Authors
Esther Duflo
Massachusetts Institute of Technology

Emmanuel Saez

THE ROLE OF INFORMATION AND SOCIAL INTERACTIONS IN RETIREMENT PLAN DECISIONS: EVIDENCE FROM A RANDOMIZED EXPERIMENT*

ESTHER DUFLO AND EMMANUEL SAEZ

This paper analyzes a randomized experiment to shed light on the role of information and social interactions in employees' decisions to enroll in a Tax Deferred Account (TDA) retirement plan within a large university. The experiment encouraged a random sample of employees in a subset of departments to attend a benefits information fair organized by the university, by promising a monetary reward for attendance. The experiment multiplied by more than five the attendance rate of those treated individuals (relative to controls), and tripled that of untreated individuals within departments where some individuals were treated. TDA enrollment five and eleven months after the fair was significantly higher in departments where some individuals were treated than in departments where nobody was treated. However, the effect on TDA enrollment is almost as large for individuals in treated departments who did not receive the encouragement as for those who did. We provide three interpretations—differential treatment effects, social network effects, and motivational reward effects—to account for these results.

I. INTRODUCTION

There is growing concern in the United States about low levels of savings for retirement. For most U. S. families, employers' pensions are the main source of cash income during retirement, over and above Social Security benefits (see, e.g., Poterba, Venti, and Wise [1996]). However, over the last 25 years, traditional Defined Benefits and Defined Contribution employer pension plans where employee participation is mandatory have been partly replaced with Tax Deferred Account (TDA) retirement plans such as 401(k)s where employees choose whether to participate and how much to save for their retirement (see Poterba, Venti, and Wise [2001]). As a result, most U. S. workers now have to make a decision about how much to save for their retirement,

* We thank Daron Acemoglu, George Akerlof, Orley Ashenfelter, Joshua Angrist, David Autor, Abhijit Banerjee, David Card, Edward Glaeser, Lorenz Goette, Jonathan Gruber, Guido Imbens, Lawrence Katz, Jeffrey Kling, Botond Koszegi, Michael Kremer, Alan Krueger, David Laibson, Brigitte Madrian, Sendhil Mullainathan, Thomas Piketty, Matthew Rabin, two anonymous referees, and numerous seminar participants for very helpful comments and discussions. We gratefully acknowledge financial support from the National Science Foundation (SES-0079315). We are especially grateful to all the members of the Benefits Office of the University for their help and support in organizing the experiment. This paper does not reflect the views of the University or its Benefits Office.

The Quarterly Journal of Economics, August 2003

The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment

This paper analyzes a randomized experiment to shed light on the role of information and social interactions in employees' decisions to enroll in a Tax Deferred Account (TDA) retirement plan within a large university. The experiment encouraged a random sample of employees in a subset of departments to attend a bene!ts information fair organized by the university, by promising a monetary reward for attendance. The experiment multiplied by more than !ve the attendance rate of these treated individuals (relative to controls), and

tripled that of untreated individuals within departments where some individuals were treated. TDA enrollment !ve and eleven months after the fair was signi!cantly higher in departments where some individuals were treated than in departments where nobody was treated. However, the effect on TDA enrollment is almost as large for individuals in treated departments who did not receive the encouragement as for those who did. We provide three interpretations—differential treatment effects, social network effects, and motivational reward effects—to account for these results.

August 01, 2003