FDIC CONSUMER RESEARCH SYMPOSIUM

DISCUSSION FOR PANEL 5: RETIREMENT SAVINGS

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CHOUKHMANE, GOODMAN, & O'DEA (2022): EFFICIENCY IN HOUSEHOLD DECISION MAKING

- This paper uses new data on plan offerings from narrative plan descriptions of 4,200 defined contribution plans, covering over 44 million eligible employees paired with administrative savings data to provide new evidence on household-level optimization of retirement saving allocation

FINDINGS

- Clear definition of "mistake": household could increase retirement wealth by shifting savings to the account of a spouse with a higher return (e.g., employer match rate)

- 25% of households misallocate retirement funds

- Financial losses are substantial: $750 per year

- This non-coordination result is even more striking when accounting for the fact that, for many households, "coordination" may be purely random
  - A no-coordination benchmark of randomly-assigned spouses shows that 40% of households show a misallocation (i.e., 60% of households optimize without coordination)

MECHANISMS

- Misallocation does not appear to be due to:
  - Differences between spouses in vesting or firm tenure
  - Living in states where retirement assets are split 50-50 in divorce
  - Automatic enrollment
  - Inertia

- However, coordination is more likely among couples with the following characteristics:
  - No children
  - Shorter marriage tenure
  - No mortgage
  - Eventually divorce

SURPRISING/NOT SURPRISING FINDINGS

- Using the language of "Pareto efficiency" makes the findings appear surprising, but I find these results so relatable!
- How do these findings compare to losses due to misoptimization at the *individual* level? e.g., employer match dollars left on the table due to plan defaults?
- Would we expect to see the same lack of coordination on a metric that had less individual misoptimization?

MENTAL ACCOUNTS

- One model that is hinted at but not explicitly described is mental accounting
  - Many individuals keep several accounts – e.g., an "emergency" credit card
  - Some shared, some not: couples may have separate accounts so they do not need to "ask permission" for purchases
  - Same results framed differently is estimating the cost of maintaining these mental accounts

- Alternatively, could the results be due to misperceptions about legal consequences of divorce on retirement assets?
  - e.g., might spouses assume that their separate retirement accounts were protected?
  - …or does future divorce proxy for ability to communicate/coordinate effectively?

BARBU (2022): EX-POST LOSS SHARING IN CONSUMER FINANCIAL MARKETS

- This paper provides evidence that variable annuity policyholders lose out on substantial benefits by trading to less generous policies through 1035 exchanges
- Exchanges do not appear to be correlated with demand-side characteristics; however, exchanges are correlated with discretionary broker compensation, suggesting the possibility of consumer exploitation
- Data from investigations of 37,000 variable annuity exchanges suggests that firms frequently fail to disclose that the exchange would lead to a forfeiture of accumulated living benefits–precisely the information that makes the prior annuity more attractive
- Use a quasi-experiment in which New York adopted stricter selling standard: finds that the policy change reduced exchanges by 50%
- Structural model shows 20% of consumers are inattentive to contract parameters

IRRATIONAL CONSUMERS, RATIONAL FIRMS

- The paper is framed around consumers making costly mistakes by exchanging variable annuities and firms strategically encouraging these costly exchanges

- But what led to the existence of the variable annuities in the first place?

- In other words, firms potentially exhibited some bias leading to holding these expensive policies, but then demonstrate sophistication in ability to offload them

- How should the NY regulation be characterized? Does it solely restrict exchanges associated with exploitation or could it restrict welfare-enhancing exchanges?

- Helpful literatures: disclosures, shrouded attributes

CHARACTERIZING MISTAKES

- The 1035 exchanges are largely characterized as consumer mistakes since they are deeply in-the-money post-financial crisis

- But are there still situations where an exchange *is* a rational decision?
  - e.g., beliefs about default or life expectancy

- If so, is it possible to parameterize the model (e.g., expectations of default) to show that the beliefs would need to be so extreme that an exchange should be characterized as a mistake or bias?

- Would these calculations differ if we assume that consumers were fully inattentive to the less salient aspects of the contract?

DATA AND METHODS

- Many different data sources and empirical methods used throughout the paper
- Could be helpful to group by method type
  - Descriptive data: characteristics of consumers and firms with high replacement intensity, omitted contract attributes
  - Structural model: estimating inattention
  - Difference-in-difference: effect of regulation

Excellent Papers!

Thank you!