

# Behaviorally informed policies for household financial decisionmaking

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## abstract

Low incomes, limited financial literacy, fraud, and deception are just a few of the many intractable economic and social factors that contribute to the financial difficulties that households face today. Addressing these issues directly is difficult and costly. But poor financial outcomes also result from systematic psychological tendencies, including imperfect optimization, biased judgments and preferences, and susceptibility to influence by the actions and opinions of others. Some of these psychological tendencies and the problems they cause may be countered by policies and interventions that are both low cost and scalable. We detail the ways that these behavioral factors contribute to consumers' financial mistakes and suggest a set of interventions that the federal government, in its dual roles as regulator and employer, could feasibly test or implement to improve household financial outcomes in a variety of domains: retirement, short-term savings, debt management, the take-up of government benefits, and tax optimization.

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## Core Findings

### What is the issue?

Classical economics predicts agents will act rationally. However, US households often make sub-optimal financial decisions. Information asymmetries, low incomes, and bias are some of the reasons why households struggle with financial decisions in domains that include retirement savings, short-term savings, debt management, and social welfare benefits.

### How can you act?

Selected recommendations include:

- 1) Reminding and encouraging IRS tax filers with a history of refunds to make concrete plans about depositing these into savings accounts
- 2) A CFPB-led and tested clear recommendation system that collects basic information from prospective mortgage borrowers to output the best options

### Who should take the lead?

Behavioral science researchers, policymakers across agencies dealing with household finances

At the end of the first quarter of 2016, U.S. households held \$102.6 trillion in assets: \$71.1 trillion in financial assets and \$31.5 trillion in tangible assets, mostly real estate. Offsetting these were \$14.5 trillion in household liabilities, mostly home mortgages (\$9.5 trillion) and credit card debt and other loans (\$3.5 trillion).<sup>1</sup> These statistics are the aggregations of the myriad decisions that individuals and households make almost every day: how much to spend versus save, whether to pay with cash or credit, how to invest, whether to rent or own a home, what type of mortgage to choose, how much and what types of insurance to get, whether to attend college and how to finance it, whether to pay bills in full and on time, whether to claim social welfare benefits, how much to work and earn, and so on.

These decisions are made amid an array of regulations meant to shepherd the U.S. economy fairly and efficiently. The alphabet soup of federal organizations that oversee these economic activities includes the Consumer Financial Protection Bureau (CFPB), the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), the Federal Deposit Insurance Corporation (FDIC), the Department of Housing and Urban Development (HUD), the Securities and Exchange Commission (SEC), the Department of Labor (DOL), the Department of Education (DOE), the Department of Health and Human Services (HHS), the Social Security Administration (SSA), and the Internal Revenue Service (IRS). With a workforce of over 4 million people,<sup>2</sup> the federal government also plays an important role as an employer.

Against this backdrop, a growing body of evidence documents widespread and avoidable errors made by consumers in a variety of domains, some with significant financial consequences.<sup>3-15</sup> In this article, we focus on behaviorally informed policies that the federal government could introduce and test in the coming years to improve consumer financial outcomes across five fraught domains: retirement, short-term savings, consumer debt, take-up of government benefits, and tax optimization.

## Behavioral Factors That Contribute to Financial Mistakes

Many intractable economic and social factors—from low incomes and limited financial literacy to fraud and deception—contribute to the difficult financial circumstances many households face. But poor financial outcomes also result from an array of psychological tendencies that may be countered by policies and interventions that are both low cost and scalable. We highlight here three tendencies that commonly compromise consumer financial welfare.

### Imperfect Optimization

Consumers are not always the fully rational agents depicted in classical economic models. It can be difficult, if not impossible, to correctly calculate the trade-offs between the different alternatives that characterize many financial decisions.

The most important determinant of outcomes is the set of options consumers decide to evaluate, known as the *consideration set*.<sup>16-17</sup> Many mistakes stem from either considering bad financial options or failing to attend to better ones.<sup>18-20</sup> For example, many home buyers do not do any comparison shopping when they apply for a mortgage; they simply go with the first financial institution they contact, which may not necessarily be the best option.<sup>21</sup>

Meanwhile, the financial options people do evaluate will have an array of different attributes that must be taken into account—for instance, various interest rates, fees, or time horizons. In reaching a decision, consumers may weight these factors inappropriately. For example, influences such as advertising may lead them to attach too much significance to relatively unimportant attributes, such as past returns on investments, and too little importance to more critical features, such as fees. Past history, such as directly experiencing the adverse effects of a decline in housing prices, may also influence the weight given to an option's attributes.<sup>6,22-26</sup> In some circumstances, people actively avoid information that would help them make better decisions.<sup>27</sup>

Even if consumers have all the information relevant to a choice and correctly weigh all attributes,

they may nonetheless be unable to appropriately evaluate their options. For example, they may understand that the interest rate is important when deciding whether to save or borrow, but because of limited financial literacy, they may be unable to accurately assess the implications of compounding. This may lead them to extrapolate linearly rather than exponentially, resulting in their underestimating how much they will gain in savings or owe to a lender in the long run.<sup>28-31</sup>

The combination of limited financial literacy and complicated choices can also result in inattention, internal conflict, the application (and potential misapplication) of simplifying heuristics, and avoidance.<sup>32-36</sup> Inaction in the face of complexity is itself another common financial mistake.<sup>37</sup>

### **Biased Judgments & Preferences**

Consumers who have both the knowledge and the time to make effective financial decisions may still be swayed by imperceptible psychological biases that favor certain outcomes over others. Numerous studies show that individuals give more weight to potential losses than to equivalently sized potential gains.<sup>38-41</sup> They also give disproportionate weight to present over future outcomes.<sup>42,43</sup> Further, they overweight very low-probability events relative to higher probability ones.<sup>44</sup> Consumers' choices vary with how a decision or its attributes are framed and the order in which different options or attributes are presented and considered.<sup>38,45-48</sup> Individuals focus on limited local trade-offs instead of broad outcomes, leading to inefficient spending, borrowing, and investment outcomes.<sup>49,50</sup> Their choices are also swayed by their emotional state and seemingly irrelevant factors, such as whether the weather is good or bad.<sup>51,52</sup>

### **Sensitivity to Social Context**

Finally, social context may affect consumers' financial decisions. Individuals may look to the choices others make for guidance about what is best for them, and they may be motivated in part by how others perceive their decisions. They may evaluate their own outcomes not in absolute terms but instead relative to the outcomes of others. Employees may interpret the default savings rate for a 401(k) or

## **“social context may affect consumers' financial decisions”**

other employer-sponsored retirement plan (the fraction of a paycheck to be saved unless the employee chooses a different contribution rate) as a recommendation from their employer about the appropriate savings rate.<sup>53</sup> Consumers may place too much trust in financial advisors, failing to appreciate that certain advisors may be motivated in part by self-interest when they make recommendations.<sup>54-55</sup> Conversely, financial mistakes can also stem from lack of trust. For example, willingness to invest in the stock market has been tied to the level of overall trust in an economy,<sup>56</sup> yet failure to invest in the stock market has been widely characterized as a mistake because investors forego the higher average returns that generally come from investing in equities versus, say, bonds or certificates of deposit.<sup>7</sup> Fear of institutions and social stigma may deter people from claiming financial benefits to which they are entitled, such as welfare, disability, and unemployment insurance benefits. If consumers look to financially capable peers for guidance, they may gain valuable information that helps to counter the problems that arise from imperfect optimization and be encouraged to adopt better financial behaviors.<sup>57,58</sup> But social comparison can also create a sense of envy or discouragement that can deter people from engaging in better financial behaviors.<sup>59-61</sup>

### **Interventions to Limit Financial Mistakes & Improve Consumers' Financial Outcomes**

#### **Improving Retirement Outcomes**

Many critical decisions affect financial security in retirement. When should an individual retire from the workforce? When is it best to claim Social Security? How much money should be saved for retirement? How should money be invested for and dispersed during retirement? Is a reverse mortgage or long-term care insurance necessary? How should health care coverage and other expenditures be managed so that

a retiree's money lasts throughout his or her remaining lifetime?

For many individuals, the question of how to save for retirement is particularly daunting and subject to many of the behavioral barriers described above. Several behaviorally informed strategies can mitigate these psychological biases and have already been successfully implemented at scale to increase retirement savings, including automatic enrollment, active decisionmaking approaches that encourage immediate action, and simplified savings plan enrollment options. For federal employees and others working for eligible organizations, automatic enrollment in an employer savings plan such as a 401(k) both simplifies the decision about whether to save and forestalls procrastination.

There is, nonetheless, room for improvement. In 2015, an intervention by the White House Social and Behavioral Sciences Team (SBST), in collaboration with the Department of Defense, tested an active choice approach<sup>62</sup> coupled with a "fresh start" decision moment to increase savings plan participation.<sup>63</sup> In this case, the fresh start decision moment occurred whenever an employee changed military bases. At that juncture, employees were prompted to make an active choice about enrolling in the federal government's Thrift Savings Plan, a retirement savings plan for federal workers.<sup>64</sup> The federal government could build on this initiative by introducing other complementary features that encourage savings. For example, the Thrift Savings Plan enrollment form for military personnel<sup>65</sup> offers eight different contribution options (for allocations of basic, incentive, special, and bonus pay to either pretax or Roth accounts). Many individuals might find a predesignated default option—for example, "Check here to direct 5% of your basic pay to a Roth account invested in a target retirement fund"—easier to evaluate than this multifaceted choice.<sup>66</sup> Other fresh start decision moments, including the beginning of a new calendar year, milestone birthdays,<sup>67</sup> pay raises or promotions, or even open enrollment for health insurance, could be used to direct attention to saving for retirement. Imagine a prompt an employee might receive on paying off a retirement plan loan: "Check here to increase your

monthly savings contribution by the amount of the loan payment."

One difficult aspect of the retirement savings decision is whether to save on a pretax basis or with after-tax contributions to a Roth account.<sup>68</sup> In savings plans where both options are available, the default is to contribute on a pretax basis, although many employees would be better served by saving on an after-tax basis. The government could test two approaches to optimizing the selection of the option best suited for an individual's situation. One study would pilot a differentiated default: Employees for whom a Roth account is likely the better option are offered that account type as a default, while employees for whom a pretax account is likely more appropriate are offered the pretax account as a default. Another approach would provide employees with checklists that enumerate the reasons one might prefer to save on a pretax basis and the reasons one might prefer to save on an after-tax basis;<sup>69</sup> this could mitigate the effects of biased judgment and some of the other psychological tendencies discussed above.

Financial security in retirement is also affected by when individuals decide to start receiving Social Security. Individuals can claim benefits as soon as they turn 62, but waiting to take benefits can substantially increase the monthly benefit received.<sup>70</sup> Whether it is best to start receiving benefits at age 62 or to delay depends on a variety of individual factors, such as how long one expects to live. This is another instance where a preference checklist could help.<sup>69</sup> The SSA could pilot such an approach with older federal employees as part of the annual benefits statement sent to workers, on its website, or as part of the Social Security application process. The DOL could facilitate tests of the same strategy with private-sector employers.

Individuals must also decide how to transform their accumulated savings into resources for consumption once they reach retirement. One way is to purchase an annuity, a financial instrument that, in its simplest form, guarantees a regular monthly income to an individual for life or a set term. Social Security is essentially an annuity provided by the federal government,

but individuals can purchase an annuity from an insurance company to provide an additional source of secure income. These annuities come in many different forms and with a variety of features that can be difficult to evaluate and compare. For example, does the annuity payment increase over time with inflation and, if so, by how much? Does the annuity provide a survivor benefit and, if so, how large is that benefit and how long does it last? Whether to buy an annuity and what features to choose are perhaps the most complicated financial decisions that most households will make.

In its role as an employer, the federal government is in a position to pilot different approaches to help employees make decisions about whether and how to transform their savings into retirement annuities. Successful approaches could then be used as models for other employers more broadly. Interventions that might be appropriate include providing employees who are nearing retirement with preference checklists that summarize the reasons for and against purchasing an annuity, as well as incorporating in their quarterly statements information on how much monthly retirement income their savings will generate.<sup>71-73</sup> It may also make sense to frame the decision in ways that highlight the potential value of having annuity income to supplement Social Security. The government could, for instance, emphasize the value of an annuity in ensuring that individuals do not outlive their financial resources while de-emphasizing how long an individual would need to live to get a positive return.<sup>45,74-77</sup>

### Saving for Short-Term Needs

Individuals have many reasons to save other than for retirement. They face known expenses for which they can plan, like the down payment for a house or college tuition for their children. They also face unknown expenses, like unanticipated car repairs or medical bills. Individuals struggle with both types of savings. For example, despite placing a high value on a college education, fewer than half of families are saving for this known expense for their children.<sup>78</sup> Similarly, less than half of households report being able to cover an unexpected \$400 expense without borrowing or selling possessions.<sup>79</sup> Many touch

points can be leveraged to facilitate short-term savings. We focus on two areas where the government might have the most success: influencing the investment of tax-time savings and utilizing the federal government's role as an employer.

Tax time is a particularly potent touch point: It presents a unique opportunity for asset building, because many households receive large refunds, sometimes accounting for as much as 30% of their annual income.<sup>80</sup> Interventions that facilitate or encourage saving a portion of an individual's refund at the time of tax filing do increase savings.<sup>81,82</sup> But such interventions may be more effective if they include communications well in advance of tax season, because consumers often mentally allocate their anticipated refunds prior to filing.<sup>83,84</sup> One strategy would be for the IRS to remind tax filers who have received a refund in the past that they can directly deposit a portion of their refund into a savings account and then encourage them to make a concrete plan around how much of their future refund they would like to save. To increase the salience of tax time as a saving opportunity, the government could also frame tax time as a fresh start moment and include a preference checklist to reinforce the reasons to save.<sup>63,69,85</sup>

As the nation's largest employer, the federal government is well positioned to help its employees improve their financial health and serve as a model for other employers. For example, when employees are hired, the government could facilitate opening a savings account for emergencies for new employees who do not already have one. Also, the Treasury Department could redesign the federal government's direct deposit sign-up form to facilitate and promote depositing a portion of each paycheck directly into a savings account.<sup>86</sup> Different approaches that may help include framing direct deposit into both a checking account and a savings account as the option best suited for most employees—thus encouraging an active choice about how much of each paycheck to direct into a savings account versus a checking account—and providing a preference checklist that highlights the reasons to save a part of each paycheck.<sup>37,62,69</sup>

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**\$14.5t**  
value of US household  
liabilities in 2016

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**10%**  
guaranteed savings rate of  
return offered to deployed  
military members

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**\$450b**  
cost of tax evasion  
in the form of  
underreported income

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# “Individuals face difficult and costly decisions when it comes to debt”

Other pivotal life moments include the birth or adoption of a child, promotions, job separation, and deployments for military service personnel; at all these junctures, the federal government can facilitate savings by its employees. For example, when employees add a newborn to their employee health insurance, the government could provide information about 529 college savings plans along with a simplified way of making automatic contributions to such a plan each pay period. As another example, many government employees receive large payouts for accumulated vacation time at job separation. The government could enable an employee to direct a portion of this payout to the employee's savings account through direct deposit.

Finally, members of the military have a unique opportunity to participate in a savings program that guarantees a 10% rate of return while they are deployed. Currently, service members are able to sign up for this program only after deployment. The Department of Defense could design and test a protocol to allow eligible military personnel to sign up before deployment and to highlight the benefits of doing so.

## Managing Personal Debt

Individuals face difficult and costly decisions when it comes to debt: whether to borrow, how to borrow, how much to borrow, when and how to repay, and which debts to prioritize when repayment funds are limited.<sup>67</sup> Debts can be categorized by how fast each one has to be repaid: credit cards and payday loans, for instance, are considered short-term debt, whereas mortgages and student loans are considered long-term obligations. Each type of debt creates its own set of challenges for borrowers. Because many consumers make decisions about short-term debt with some regularity, they can potentially learn from their initial mistakes. In contrast, decisions to take on long-term debt are generally

made infrequently and often involve sizeable financial sums. As a result, the potential to learn across these borrowing instances is limited, and the financial repercussions of mistakes are potentially large.

We propose a set of behaviorally informed approaches to improve outcomes around both short- and long-term debts, focusing specifically on some of the major sources of debt that have received a lot of public scrutiny as of late—credit cards, payday loans, mortgages, and student loans—although many of the same approaches could be applied to a wide range of debt products.

**Credit Cards.** Several obstacles stand in the way of effectively managing credit card debt. One is the difficulty of figuring out the true cost of credit in the face of the many different types of fees (annual fees, over-limit fees, late fees, and cash advance fees) and interest rates (teaser, regular, and penalty rates), in addition to incentives from the array of cash-back or rewards programs associated with card use. Other barriers include a poor understanding of the effects of compound interest and a culture that promotes spending rather than saving. Interventions that could facilitate better decisionmaking include visualization tools to help consumers see the effects of compound interest and calculators that clarify the total cost of purchases under different repayment scenarios. Borrowers would also likely benefit from real-time notifications about just-incurred charges and upcoming and ongoing fees, which would increase the salience of these costs and help consumers avoid them in the future.<sup>22,30</sup> The CFPB and federal government employee credit unions could test such approaches among federal employees and consumers at large.

**Payday Loans.** Another problematic source of consumer credit is payday loans, which involve relatively small amounts of money targeted for repayment on the borrower's next payday. Consumers often fail to anticipate that they may be unable to repay their loan when it is due. In that case, they roll over the loan until the next payday, but they must pay an additional fee to do so. These fees can snowball if the loan is rolled

over repeatedly and, in some cases, can even exceed the initial amount of money borrowed. Approaches that could be tested to reduce such repeated rollovers include disclosures at the time of loan origination that highlight the high likelihood of having a future rollover, a worksheet to help consumers make a concrete plan about timely loan repayment, and a policy of encouraging at least partial repayment if full repayment cannot be made.<sup>85,88</sup> A different approach would be to guide consumers to alternative products with lower costs. Banks and credit unions already have substantial information about consumers and are thus well placed to offer competitive products at a lower cost, and some already do. The DOL could also encourage the nascent market for employer-based payday advances to help establish a less onerous alternative to payday loans.

**Mortgages.** Like credit cards, mortgages differ along many dimensions. Some have an interest rate that is fixed for the life of the mortgage, whereas others have an adjustable rate that changes over time with market conditions. Although 15- and 30-year mortgages are the most common, the duration of residential mortgages can vary from 5 to 40 years. Some allow borrowers to pay an up-front cost, or *points*, in exchange for a lower interest rate. And all mortgages come with a variety of different costs that are paid at closing. These different features can make finding the best mortgage difficult. To reduce the barriers to comparison shopping and appropriate mortgage selection, the CFPB could develop and test a simple and clear recommendation system that would collect basic information from borrowers and then present them with a small number of options best suited to their needs. The output could include a “people like you” estimate of the likelihood of defaulting on a proposed loan. The recommendation system could also include a feature to help consumers assess when refinancing would actually be worth the cost.<sup>89,90</sup> HUD, along with bank regulators, could then test various approaches to making this system broadly available and widely used by home buyers.

**Student Loans.** Although loans for college can be a good investment, many students fail

## “millions of eligible households fail to claim what can be substantial benefits”

to distinguish between what they can borrow and what they should borrow. They are poorly attuned to the expected salary associated with degrees from different schools and different majors. In many cases, they borrow money to go to school, fail to complete a degree, and are then saddled with debt but without the benefits of the higher pay that comes with graduation. There is tremendous potential for interventions that can help students understand the financial benefits they are likely to receive from their college experience and determine a manageable level of debt.

The DOE could expand its College Scorecard website<sup>91–93</sup> to incorporate information about the job and salary outcomes for nongraduates and graduates, stratified by college major.<sup>94</sup> The CFPB and the DOE could develop and test the effectiveness of dynamic budgeting exercises, like the Iowa Student Loan Game Plan, that allow students to estimate college costs, monthly living expenses, student loan payments, and postgraduation salaries to help them evaluate how much they can afford to borrow.<sup>95</sup> The DOE could also test different types of choice architecture—ways of structuring a decision process and presenting choice options—to determine which approaches work best for helping students decide how much to borrow and which repayment plan is most appropriate for their situation. The presentation of repayment options might be tailored to particular colleges and majors and incorporate dynamic budgeting systems to help students assess whether their expected monthly income after graduation will be able to cover the required repayments.

### Improving Take-Up of Benefits for Low-Income Households

The government offers important financial assistance to low-income households. Yet each year, millions of eligible households fail to claim

what can be substantial benefits from programs such as the earned income tax credit (EITC), the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and the Supplemental Security Income program (SSI).<sup>96,97</sup> Economists have traditionally attributed this failure to the time and effort associated with program application or the social stigma of participation.<sup>98</sup> Recent evidence, however, suggests that low take-up, particularly among the very poor, may also be due to psychological frictions, such as a lack of program awareness, confusion about benefits and eligibility, and administrative complexity.<sup>99-101</sup>

One strategy to overcome these behavioral barriers is for agencies to market eligibility and enrollment instructions through simple and repeated communications aimed at those who are potentially eligible for given programs. Some agencies have found, for instance, that repetition of messaging, prominent declarations of likely eligibility and benefits, and clear enrollment instructions have increased participation. Using such methods, the IRS has increased EITC claiming by eligible individuals.<sup>99</sup>

A second strategy is to leverage existing program touch points, cross-promoting other programs for which individuals might be eligible. For example, the IRS could promote and provide information about student loan eligibility when individuals with appropriately aged children file their taxes.<sup>100</sup> The Centers for Medicare and Medicaid Services could communicate likely eligibility for the EITC and other social welfare programs to low-income individuals enrolling for health insurance through the HealthCare.gov marketplace. Such cross-promotion could be especially beneficial for targeting EITC nonclaimants who might otherwise not file a tax return.

Finally, given the potential limits to even the most adeptly designed marketing and education schemes, the federal government could bypass administrative hassles altogether and automatically enroll individuals when both appropriate and feasible. For example, rather than mailing notices to eligible tax filers about unclaimed EITC benefits, the IRS could instead simply mail nonclaimants a benefit check.

## Improving Tax Outcomes for Individuals & Government

Decisions about income taxes, such as how much of one's pay to withhold throughout the year, affect both household finances and the federal government's budget. Some people view overwithholding of taxes as a useful commitment device to ensure that they save. Others prefer to get a smaller refund and have more income available throughout the year. Still others owe substantial additional taxes at year-end because they have too little withheld from their pay.

Unfortunately, the relationship between the allowances claimed on IRS Form W-4 (which determines the rate at which employers withhold taxes) and the amount of money likely to be owed or refunded in April is not at all transparent to most taxpayers (including the authors of this article).<sup>102</sup> The IRS would provide a great service if it redesigned the W-4 to help taxpayers better match their withholding with their ultimate tax liability. The W-4 could also highlight and encourage usage of the online withholding calculator hosted on the IRS website.<sup>103</sup> Further, the IRS could communicate with taxpayers who either have very large refunds due or owe additional taxes to help them calculate a withholding rate better aligned with their actual tax liability for the upcoming tax year.

Having too little tax withheld from each paycheck and owing additional tax when returns are due can encourage tax evasion by spurring people to underreport income, be more aggressive in claiming deductions, or not file at all.<sup>104</sup> Tax evasion in the form of underreported income costs the federal government over \$450 billion annually and puts evaders at risk for prosecution. Proposed remedies for this tax gap, such as devoting additional resources to enforcement, are typically expensive.<sup>105</sup> However, small changes to tax forms, informed by behavioral science, may increase compliance at little added cost. For example, tax returns currently require taxpayers to attest that the information provided in the return is true and accurate at the end of the form, after they have already decided what income to report and what deductions to claim. Experimental research suggests that signing at the beginning of a form rather than at the end



of it can make moral standards salient, reducing subsequent lying.<sup>64,106</sup> Tax returns could easily be modified to incorporate this insight, and the IRS should consider testing this approach. Income underreporting can also be addressed by asking more direct questions. Taxpayers can currently hide income that is not reported on a W-2 or 1099 by not adding that amount to their documented income, thereby lying by omission. Tax returns could instead directly ask whether taxpayers earned income that was not reported on a W-2 or 1099 and require an explicit yes or no response. Lying by commission (falsely stating that no unreported income was earned) would likely be more distressing (and thus less probable) than lying by omission.<sup>107,108</sup>

## Farther-Reaching Actions

The interventions described above could be implemented by the appropriate agencies in relatively short order under existing laws and regulations. A number of additional behaviorally informed policies could improve financial outcomes for households but would require legislative changes or a longer time frame. For instance, retirement savings could be facilitated through legislation mandating automatic employee enrollment in a retirement savings plan, as has recently been instituted in the United Kingdom. Legislation at either the federal or the state level is also needed to allow firms to automatically enroll employees into a nonretirement savings account or to permit savings accounts to come with prizes, another approach used to facilitate short-term, nonretirement savings in other countries.<sup>109,110</sup> Requiring that part or all of a tax refund go to savings could help households better budget for anticipated future expenses, such as a summer vacation or back-to-school clothes for kids, or to meet unexpected expenses, such as a car repair, without resorting to costly forms of credit. Enabling a market for experts who help students file for financial aid, much as firms help individuals prepare their taxes, might increase the likelihood of college attendance and completion.<sup>100</sup> Alternatively, simplifying the tax code and the financial aid application process would help individuals make fewer financial mistakes when filing their taxes or seeking funding for college.

One long-term strategy involves creating a universal portal through which claimants can both verify eligibility for and complete enrollment in a range of programs. A consolidated portal might resemble the existing Benefits.gov site but with expanded functionality and a back end supported by the integration of administrative databases currently housed in different agencies. Another solution would be to simplify, standardize, and consolidate benefit programs. For example, having uniform definitions for the terms used in the screening criteria across programs—such as what the term *dependent* means—would be a sensible step toward reducing confusion over eligibility and increasing participation without significantly expanding the number of people who could qualify. Similarly, consolidating and simplifying the child tax credit, the EITC, and dependent exemptions could reduce the tax-filing burden while also facilitating accurate claiming of tax benefits.

## Conclusion

Individuals make financial decisions almost every day of their lives. Invariably, some of those decisions are better than others. While many are of little consequence, such as how much to tip a restaurant server, others can have significant long-term implications, such as how much to save for retirement or whether to get a fixed-rate or an adjustable-rate mortgage. Many poor financial decisions are the result of systematic psychological tendencies: failure to comparison shop for financial products, like a mortgage; overweighting the importance of salient characteristics, like past returns, when choosing an investment while underweighting less salient but potentially more relevant information, like fees; and avoiding things that are difficult, such as applying for college financial aid. In its dual roles as regulator and employer, the government could feasibly test and implement many behaviorally informed policies to improve household financial outcomes in a variety of domains. In this article, we outlined several such policies that could enhance financial security in retirement, facilitate short-term savings, help households better manage consumer debt, increase take-up of government benefits for which individuals are eligible, and improve tax outcomes for

individuals and the government. Some of our proposed interventions are low-cost and relatively straightforward and could be implemented under existing laws and regulations. Others would require legislative changes, a longer time frame for design and implementation, or both. Politicians and government regulators can help improve the financial situations of individuals and households by recognizing how financial decisions are actually made and pursuing behaviorally informed policies such as these.

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