Missed Opportunities in Retirement Saving

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Many people do not take full advantage of attractive opportunities to accumulate retirement wealth. What can explain this inertia in retirement saving?

We examine the role of missed opportunities in people’s retirement saving inertia.

Building on previous findings on inaction inertia\(^1,2\), we expect the following:

**Hypothesis 1**
People are less likely to act on current opportunity if difference in attractiveness between missed and current opportunity is large (vs. small).

**Hypothesis 2**
People are less likely to act on current opportunity if difference in necessary contribution between missed and current opportunity is large (vs. small).

**Hypothesis 3**
Shifting the focus from contribution (i.e., how much would have been paid/month) to outcome (i.e., how much could have been saved) attenuates the effect of large (vs. small) difference on likelihood to act.

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**Experiment 1**
Imagine: (...) you were offered the opportunity to enroll in their retirement savings plan. The plan offered a fixed annual return of 4% [9%] for the next 15 years. You thought that this was an attractive opportunity, but by the time you responded, the offer had expired.

Now, five years later, you receive another letter about the retirement savings plan. If you enroll now, your fixed annual return would be lower: 3% for the next 15 years.

Hypothesis 1 & 2: Confirmed
Difference between missed and current opportunity affects likelihood to act on current retirement saving opportunity.

**Hypothesis 3: No evidence**
Effect is similar for outcome vs. contribution frame.

First indication that missed opportunities play a role in retirement saving inertia.

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**Experiment 2**
Imagine: Ten years [One year] ago, when you started working for Company A, you were offered the possibility to enroll in the company’s retirement plan. In a letter about the plan, it said: ‘If you put in $250 [$450] each month, you will be able to live comfortably during retirement.’ (...) You repeatedly considered enrolling but you never got around to doing it.

To accumulate the same wealth you would now have to put in $500 each month.

**Experiment 3**
Outcome frame: ‘(...) If you had enrolled ten years [one year] ago, you would have put in $250 [$450] per month. To accumulate the same wealth you would now have to put in $500 each month.’

Contribution frame: ‘(...) If you had enrolled ten years [one year] ago, you would have saved $43,400 [$3,240]. Because you did not enroll, you now have no savings.’

Hypothesis 1 & 2: Confirmed
Difference between missed and current opportunity affects likelihood to act on current retirement saving opportunity.

**Hypothesis 3: No evidence**
Effect is similar for outcome vs. contribution frame.

First indication that missed opportunities play a role in retirement saving inertia.

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