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# **Wealth Accumulation: The Role of Others**

**-Michael Haliassos**

# **Plan Design & Participant Behavior in Defined Contribution Retirement Plans: Past, Present and Future**

**-Jonathan Reuter**

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# The DC Conundrum

*“Where there is great power, there is a great responsibility.”*

-Winston Churchill (apologies to Stan Lee and Spiderman)

- The DC system imparted participants free will
- Are they equipped to exercise this free will?

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# Improving What's Offered

Much of the innovation in plan design over the past several decades focused on helping those that can't help themselves:

- Automatic Enrollment (participation)
- Automatic Escalation (savings rates)
- Qualified Default Investment Alternative (asset allocation)

These innovations have largely been successful...but what about people without access to a defined contribution plan?

*Could advice and education help alleviate some of the unintended consequences these features introduce?*

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# Expanding What's Offered

There exists a substantial gap in coverage:

- 64% of private sector workers have access to an employer sponsored DC plan, only 53% of small employers (1-99 employees) offer a plan<sup>1</sup>.
- Only 41% of workers in the bottom wage quartile have access<sup>1</sup>

Recent efforts (SECURE 2.0 and state-based initiatives) have focused on closing this gap.

NB – IRA contribution limits apply to these plans!

As these programs are new, drawing conclusions is difficult. With time though we can examine the efficacy of these programs

<sup>1</sup> Source: Plan Design & Participant Behavior in Defined Contribution Retirement Plans: Past, Present and Future by Jonathan Reuter, page 17

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# Role of Advice: “We’d love to help you learn to help yourself” – Simon & Garfunkel

Much recent focus on “financial wellness”

Given the benefits of education (see Haliassos’s Wealth Accumulation: The Role of Others) any opinions on efficacy?

Difficulty pinning down “optimal” or efficacy

Mention benefits to employer

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# Legislation and Regulation: Deus ex-Macchina

Recent legislation and regulation (SECURE 1.0 and 2.0) aims at coverage, design and interestingly retirement income.

-With time will be interesting to assess impact

-For retirement income, how can we equip participants to make “best” choices?



Reminiscent of Punam Keller’s work on “enhanced active choice”

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# I. Exogenous Peer Effects

*“All the most powerful force are invisible”*

-Shehan Karunatilaka

More likely to participate in private retirement accounts and hold stocks if have neighbors who studied economics/business.



**But only held for those with at least high school certificate**

Echoes of urban planning studies on public housing (“geography of opportunity” work by Briggs and “defensible space theory” of Newman)

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## II. Wealth Inequality Propagates Risk Taking

An element of “keeping up with the joneses”?

This result like the last one was conditional on education

**Does education impart a baseline of financial literacy?  
Critical thinking?**

**Effects reality distorting social media?**



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## III. Peers as Advisors

Alert to return opportunities

Inform about higher returns assets

Design simpler financial products

- Uptake of autofeatures in retirement plans looks to address the “D” (see paper by Reuters)
  
- “Democratization” of advice

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## IV. Financial Stress

More of a cognitive load → further from optimal decisions

Argues for “financial wellness”

Can mention studies how financial stress impacts productivity?

Recent steps to promote emergency savings

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