

2008 BeFi Conference Summary

Presented by Shlomo Benartzi
Co-Founder, Behavioral Finance Forum

2008 BeFi Conference Topics

- › Helping Individuals Hedge Risks
- › Personalities of Financial Products
- › The Psychology and Marketing of Tontine-Based Retirement Income Solutions
- › Smart(er) Defaults
- › Simplifying Savings Plan Participation
- › Hedonic Arbitrage™
- › Measuring Risk Perception and Risk Attitude in the Domain of Financial Planning
- › Members' Collaboration Update

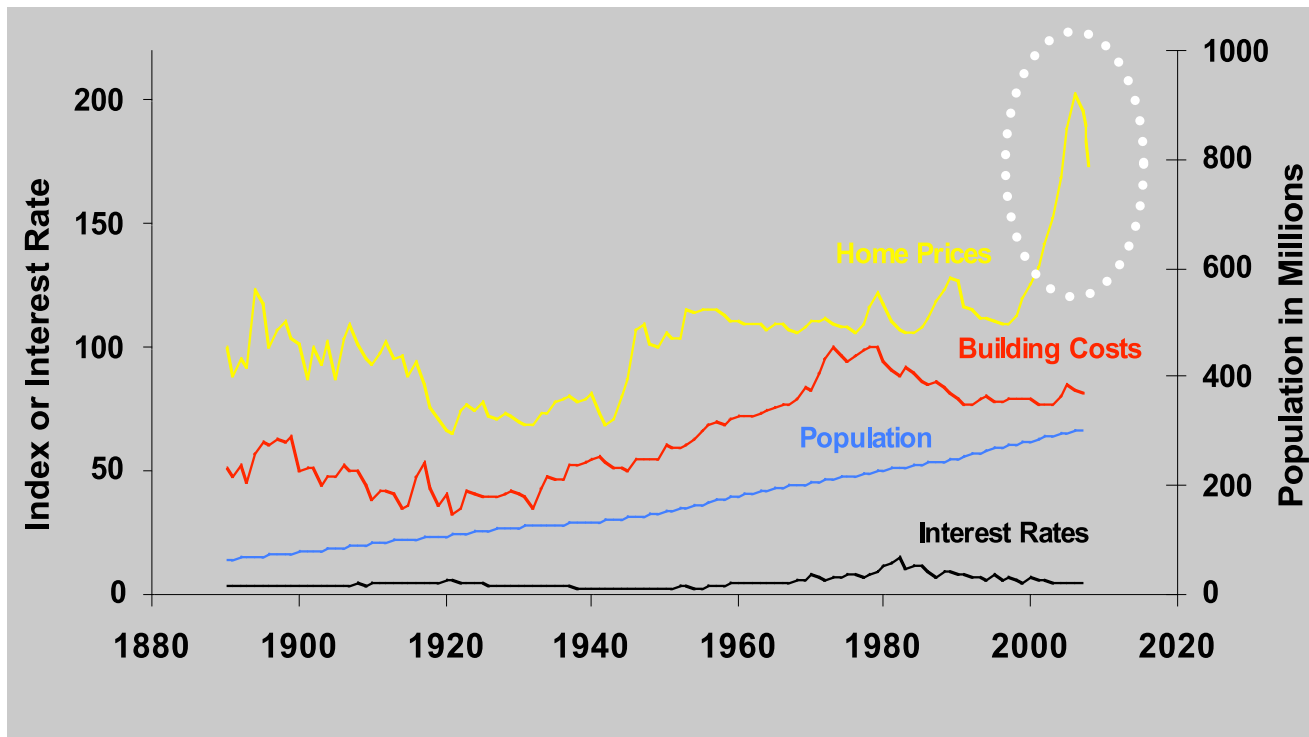
Helping Individuals Hedge Risks

Presented by Robert Shiller, Yale University

Life Is A Risky Business

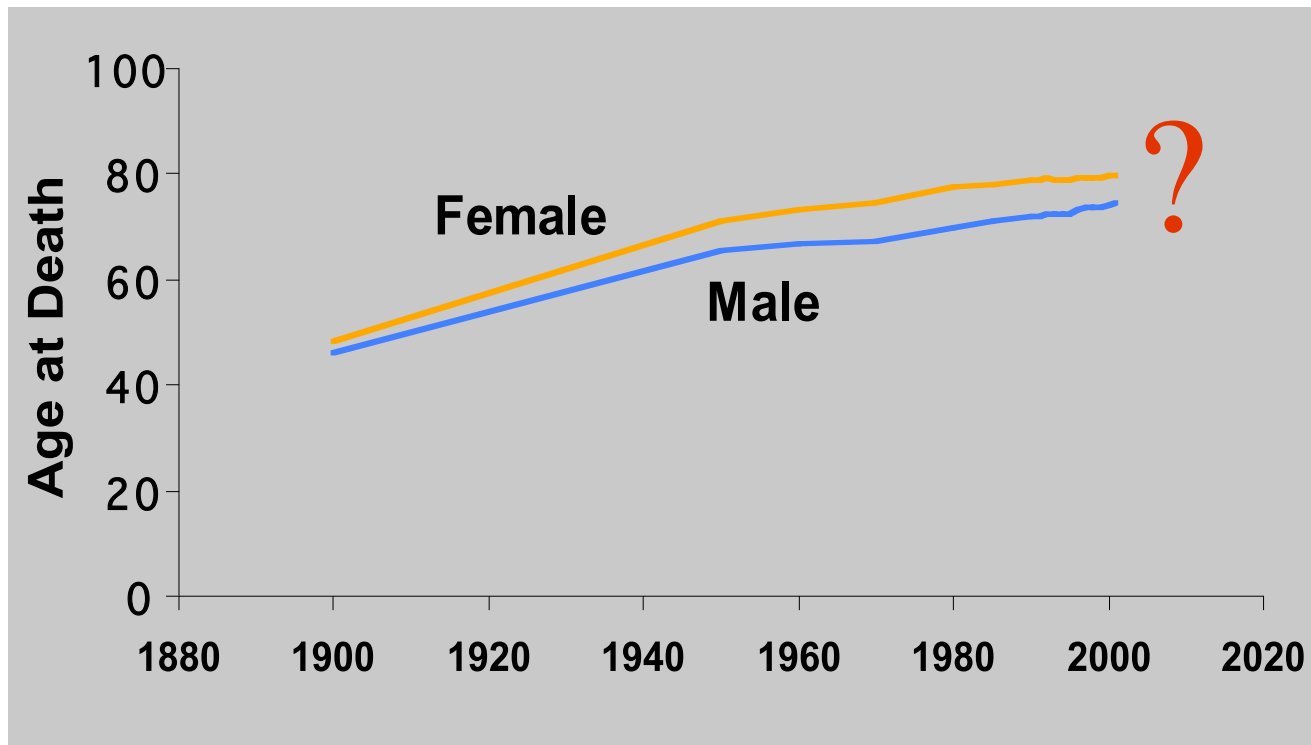
- › Individuals face common risks that are often ignored:
 - **Home prices:** Value drop more likely than fire.
Should you hedge the equity in your home?
 - **Personal income:** Loss of income has major effect on finances.
Could you insure your livelihood based on indexes or link a mortgage loan to income?
 - **Longevity:** Why aren't life annuities more popular?

Real Home Prices Through 2007



SOURCE
Shiller (2008)

U.S. Life Expectancy, 1900-2001



SOURCE
Shiller (2008)

If We Build It, Will They Come?

- › Historically, products created to hedge these risks have been unpopular.
- › Individuals more concerned with picking the “right” mutual fund or insuring against uncommon risks.
- › Can we create more appealing products that can hedge these risks *and* that people will buy?

Personalities of Financial Products

Presented by Meir Statman, Santa Clara University
Priya Raghurir, UC Berkeley

Can You Buy Time... And A Personality?

- A particular brand of a product can imply status, style, masculinity, success, and more.

Example:

Compare a \$5 watch to a \$10,000 watch.

Both can tell you the time. But what else does each imply about the owner?



Product Attributes

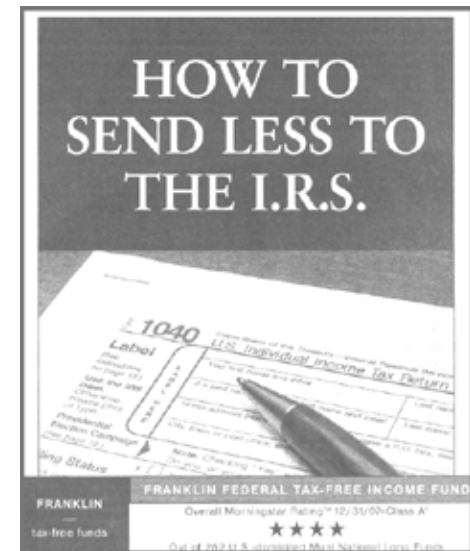
- Products have three types of attributes:
 - **Utilitarian attributes:** What does it do?
 - **Expressive attributes:** What does it say about me?
 - **Emotional attributes:** How does it make me feel?

Financial Products And Their Benefits

- › **Active mutual fund:**
8% expected return plus 2% worth of hope
- › **Hedge fund:**
6% expected return plus 2% hope and 2% status
- › **Index fund:**
10% expected return with neither hope nor status

Financial Product Personalities

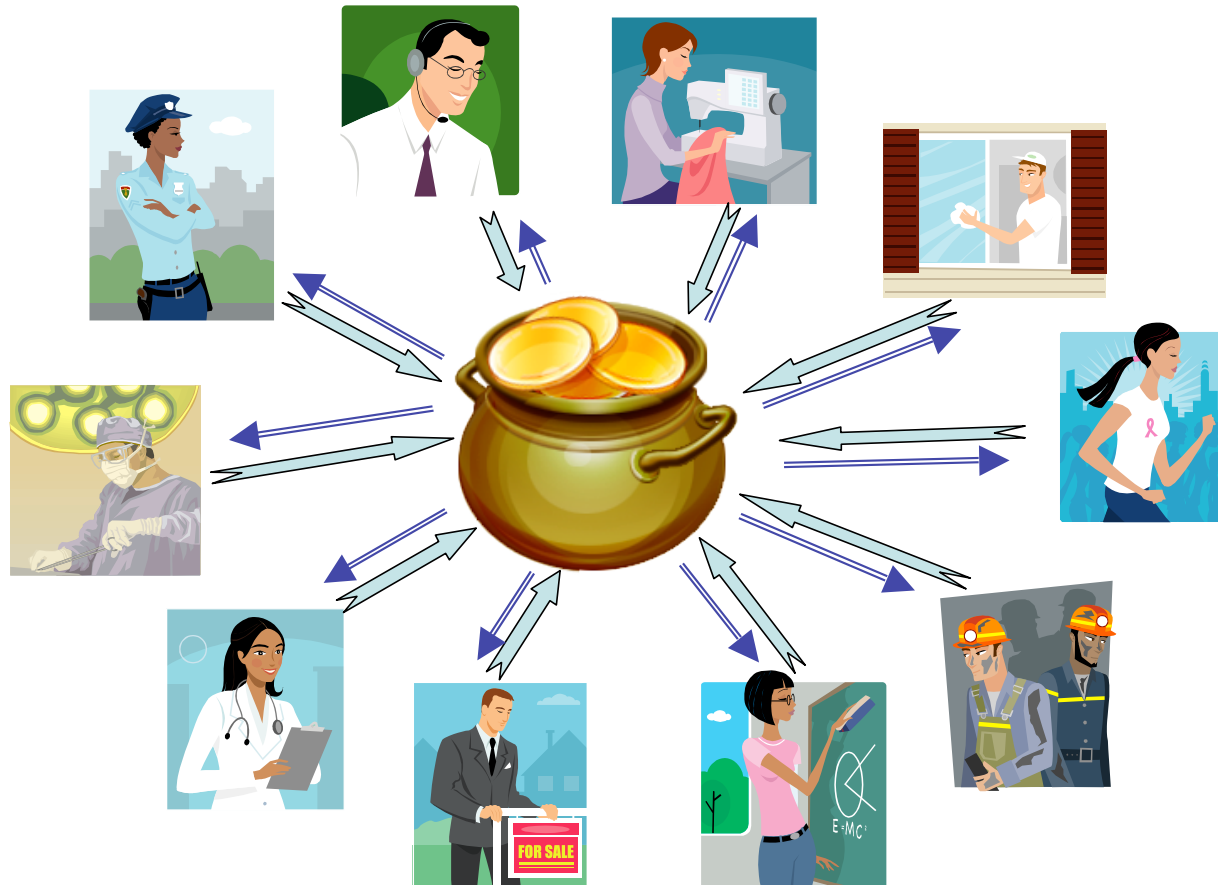
- Financial products often ignore attributes beyond the utilitarian:
 - Tend to focus on product features and price.
- Consider the personality of an index fund vs. a hedge fund vs. a tax-free fund.
- Can research reveal attributes to reposition products to increase sales and brand loyalty?



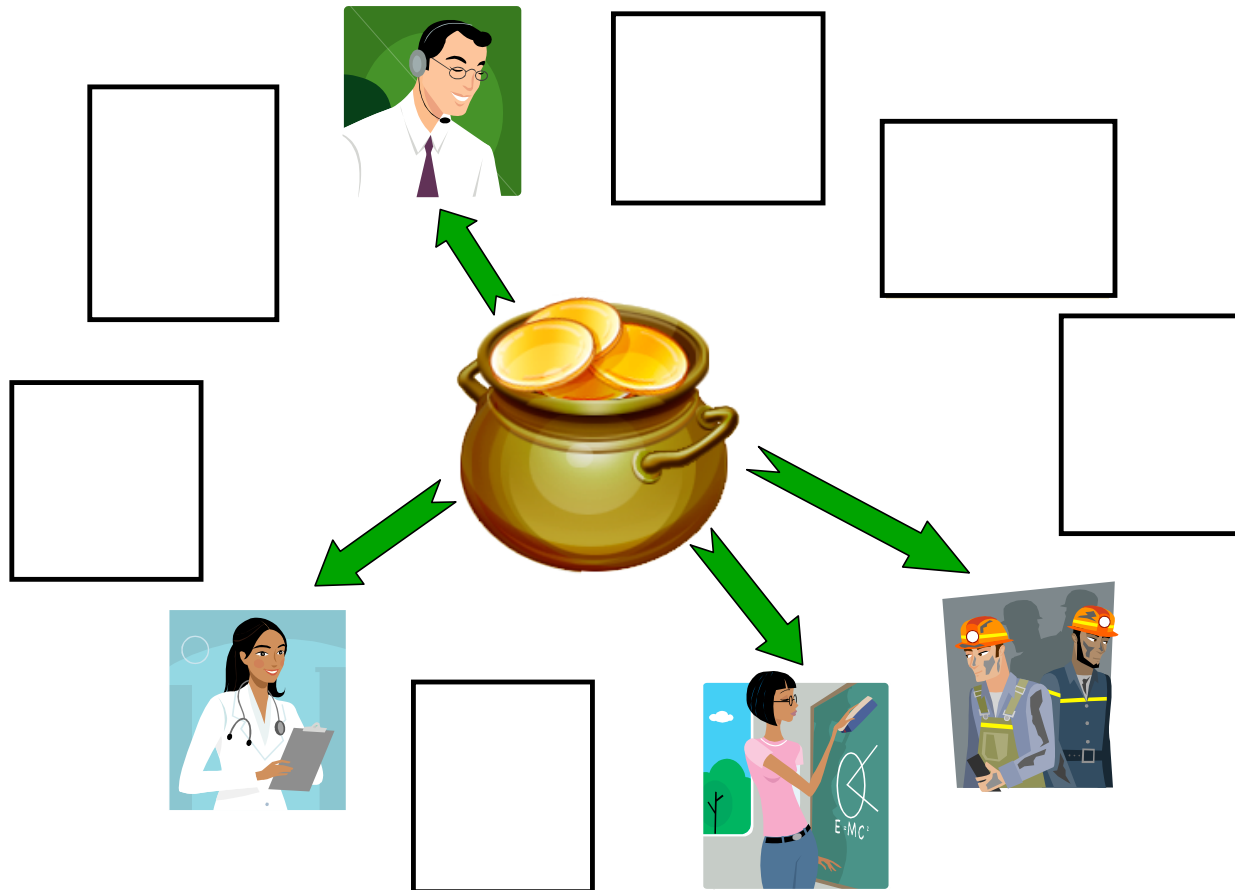
The Psychology and Marketing of Tontine-Based Retirement Income Solutions

Presented by Suzanne Shu, UCLA

Tontine Design: Pooled Assets



Tontine Design: Payments To Survivors



What Was The Appeal Of Tontine Insurance?

- Addressed decumulation trade-offs:
 - Die too early – Life insurance
 - Live too long – Tontine savings
- Psychological benefits:
 - Protection from extremes.
 - Perceived fairness in fee structures.
 - Comparative optimism for positive outcomes.

What Can We Learn?

- Tontines are now illegal, but how can we integrate the benefits into today's products:
 - Would bundled life and longevity products be more popular than individual products?
 - If proceeds end up with an affinity organization (an alumni group) instead of an “evil corporation,” would consumers be willing to pay more?
 - Can a smaller reference group make people more optimistic and more likely to purchase a product?

Smart(er) Defaults

Presented by Eric Johnson, Columbia University

More Than One Kind Of Default

- › Today, most defaults are:
 - Benign – what people would choose anyway,
or
 - A nudge – in the right direction,
or
 - A mandated choice – a forced response

In any case, is a one-size-fits-all default the best we can do?

Default Alternatives

- › Smart defaults: Pick what is best for the individual.
- › Pretty smart defaults: Segment the audience, then; offer appropriate default.
- › Adaptive defaults: Use early choices to pick the right default.

A foreign auto manufacturer uses Smart(er) Defaults to its competitive advantage. Are there applications for life insurance, 401(k) plans, home mortgages?

Simplifying Savings Plan Participation

Presented by Brigitte Madrian, **Harvard University**
David Laibson, **Harvard University**
James Choi, **Yale University**
John Beshears, **Harvard University**

The Effects Of Simplification

- Simplified enrollment has proven effective, but it's not for everyone.
 - “Sign and return the form to start contributing 5% into the balanced fund.”

- Will adding more simplified choices increase or decrease effectiveness?
 - “Choose 5%, 10% or 15%, sign and return...”

- More choices can lead to more complexity.

How Much Is Too Much?

To enroll in the 401(k), choose your preferred option:

Initial Contribution Rate	Future Contribution Rate	Asset Allocation
<input type="checkbox"/> 3% (+3% match)	<input type="checkbox"/> No change	<input type="checkbox"/> Conservative fund
<input type="checkbox"/> 5% (+5% match)	<input type="checkbox"/> Increase by 1% each year up to 10% of pay	<input type="checkbox"/> Moderate fund
<input type="checkbox"/> 10% (+5% match)	<input type="checkbox"/> Increase by 1% each year up to 15% of pay	<input type="checkbox"/> Aggressive fund
<input type="checkbox"/> 15% (+5% match)		

Hedonic Arbitrage™

Presented by Shlomo Benartzi, **UCLA**
George Loewenstein, **Carnegie Mellon**
Allesandro Previtro, **UCLA**

What Is “Hedonic Arbitrage™”?

Increasing a consumer’s hedonic experience (i.e., happiness), without necessarily increasing their income, wealth or spending.

An Example...

January 22, 2008: A Roller Coaster Day



John watched closely as the market opened and quickly lost 4%.

Watching the market drop, John experienced high levels of anxiety and even panic.



Mary is invested the same as John; however, she did not follow the market during the day of January 22.

By the end of the day, the market recovered much of the losses and was down only 1.1%.

January 22, 2008: A Roller Coaster Day



Who experienced less satisfaction from their investments – John or Mary – even though they both ended up in the same place?

Using Labeled Accounts To Increase Happiness

- › Purely a paper change.
- › Minimal tax consequences.
- › Low administrative costs (once the idea is implemented on a broader scale).

Can It Solve Common Problems?

Problem	Solution
The desire to meddle	“Nest egg” and “have fun” accounts: Play with part of your account while the rest is professionally managed.
Lack of pleasure or reassurance from saving	Earmarked accounts: Portions of your account are labeled for specific needs (medical care, retirement spending, etc.).
Under-saving	“Old money” and “new money” accounts: Old money out-of-sight, out-of-mind; new money contributions have greater impact quarter-to-quarter.
The pain of paying	“Save it” and “spend it” accounts: For tightwads, allows them to spend without guilt and perhaps even enjoy it!

Measuring Risk Perception and Risk Attitude in the Domain of Financial Planning

Presented by Elke Weber, Columbia University

Can We Build A Better Risk-Taking Scale For The Financial Industry?

- DoSpeRT scale provides a way to measure perceived return, perceived risk and attitudes toward perceived risk.
- Has two financial subscale items: gambling and investing.
- Measures reaction to statements such as:
 - Investing 5% of your annual income in a very speculative stock.
 - Investing 10% of your annual income in a moderate growth mutual fund.

What Would Investment Firms Like To Know About Their Investors?

- › What items to include.
- › How to present investment options.
- › What preference measure to use.

Members' Collaboration Update

- Presented by*
- 1 Sheena Iyengar, **Columbia University**
 - 2 Eric Johnson, **Columbia University**
 - 3 Dean Karlan, **Yale University**
 - 4 John Lynch, **Duke University**

1 Making Tradeoffs More Tangible



SOURCE
Benartzi, Iyengar
and Previtro
(in progress)

1 Making Tradeoffs More Tangible

Adding imagery



Adding imagination

Imagine you receive the \$500.

How would you spend this money? Please write down everything that comes to your mind.

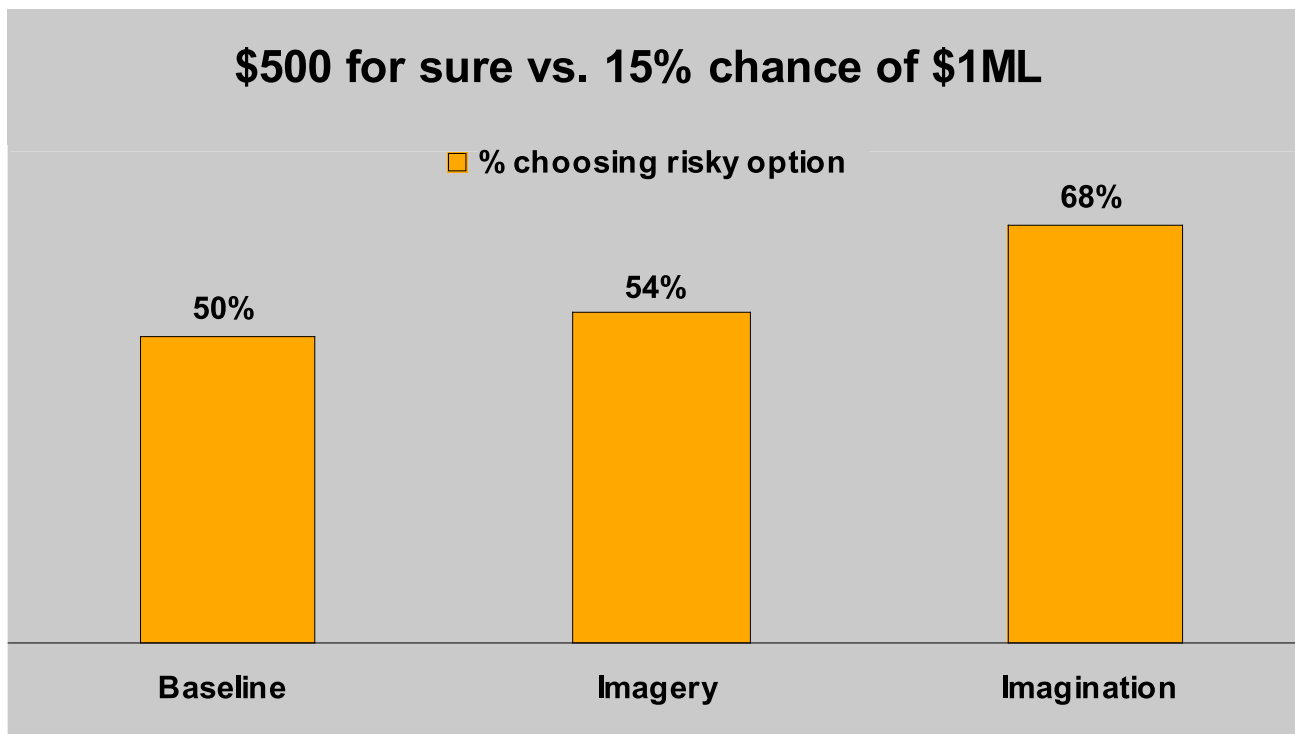
or

Imagine you took the chance and won \$1,000,000.

How would you spend this money? Please write down everything that comes to your mind.

SOURCE
Benartzi, Iyengar
and Previtro
(in progress)

1 Making Tradeoffs More Tangible



SOURCE
Benartzi, Iyengar
and Previtro
(in progress)

2 *Individual Differences In Loss Aversion*



3 *www.stickK.com*

- Last year, just an idea
- This year, 12,000 users, 6,000 contracts

The screenshot shows the stickK.com website interface. At the top, there's a navigation bar with 'My Profile', 'Log Out', and search options. Below that, there are tabs for 'Quit Smoking', 'Exercise Regularly', 'Lose Weight', and 'Vote'. The main content area is divided into several sections: 'MAKE A COMMITMENT' with buttons for 'LOSE WEIGHT', 'EXERCISE REGULARLY', 'QUIT SMOKING', 'RUN A MARATHON', and 'CREATE YOUR OWN GOAL'; a 'Welcome back, Dean' message with a 'Go To My Profile' button; a 'My Alerts' section showing '4 reimbursements' and a 'View' button; an 'INVITE Your Friends' section with social media sharing options and a search bar; and a 'stickK in the News' section listing recent news items.

3 *www.stickK.com*

- Helps individuals put their money where their mouth is – common contracts include weight loss, exercising, smoking cessation, voting and saving.
- Seeking partnerships with corporate wellness programs and financial companies to test custom programs for maximum behavior change.

4 *Advice On Successful Collaboration*

- Key ingredient is a “champion” at the collaborating firm:
 - Project management.
 - Commitment to align resources, draw in strong colleagues and clients.
 - Bridge academic needs for “tight” controls if findings are to be publishable.

4 Advice On Successful Collaboration

› Communication:

- 2-page summary to team, conference call to boil ideas down
- Onsite visit to meet team and understand its business.
- Weekly 30-minute conference calls.

4 Advice On Successful Collaboration

› For Academics:

- Simplify idea to survive third-hand re-telling.
- Learn how to compromise on control without losing key idea.

› For Practitioners:

- Studies take time, as does getting internal and external buy-in.
- Staying on track despite organizational realignments.

2008 BeFi Conference

› Questions/comments?

If you have any comments or suggestions, please contact:

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