

## Fields of gold

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# Research Impact

“We can’t do evidence-based policy without evidence.” - Richard Thaler

Generally speaking, the research areas of behavioral economics and behavioral finance examining people’s economic and financial behavior are growing. The rise of networks and teams that follow the “Nudge Unit”’s approach to use behavioral science in public policy and test its effect is a testament to this, and the list of those networks and teams is long.<sup>1</sup> The design and effect of nudges are context-specific, so trialling them in the field remains important. Knowing what works in which contexts highly increases the success rates of new policies, ultimately decreasing money spent on ineffective policies and campaigns. This thesis analyses financial behavior in the field in two decision areas- retirement and giving.

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<sup>1</sup>To name just a few: the original Nudge Unit, now the Behavioural Insights Team, started in London and opened offices in Toronto (Canada), New York (USA), Sydney (Australia), Wellington (New Zealand), and Singapore (Singapore)); Ontario’s Behavioural Insights Unit in Canada; iNudgeyou and the Danish Nudging Network in Denmark, the Behavioural Insights Network Netherlands in the Netherlands, MineduLab in Peru, and the Behavioural Economics Team of the Australian Government.

## **.1 Chapter 2 - Nudges and Incentives in Pension Communication and Their Effect on Retirement Savings Behavior**

In most of the developed world, the population is ageing. For retirement financing, the growing number of people in old-age can pose a problem. For Pay-As-You-Go schemes, an ageing society leads to an increasing share of the population (the retired) needing to be financed by a decreasing share of the population (the working population). Even for funded schemes, an ageing society can pose problems: with increasing time in retirement, retirees can run out of money on their accumulated funds. If governments aim to fulfill the UN Sustainable Development Goals 1 (No poverty) & 10 (Reducing inequality) at home, the question of how to finance an ageing society is on the forefront of problems of developed economies (UN, 2015).

In Chapter 2, we focus on how to increase private savings for retirement. We test the possible effects of nudges and incentives in the context of pension communication. In Study 1, we test the effect of peer information and financial incentives on pension fund members' likelihood to look up pension information online. Marketers often employ statements about other people's behavior to showcase the quality of a product and to invoke a feeling of scarcity. Financial incentives in the form of lotteries are used to increase savings; an example is the Premium Bond issued by the UK government. We show that peer information statements are not effective in increasing members' likelihood to look up pension information. Financial incentives, however, are effective. In Study 2, we then look at which financial incentive structure works best to engage fund members in looking up information online. We also analyze whether looking up information increases pension knowledge and, ultimately, savings for retirement. We find no such effects.

The findings of Chapter 2 show that it is difficult to change consequential behavior in the retirement savings context with financial information or education. This is in line with findings by Fernandes, Lynch Jr, and Netemeyer (2014) as well

## **.1 Chapter 2 - Nudges and Incentives in Pension Communication and Their Effect on Retirement Savings Behavior**

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as ASIC & AFM (2019). Regarding pension communication, law requires pension funds to activate fund members and guide them in accordance with the members' best interest. This is not a trivial task, given the low interest in pension matters.<sup>2</sup> Our study shows how fund members can be activated to look up personal information. Nevertheless, our study does not show that looking up information leads to further action. We thus do not see an effect of our interventions with respect to guiding members to evaluate their financial behavior in line with their own best interest and to change financial behavior.

Future research could thus look more deeply into how fund members use online platforms that show them personal information. How can these platforms engage fund members so that they increase their knowledge and make appropriate choices in their interest? Can story telling methods or better visualizations engage pension fund members more? In addition, future research could test whether more personalized peer information statements are more effective than the ones tested in Chapter 2. Another avenue would be to use financial incentives to engage fund members in increasing pension literacy, or in other retirement planning activities such as receiving targeted advice, saving, or retiring later or earlier.

If smaller changes in the choice architecture (such as nudges) are insufficient to increase retirement savings, more structural changes are needed. One major structural change in the Dutch pension industry follows from the “Wet toekomst pensioenen”, essentially switching DB funds to DC funds. This tightens the relation between the economy and pension levels and puts investment risk in the hands of pension fund members. While employers and employees agree upon the new scheme and compensation/transition arrangements, any changes to a pension fund members' rights and wealth have to be communicated to them. For the new system to be successful, pension communication has to explain how the system functions. An effective pension communication people have trust in thus is more important than ever in the Dutch context. While Dutch funds still have the possibility to have a single collective investment policy under the solidarity contribution scheme, a personal investment strategy is possible under

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<sup>2</sup>35% have not followed the discussions around the new Dutch pension system at all, 45% have followed them a little bit (van Dalen and Henkens, 2021).

## . RESEARCH IMPACT

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the flexible contribution scheme. Arguably, only pension funds that think their member base can take these decisions themselves will allow them to decide on their own investment strategy. But communication will become essential for all pension funds, as the investment risk is borne by fund members. The findings of Chapter 2 can be a crucial first part of concluding on which type of pension communication is effective.

## .2 Chapter 3 - How Can Beneficiaries Attract Funding?

In Chapter 3, we analyze giving behavior in a Dutch TV show in order to examine whether and to what extent people distinguish between two ethical considerations when they choose a beneficiary. Do people choose a beneficiary to increase the impact of their money, or do they give money to a beneficiary who deserves their help? In our setting, we find that both considerations are important and correlate with giving in the expected directions: people give to beneficiaries when the gift has more impact, but refrain from giving to beneficiaries who caused their financial situation.

While a beneficiary is mostly a person in financial need in our setting, it can also be a charity or a crowdfunding project. US American individuals donated \$324.1 billion in 2020 and \$47.91 billion were given by bequest, in addition to \$88.55 billion given by foundations. Overall, giving increased by 5.1% compared to 2019 (Giving USA, 2021).

For charities, knowing why people choose a certain beneficiary over another is important to attract funds and, consequently, be able to finance their help. Donations are crucial, especially in areas where governments seem to be too slow to act. By working to reduce poverty, improve public health, and fight against climate change and for animal welfare, charities also help to fulfill various UN Sustainable Development Goals.<sup>3</sup>

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<sup>3</sup>For example, charities such as Oxfam aim for the reduction of poverty (SDG #1 (No Poverty)), #2 (Zero Hunger), #9 (Industry, Innovation, and Infrastructure), and #10 (Reducing

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Our findings show that charities can increase their donations by explaining their impact on people’s lives vividly and clearly to potential donors. Efficiency or effectiveness rankings or scores might be too abstract for donors who want to receive a “warm glow” from giving. Future research can explore in what ways charities can describe their impact in a meaningful way to donors. Next to charities, our findings also matter for donation-based crowdfunding projects. They emphasize that detailed and vivid descriptions of the beneficiary’s situation are important to show the impact of a donation and to convince the donor that the cause of the situation is outside of the beneficiary’s control.<sup>4</sup>

It remains to be seen whether our findings also hold for crowdfund-investment projects such as Kiva or Zidisha. Kiva facilitates loans to entrepreneurs, businesses and NGO’s in developing countries, while Zidisha is a peer-to-peer microlending platform. For the World Bank, “Crowdfunding has emerged as a multibillion-dollar global industry” and the developing world can gain much from promoting crowdfunding as a financing tool for entrepreneurs and small businesses (World Bank, 2013). Future research could look at whether impact considerations and deliberations around equity and desert also matter for providers of microloans and crowdfunding platforms.

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Inequality)); not-for-profit organizations such as Partners in Health improve health systems (SDG #1 (No Poverty), #3 (Good Health and Well-Being), #6 (Clean Water and Sanitation)); and organizations such as Greenpeace or WWF fight against climate change and for animal welfare (SDG #7 (Affordable and Clean Energy), #11 (Sustainable Cities and Communities), #13 (Climate Action), #14 (Life Below Water), #15 (Life on Land)).

<sup>4</sup>An example can be the YOU GO 100KM fundraiser of the Danish scleroseforeningen.

