# Yale SCHOOL OF MANAGEMENT

September 25, 2015
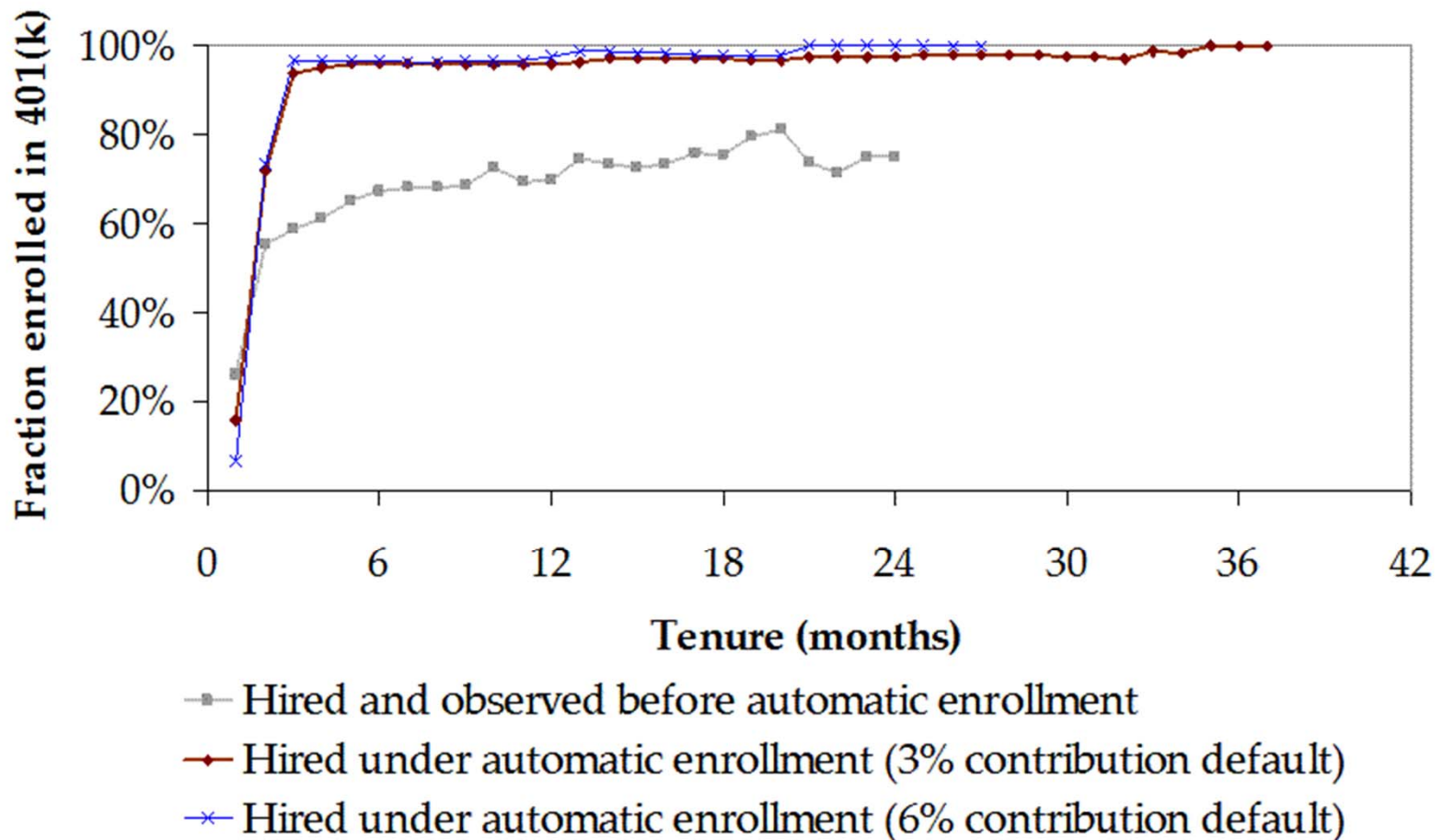
# Behavioral design considerations for California Secure Choice program

James J. Choi
Professor of Finance

# Outline

- Defaults
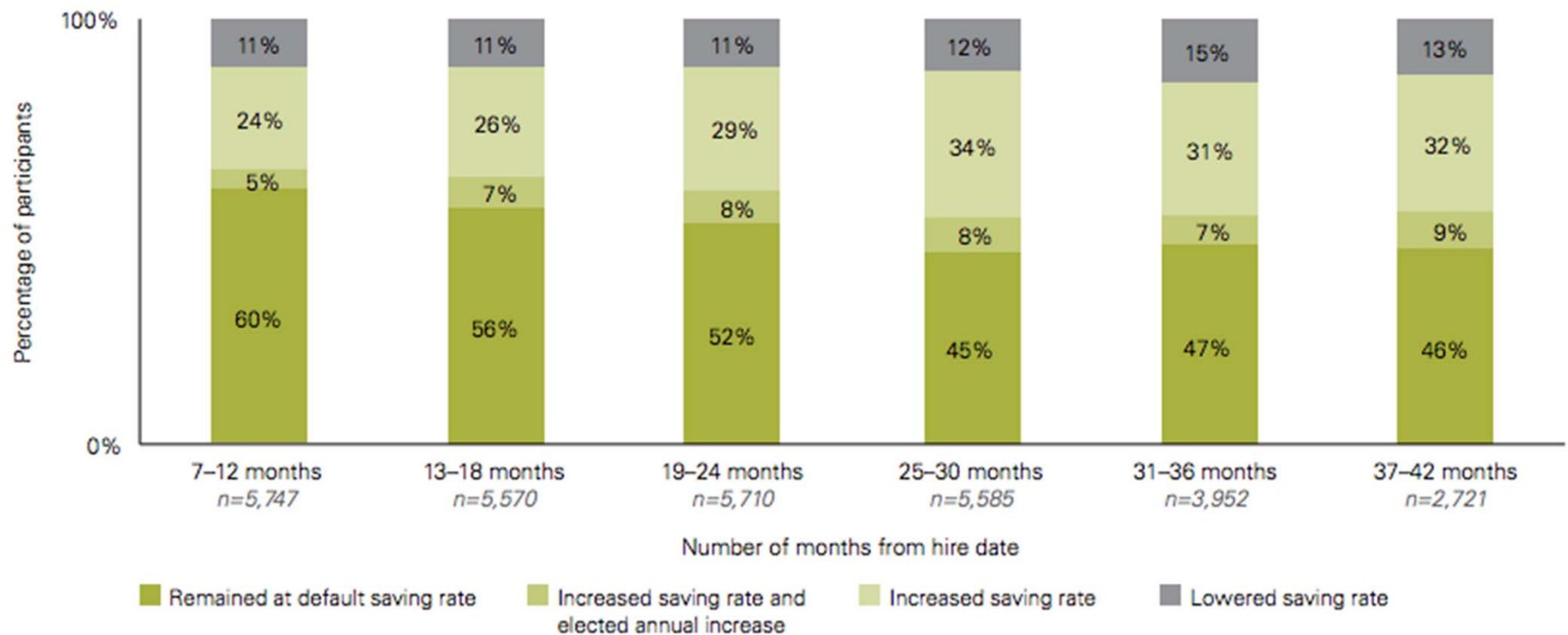- Active choice enrollment
- Simplifying choice sets

# Defaults are powerful

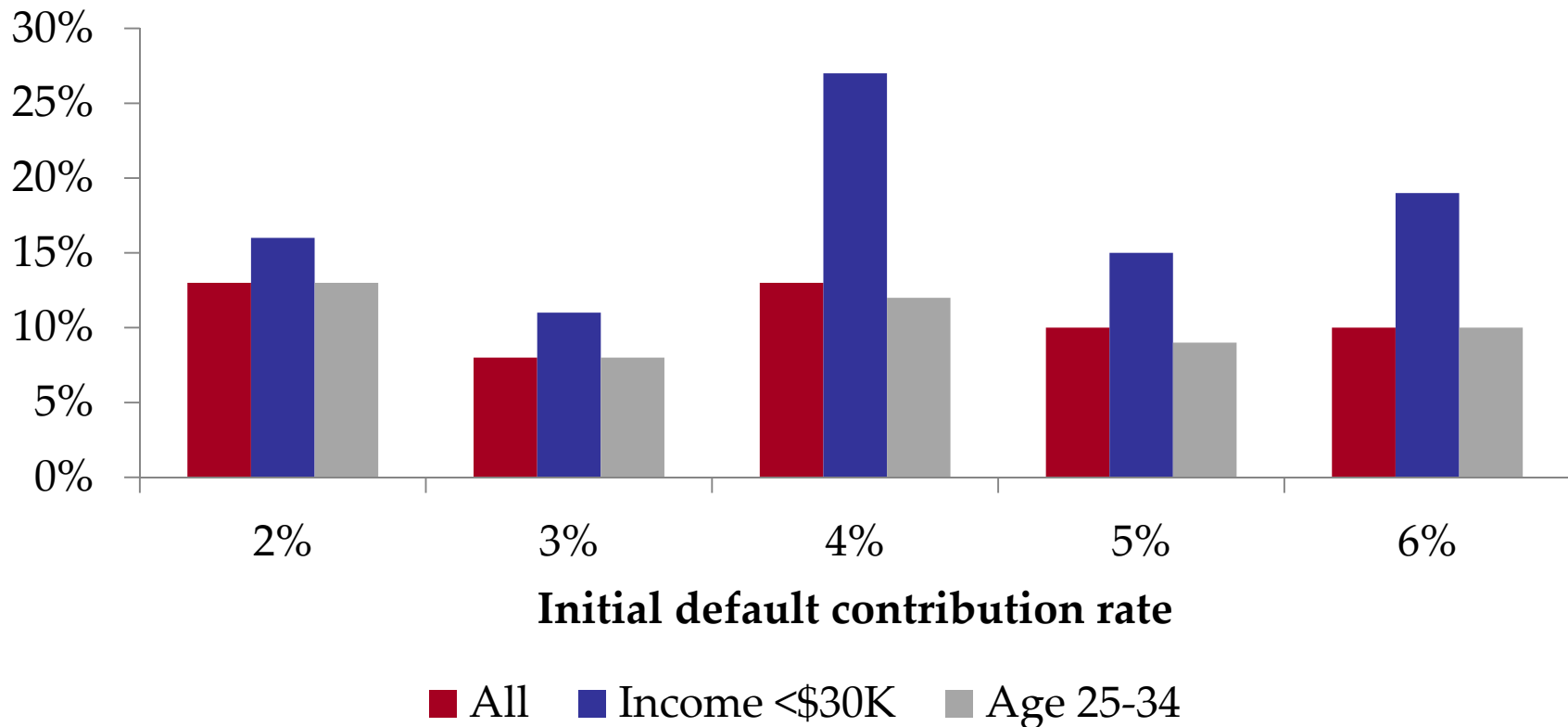# Defaults are not forever, but they are sticky



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**



Initial default contribution rate

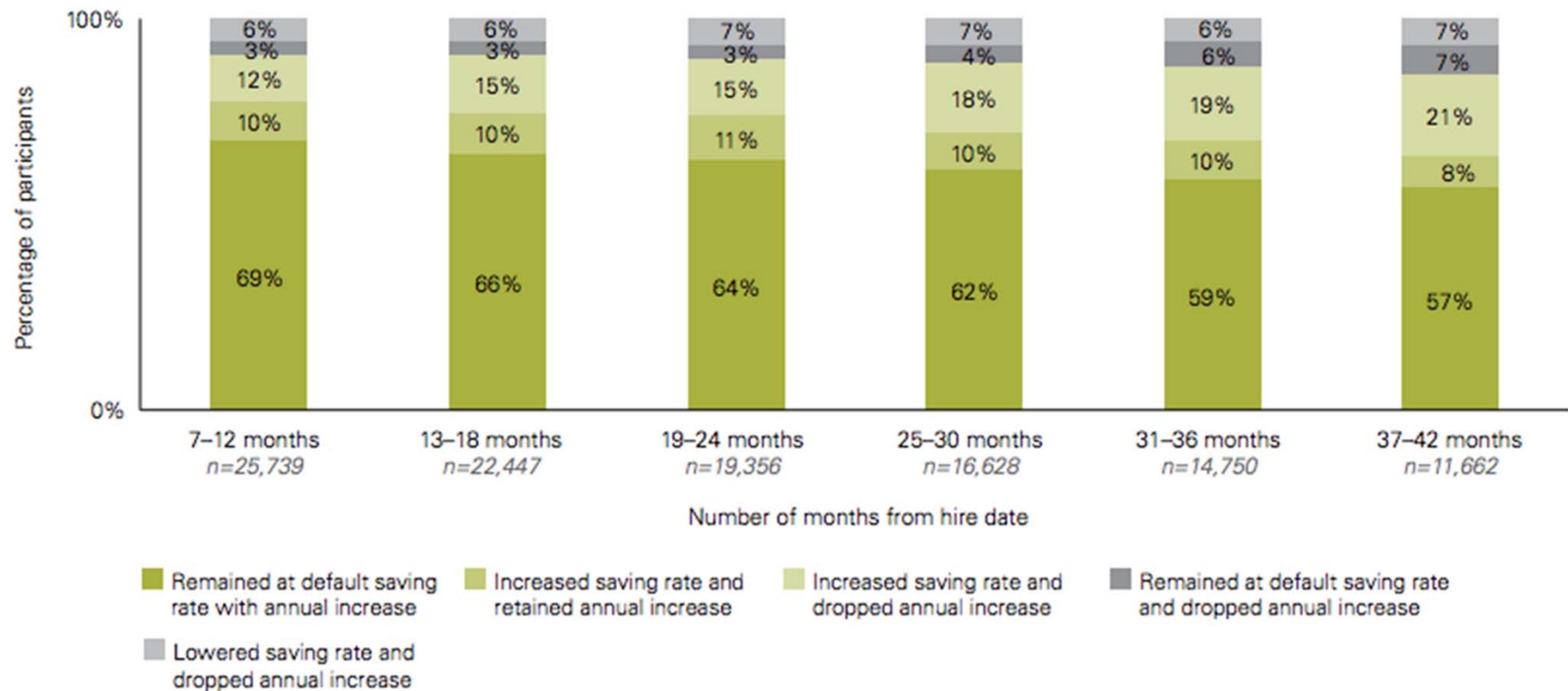■ All  ■ Income <$30K  ■ Age 25-34

# 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

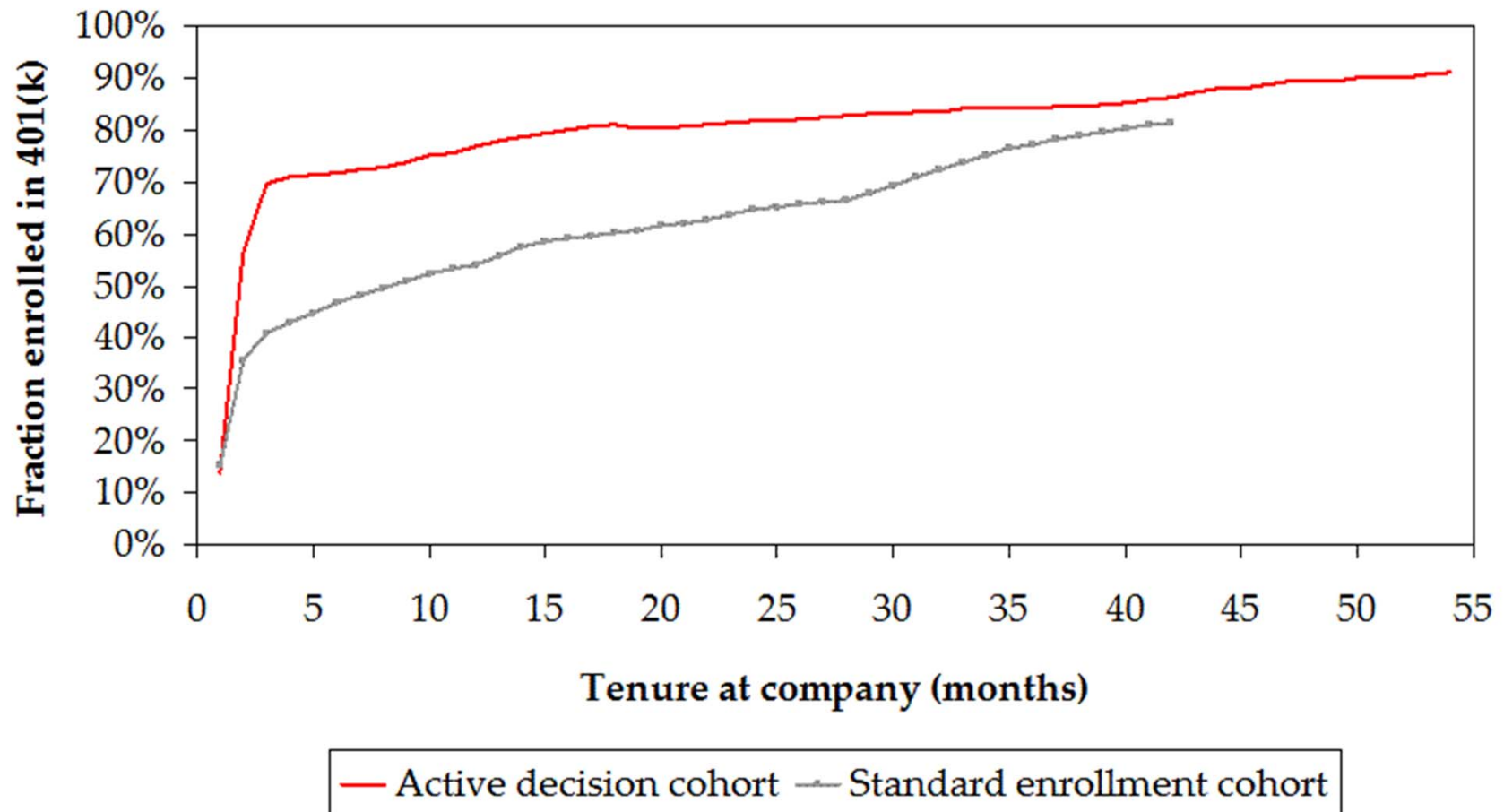- 79% of those who opted out of automatic enrollment

Harris Interactive, 2007. "Retirement Made Simpler."
http://www.retirementmadesimpler.org/Library/FINAL%20RMS%20Topline%20Report%2011-5-07.pdf

# 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: _____%