points to people's tendency to avoid information that they perceive to be potentially negative. This information avoidance can lead to challenges in making financial decisions.

Status quo bias: The preference to keep things as they are and therefore avoid change. The status quo bias can result in individuals passing up favorable opportunities or decisions.

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