

# Feelings and Choice

Presented by: Punam A. Keller



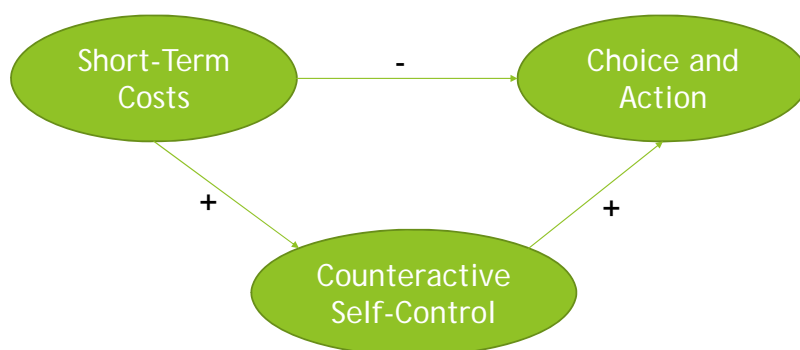
## Cognitions and Emotions

- ▶ How we think and feel are related
- ▶ Centers in the brain responsible for cognition and emotions are in constant communication
- ▶ Relationship is bi-directional

## My Approach...

- ▶ Health and financial decision-making
- ▶ Role of emotions on enhancing individual responsibility
- ▶ Financial incentives + emotions > Financial incentives or emotions

## Health and wealth decisions evoke counteractive self-control mechanisms



Trope, Y. and A Fishbach, Counteractive self-control in overcoming temptation,  
<https://www.ncbi.nlm.nih.gov/pubmed/11045735>

## Current nudges do not manage emotions



Highlighting text



Keller – Don't leave 401k alone...

## Emotions impact uncertain choices

- ▶ Happiness
- ▶ Anxiety/Fear
- ▶ Sadness/Hopelessness
- ▶ Regret
  - ▶ Post-decision
  - ▶ Anticipatory

## What is anticipatory regret? Regret aversion? How does it work?

- ▶ Anticipatory regret is the feeling of negative consequences of a decision prior to the choice made.
- ▶ The theory of regret aversion or anticipated regret proposes that when facing a decision, individuals might anticipate regret and thus incorporate in their choice their desire to eliminate or reduce this possibility.
- ▶ Anticipated regret forces participants towards the safe option, showing risk-aversion.

Goal: Connect to future self by enhancing anticipatory regret minimization



## Enhanced Active Choice (EAC) can enhance participation in saving behaviours by increasing motivation to minimize anticipatory regret

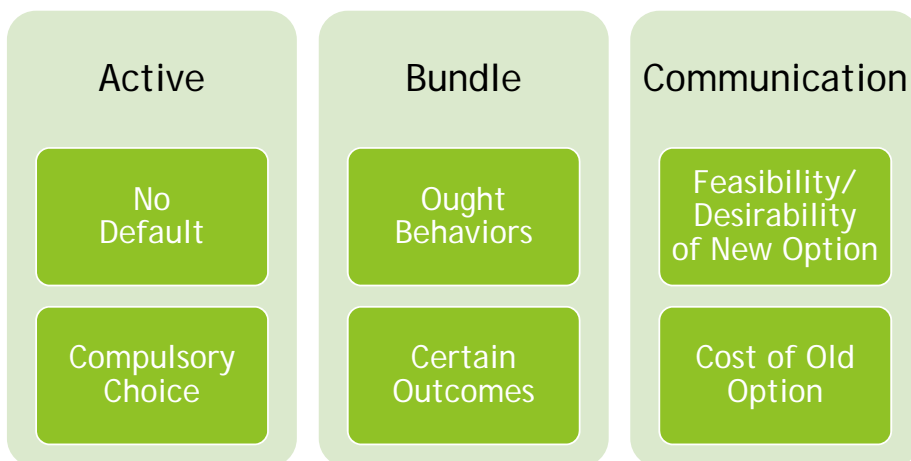


Keller, Punam Anand, et al. "Enhanced active choice: A new method to motivate behavior change." *Journal of Consumer Psychology*, 2011

## Four ways to ask audiences to participate in a savings plan

OPT-IN	Check the box if you choose to enroll in the firm's 401k plan.	<input type="checkbox"/>
AUTOMATIC ENROLLMENT	Check the box if you do <b>not</b> choose to enroll in the firm's 401k plan.	<input type="checkbox"/>
ACTIVE CHOICE	<p>Check one box.</p> <ul style="list-style-type: none"> <li>I will enroll in the firm's 401k plan.</li> <li>I will <u>not</u> enroll in the firm's 401k plan.</li> </ul>	<input type="checkbox"/> <input type="checkbox"/>
ENHANCED ACTIVE CHOICE	<p>Check one box.</p> <ul style="list-style-type: none"> <li>Yes, I want to enroll in the firm's 401k plan to ensure I will enjoy a comfortable lifestyle for the rest of my life, even after I stop working.</li> <li>No, I don't want to enroll in the firm's 401k plan even if this step will help me avoid a poorer lifestyle knowing someday I will have to stop working.</li> </ul>	<input type="checkbox"/> <input type="checkbox"/>

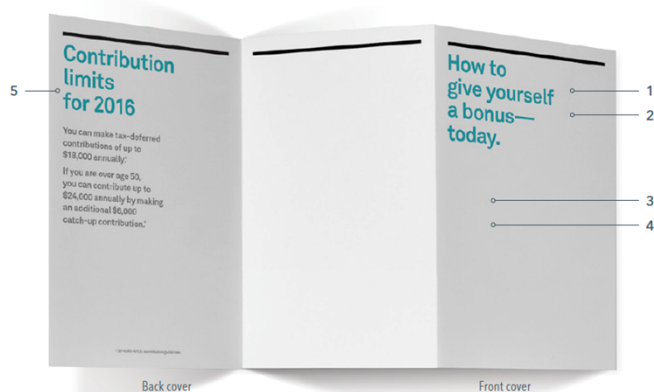
## The ABC of Enhanced Active Choice



## Developing Behavior Changing Communications with EAC

- ▶ Case Study:
- ▶ In partnership with a large state (457) plan NARPP implemented EAC
- ▶ In just six months:
  - Increased plan participation by 25%
  - Increased use of auto-escalation by 600%

## Putting principles into practice:



- 1 Build trust through optimism. When you assume the reader can and will make the right decision for themselves, they will be more likely to do so.
- 2 Express empathy by eliminating jargon.
- 3 Use white space to focus attention and remove clutter. Deleting unnecessary information encourages the reader to pause during stressful moments.
- 4 Don't include abstract or unfamiliar lifestyle images, which can detail emotionally charged decision-making.
- 5 Design the whole journey in each communications piece and give the same level of design treatment to all information, such as plan details, so that the experience is cohesive and continuous.

## Putting principles into practice:



- Yes, I would like to increase my contribution to my retirement account so that I can have a more comfortable retirement
- No thanks, I do not want to increase my contribution to my retirement account with the corresponding tax advantages

ation by contextualizing  
t key moments.

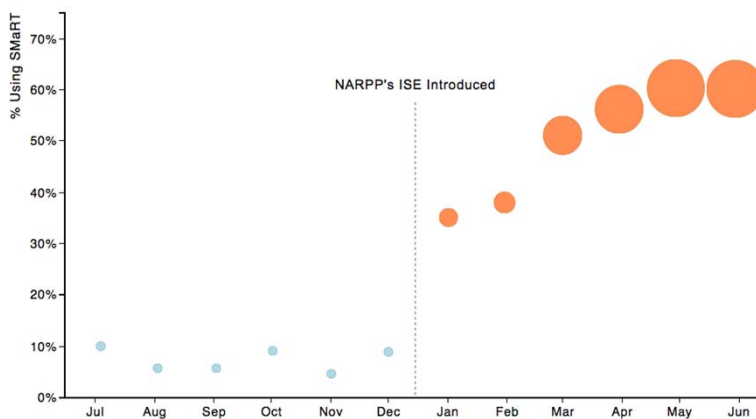
language and replace complex  
plays with simple visuals such  
ts.

ced Active Choice by  
the potential negatives of the  
d alternative, and the positives  
ed alternative, increasing the  
t an individual will take an  
ositively impacts their future  
s gains.

the most important action  
quired, minimizing the number of "calls  
to action" in a single piece.

## EAC-ISE improves outcomes

By redefining the communication materials with a scientifically-proven, people-centric design strategy, we effected a 25% increase in voluntary enrollment in the Sponsor's 457 plan, as well as a 600% increase in the use of SMaRT.



<https://www.blackrock.com/investing/literature/whitepaper/communicating-trust-saving-more.pdf>

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## EAC is persuasive because:

- Simple choice task
- No default required
- Highlights desirability of new option
- Increases salience of status quo costs
- Reduces procrastination

- And it makes the audience feel:
  - more accountable
  - more in control
  - more committed
  - more regretful if they do not act
  - more satisfied with the decision
  - more sponsor trust



## EAC be used with Communication tools and other Nudges



## Key Take-Aways

1. Emotion management is a key factor in retirement financial preparedness.
2. Current communications and nudges are not designed to manage emotions.
3. Effective communications relies on interdisciplinary strategies from behavioral finance, communications theory, and human-centered design.
4. EAC has several important features - no defaults, highlights benefits, increases engagement, and reduces procrastination.
5. EAC increases regret aversion, self-control, engagement, and enrollment.
6. EAC be used with other communication tools and different hard and soft nudges.

## Selected Citations

1. Keller, P. Enhanced Active Choice and the Science of Better Choices, *DC Dimensions*, Summer 2015.
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4. Keller, P. and Annamaria Lusardi (2010), "Employee Retirement Savings: What We Know and What We are Discovering for Helping People to Prepare for Life After Work." book chapter in " *Transformative Consumer Research for Personal and Collective Well Being: Reviews and Frontiers*" David Mick, Simone Pettigrew, Connie Pechmann, and Julie Ozanne (eds.), Taylor and Francis Group.
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6. Jing et al. (2010), "A Review of Financial Behavior Research: Implications for Financial Education, *NEFE (National Foundation for Financial Education) Series*.
7. Ratner, R., et al. (2008), "How Behavioral Decision Research can Enhance Consumer Welfare: From Freedom of Choice to Paternalistic Intervention," *Marketing Letters*, 19 (3-4), December, 383-397.
8. Lusardi, A., P. Keller, and A. Keller (2008), "New Ways to Make People Save: A Social Marketing Approach," Chapter, *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs*, University of Chicago Press.
9. Keller, P., Lipkus, I. M., and B. K. Rimer (2003), "Affect, Framing and Persuasion," *Journal of Marketing Research*, 40 (1), (February), 54-64.

## Declining Financial Incentives and Enhanced Active Choice - New Nudges to Increase Regret Aversion and Engagement



Highlighting text



Thank you!



Q&A



EAC Examples

Additional slides

## Application: EAC to increase non-automatic 401k enrollment

- ▶ Yes, I want to re-enroll in my 401k plan to increase my options to retire when I want.
- ▶ No, I don't want to re-enroll in my 401k plan even if this step may force me to keep working because I cannot afford to retire.

## Application: EAC can be used to increase participation in auto-escalation plans

- ▶ I would like to join the auto-escalation plan because I like the no-hassle automatic increases in my retirement account.
- ▶ I don't want to join the auto-escalation plan even if I end up with more anxiety and hassle to manage the sporadic boosts in my retirement plan.
- ▶ I choose not to decide whether to join or not to join the auto-escalation plan.

## Application: EAC can be used to increase participation in 401k accounts

- ▶ Increase Participation
  - ▶ I prefer to increase my participation because the minimum level will not cover my retirement needs.
  - ▶ I want to remain at the lowest level because I will get more money from somewhere to cover my retirement needs.

## Application: EAC to increase participation?

- ▶ Yes, I want to increase my retirement options including retiring early by saving more than what comes out of my paycheck
- ▶ No, I am willing to forgo my state's tax deferred compensation even if it means I reduce my retirement options and have to work longer

## Application: EAC can be used to increase participation in auto-escalation plans

- ▶ I would like to join the auto-escalation plan because I like the no-hassle automatic increases in my retirement account.
- ▶ I don't want to join the auto-escalation plan even if I end up with more anxiety and hassle to manage the sporadic boosts in my retirement plan.

## Application: EAC to prevent leakage for those cashing out or rolling over

- ▶ I want to stay in my employer plan because it provides continuity and I would avoid paying extra fees when I transfer my savings to another plan.
- ▶ I want to switch to another employer sponsored plan or an IRA even if this causes disruptions and increases my fees.