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Heuristics and Biases in Retirement Savings Behavior

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Abstract

Standard economic theories of saving implicitly assume that households have the cognitive ability to solve the relevant optimization problem and the willpower to execute the optimal plan. Both of the implicit assumptions are suspect. Even among economists, few spend much time calculating a personal optimal savings rate. Instead,

most people cope by adopting simple heuristics, or rules of thumb. In this paper, we

investigate the heuristics and the biases that emerge in the area of retirement

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g upon which to draw in making the

relevant decisions. Perhaps as a result, investors are relatively passive. They are slow

to join advantageous plans; they make infrequent changes; and they adopt naive

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diversification strategies. In short, they need all the help they can get. We discuss the possible role of interventions aiming to improve retirement decision making. Fortunately, many effective ways to help participants are also the least costly interventions: namely, small changes in plan design, sensible default options, and opportunities to increase savings rates and rebalance portfolios automatically.

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