



Saving Regret: Self-assessed Life-cycle Saving Behavior in the U.S. and Singapore

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Paternalistic nudging to increase saving for retirement is often advocated by policy researchers. Nudging has been implemented in a number of forms, such as defaulting into tax-advantaged, employer-provided savings plans. A justification for these interventions is the belief that many people have under-saved and that the reason for under-saving is procrastination. An implication is that on hindsight, the preferred choice of such persons would be to have saved more than they did. However, there is little empirical evidence on the saving behavior that individuals would have chosen on hindsight.

To fill this empirical gap, we fielded two surveys in the RAND American Life Panel (ALP). We asked persons ages 60 to 74 whether, if they were given the chance to do it over again, they would have saved differently earlier in their lives. If they wished to have saved more, we say they have “saving regret.” To explore an alternative explanation for saving regret, we asked questions about negative economic shocks that may have occurred over the respondents’ lifetimes and that led to a significant impact on their financial situation. We asked about 11 shocks, such as unemployment or bad health, that affected ability to work.

In May 2018, we fielded a similar survey in the Singapore Life Panel (SLP), which is modeled on the high-frequency Financial Crisis Surveys fielded in the ALP. Viewed in international context, Singapore is similar to the United States in encouraging self-reliance, but it has a smaller safety net and the institutions surrounding economic preparation for retirement are very different. In particular, Singapore mandates a total contribution rate of about 37% of earnings (employee and employer combined) into funds managed by the Central Provident Fund. These funds finance consumption in retirement and health care both pre- and post-retirement. They can also be used to finance the purchase of a home. There are very few defined benefit (DB) pension plans, no Social Security, limited public health care insurance, and no unemployment insurance.

We use the data from the ALP and the SLP to compare saving regret in the U.S. with that in Singapore and to shed light on the mechanisms leading to saving regret and how these may interact with the policy environment. Because of the high level of mandated saving in Singapore, it would seem that procrastination would be irrelevant, possibly bringing the role of financial risks over the life cycle into

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focus. Hence, we seek to identify the role of uncertainty and the ability of individuals to manage unexpected financial shocks in shaping retirement saving outcomes in Singapore and the U.S.

Overall, we find saving regret is higher in the U.S. than in Singapore: 54% of ALP respondents and 46% of SLP respondents expressed saving regret. There are few differences by sociodemographic characteristics in saving regret, with those that do exist being more common in the U.S. For example, separated, divorced, or widowed respondents in the U.S., who are more prevalent in the U.S., are also more likely to express saving regret. The wealthiest respondents in each country are less likely to express saving regret.

In both the ALP and the SLP, the psychometric battery designed to measure the tendency to procrastinate had little to no explanatory power for saving regret. In both surveys, negative shocks that set the household back financially, such as health-limiting work or unemployment, increased saving regret considerably, particularly in the ALP. Positive shocks such as receiving an inheritance reduced saving regret. Shocks were more common for ALP than for SLP respondents. The greater proportion of ALP respondents who reported such shocks and a greater effect of shocks on saving regret largely explains the difference in regret between the ALP and SLP. For example, the frequency of expressing regret is almost the same among respondents who reported no shocks.

To explain the difference in regret between the U.S. and

Singapore we explored some institutional differences. An obvious difference is the Central Provident Fund, which requires saving to finance health care and, perhaps, to provide a buffer against other shocks. Financing health care in this way is more affordable in Singapore as is reflected by the lower spending on health care: In 2017 Singapore spent 4.4% of GDP on health care versus 17.9% in the U.S. College expenses represent a shock that may have greater impact among ALP respondents. In recent decades, while higher education expenses in the U.S. have increased sharply in real terms, median wages have remained static. In Singapore, however, both higher education expenses and median wages have increased in real terms, effectively making college education more affordable in Singapore.

Differences in economic growth also may affect the financial well-being of respondents in each nation. The Singapore economy's much greater growth in recent decades may have given Singaporeans an unexpected level of economic security, while the U.S.'s more sporadic growth, including periods of high unemployment, may have given Americans an unexpected level of insecurity. Differences in family deaths (likely widowhood, but not specifically asked) and of divorce and separation have also contributed to saving regret in the U.S.

While our research does not point to a role for procrastination in saving regret, it does point to a role for economic shocks. An implication is that a focus of future research on the role of shocks would help gauge their importance as a cause of shortfalls in economic preparation for retirement. ❖

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