The Limitations of Defaults

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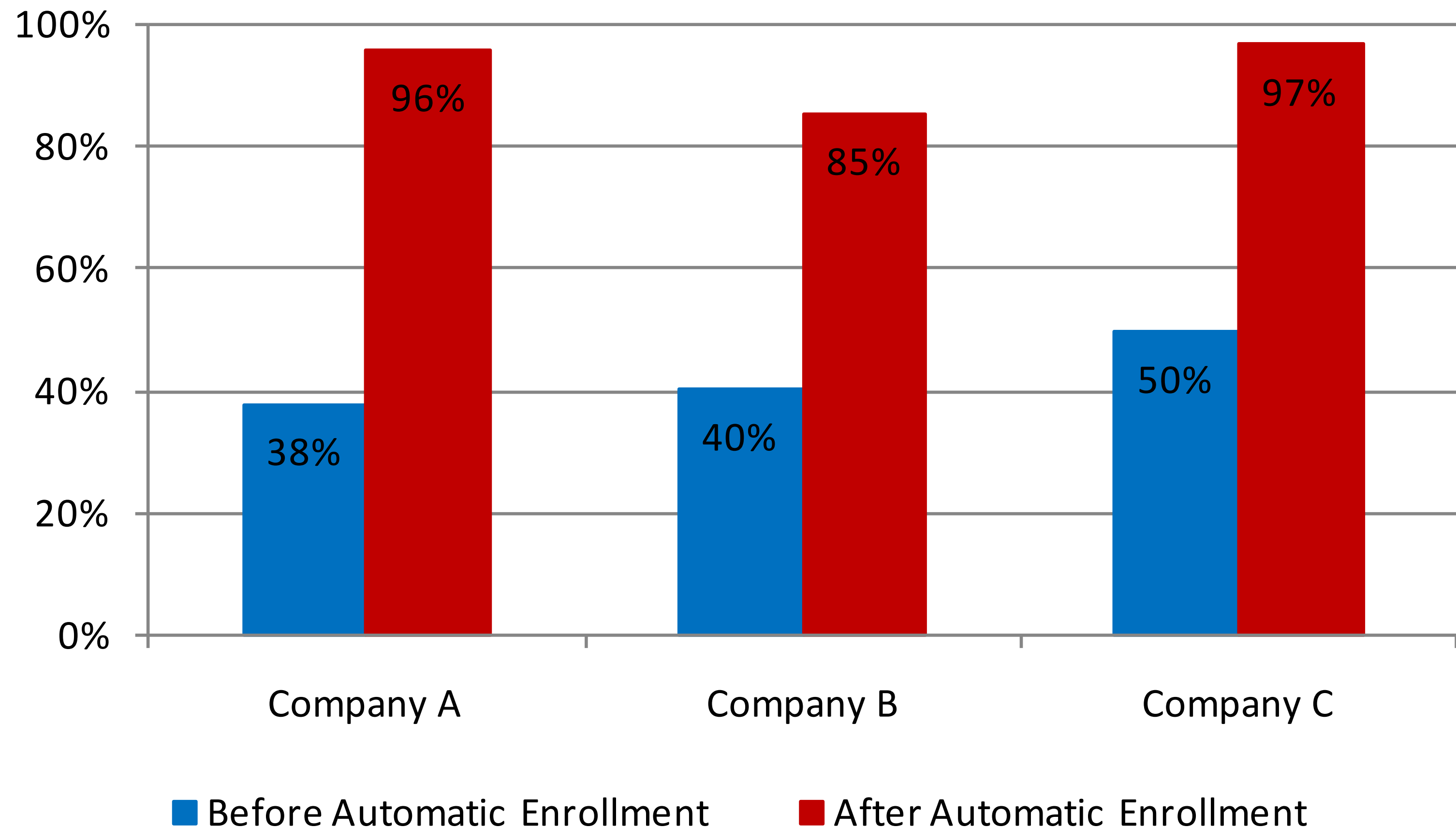
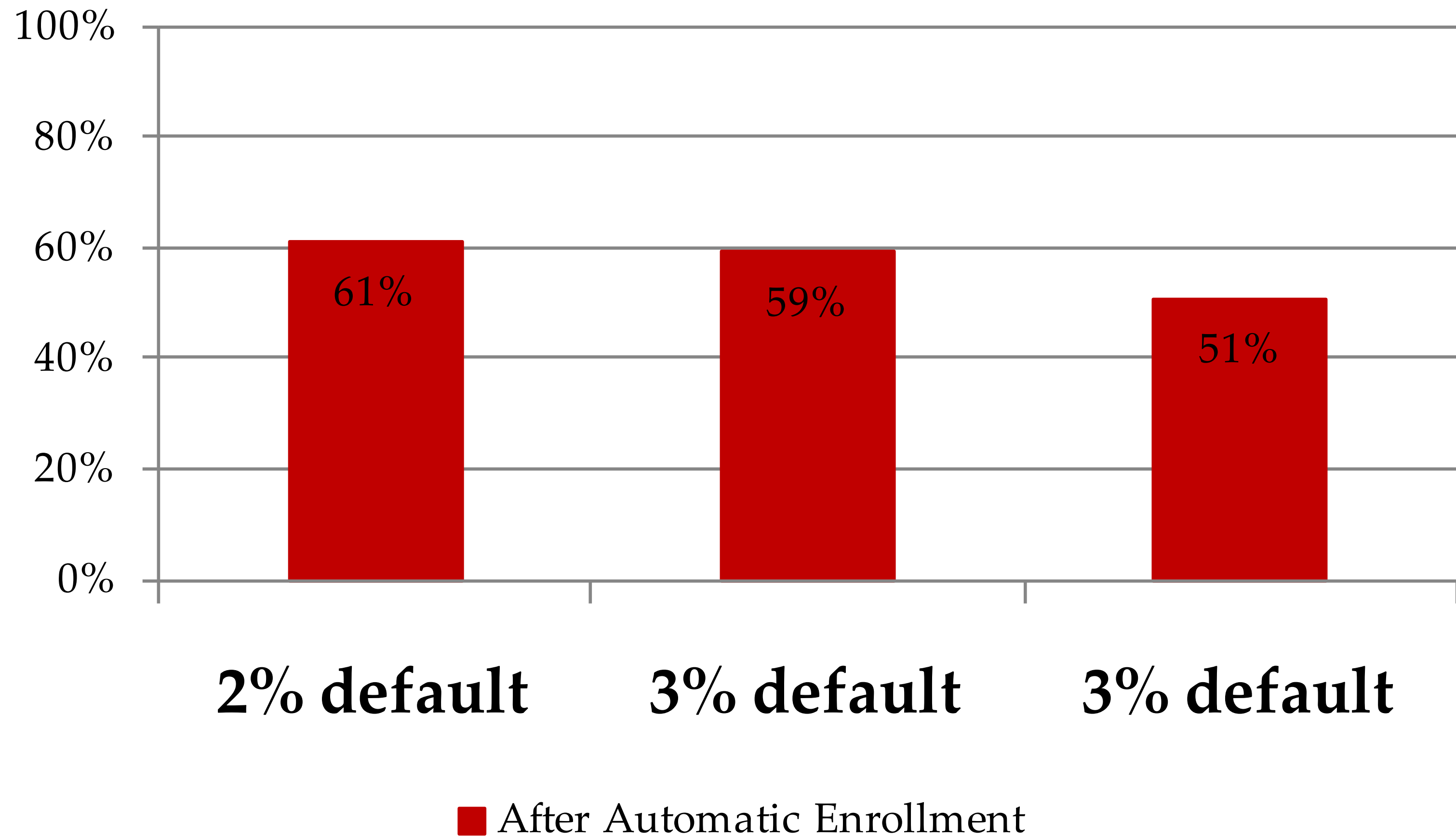
Defaults and Participation



Default Stickiness



How Far Can Defaults Take Us?

Study a savings plan with a 12% default

Also, why are defaults sticky?

- Because individuals would have chosen similar options anyway?
- Because of procrastination, endorsement, lack of expertise, and high costs of action?

Plan Details

Large U.K. firm, employees eligible upon hire

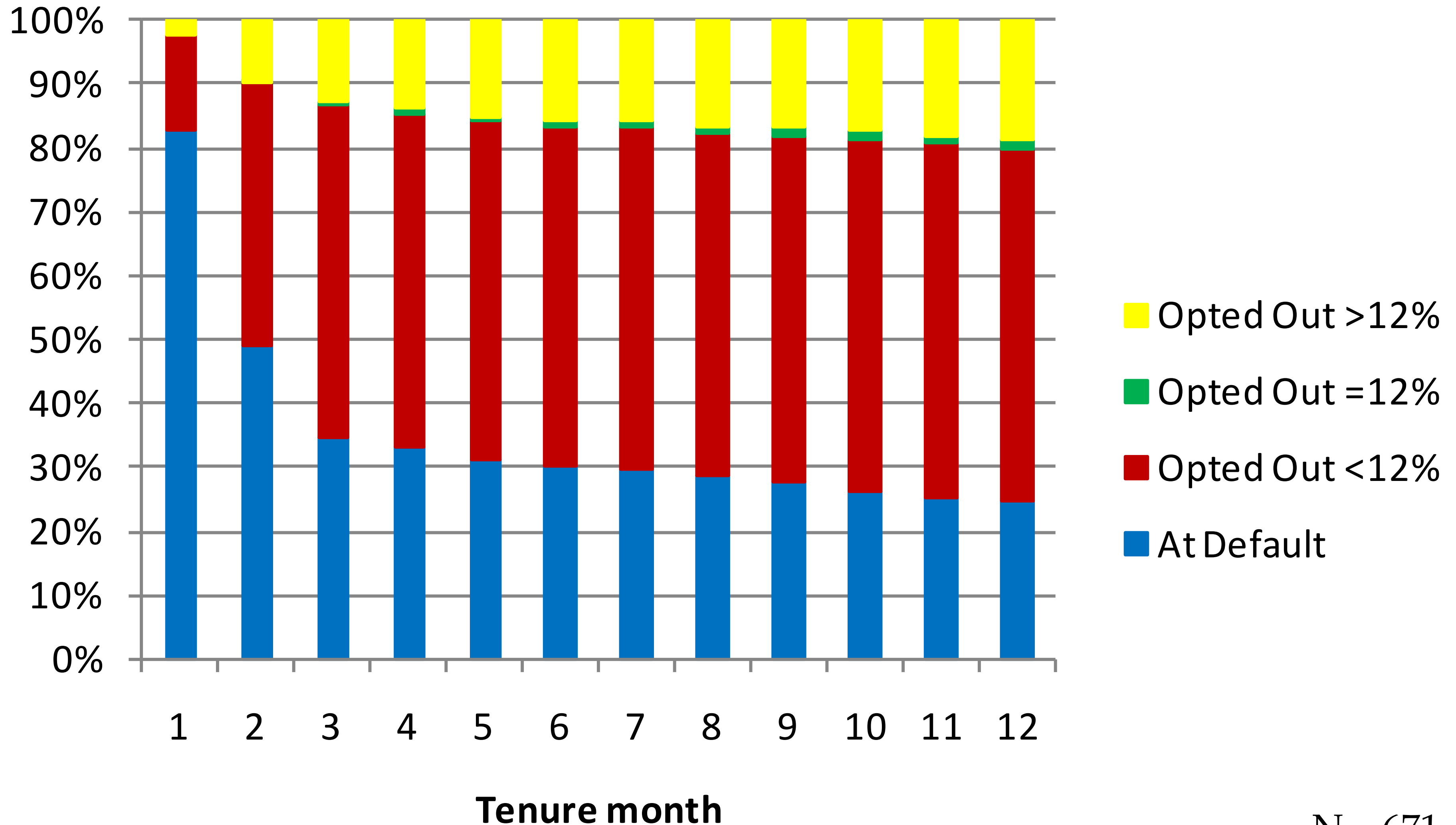
Minimum employee contribution rate 4%

One-for-one employer match on contributions between 12% and 18%

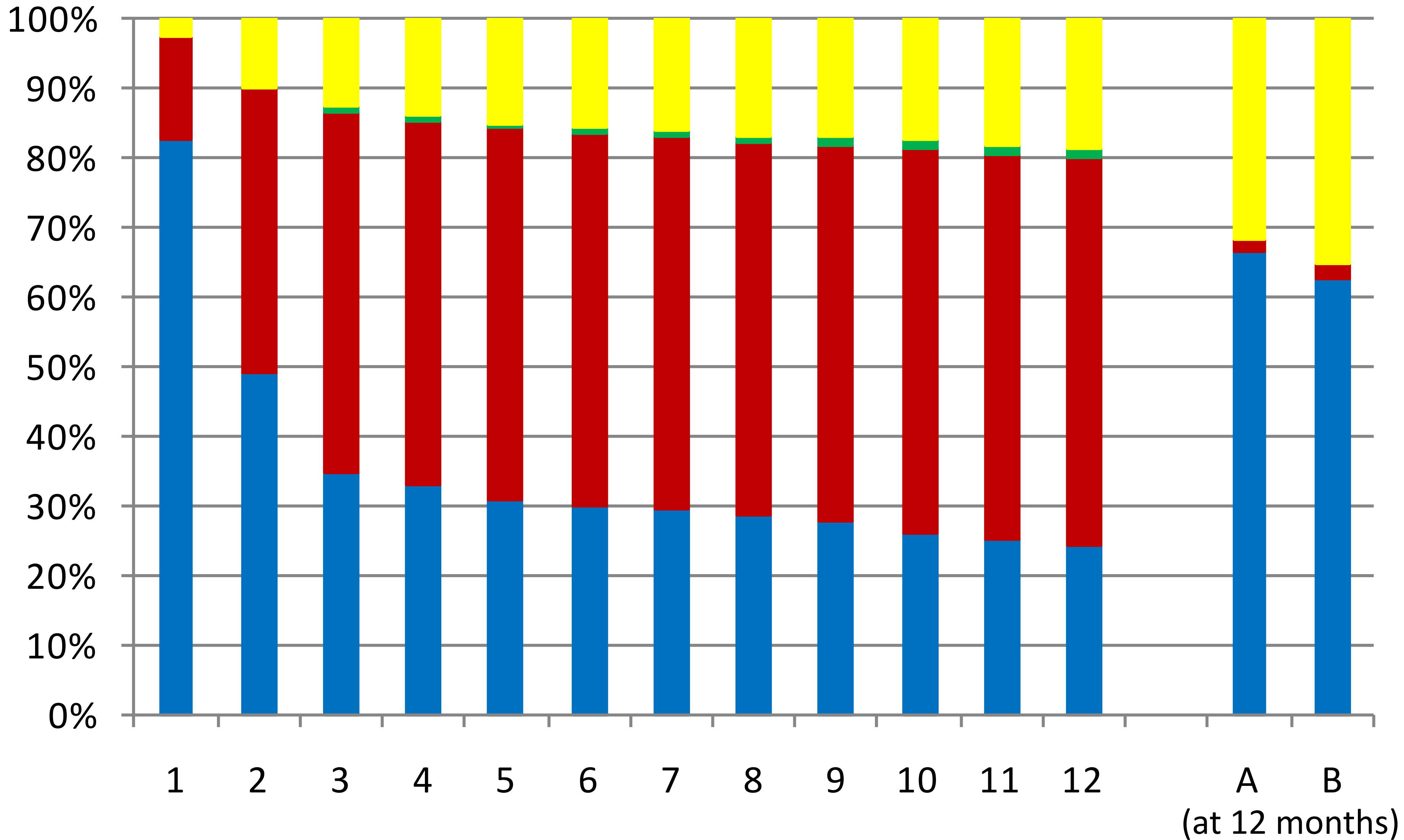
Immediate automatic enrollment at 12%

Study new hires, July 2006 – June 2007

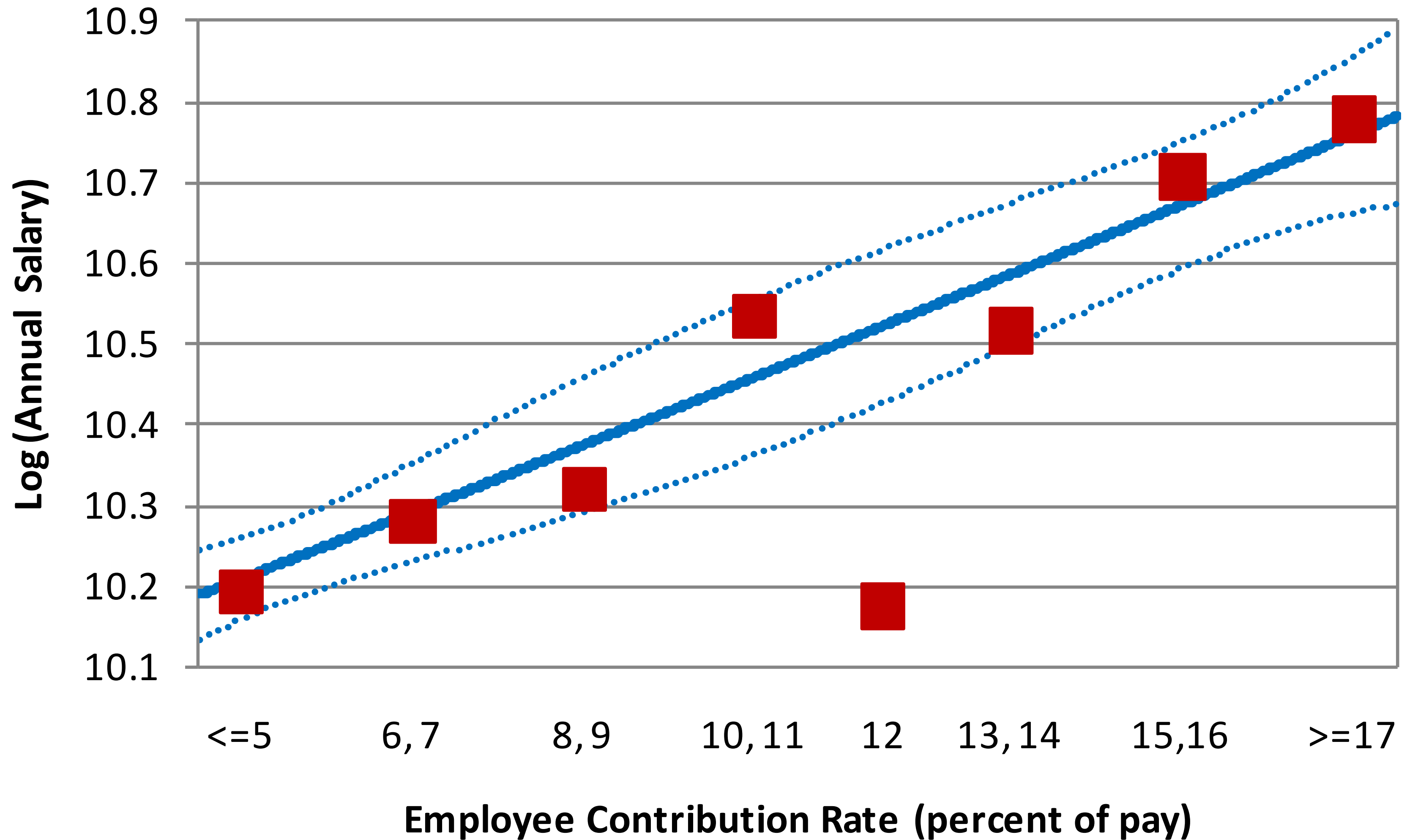
Opting Out of the Contribution Rate



Opting Out of the Contribution Rate



Who Stays at the Default?



Interpreting the Evidence

Employees with low income are more likely to remain at the default

Consistent with findings of Choi et al. (2004)

Evidence suggests that low-income employees have higher barriers to active decision-making

However, high-income employees also have strong matching incentives to opt out

Implications

If increasing contributions is socially desirable, high defaults may not be best

It may be better to have modest initial defaults and automatic contribution escalation (see Thaler and Benartzi, 2004)

Policymakers who set defaults might want to keep in mind that defaults disproportionately affect individuals with low human capital