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Law and Practice

Behavioural Economics: A Powerful Retirement Savings Tool

Will Sandbrooke, Executive Director, Strategy and Public Policy, National Employment Savings Trust: I think one of the points that was made today was about being clear on the objectives of the different parts of a retirement system. We spoke about the three pillars and the need to understand what each pillar's role is in a system.

In the United Kingdom, the reforms that we've gone through were very focused on increasing coverage and participation. It wasn't just about giving people access to a savings vehicle; it was actually about making sure people took advantage of that opportunity. For me, the big lesson is about behavioural barriers, as well as about access and information barriers.

In the United Kingdom, we tried for years to solve savings problems by giving people information and expecting them to make decisions. It didn't work. Yet when we introduced automatic enrolment, which is quite a strong behavioural nudge, we saw a move back to the highest level of pension participation that we've ever had.

Behavioural economics can only take you part of the way, though. It can overcome some of those participation barriers, but that same inertia that you used to get people in can then count against you, the more things you do. So I think understanding those behavioural barriers and how they interact with information and rational choice is really critical.