RETIREMENT RESEARCH CENTER
SEPTEMBER 2014

Procrastination, Present-Biased Preferences, and Financial Behaviors

JEFFREY R. BROWN AND ALESSANDRO PREVITERO

Key Findings and Policy Implications

This paper examines how procrastination affects financial decision-making, using three administrative datasets. The first covers about 2700 individuals who joined the University of Illinois system during 2010, and needed to make choices about benefit enrollment. The second is a sample of over 150,000 employees participating in defined contribution (DC) plans. The third contains information on individuals retiring from 63 defined-benefit plans, and have a choice between lump-sum and annuity payment options. The paper finds that:

- When given the option to participate in a supplementary savings plan at the University of Illinois, only 7.5 percent of new employees hired in 2010 were participating in the plan as of the final pay period of 2010. Procrastinators were 2.4 percentage points less likely to participate.
- When given the option to participate in a 401(k) plan, procrastinators (conditional on eventually signing up within 5 years of their start date) took longer to sign up; 44 to 85 days longer in our simple OLS specification.
- Procrastinators contribute less to their 401(k) plans than non-procrastinators, and are more likely to contribute at the default rate and in the default investment portfolio. The average contribution rate (conditional on contributing) in our sample is 7.2% of pay. Procrastinators contribute about 10-15 basis points less, or about 1.3 – 2.0% of the baseline saving rate.
- When deciding whether to take retirement plan benefits in the form of a lump-sum or an annuity, procrastinators are 4.2 to 5.2 percentage points less likely to annuitize, an effect which is about 10 percent of the baseline annuitization rate of 49%.

These results have wide-ranging implications for policy. For example, the findings suggest that procrastination is an important underlying reason why default options (such as automatic enrollment in 401(k) plans) are so powerful. The results also suggest the potential value of additional design tools, such as forcing choices, changing the incentives around deadlines, or increasing the salience of future payoffs.

JEFFREY BROWN is the William G. Karnes Professor of Finance at the University of Illinois at Urbana-Champaign, Associate Director of the NBER Retirement Research Center, and an NBER Research Associate.

ALESSANDRO PREVITERO is Assistant Professor of Finance at Ivey Business School, Western University (Canada).

Complete RRC Working Papers are available on our website: http://www.nber.org/aging/rrc/papers/

This research was supported by the U.S. Social Security Administration through grant #RRC08098400-06 to the National Bureau of Economic Research as part of the SSA Retirement Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.