

## **Decision-Making Traits and the Propensity to Default: Evidence and Implications**

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### Key Findings and Policy Implications

This paper explores the economic and psychological characteristics of individuals that relate to whether they accept a retirement plan's default options, or whether they make an active choice that supersedes the default option. Using an extensive survey of participants in a large public retirement system, the study analyzes the decision-making of respondents who are faced with a one-time irrevocable choice among three distinct retirement plan options. The paper finds that:

- Higher income and higher net worth individuals are substantially less likely to default, as are women, those with higher self-assessed investment skills and those with greater knowledge of the system.
- A tendency toward procrastination is significantly positively correlated with the likelihood of default. By contrast, respondents with a stronger “need for cognitive closure” are less likely to default.
- When asked “if you could go back in time and redo your original pension choice,” individuals who were defaulted into the DB plan are about 20 percentage points more likely to express a desire to be in a different plan. This is true even relative to those who actively chose the same DB plan into which others were defaulted, suggesting that it is the default behavior rather than the plan itself that is driving this desire to switch.
- Individuals for whom procrastination was a factor influencing their default decision are significantly more likely to regret their decision, and to desire to be in a different plan.
- Using a field experiment to assess whether the timing of an enrollment reminder could increase active decision-making, we find a 2.8 percentage point difference across groups in the probability of making an active choice, and an even larger increase (3.8 percentage points) among younger participants. Importantly, the large majority of individuals who were induced by this simple intervention to avoid defaulting ended up actively choosing the Defined Contribution plan instead of the traditional or portable DB plans.

These results inform the policy discussion of how to design and administer default options in public and private plans around the world. By showing that decision-making traits such as procrastination are important determinants of default behavior, and that defaulters are more likely to subsequently desire to be in a different plan, our results suggest reasons to be cautious in relying solely on defaults to influence behavior.

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