Use of peer pressure to encourage savings can backfire

By Editor Test *Wed, Sep 7, 2011*

Plan sponsors who urge union members to participate or to contribute more by pointing out other employees' saving behavior may produce unintended consequences, Harvard's David Laibson (in photo) and other researchers found.

Peer pressure is one of the tools that plan sponsors have considered using as a way to encourage more employees to participate in or escalate their contributions to their retirement plans.

Subtle pressure might be applied, for instance, by sending communications that tell non-participants or low contributors what percentage of their co-workers participate or contribute the maximum amount.

But such pressure can backfire and actually reduce the participation rates of certain employees, according to a recent paper written by a team of researchers at Harvard, Penn, Stanford, and Yale, and published by the National Bureau of Economic Research.

The paper, "The Effect of Providing Peer Information on Retirement Savings Decisions," describes an experiment in July and August 2008 at a company of 15,000 union and non-union employees with a retirement plan administered by Aon Hewitt.

In the experiment, non-participants were sent letters encouraging them to enroll. Low contributors were sent letters encouraging them to escalate their contributions. Some of the letters contained phrases to the effect of, "Join the xx% of participants" who are already participating or (as the case may be) contributing x% of their pay.

The phrases, it turned out, raised the enrollment and contribution rates of non-unionized employees. But non-participant union members were *less* likely to enroll if they received letters with the phrases. The union members who received letters about increasing their contribution rates were unaffected by peer pressure phrases.

The researchers could only speculate why peer pressure on enrollment backfired among union members. "It is possible that peer information is demotivating when it highlights seemingly unattainable model behavior in one's peers," they wrote.

Alternately, "unionized non-participants may have believed, due to an antagonistic collective bargaining relationship with the firm, that savings messages sent to them by the company were likely to be counter to their own best interests.

"A related explanation, in line with psychological reactance theory is that mistrust caused unionized non-participants to perceive the peer information as coercive, leading them to act contrary to the peer information in an effort to assert their independent agency," the researchers wrote. But they did not consider any of these explanations to be compelling.

In the study population, men predominated. About two-thirds of the unionized non-participants, 76% of the non-union non-participants, 55% of the unionized low savers, and 68% of the non-union low savers were men. The average age was 41 years. Average tenure was nine years among unionized non-participants, seven years among non-union non-participants, and 11 years in both low-saver subpopulations. Mean annual salary ranged from $35,000 to $50,000 for all except the non-union low-savers, for whom mean annual salary was above $57,000. Among the low savers, average initial before-tax contribution rates were about 2%.

The paper's authors included John Beshears of Stanford, James J. Choi of Yale, David Laibson and Brigitte C. Madrian of Harvard, and Katherine L. Milkman of the University of Pennsylvania.