



Yale SCHOOL OF MANAGEMENT

September 25, 2015

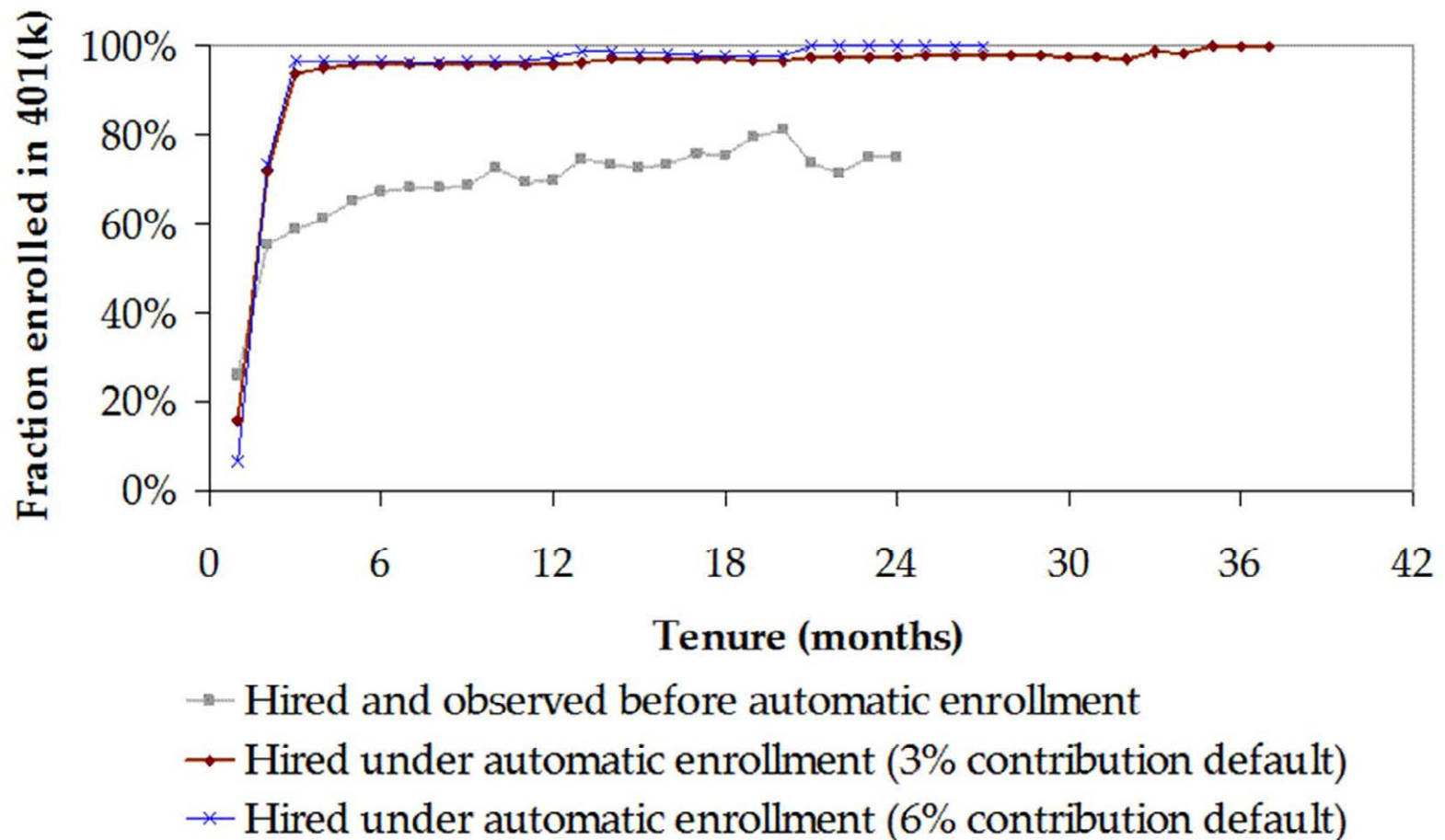
# **Behavioral design considerations for California Secure Choice program**

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# Outline

- Defaults
- Active choice enrollment
- Simplifying choice sets

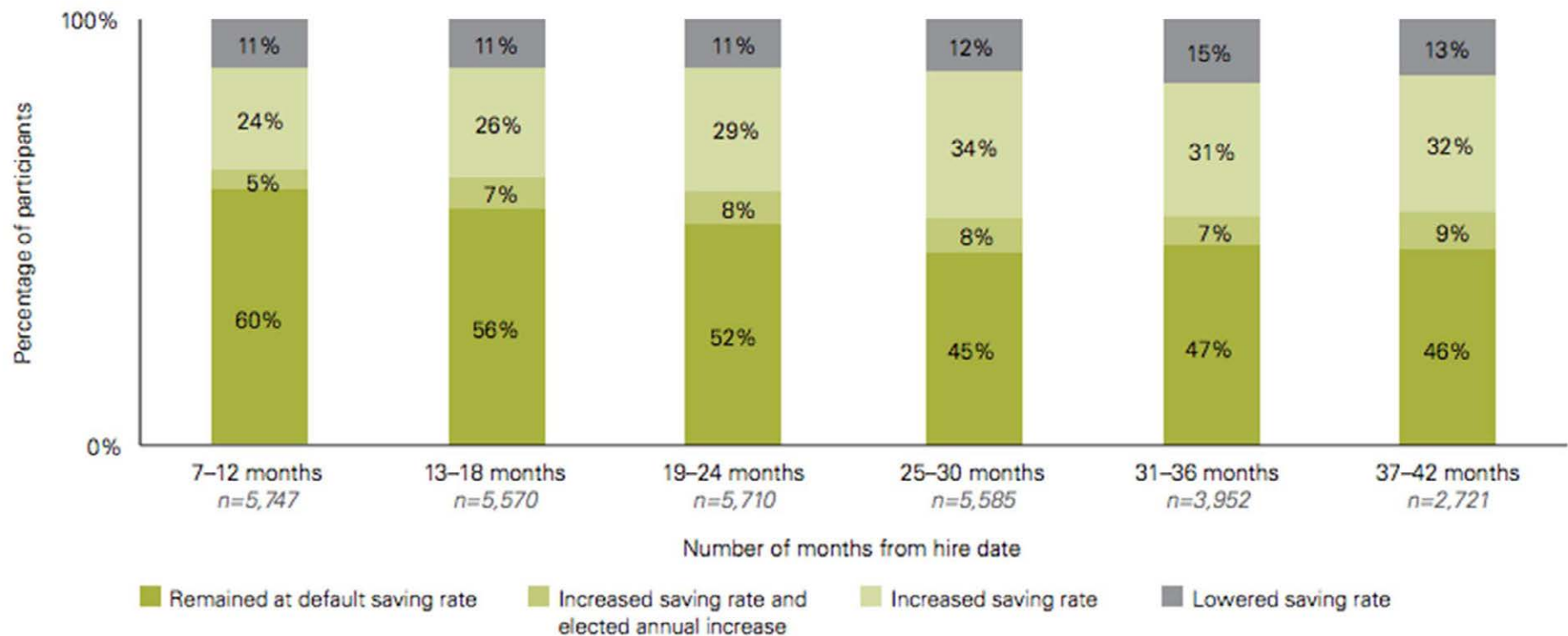
# Defaults are powerful



Source: Beshears, Choi, Laibson, and Madrian, 2008. "The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States."

# Defaults are not forever, but they are sticky

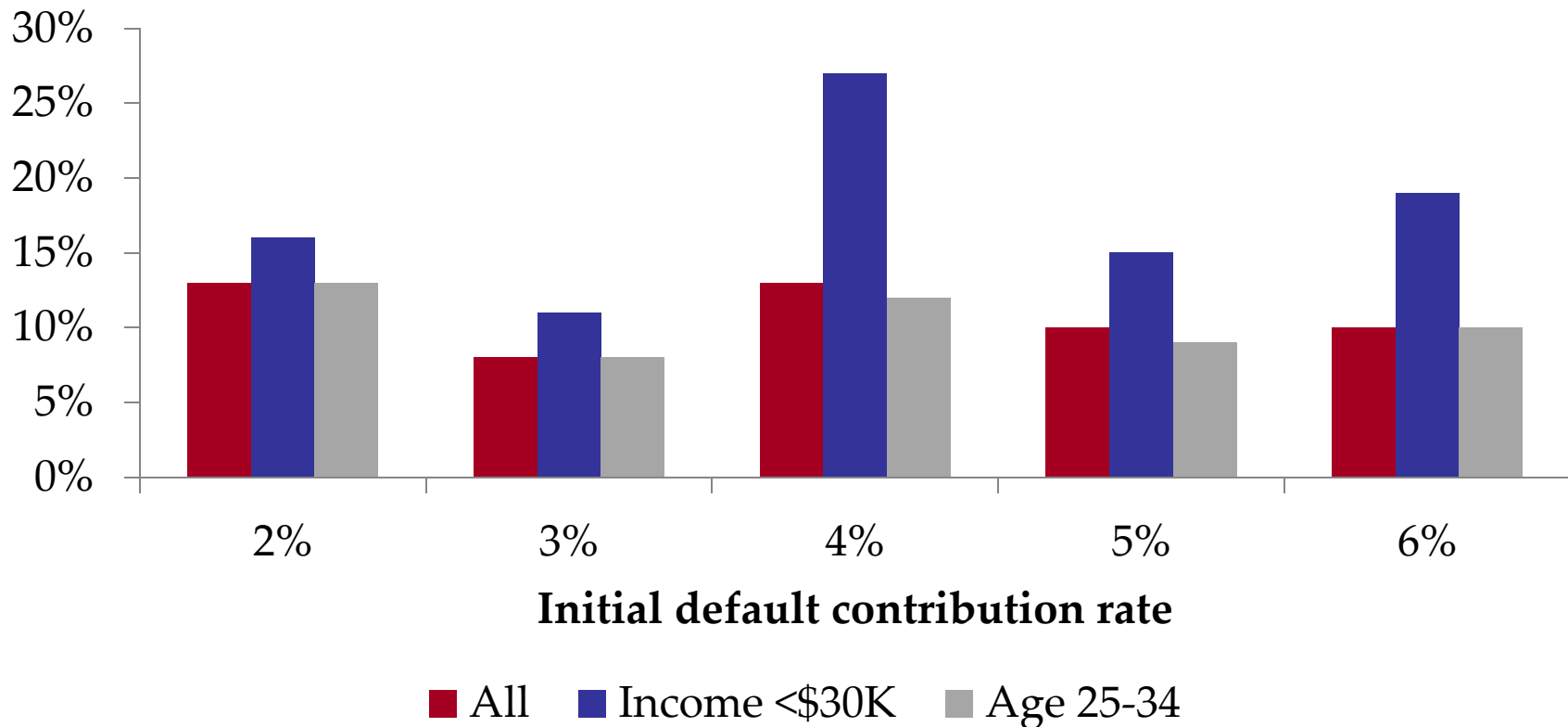
Panel B. Automatic enrollment with no annual increase  
n=25,527



Source: Clark, Utkus, and Young, 2015. "Automatic enrollment: The power of the default" Vanguard Research.  
Note: Data from 55 401(k) plans shown in graph

# High savings defaults do not cause high drop-outs

Fraction of employees who stop contributing



Source: Clark, Utkus, and Young, 2015. "Automatic enrollment: The power of the default" Vanguard Research.  
Note: Employees hired between 1/1/10 and 12/31/12, as of 6/30/13. 139,867 employees in total sample.

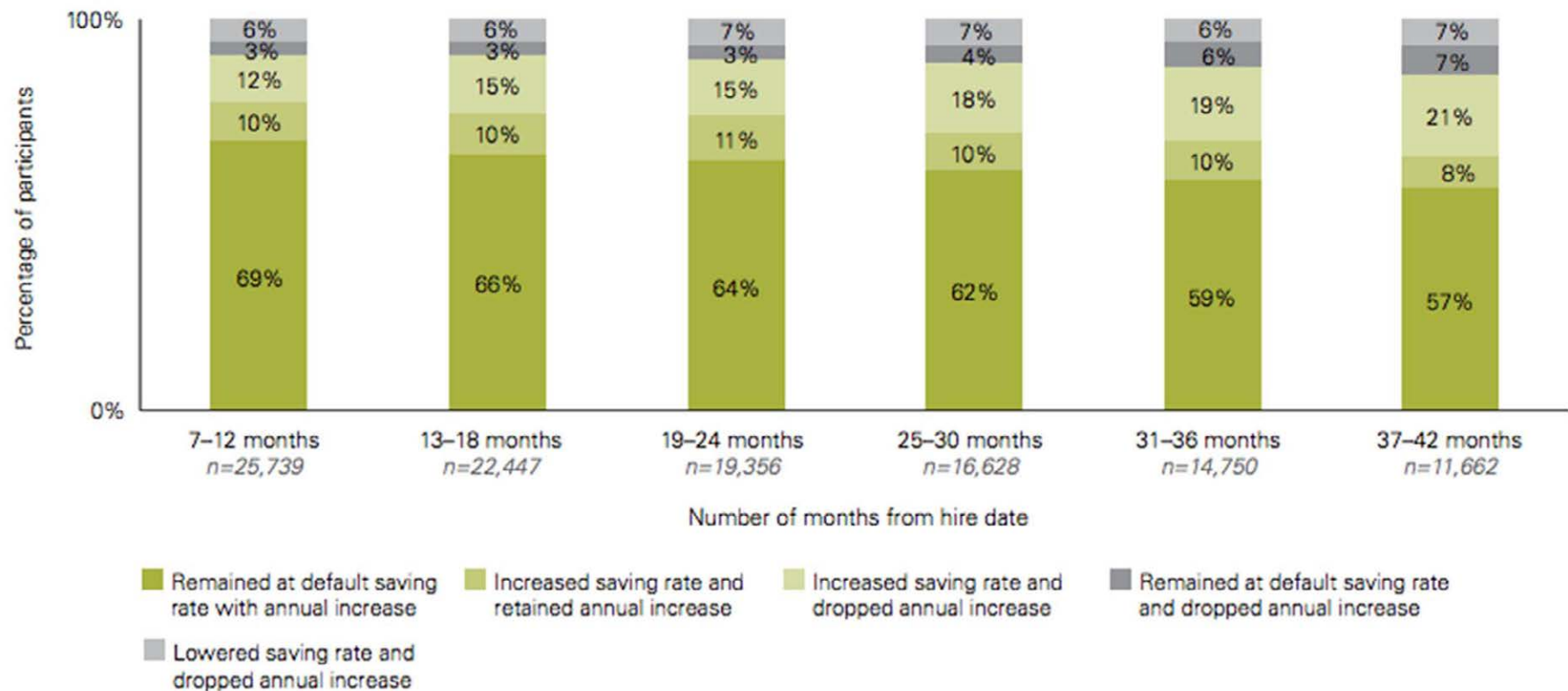
# Defaults can be dynamic

## *Examples*

- Automatically raise contribution rate by 1% of income each year unless you opt out
- If you've stopped contributing, automatically re-enroll you every January unless you opt out

# Dynamic defaults are sticky too

Panel A. Automatic enrollment with an annual increase  
n=101,448



Source: Clark, Utkus, and Young, 2015. "Automatic enrollment: The power of the default" Vanguard Research.  
Note: Data from 204 401(k) plans shown in graph

# Automatic enrollment is popular

In national sample, fraction agreeing with, “You are glad your company offers automatic enrollment”

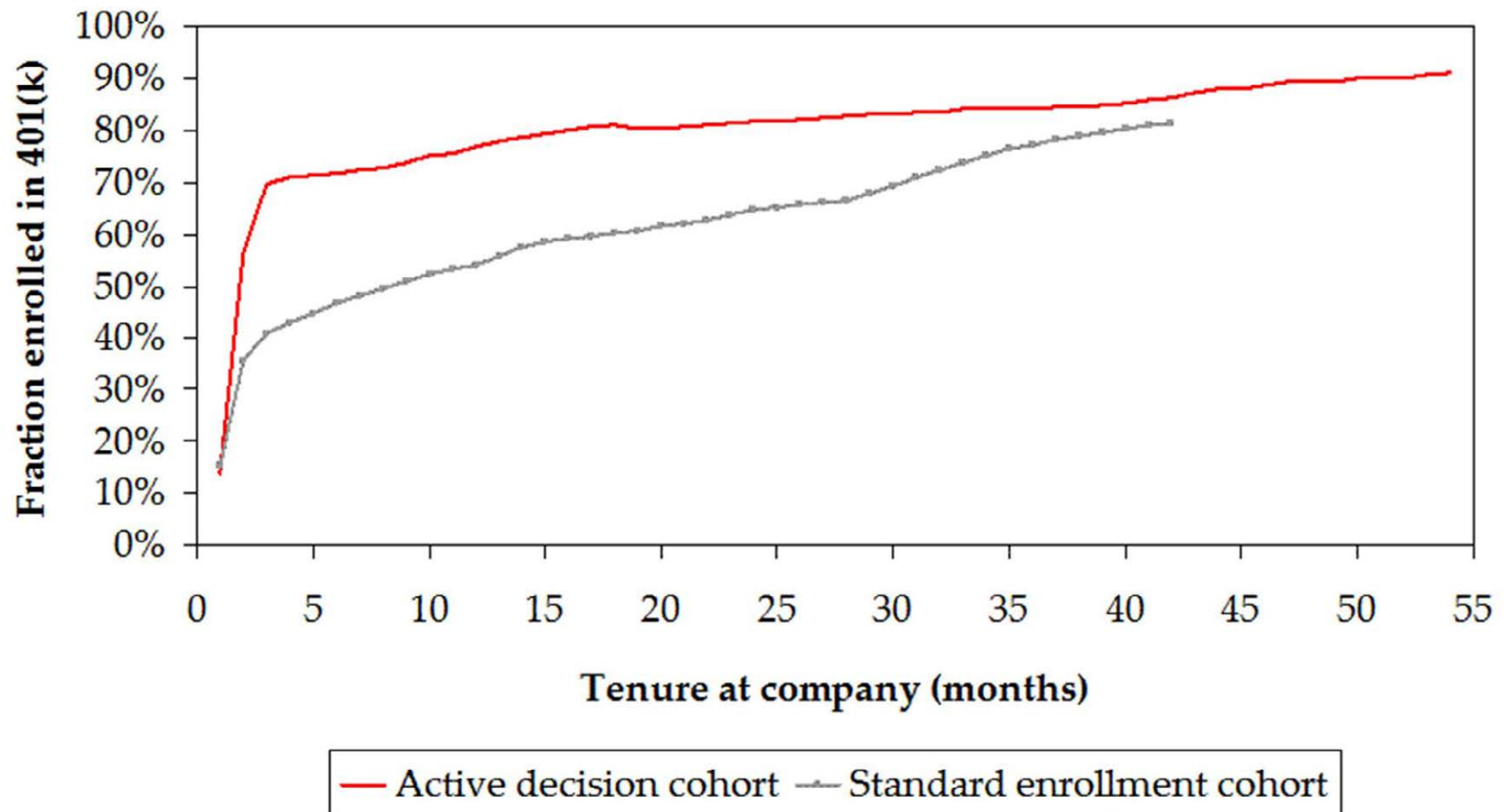
- 98% of those who were automatically enrolled and didn't opt out
- 79% of those who opted out of automatic enrollment



# Active choice enrollment

- Require employees to actively indicate “yes” or “no” to savings plan participation by deadline
- Deadline must be enforced

# Active choice effect



Source: Carroll, Choi, Laibson, Madrian, and Metrick, 2009. "Optimal defaults and active decisions." Standard enrollment refers to a non-enrollment default.

# Simplifying choice set

- One disadvantage of active choice is it places full choice burden on employee
- Highlighting certain options can make choice easier

# Examples of simplifying

- Sign this form, and you will be enrolled contributing 5% of your income. Or write in a different percentage here: \_\_\_\_\_%
- Sign this form and pick a contribution rate
  - 3% of income
  - 5% of income
  - 7% of income
  - Another percentage: \_\_\_\_\_%