

# The Power of Doing Nothing

How defaults can improve customer savings behavior



Despite good intentions, people often make less-than-optimal financial choices. In this series, we match insights from our global research in behavioral economics with specific financial product and service opportunities for U.S. providers. Providers can use these evidence-based insights to expand financial inclusion, improve client offerings, and continue to promote financial health.

## » FEATURED SOLUTION: DEFAULTS

Automatic (“opt-out”) enrollment is a simple product design modification in which consumers are informed they will be automatically enrolled in a product or service unless they choose to opt out. Setting the default to “opt-out” instead of “opt-in” has been shown to significantly increase uptake of certain savings products and lead to behavior change through automation, for example by increasing participation in retirement and savings plans. It is important that financial services providers use these tools with care, fully and conspicuously inform their customers about the product or service into which they will be enrolled, and give customers full freedom to make a different choice or opt out at any time.

## WHY DO DEFAULTS WORK?



### People prioritize today over tomorrow

People tend to get caught up in their busy lives and systematically fail to make decisions today that will only affect them in the future.



### People put off taking action on complex tasks

People often avoid taking action on tasks that seem daunting or complex, and financial transactions like choosing a 401(k) plan are no exception.



### People suffer from inertia

People have a strong preference for the status quo, regardless of whether it is better or worse for them than available alternatives.

## WHERE CAN PROVIDERS AND NON-PROFITS APPLY DEFAULTS?

The most common use of defaults in the United States are automatic (“opt-out”) enrollment in defined contribution retirement plans and regular escalation of contribution rates. Some other promising applications of defaults include:

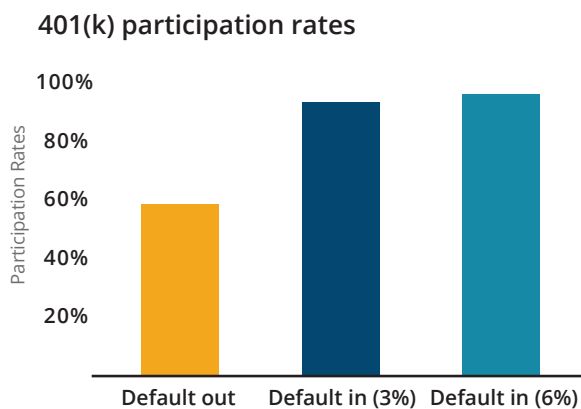
- » **Automatic deposits into savings:** For clients who have opened savings accounts, banks can automatically deposit a portion of their paycheck into their savings account, unless they opt out.
- » **Automatic inclusion of savings add-ons:** Institutions can include add-on savings programs for clients unless they opt-out.
- » **Automatic loan repayment:** Institutions can help clients pay down a loan by setting up automatic regular monthly payments for consumers, unless they opt-out.

Although defaults can also be applied to savings contribution rates, optimal contribution rates vary for different individuals.

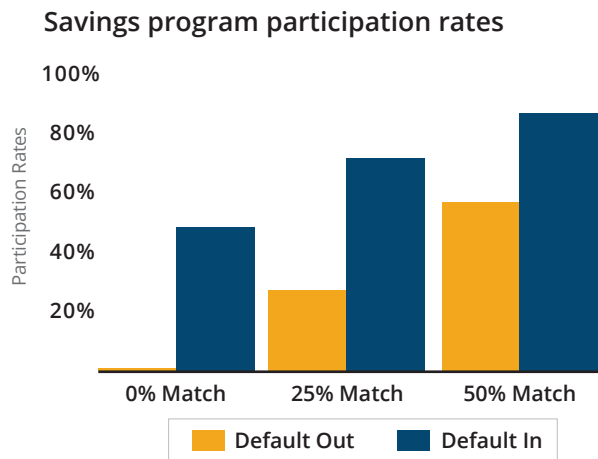
# THE EVIDENCE

Research from around the world suggests that defaults affect savings at every step of the way, from the rate at which people participate in savings programs, to the amount people contribute, to the likelihood that people will increase their contributions over time.<sup>1</sup> These results are consistent across different contexts, suggesting people's response to defaults is a shared human behavior. The following two examples on the powerful effects of defaults, from very different contexts, suggest that defaulting people into retirement or savings plans is an effective way to increase savings balances.

**Defaulting new hires into retirement savings plans significantly increased plan participation in the United States.** After a large company began automatically enrolling workers in a 401(k) plan, participation rates for new hires went from 59 to 95 percent. When the employer changed the default contribution rate from 3 percent to 6 percent, it increased retirement savings amounts without reducing participation rates. The 6 percent default doubled the amount of people who contributed 6 percent of their pay, from 24 to 49 percent.<sup>2</sup>



**Defaulting employees into automatic savings was as effective as a more costly 50 percent employer savings match.** A large employer in Afghanistan informed workers that, unless they chose to opt out, 5 percent of their paycheck would be automatically deposited into a mobile savings account. Employees in this program were 40 percentage points more likely to accumulate short-term savings than employees who had to opt in, equivalent to a much more costly 50 percent employer match. When the study ended and the default enrollment was removed, 45 percent of employees continued to contribute to their accounts.<sup>3</sup>



# IMPORTANCE OF TESTING NEW PRODUCTS

Small tweaks to product design can make a large difference. Innovations like commitment features, defaults, and reminders can help improve consumers' wellbeing and have a positive impact on the bottom line for financial service providers. At the same time, understanding the impact of any new product design feature requires rigorous testing. The Financial Inclusion Program at Innovations for Poverty Action works with service providers, governments, and researchers to design and test financial services and products to fully understand their impacts. For more information, contact [financialinclusion@poverty-action.org](mailto:financialinclusion@poverty-action.org).

1. Beshears, John, James J. Choi, David Laibson, and Brigitte C. Madrian. "The importance of default options for retirement saving outcomes: Evidence from the United States." In *Social security policy in a changing environment*, pp. 167-195. University of Chicago Press, 2009.  
 2. Ibid.  
 3. Blumenstock, Joshua Evan, Michael Callen, and Tarek Ghani. "Mobile-izing Savings with Automatic Contributions: Experimental Evidence on Present Bias and Default Effects in Afghanistan." (2016).

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