

# Lessons Learned from Behavioral Finance: Implications for Consumerism in Health Care

EBRI Policy Forum

The Future of Employment-Based Health Benefits:  
Will Employers Reach a Tipping Point?  
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# Agenda

## Introduction

### Questions:

- How Rational Are Human Employees?
- How Well Does Education Influence Better Decision Making?
- How Well Do Employer Incentives Work?
- How are Decisions Affected by Choices Offered?

## Opportunities for Future Behavioral Research

# How Rational Are Human Employees?

**Inertia**

**Loss  
Aversion**

**Framing  
Effects**



**Cognitive  
Overload**

**Herding**

**Status Quo  
Bias**

"Hello, Mum...the Doc wants to know if I have difficulty making decisions. What do you think?"

# How Well Does Education Help?

Not very well....

<b>Financial Education and 401(k) Savings</b>			
	Seminar Attendees		Non-Attendees
	Planned Change	Actual Change	Actual Change
<b>Non-Participants</b>			
Enroll in 401(k) Plan	100%	14%	7%
<b>Participants</b>			
Increase contribution rate	28%	8%	5%
Change fund selection	47%	15%	10%
Change asset allocation	36%	10%	6%

Source: Choi, Laibson, Madrian and Metrick

# How Well Do Employer Incentives Work?

Employer contributions not a panacea

- 20% to 30% of non-highly compensated employees don't respond to employer matching contributions
- In one study of seven companies, 54% of employees younger than 59 1/2 did not take full advantage of the match
- Research results are mixed on the impact of match threshold and rate on employee contribution rates

Generally, it's the existence and level, not the rate that matters.

# How are Decisions Affected by Choices Offered?

Status Quo Bias: The Tried and True

Too Much Information, More Choices

- Lower Satisfaction
- Less Action
- More Reliance on Simple Rules of Thumb

Simultaneous vs. Sequential Choices

# Choice and Utility Not Perfectly Correlated

➤ The Menu at Charlie Trotter's

- Grand Menu (\$115)
- Vegetable Menu (\$100)



➤ Yet, diners indicated its their favorite restaurant (Zagat, 2001).

# The Paradox of Choice

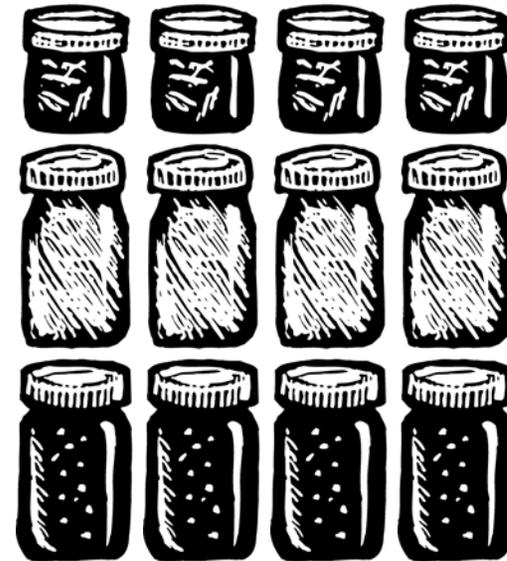


**% Visiting**

**40%**

**% Buying**

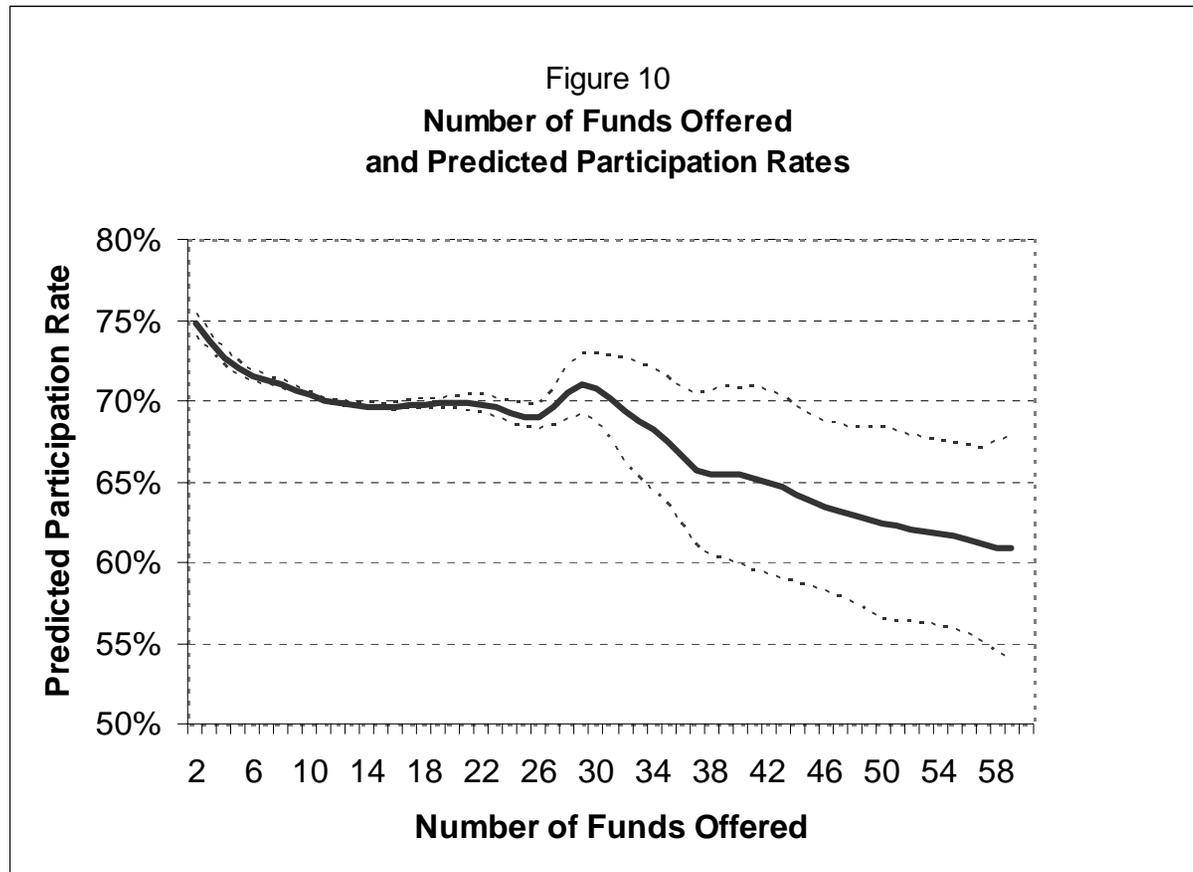
**30%**



**60%**

**3%**

# More Choices, Less Participation



Source: *Iyengar, Jiang, and Huberman*

# Opportunities for Future Behavioral Research

How are plan design features influencing employee decision making?

How can behavioral interventions influence compliance?

How can framing techniques positively influence decision making?