

# Science backs the use of automatic features to help retirement savers

Richard H. Thaler earned the 2017 Nobel Prize in Economic Sciences. His work in **behavioral economics** established a basis for automatic enrollment and escalation features in 401(k) and 403(b) plans. He's credited with helping millions of workers save more for retirement.

**What does behavioral economics have to do with retirement plans? A lot!**

## Behavioral economics says...

People make irrational decisions when it comes to how they spend and save money.

People can be “nudged” to make beneficial decisions.

## As it relates to retirement plans...

Despite knowing they could spend 20 or 30 years in retirement, many workers don't save for the future.

**The “nudge”:** Automatic enrollment and automatic escalation features encourage employees to enroll and save more over time.

**“Nudge”** your employees to save more.

According to behavioral economics:



People will choose immediate gratification over long-term happiness.



People can't picture themselves too far into the future.

When “nudged” with automatic enrollment and automatic escalation features



Employees create long-term discipline.



They don't have to think about their future selves.



Stuck with automatic enrollment.<sup>1</sup>



Continued with automatic escalation.<sup>1</sup>

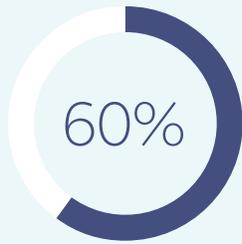


Traditional enrollment

Automatic enrollment

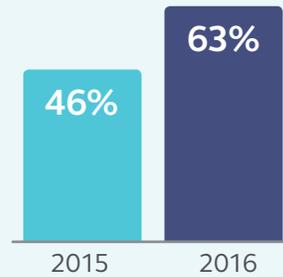
Participation in plans with automatic enrollment was 37% higher than in plans with traditional enrollment.<sup>2</sup>

## Automatic enrollment isn't just for new hires.



60% of plan sponsors use automatic enrollment, with 43% implementing it for all employees, not just new hires.<sup>3</sup>

## Automatic escalation is becoming standard.



63% of plans used automatic escalation in 2016 vs. 46% in 2015. Of those, 60% defaulted participants into it, while 38% required participants to opt in.<sup>4</sup>



### Want to know more about automatic features?

Let's talk. We're here to help you update your plan and get employees to save more over time.

<sup>1</sup> Principal, 1/1/2014 – 12/31/2016

<sup>2</sup> Principal, as of 12/31/2016

<sup>3</sup> The Cerulli Report — U.S. Retirement Markets 2016: Preparing for a New World Post-Conflict of Interest Rule, Cerulli Associates, December 2016.

<sup>4</sup> 2017 Defined Contribution Trends, Callan 2017.

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