

THE ROLE OF INCENTIVES AND BEHAVIORAL ECONOMICS IN EXPANDING COVERAGE

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Estimates of the Impact of a Match on Savings Plan Participation

□ **Cross sectional variation**

□ Engelhardt and Kumar (2007)

- 25% increase in match → 5 pp increase

□ **Experimental variation**

□ Duflo et al. (2006)

- Increasing match from 0 to 20% → 5 pp increase
- Increasing match from 20% to 50% → 6 pp

□ **Natural experiments**

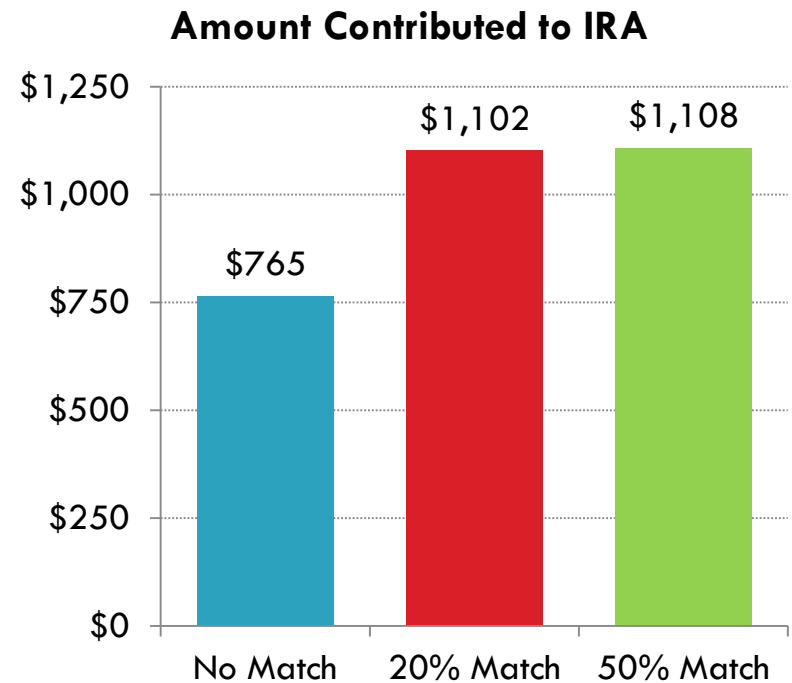
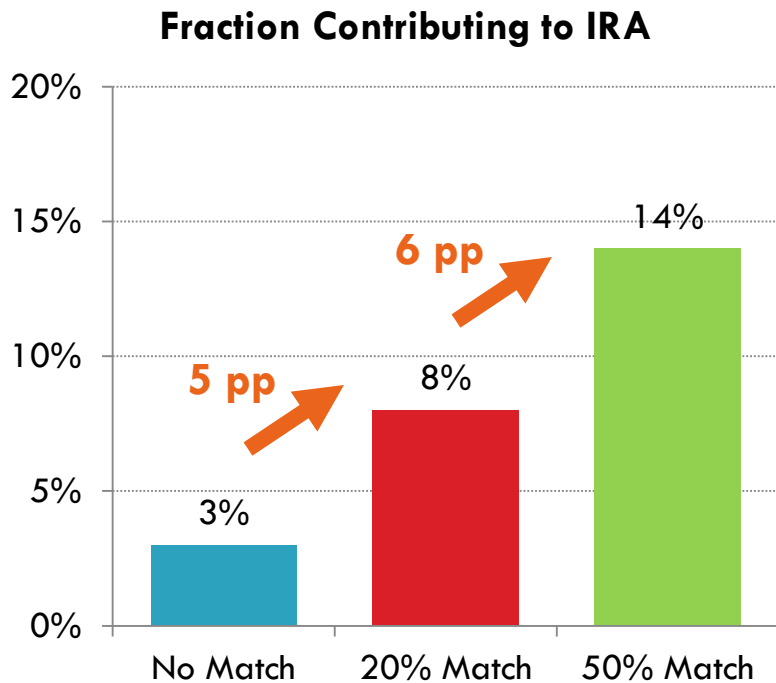
□ Choi et al. (2006)

- Increasing match from 0 to 25% → 5 pp increase

□ Beshears et al. (2010) examine firms with automatic enrollment

- Increasing match from 25% to 50% → 3-6 pp increase

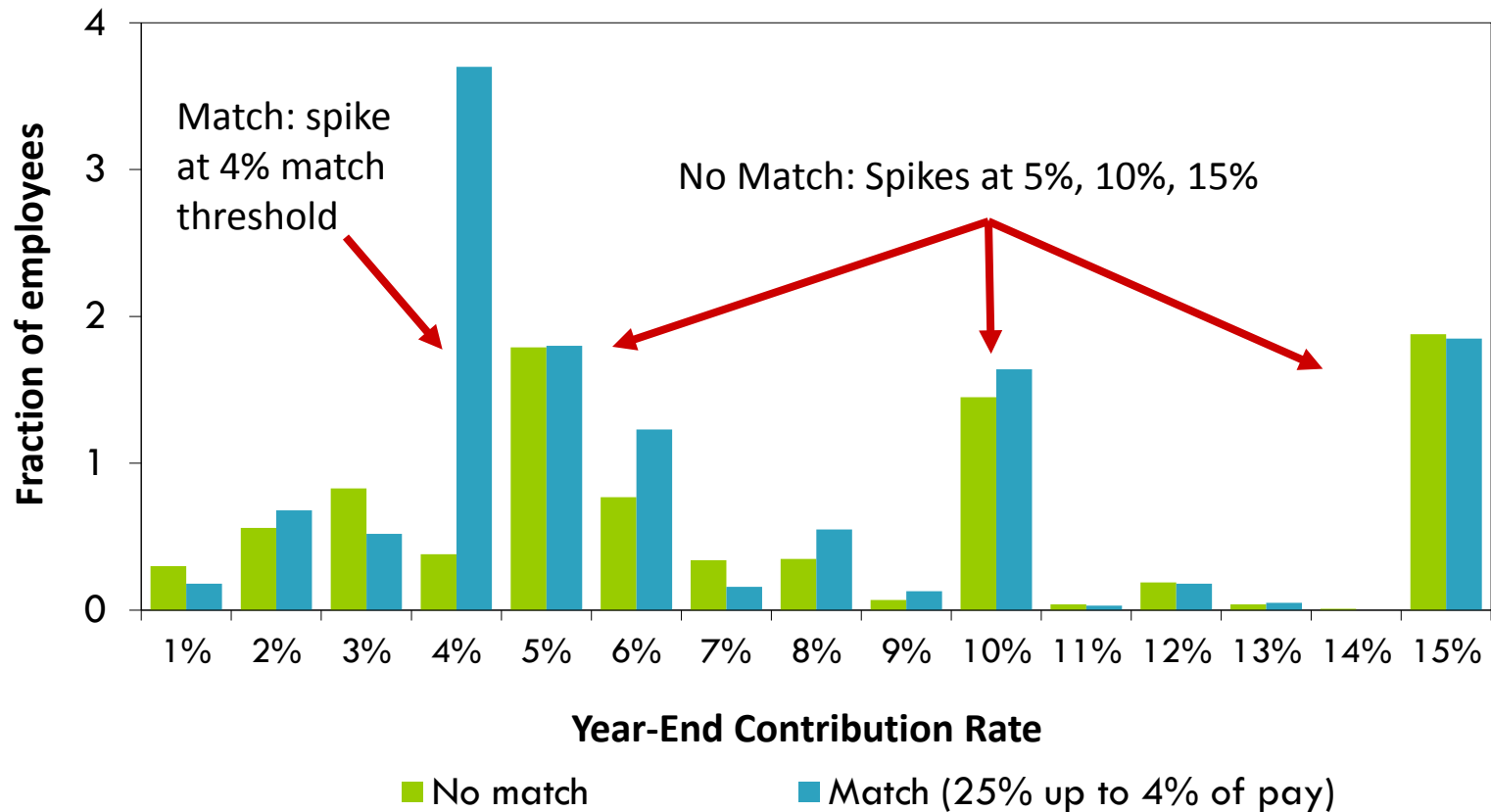
Estimates of the Impact of a Match on Savings Plan Participation



**Adding a match or increasing the match
→ a small increase in participation,
→ of 5 to 6 percentage points**

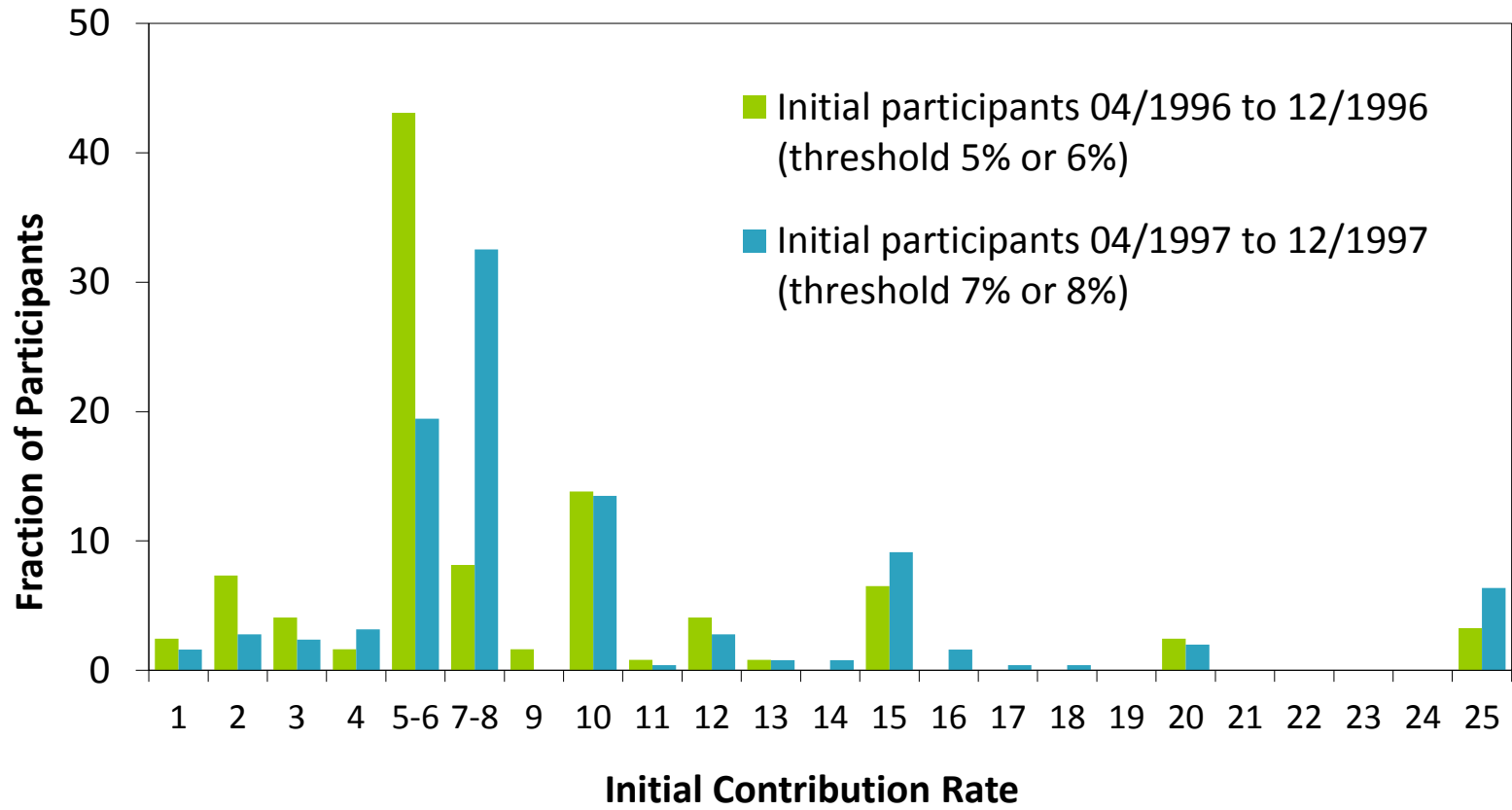
**Adding a match → high contributions;
increasing the match has no further
Impact on contributions**

How Does the Match Matter?



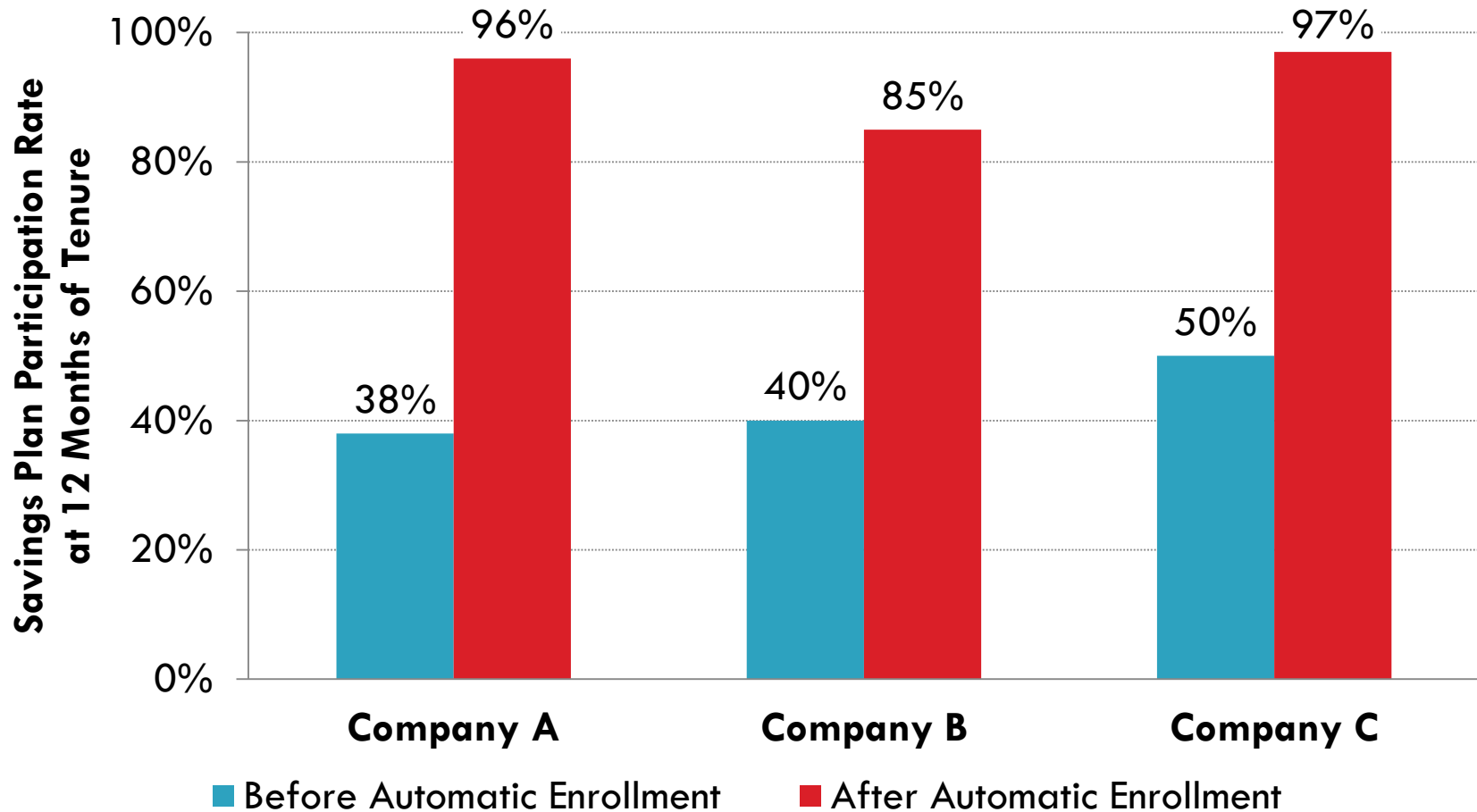
Source: Choi, Laibson, Madrian and Metrick (2006)

How Does the Match Matter?

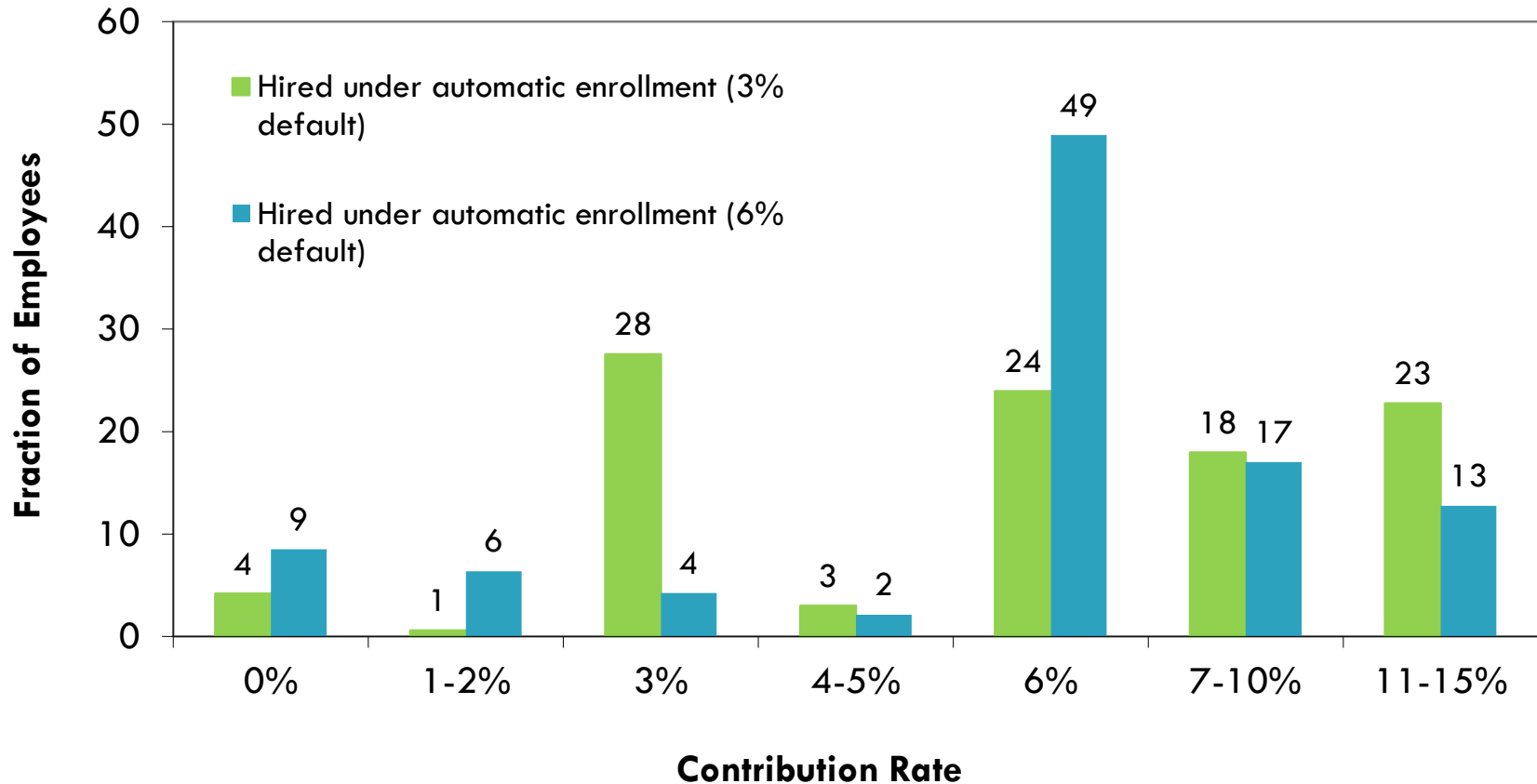


Source: Choi, Laibson, Madrian and Metrick (2006)

Alternative Approaches to Increase Savings: Automatic Enrollment



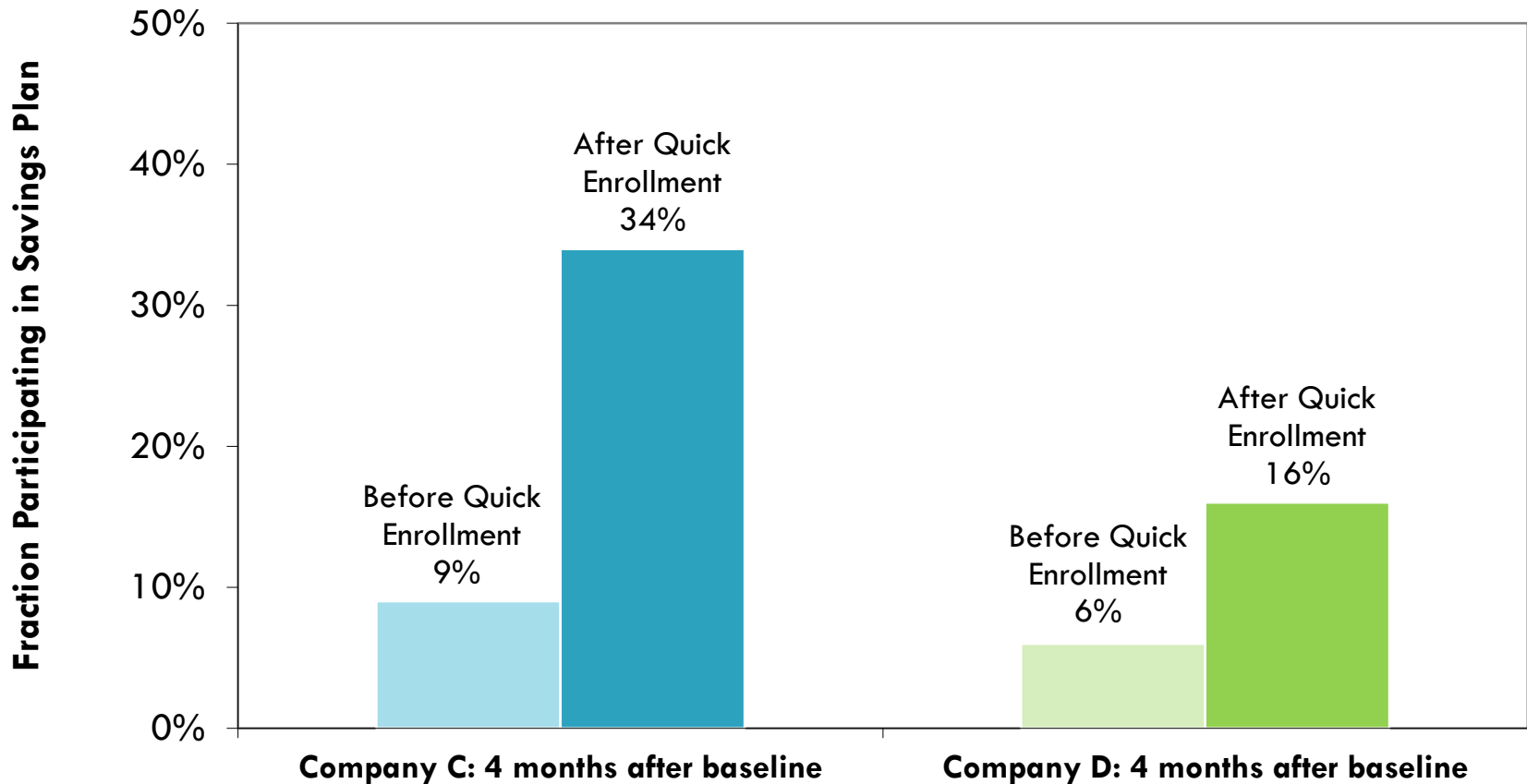
Alternative Approaches to Increase Savings: Automatic Enrollment



Why Does Automatic Enrollment Work So Well at Changing Outcomes?

- **Reason 1:** Most people **want** to save for retirement
 - Perceived need to save
 - Financial reward through employer match
 - Trust in the financial system
- **Reason 2:** Automatic enrollment **simplifies** doing what most people want to do

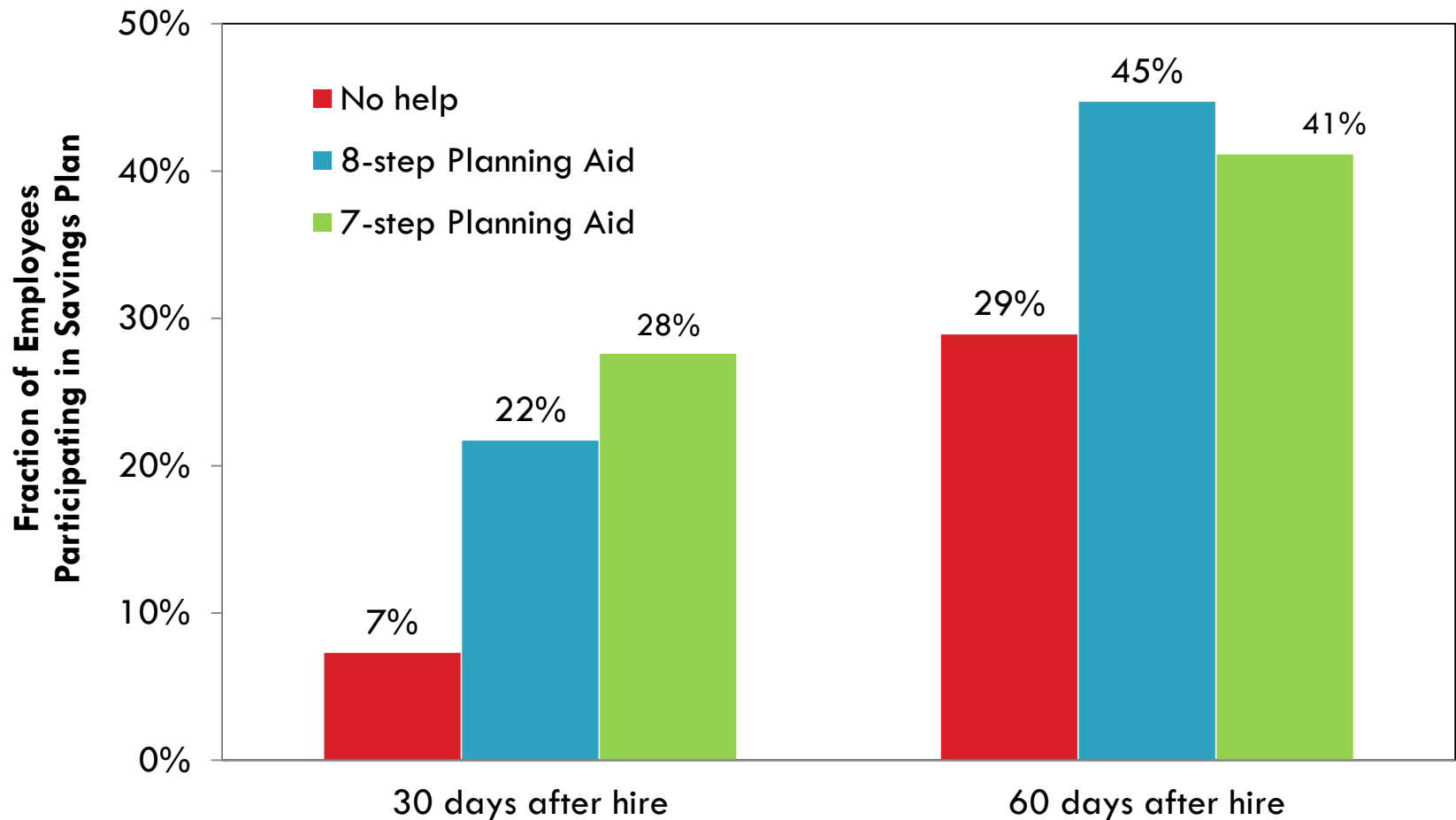
Alternative Approaches to Increase Savings: Simplification



Alternative Approaches to Increase Savings: Execution Aids

- Planning aids
 - ▣ Keller, Keller and Lusardi (2009)
 - Sizeable impact of planning aids
 - Cheap and scalable
- Commitment products—many studies
 - ▣ Moderate to sizeable effects
 - ▣ Many alternative ways to implement
- Reminders (e.g. text messages)
 - ▣ Karlan et al. (2010)
 - Small but significant effect of reminders
 - No impact of offering a higher interest rate
 - Cheap and scalable intervention

Alternative Approaches to Increase Savings: Execution Aids

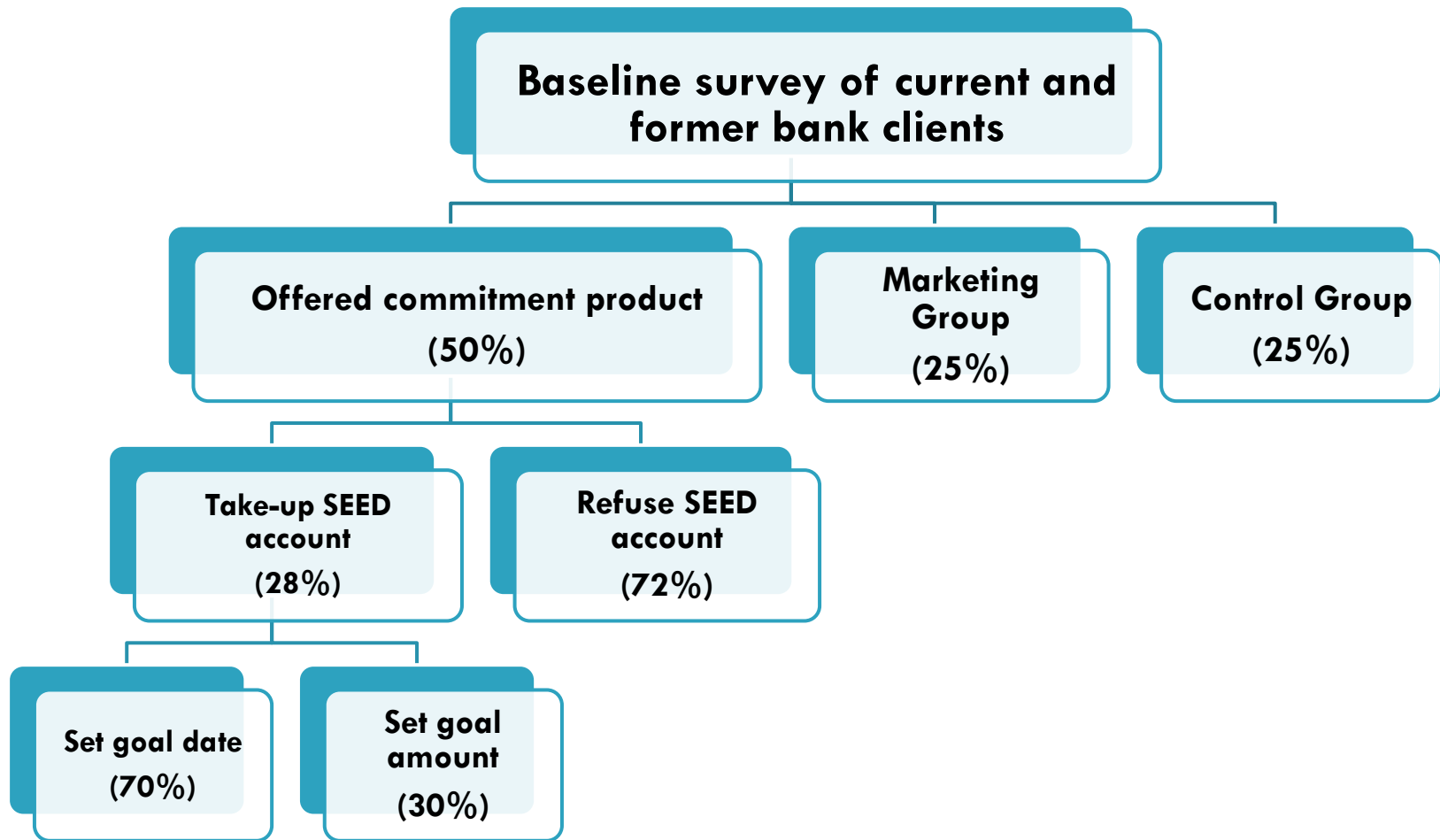


“SEED” Commitment Savings Experiment in the Philippines

- Save, Earn, Enjoy Deposit (SEED) Product
 - ▣ Individuals set a savings goal
 - Either a date
 - Or an amount
 - ▣ **No withdrawals** until goal is met
 - ▣ Individuals also offered
 - A lock-box (small fee)
 - Automatic transfers from checking to savings
 - ▣ Interest rate same as for other savings products



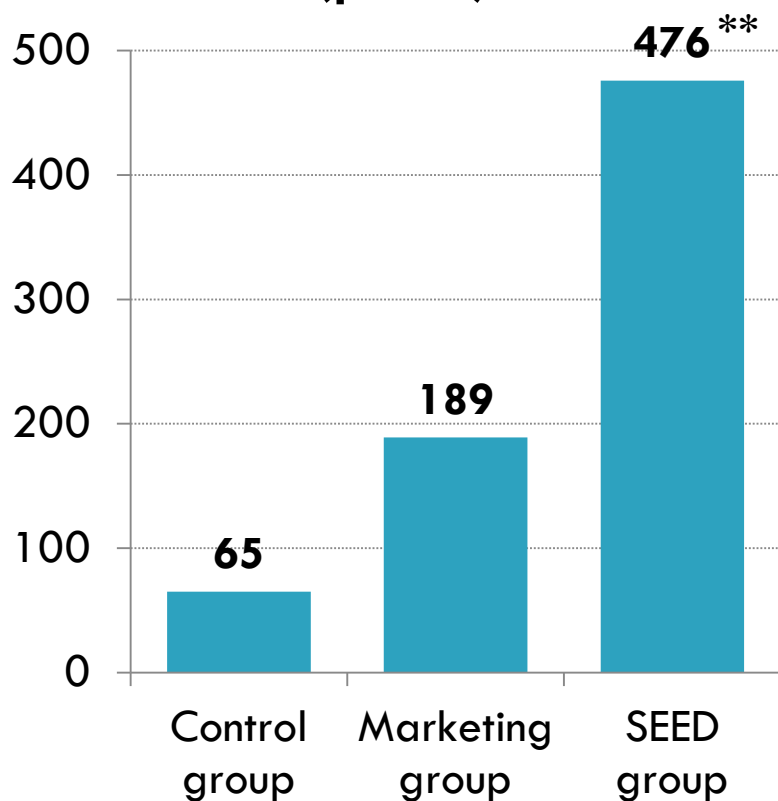
“SEED” Savings Experiment in the Philippines



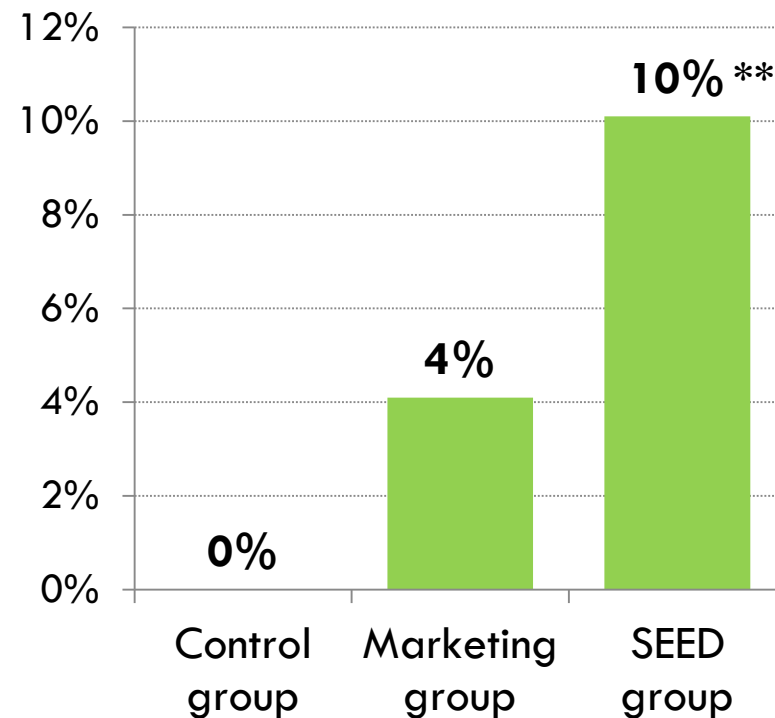
Source: Ashraf, Karlan and Yin (2003), “Tying Odysseus to the Mast”

“SEED” Savings Experiment in the Philippines

**Change in Total Balances
(pesos)**



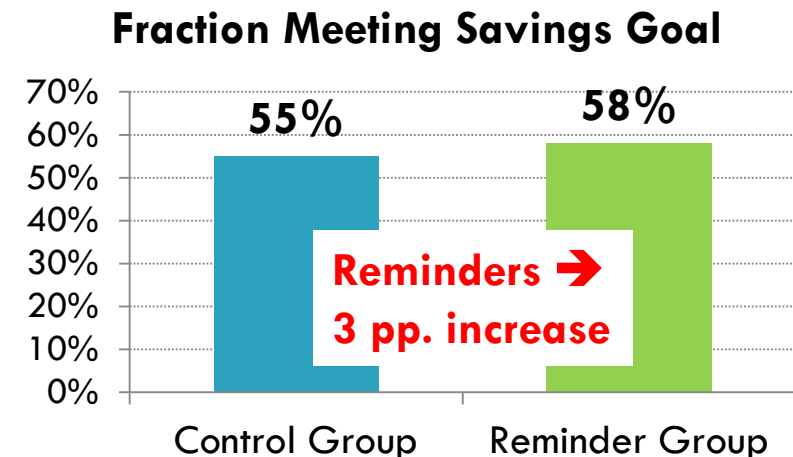
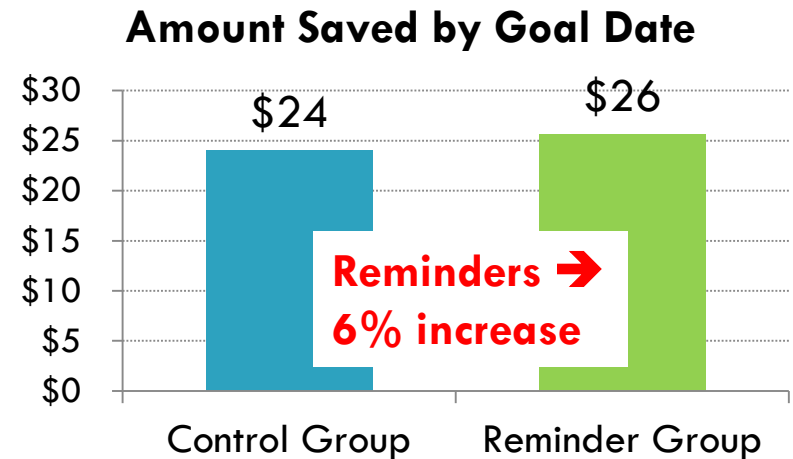
**Balance Increase of
>20% (relative to control
group)**



Source: Ashraf, Karlan and Yin (2003), “Tying Odysseus to the Mast”

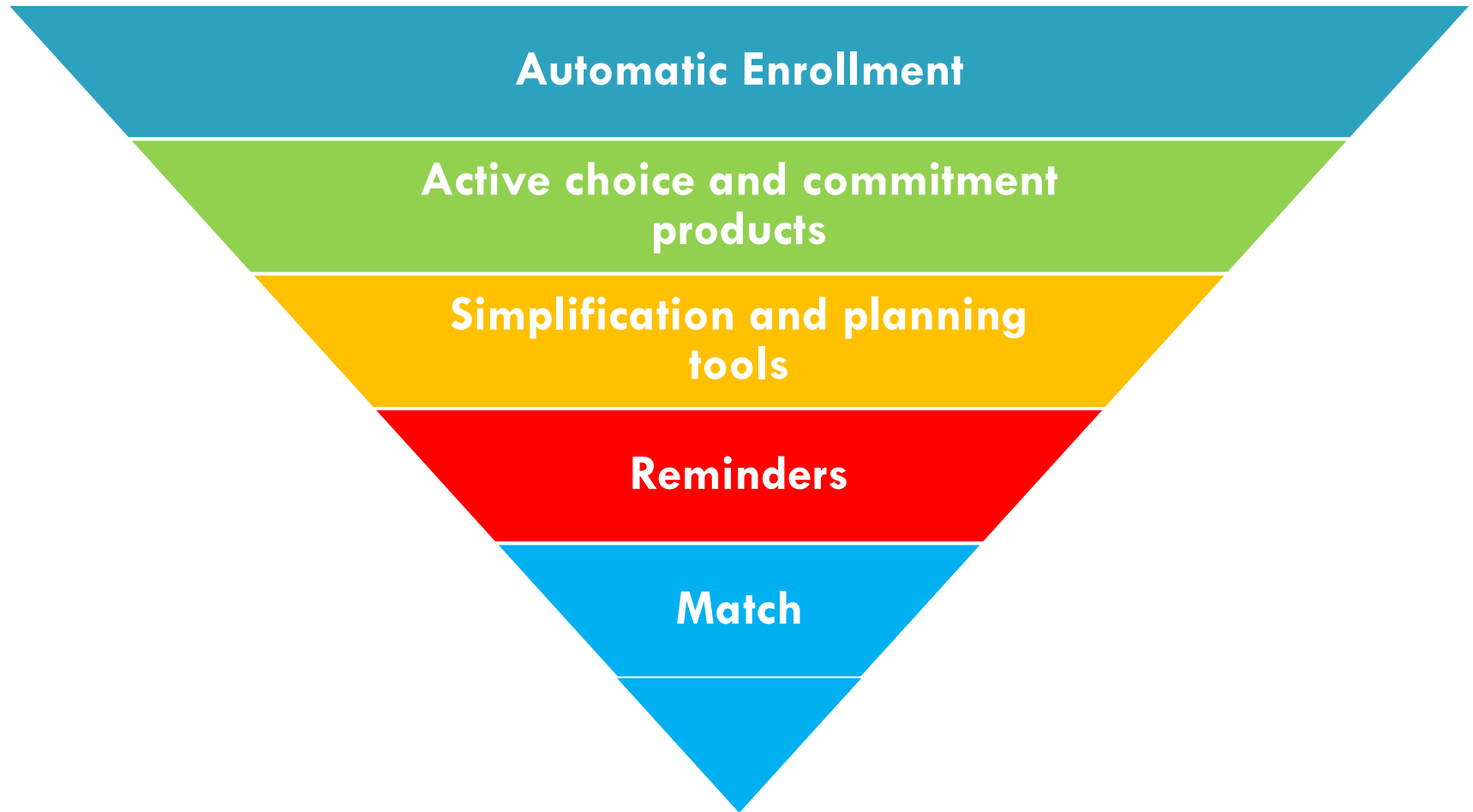
Reminders and Savings Outcomes

- Savings experiments in three countries
 - Peru
 - Bolivia
 - Philippines
- New account openers set savings goals and make savings plan
- Treatment groups get periodic reminders (text message or letter)



Source: Karlan, McConnell, Mullainathan and Zinman (2011)

Approaches to Increasing Savings Plan Participation: “Bang for the Buck”



Conclusions

- Matching
 - ▣ Small impact of savings plan participation
- Important determinant of voluntary contributions conditional on participation
- Important impact on asset accumulation (the match increases account balances—this can be very important)

BOTTOM LINE

- Match alone may not be the best approach
- Combining behavioral approaches to increasing participation with a match potentially very effective
- People want to save—make it SIMPLE