



Future Shock — Do Income Estimates Affect Saving Behavior?

Motivating *non-savers* to become *savers* can be like asking a juggler to simultaneously tap dance, sing, and play the piano. With so many immediate and competing demands on a household's finances, it's challenging to set money aside for long-term savings goals like retirement. Left on their own, many people remain in the "non-saver camp" indefinitely, delaying their migration into the "saver camp" and reducing their chances for a comfortable retirement. Workplace retirement savings plans such as 401(k)s have helped to increase the proportion of workers who save, especially with the rise of automatic enrollment features. Participants are unlikely to "opt out" if enrolled in a plan when hired.

But what about motivating savers to become *better savers* — that is, to save *enough* to provide for a secure retirement? After all, stakeholders agree that millions of workers, including those participating in DC plans, need to save more. How can the industry convince more plan participants to defer a higher percentage of their earnings? Automatic deferral escalation — where the amount saved repeatedly increases over time — can help, but it's not a factor for most plan participants. Recent data from the Bureau of Labor Statistics indicate only 18 percent of private sector workers participate in savings and thrift plans that have an auto-escalation feature.

Often, people need a "nudge" of some kind to take action. Behavioral finance experts are feverishly searching for new approaches to guide people to optimal actions, but in the meantime, there appears to be a simple way to boost savings rates: providing and promoting retirement income estimates. These estimates display a person's hypothetical future income based on saving levels and various other assumptions about investment returns, wage increases, and asset allocation.

Among workers who save in a DC plan, 34 percent have seen a retirement income estimate from their plan provider, either online or in a quarterly account statement

(printed or electronic). A majority feel that this estimate aligns with their expectations. But one quarter are surprised or even shocked by what they see — the estimate is *lower* than they expect.

Overall, 4 in 10 go on to increase their savings rate as a direct result of viewing the income estimate. (A small proportion *reduce* their savings rate, perhaps deciding that they are "oversaving.") Furthermore, 57 percent of those who both see and act on these estimates feel confident that they are saving enough, compared with 41 percent of those who see them but do not act.

One reason estimates are so effective is their perceived accuracy. A whopping 89 percent of those who see estimates believe them to be at least *somewhat* accurate; 44 percent feel they are *very* accurate. Admittedly, no income estimation is perfect, even those that use sophisticated modeling and incorporate participants' additional retirement savings. The point is that they serve a purpose: motivating better saving behavior.

What's interesting is that these future income estimates are ubiquitous — virtually all major plan provider/recordkeepers offer them to participants. But, only 4 in 10 people who save for retirement at the workplace say they saw any estimate in the past 6 months. That suggests room for improvement in promoting these estimates. Moreover, the estimates should allow for "what if?" testing, allowing participants to see the future impact of adjustments of their deferral rates. This means that online tools would work better than a static number on a quarterly statement.

Of course, income estimates are not limited to plan participants — financial services companies offer these to all kinds of customers. In fact, our research shows that 28 percent of all workers who see income estimates say that their financial planner/advisor provided these estimates. But the workplace remains the central hub of retirement savings, and the best place to direct efforts to improve saving behavior — especially among those who are already saving. 🌐