

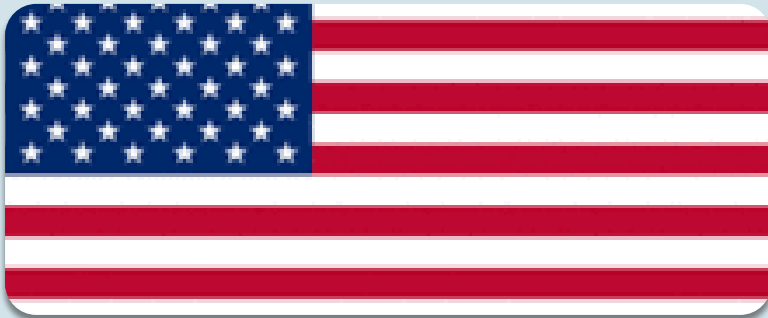
SAVING AND THE INSTITUTIONAL ENVIRONMENT

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December 8, 2017

Comparing Savings Outcomes Across Different Institutional Environments

2



UNITED STATES

Retirement savings
Employer plan (401k)
Payroll deduction



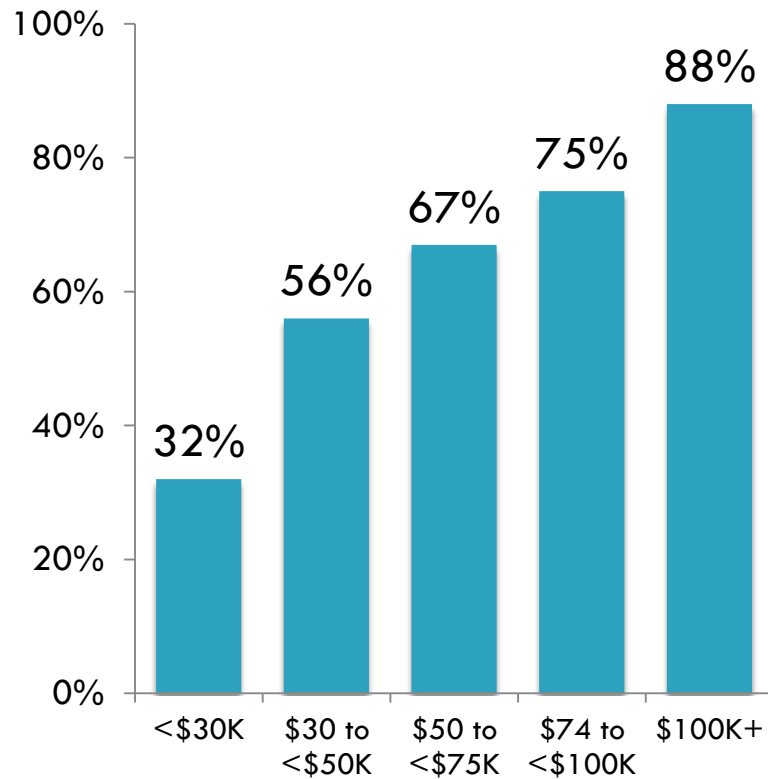
AFGHANISTAN

Short term savings
Mobile money acct.
Payroll deduction

Savings Plan Participation Rate (When Employees Must Opt-In)

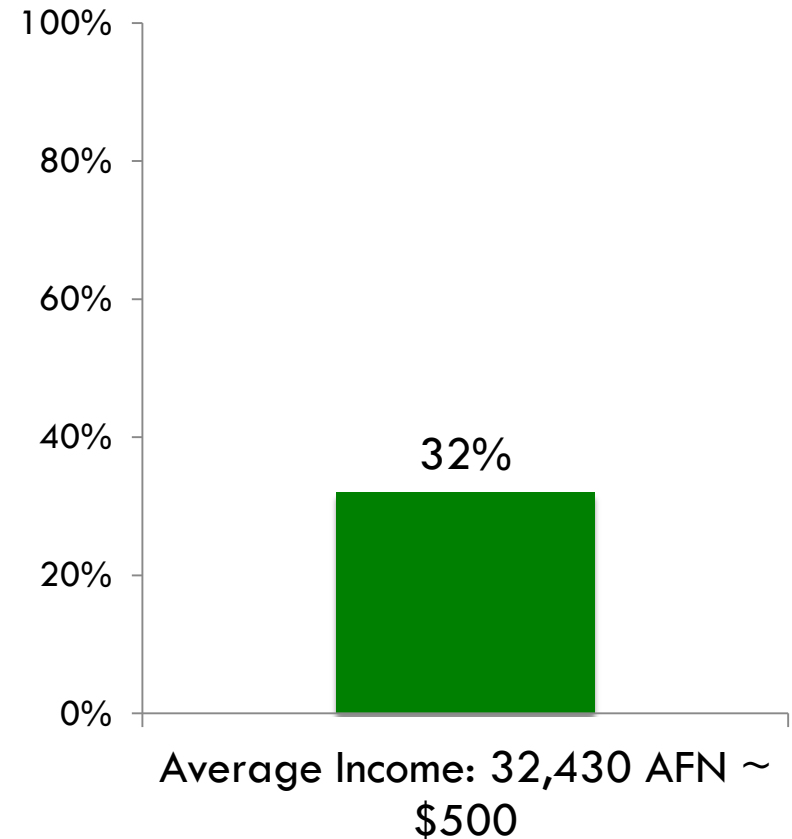
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Source: Vanguard (2017) "How American Saves)

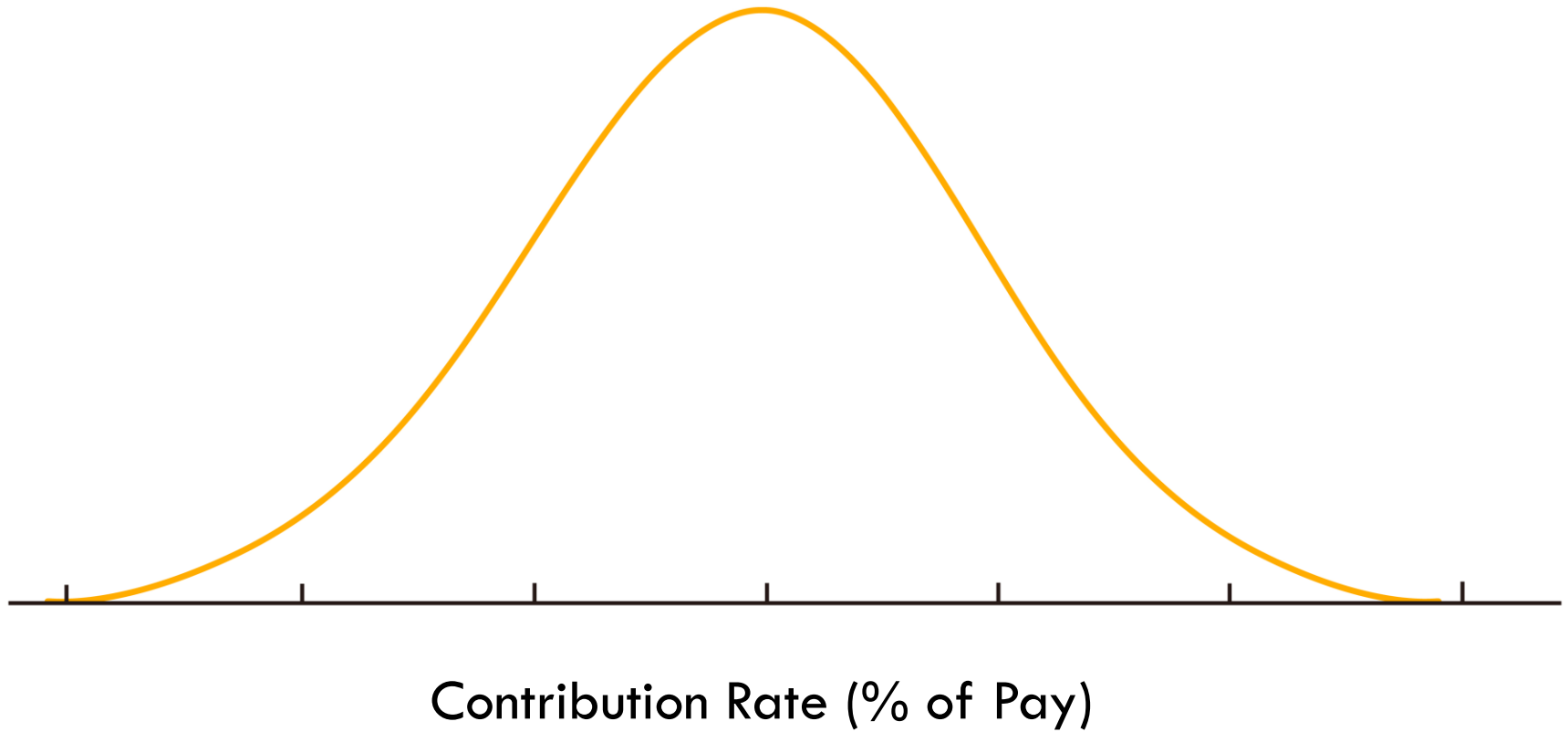
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Source: Blumenstock, Callen and Ghani (2017)

Theoretical Distribution of Savings Preferences

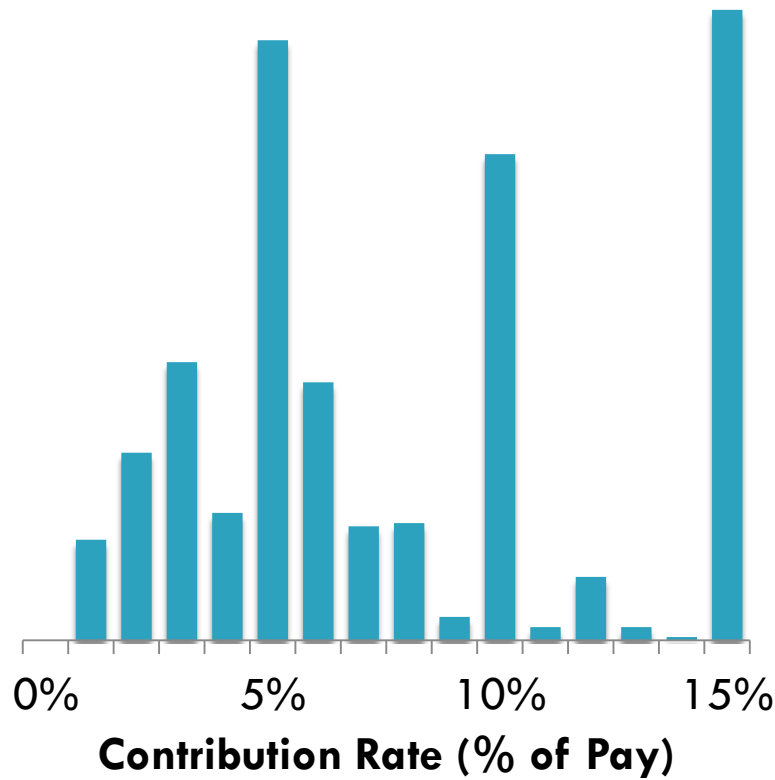
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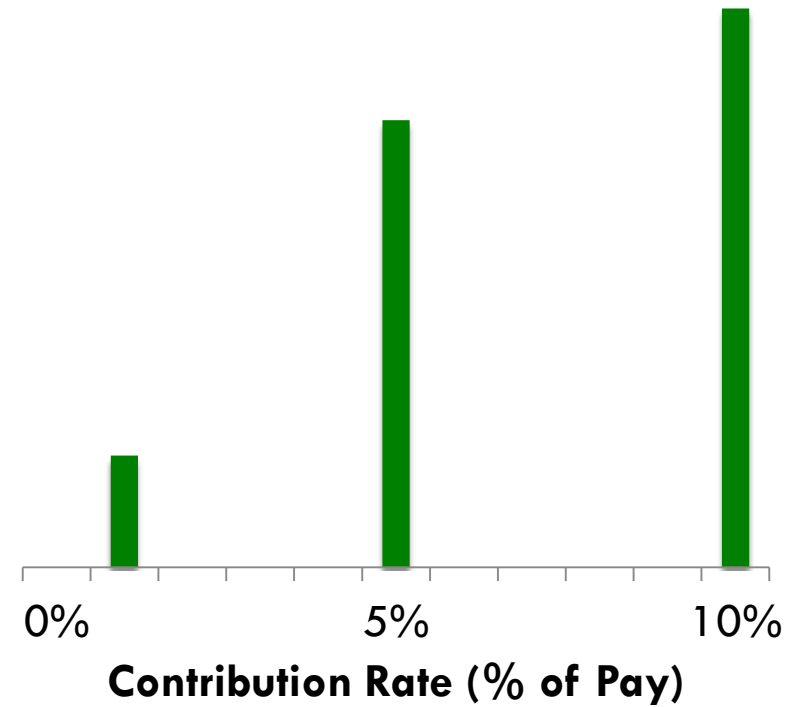
Distribution of Contribution Rates (When Employees Must Opt-In, no match)

5

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Simplifying Heuristic: Save at multiples of 5% of pay

Savings Plan Participation Rate (Under Automatic Enrollment)

6

UNITED STATES

■ Opt-in ■ Opt-out



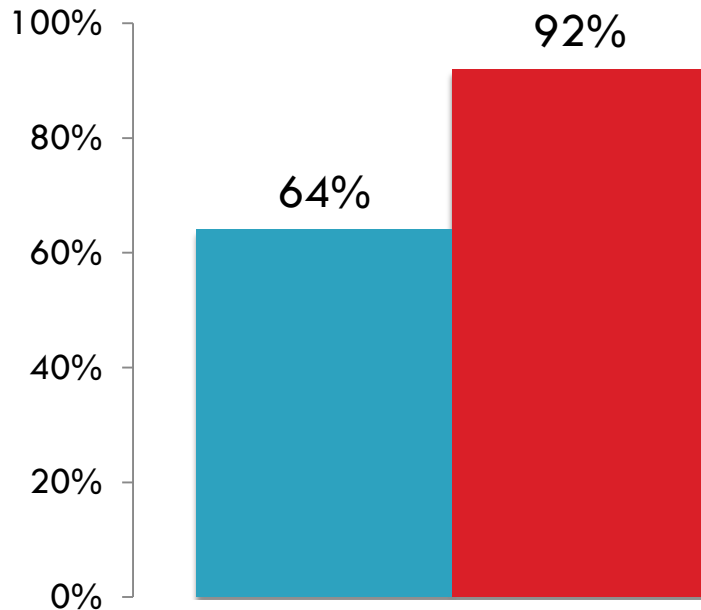
Source: Vanguard (2017) "How American Saves)

Savings Plan Participation Rate (Under Automatic Enrollment)

7

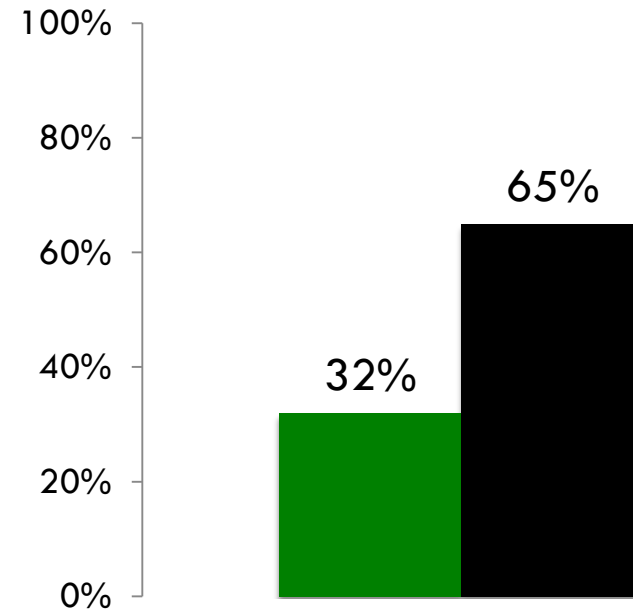
UNITED STATES

■ Opt-in ■ Opt-out



AFGHANISTAN

■ Opt-in ■ Opt-out

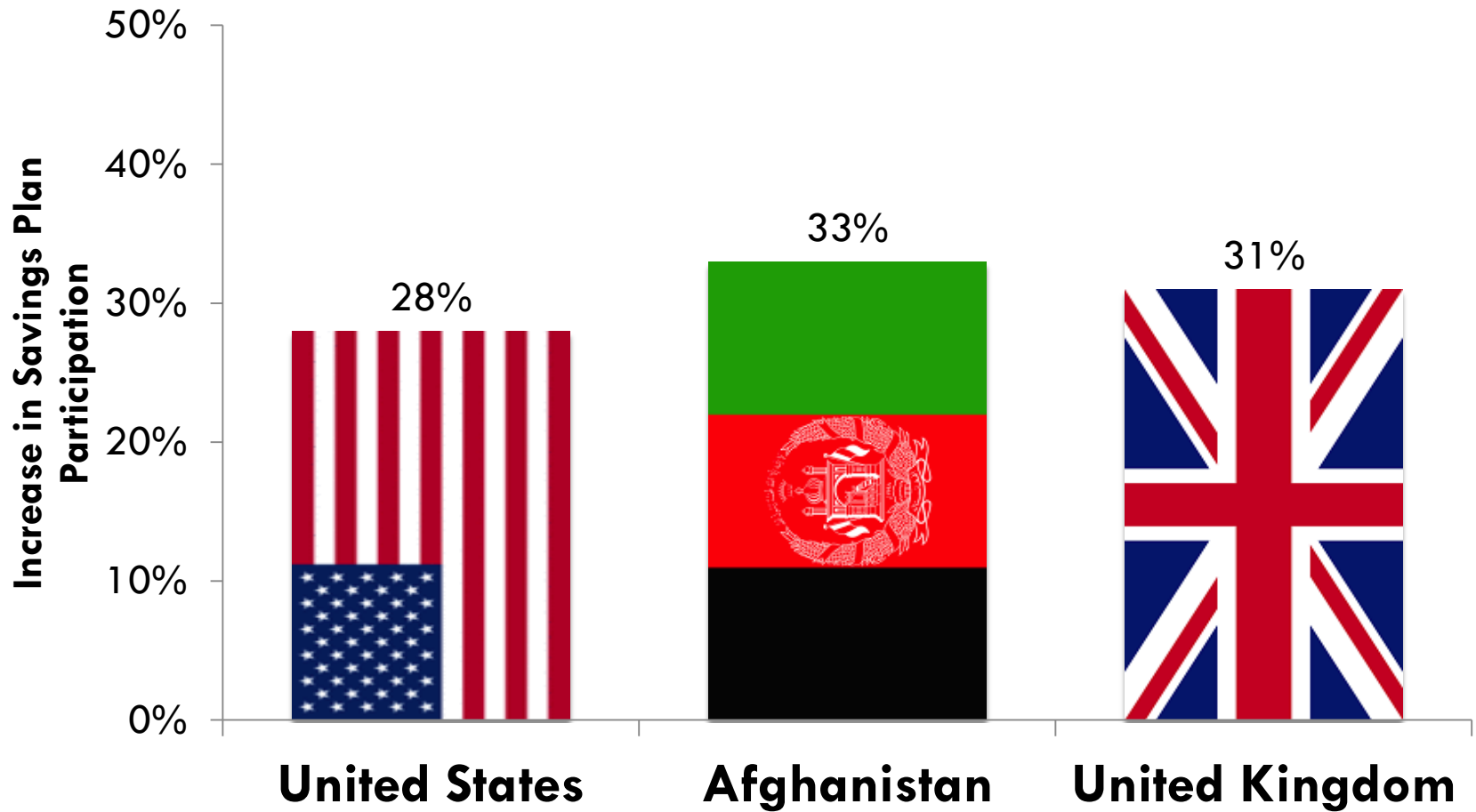


Source: Vanguard (2017) "How American Saves)

Source: Blumenstock, Callen and Ghani (2017)

The Impact of Automatic Enrollment on Savings Plan Participation

8



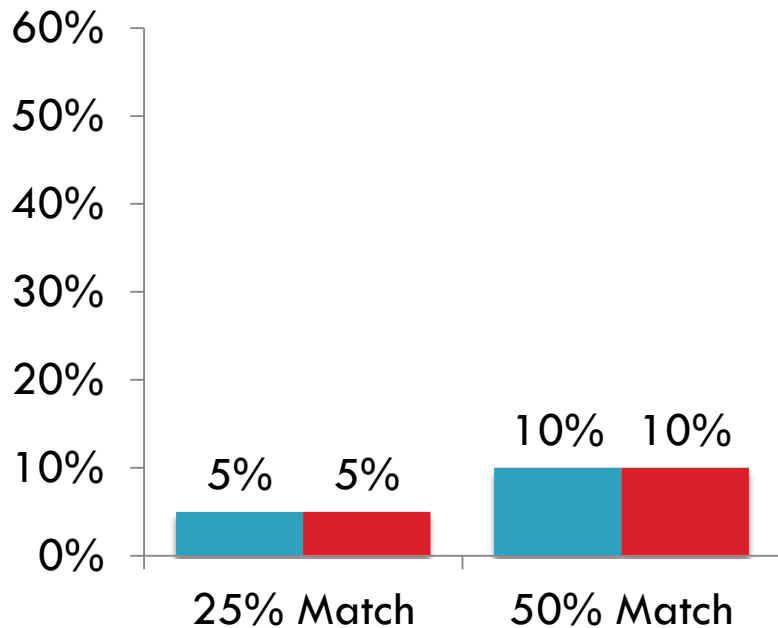
Sources: Vanguard (2017) "How American Saves," Blumenstock, Callen and Ghani (2017), and The Pensions Regulator (2017), "Automatic enrolment, Commentary and analysis: April 2016 – March 2017."

The Impact of Financial Incentives on Savings Plan Participation

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UNITED STATES Change in Participation Relative to No Match

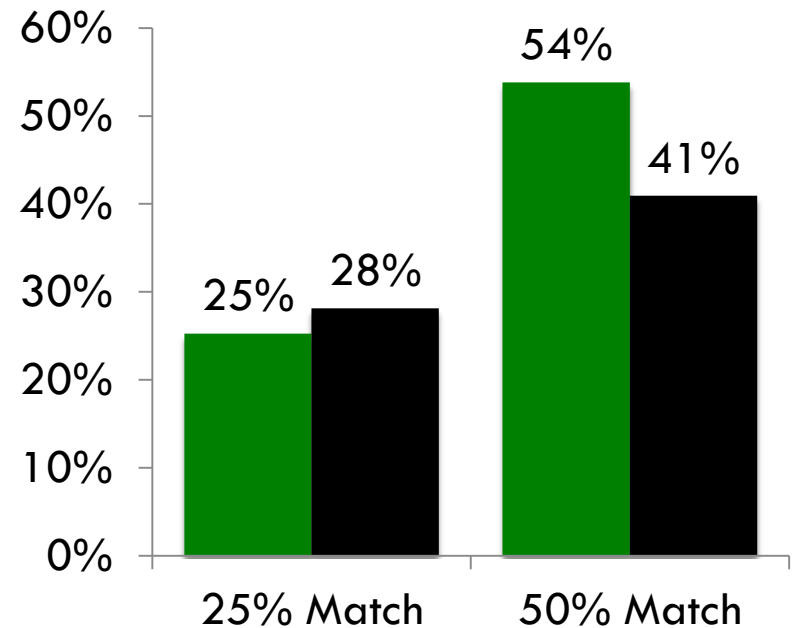
■ Opt-in ■ Opt-out



Source: Madrian (2013) "Matching Contributions and Savings Outcomes"

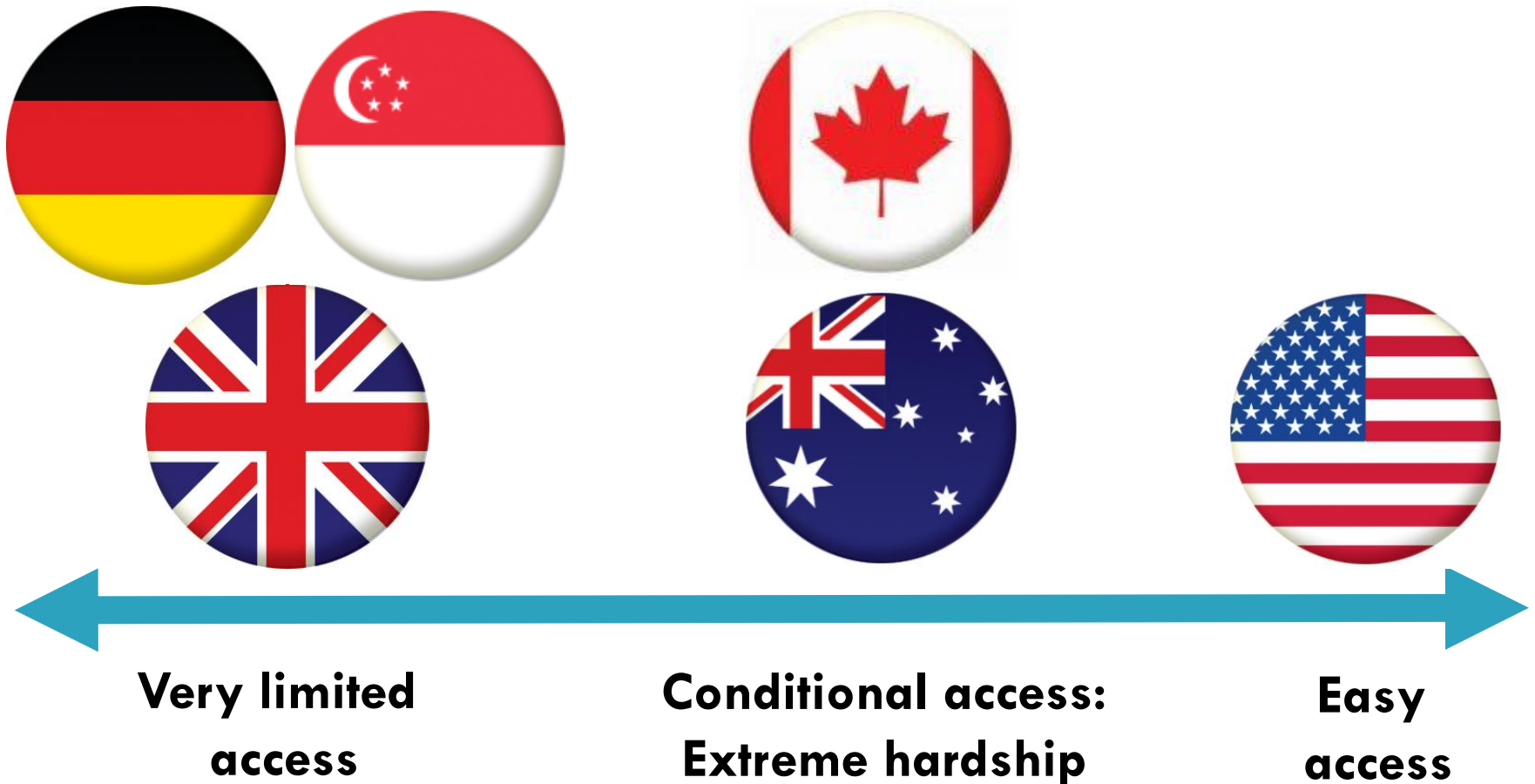
AFGHANISTAN Change in Participation Relative to No Match

■ Opt-in ■ Opt-out



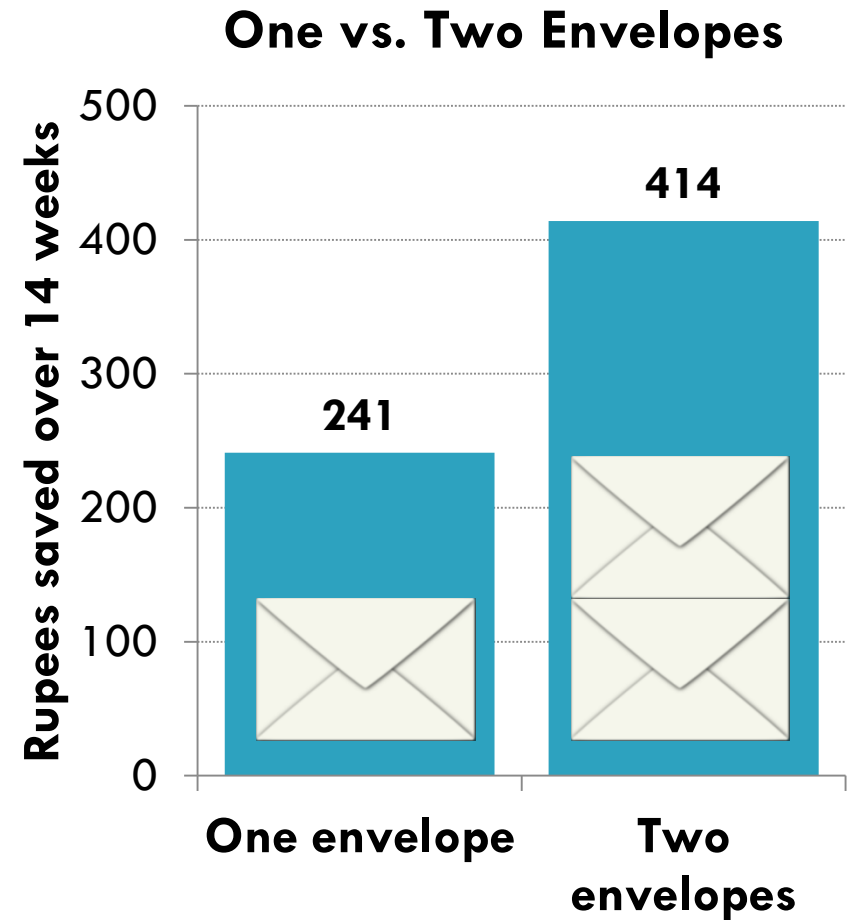
Source: Blumenstock, Callen and Ghani (2017)

How Accessible are “Retirement” Savings Before Retirement?



Mental Accounting

11



Source: Soman and Cheema (2011). "Earmarking and Partitioning"

Parallel Accounts



**Retirement
Account**

**Rainy Day
Account**



Proposal: Parallel Retirement and Rainy Day Savings Accounts

- **Automatic enrollment**
 - ▣ Would require some regulatory reform
- **Mental accounting: two separate accounts**
 - ▣ Create a psychological barrier to using the “retirement” account for purposes other than retirement
 - ▣ Limit the “budget” available for rainy day expenditures
- **Separate but integrated**
 - ▣ Contributions divided across the two accounts based on account balance in the rainy day account
 - ▣ Division between the two accounts adjusts automatically depending on the balance in the rainy day fund
 - ▣ All contributions allocated to the retirement account once a target balance in the rainy day fund is met (e.g., 3 months income)

Conclusions

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- Institutional features matter, some a lot, some less so
 - Type of savings account
 - Enrollment process
 - Financial incentives
- Some institutional features have remarkably similar effects across countries, despite cultural and other institutional differences
- Much scope for cross-country learning, in all directions