How good will your future look?

When and why evaluative labels and consumption baskets affect the choice of a pension contribution rate

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SUMMARY

The choice of a pension contribution rate is an important determinant of pension adequacy. We assess in three experimental studies whether adding evaluative labels[1] describing the expected pension lifestyle (such as "moderate" or "comfortable") and consumption baskets (specification of the consumption possibilities per expected pension lifestyle) to retirement income projections can induce individuals to save more.

Our results indicate that evaluative labels and consumption baskets increase contribution rates. We do not find negative (discouraging) effects of labels. Complementing numerical information about pension contributions and retirement incomes with evaluative labels and / or consumption baskets leads to anchoring on the first contribution rates associated with reaching the next upward lifestyle level. In addition, we find that **consumption baskets increase the ease of imagining the lifestyle one can expect in retirement** The effectiveness of labels depends on one's current contribution rate. We conclude that **labels may act as an impactful anchor** to increase savings, and that the implementation of pension labels in pension communication requires great care.

MATERIALS

Contribution rate	Expected retirement income	Living standard during retirement	Retirement living standard	House	Food and drink	Transport
1%	€874	Minimum	Minimum	DIY maintenance and decorating one room a year	A €38 weekly food shop	No car
2%	€990					
3%	€1105					
4%	€1220					
5%	€1335					
6%	€1450					
7%	€1565					
8%	€1681	Moderate	Moderate	Some help with maintenance and decorating each year	A €46 weekly food shop	3 year old car replaced every 10 years
9%	€1796					
10%	€1911					
11%	€2026					
12%	€2141					
13%	€2256					
14%	€2372					
15%	€2487					
16%	€2602	Comfortable	Comfortable	Replace kitchen and bathroom every 10/15 years	A €56 weekly food shop	2 year old car replaced every 5 years
17%	€2717					
18%	€2832					
19%	€2947					
20%	€3062					

1. Retirement living standards developed by the centre for research in social policy of Loughborough University (https://www.retirementlivingstandards.org.uk/developing_rls_research_report.pdf).

STUDY 1: Main effect & mediation

How do evaluative labels and consumption baskets affect the choice of a contribution rate?

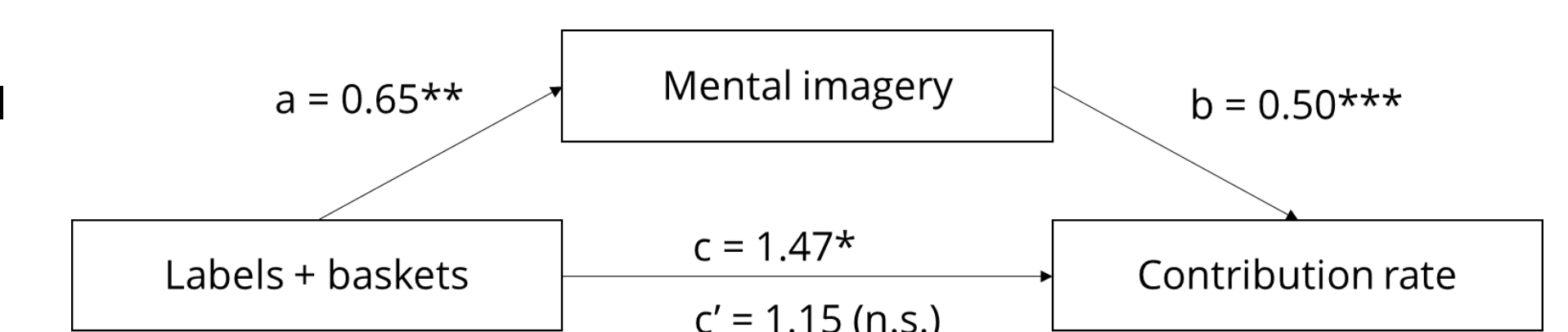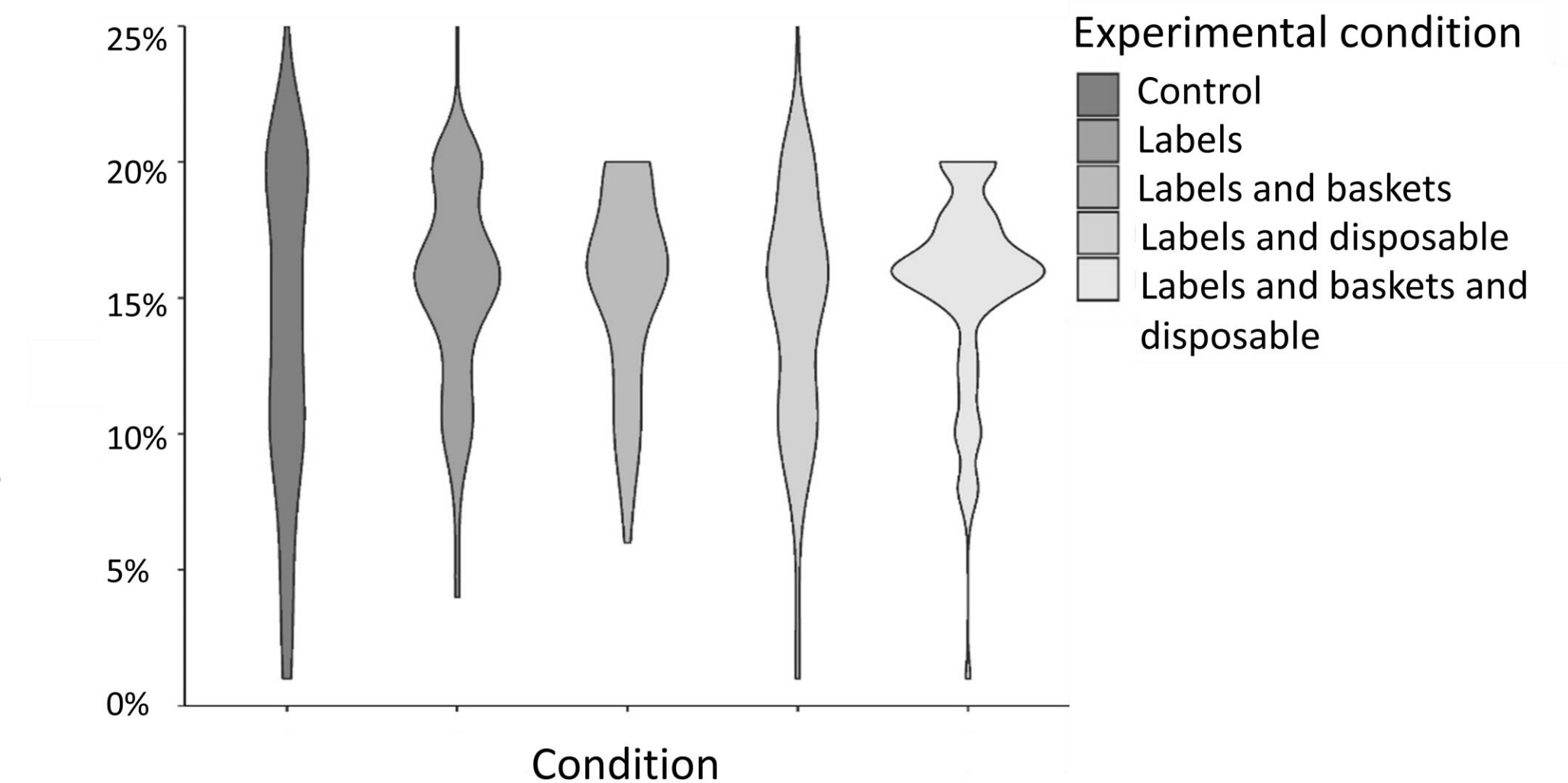**Sample:** 482 university students (online)

Materials: Participants saw a table displaying pension contribution rates and the associated expected retirement income. Participants were randomly assigned to one of the following conditions and are asked to select a contribution rate from the table that they would recommend to a hypothetical other:

- *Control*: baseline table with contribution rates and corresponding retirement income
- *Labels:* the future retirement incomes are classified into a specific category of future living
- *Labels + disposable income:* evaluative labels + an indication of how one's current disposable income decreases as contribution rates increase.
- *Labels + baskets:* evaluative labels + detailed descriptions of future consumption possibilities that correspond to each specific evaluative label
- *Labels + baskets + disposable income:* evaluative labels and consumption baskets + an indication of how one's current disposable income decreases as contribution rates increase

Results:

1. Compared to the control condition, **contribution rates are significantly higher** in all experimental conditions except for the labels and disposable condition.

2. **Mental imagery** fully **mediates** the effect of consumption baskets on contribution rates.

3. Evaluative **labels lead to anchoring** on 'switching points'

Contribution rate (%)

Experimental condition: Control, Labels, Labels and baskets, Labels and disposable, Labels and baskets and disposable

Condition

$a = 0.65**$ — Mental imagery — $b = 0.50***$

Labels + baskets — $c = 1.47*$ — Contribution rate

$c' = 1.15$ (n.s.)

STUDY 2: Current contribution rate as a contingency factor

Does the effectiveness of labels depend on the starting contribution rate?

Sample: 361 prolific participants

Procedure: Mixed design: 7 rounds of varying starting contribution rates (within) and 3 table formats between subjects (control, labels, labels and consumption baskets)

Results:

1. The **effectiveness of** evaluative **labels** and consumption baskets **depends on the current contribution rate.**

2. The labels are most effective when the current CR is higher.

CR Increase (%)

Con: Control, Labels, Labels and baskets

Starting contribution rate (CR)
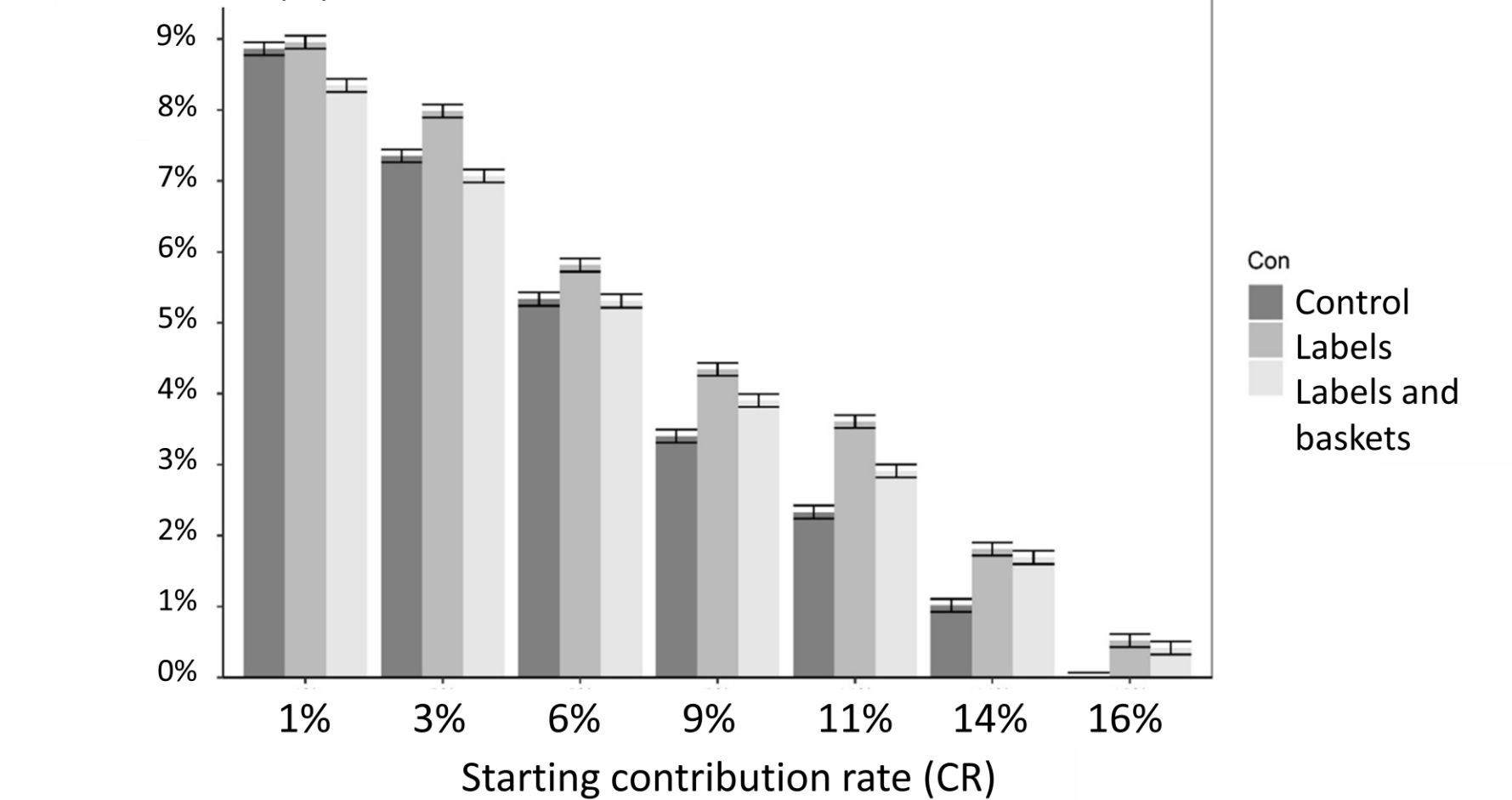
STUDY 3: Extension to individual saving decisions

Can labels increase saving rates for individual (rather than hypothetical) saving decisions?

Sample: 498 university students (laboratory)

Materials: Adjusted tables to reflect general savings.

Procedure: Between subjects design with 3 experimental conditions (control, labels, labels and baskets)

Results:

1. We find significantly **higher saving rates when** evaluative **labels are present**

2. Consumption **baskets trigger mental imagery** of future outcomes

DISCUSSION & IMPLICATIONS

- Evaluative labels can trigger anchoring and are used as a heuristic
- Consumption baskets additionally trigger mental imagery
- Both **evaluative structures can** be used to **increase** pension **contributions**
- Whereas we do not find negative effects of evaluative labels , these may still occur (e.g,. demotivating effects for specific demographic groups)
- **Individuals** heavily **rely on** the **cues provided: implementation requires great care**