

DISCUSSION OF  
**SAVING FOR RETIREMENT,  
ANNUITIES AND PROCRASTINATION**

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# DISCUSSION OUTLINE

Comment 1: What is procrastination

Comment 2: Slight comment on the annuity results

Comment 3: Savings across the income distribution

# COMMENT 1: WHAT EXACTLY ARE THE AUTHORS TRYING TO ASK?

What is procrastination?

- Authors talk about intrinsic trait (Steele)
- Then authors talk about procrastination as an action outcome of present-biased preferences
- Is procrastination a cause of outcomes (a trait) or indicative of present biased preferences?

# WHAT EXACTLY ARE THE AUTHORS TRYING TO ASK?

## What is procrastination?

- Authors talk about intrinsic trait (Steele)
- Then authors talk about procrastination as an action outcome of present-biased preferences
- This sentence does not take a stand:
- “We show that **procrastinators** take longer to sign up for 401(k) plans, contribute less, are more likely to stick with default portfolio allocations, and are more likely to choose a lump sum over an annuity as a payout option, especially when the lump sum is more salient.”

# WHAT EXACTLY ARE THE AUTHORS TRYING TO ASK?

## What is procrastination?

- Authors talk about intrinsic trait (Steele)
- Then authors talk about procrastination as an action outcome of present-biased preferences (PBP)
- This sentence asserts causality:
  - “... researchers have suggested procrastination as one of several possible explanations for why default options (such as auto-enrollment into 401(k) plans) have such a powerful effect on behavior (Beshears et al 2009). ... we have little empirical evidence that provides a direct causal link between procrastination and these financial behaviors. Our study intends to fill this gap.”

# WHAT EXACTLY ARE THE AUTHORS TRYING TO ASK?

What is procrastination?

- Why does it matter if it is a causal trait or indicator of PBP?

# WHAT IS DOCUMENTED

Using the definition that a procrastinator is someone who waits until the last minute to make their healthcare elections

- Procrastinators:
  - Take longer to enroll (this seems like an identity – do these things at the same time?)
  - Have a lower saving : income ratio
  - Are more likely to take default options on health choices
  - Mixed: When DB presents cash balances, annuitize less (bad), but when DB plans present income information of retirement, if anything, annuitize more (good)

# WHAT IS DOCUMENTED

Using the definition that a procrastinator is someone who waits until the last minute to make their healthcare elections

- Procrastinators:
  - Take longer to enroll
  - Have a lower saving : income ratio
  - Are more likely to take default options on health choices
- Causal trait or indicator of PBP?
  - These could be cause



# WHAT IS DOCUMENTED

Using the definition that a procrastinator is someone who waits until the last minute to make their healthcare elections

- Procrastinators:
  - Take longer to enroll
  - Have a lower saving : income ratio
  - Are more likely to take default options on health choices
- Causal trait or indicator of PBP?
  - Hard to make a causal argument on this. More likely an indicator of PBP

# DOES IT MATTER WHETHER CAUSE OR PBP?

Yes, Why:

If procrastination trait causes delays (delay entering retirement plans and delay looking at choices such that end up with default)

Then what is the saving rate result?

- Omitted variable?

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If procrastination is a measure of PBP, then the contribution needs to be framed in what we already know about people with PBP in household finance decision-making

- This is fine, of course, but there is a cottage industry of papers documenting PBP “mistakes”. This paper does not use that word.

- My opinion is that we should try harder to understand people’s utility and design financial products that give them high utility throughout their lifetime, including now. How does this paper expand that agenda?

# COMMENT 2: ANNUITY RESULTS

Indeed this is an important question.

But the results are not as straightforward as one would want... why do always procrastinators annuitize more in Traditional DB plans?

My opinion:

I think this opens the door to some other thoughts about what the healthcare elections are, particularly important as people get older (i.e., health issues, trouble multitasking, etc).

# ANNUITY RESULTS

However I think the cash balances versus traditional DB plans should be studied more, unrelated to procrastination

- Cash balances: information framed like 401k to worker.
- Traditional framed as consumption

Literature: This framing affects annuity decision (I realize novelty is gone)

- Beshears, Choi, Laibson, Madrian, and Zeldes. 2014. *Journal of Public Economics*
- Brown, Kling, Mullainathan, and Wrobel. 2008. *AER*

But these differences matter for a host of things that matter about how households interact with information.

- ❖ Loyalty to firm / attachment seeing money flow by employer / firm culture
- ❖ Household financial management : acting active versus passive:  
e.g., stock market participation & other investment decisions, rent vs own, credit card management – automatic minimums, etc

# COMMENT 3: REST OF DISCUSSION

I am going to focus on the [saving rate](#) result.

Because I don't think it is directly caused by procrastination.

And because I am worried about the identification most in this one.

Preface: I am, in your definition, a household finance procrastinator.

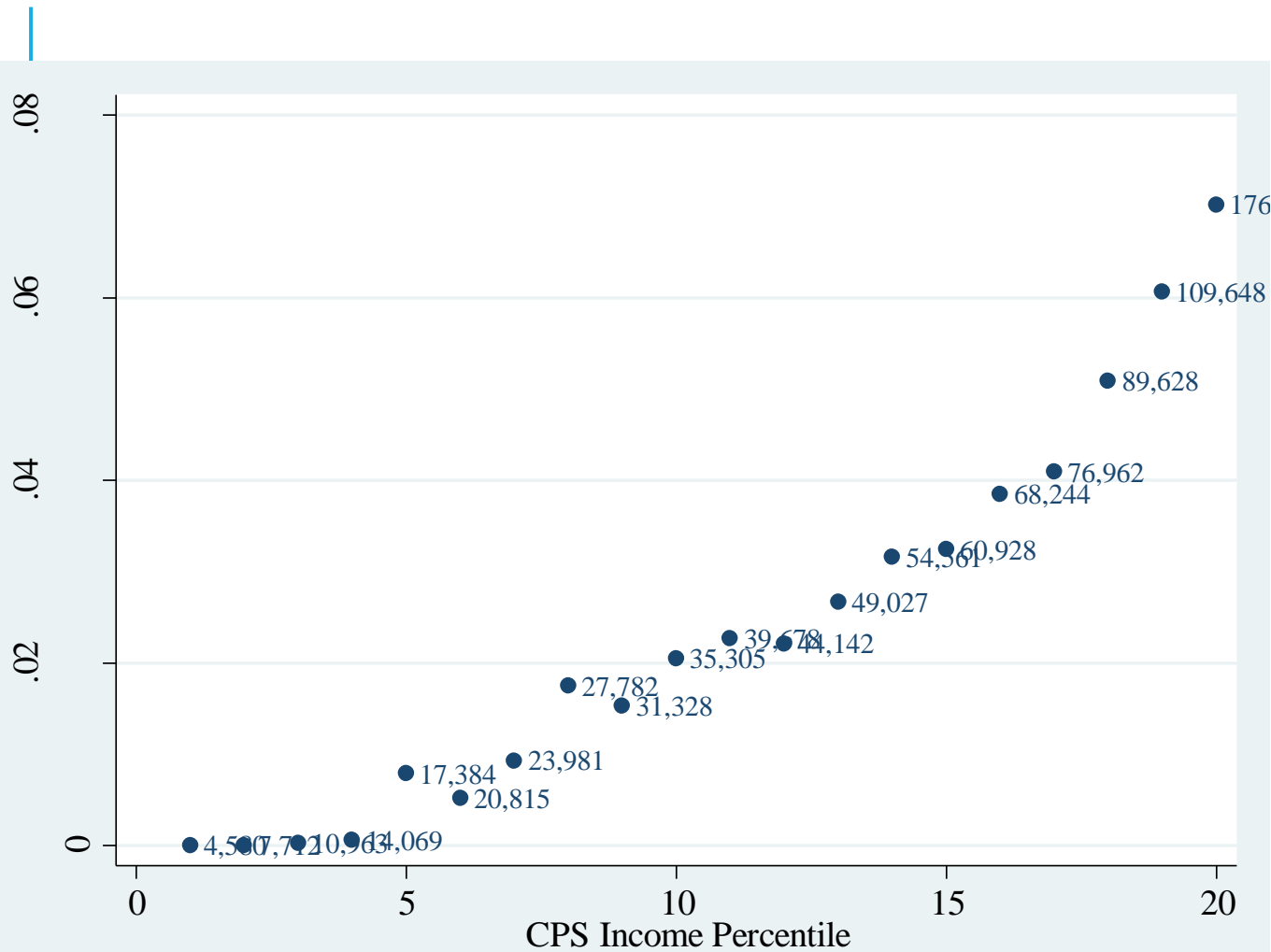
- When I get deadlines, I put them in my calendar and tend to them on that date or a few days ahead if I think I will need information-gathering time, because I act efficiently last minute.
- I often am late on utility payments, occasionally pay late fees and have too much money in the bank, for a different “procrastination-like reason”: marginal utility from both home & work time  $>$  utility from wealth lost

# MAGNITUDES (SHOULD BE IN PAPER)

- Magnitude : In sample saving rate of 7%
- Effect is 0.49% ... i.e., a decrease of saving rate from 7% to 6.5%
- How much in \$ ??? (authors do not give us summary stats)
  - Guess: assume mean wage income is \$50,000...
  - Savings interpretation: Decrease of saving of \$250 (from \$3500 to \$3250)
  - ... i.e. meaningful and reasonable

# IS MAGNITUDE ABOUT A CHANGE IN SAVING BEHAVIOR?

- NIPA personal saving rate: in 2005 -- 1.5% in 2008 -- 5.4%
- This paper: effect is 0.49%;
  - Sample is only + savers, but very large effect by NIPA standard
- Remember that the saving rate is a ratio --- saving : income
- It could be that income is higher for these people
  - Authors would say that it is not – when regress:  $\text{Income} = \alpha^* \text{Procrastinate} + \dots$ ,  $\alpha$  is negative
- But some patterns are bothering me about the nonlinear relationship between income and the saving rate

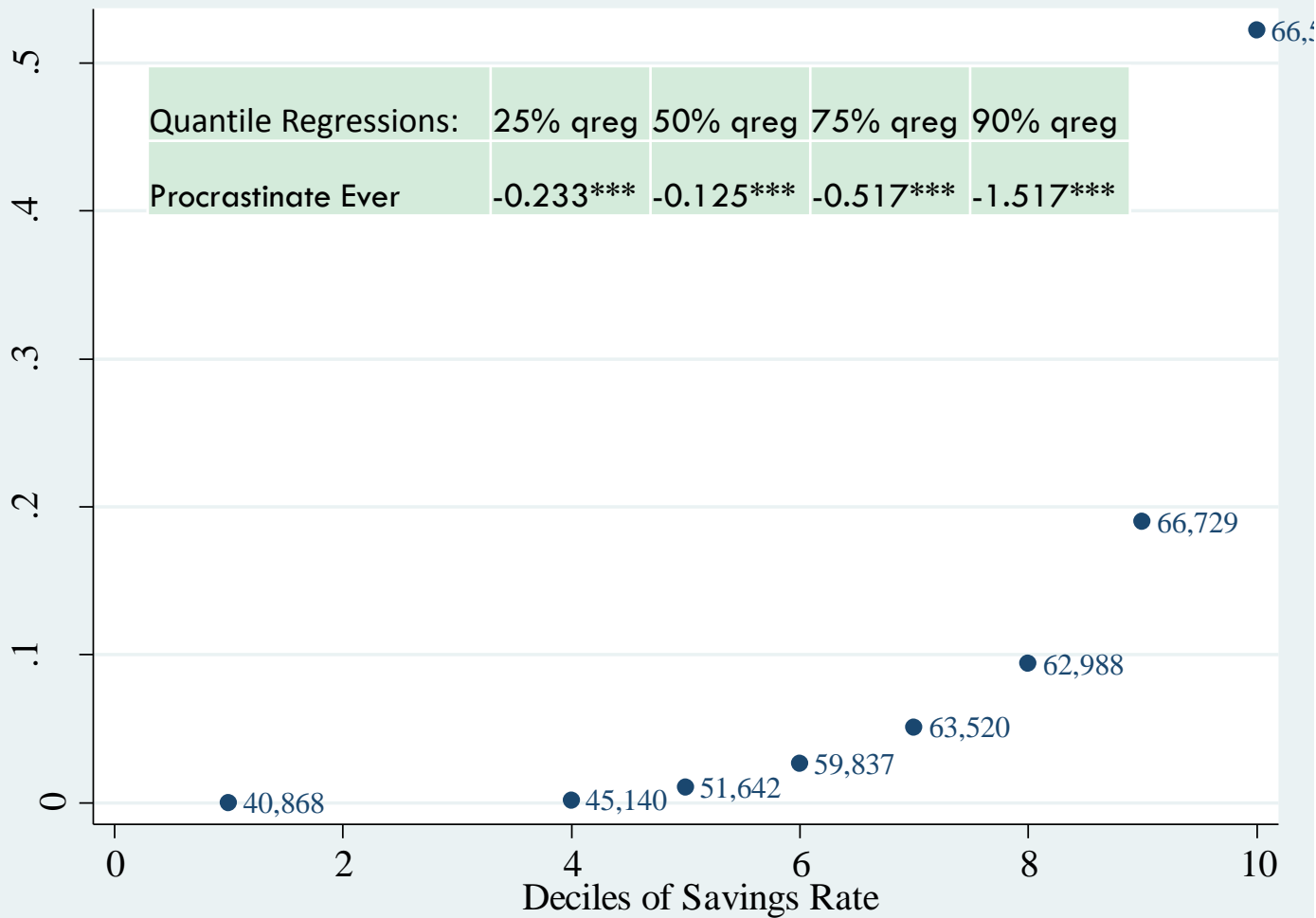


**SAVING RATE OF  
U.S.  
POPULATION IN  
CEX**

**Data by 20  
Income  
Percentiles**

**Incomes given  
as labels**

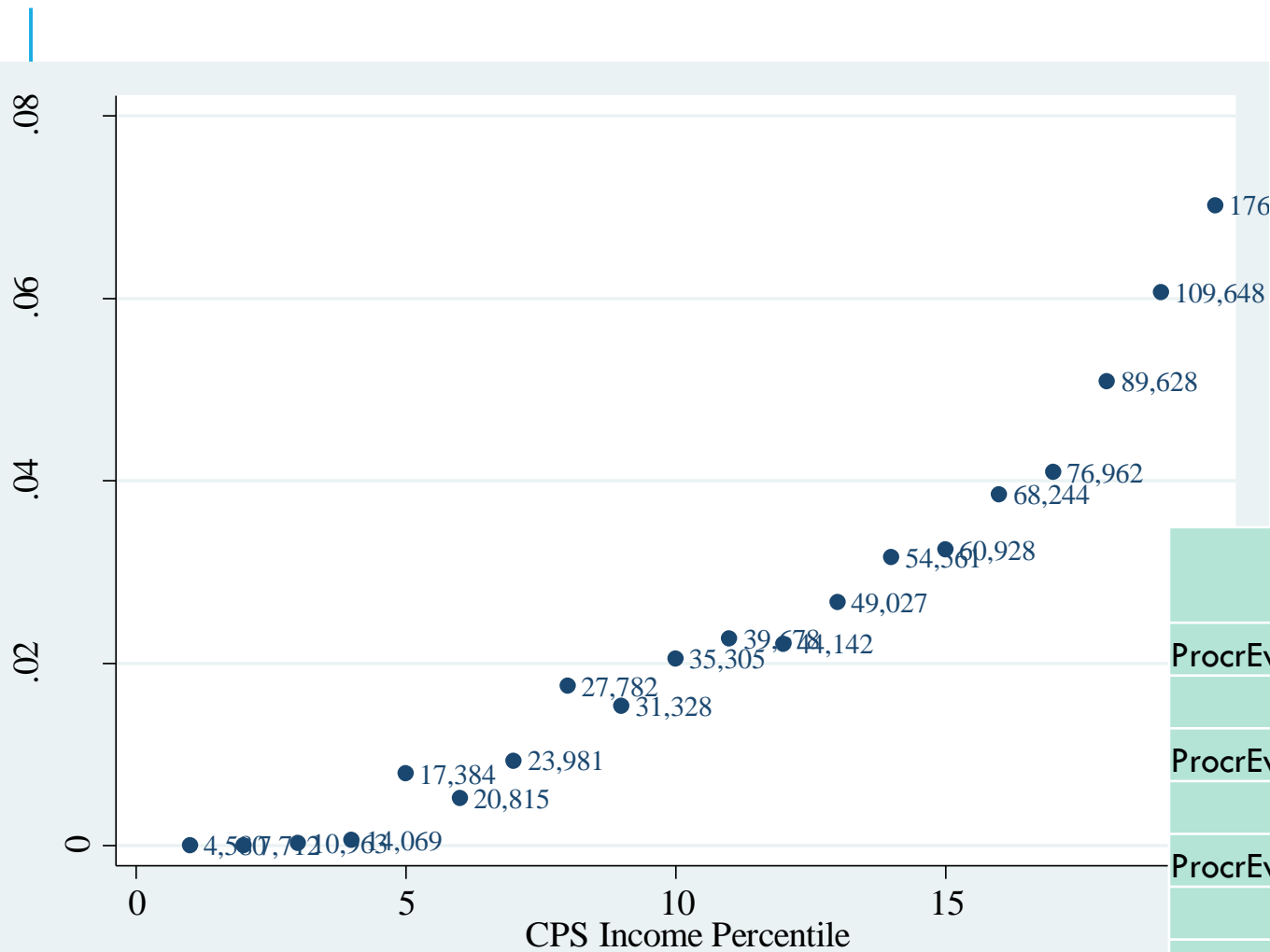




Effect gets larger as savings increases in the quantile regressions.

?: it is hard to believe any effect on the low saving rate people at all.

Makes me worry about correlates or saving rate denominator picking up some nonlinearity



Herein again,  
is it feasible  
that income  
Q2 save  
almost 1% less  
income?

	Saving Rate
ProcrEver* Income Q1	0.009
ProcrEver* Income Q2	-0.901***
ProcrEver* Income Q3	-0.870***
ProcrEver* Income Q4	-1.285**

# PROBLEM OF INCOME (AND OTHER CAUSES?)

	Dependent Var: Saving Rate		
Procr. Ever	-0.489*	-0.484*	0.470
	(0.280)	(0.277)	(0.285)
Financial Literacy		0.076***	0.049**
		(0.026)	(0.020)
Financial Hardship		-0.127**	-0.084
		(0.059)	(0.049)
Log Income			1.015***
			(0.350)

This table is Appendix A4.

Magnitude is no different, but power/interpretation if this were the main table would be.

Honesty: In doing this discussion, I did not have a eureka moment of knowing what is driving the saving result.

I think your procrastinators are indeed some that delay (the trait results) and some that have other characteristics (like me).

I am troubled with the savings patterns

It would help if right from table 1:

Present summary stats for procrastinators/not

Put income bucket fixed effects in all regressions.

Run in \$ as well

Control for cost of living, local income taxes, etc.

# CONCLUSION

How present-biased preference enact themselves in financial decision-making absolutely matters!

This paper surely advances knowledge about one behavior.

My recommendations: more precision in story and pinning down who is driving the results and why.

Perhaps you could push on solutions with empirical analysis:

- What could induce the counterfactual outcome?
- How to communicate with people?