The Role of Behavioral Economics and Behavioral Decision Making in Americans' Retirement Savings Decisions

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[1] The research and opinions expressed in this paper do not necessarily reflect those of the Social Security Administration.

Abstract

Traditional economic theory posits that people make decisions by maximizing a utility function in which all of the relevant constraints and preferences are included and weighed appropriately (Simon, 1959).[2] *Behavioral* economists and decision-making researchers, however, are interested in how people make decisions in the face of incomplete information, limited cognitive resources, and the decision biases to which individuals often fall prey (e.g., Thaler, 1990; 1999; Tversky & Kahneman, 1974). Empirical findings in the areas of judgment and decision making (JDM) and behavioral economics demonstrate departures from the notion of man as economically rational, illustrating instead that people often act in ways that are economically suboptimal. In the following literature review, I outline findings from JDM and behavioral-economics literatures that focus on elements of the retirement savings decision.

[2] Traditional economic theory assumes that individuals have full information and are able to process this information, that individuals are rational decision makers, and that individuals' preferences are well-defined and constant over time (e.g., Becker, 1962; Thaler, 1990). These assumptions have been questioned by behavioral economists and decision-making researchers.