Everyone else is making a mistake: Effects of peer error on saving decisions

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Introduction

- Half of U.S. households are "at risk" of not maintaining their lifestyle in retirement.
- While social influence has been effective in several sectors, multiple studies suggest it is less reliable (and can backfire) in financial contexts.
- We aimed to see if a less traditional peer approach might be effective.

Participants

Current federal civilian employees

- **Test 1:** Age 18 or older (M = 36); tenure of less than 2 years; no outstanding TSP loans; still at default contribution of 3% of salary
- **Test 2:** Age 18 or older (M = 42); tenure of 2-9 years; missed at least $100 in matching; still at default contribution of 3% of salary
- **Test 3:** Younger than 50 (M = 44); on track to reach the IRS elective deferral limit (EDL) before the end of 2018

Methods

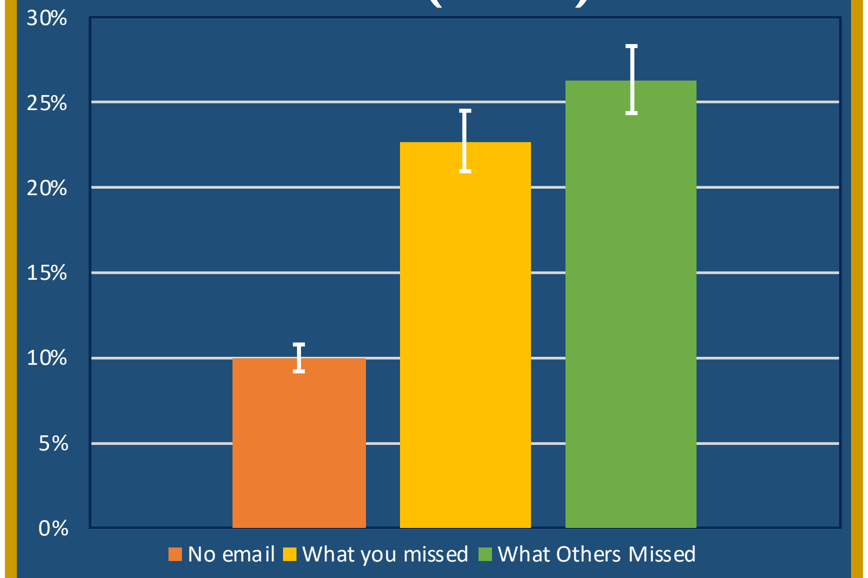
- Three randomized controlled interventions with ~10,000 ppl (n_1= 1,254, n_2= 6,466, n_3= 1,602)
- **Tests 1 and 2:** Participants learned how much *others* not getting the full match had missed. We measured how many increased contributions after 3 months.
- **Test 3:** Participants contributing too quickly were told how much *others* who reached the EDL early missed in matching.* We measured how many had missed no match at year end.

* *When most participants reach the EDL, they cannot contribute any more for the rest of the year. If they are not contributing, then they do not receive matching.*

In three randomized retirement interventions, we find that participants are significantly more likely to improve sub-optimal saving when they learn what *others* in the same position have lost.

Findings raise questions about the nuances of peer influence: Comparing people to peers who are doing better financially may demotivate, but informing them of others' *mistakes* might inspire.

Results (Test 1)



Results

In **Tests 1** and **2,** those who learned what others missed were more than twice as likely to increase their contributions compared to those who received no outreach ($p < 0.0001$). In **Test 3,** those who learned what others who reached the IRS limit early had missed were 29% more likely to successfully adjust their contributions compared to those who received a general education email ($p < 0.01$).

Discussion

Rather than comparing participants to those who are better off financially, informing them of others' *mistakes*—and providing simple steps to avoid those mistakes—may lead to improved retirement saving.

References

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