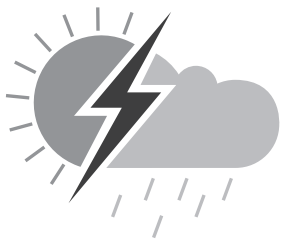
# How behavioral economics could save us from ourselves

Building a better working world

## 1 High-cost societal challenges threaten our future:



**Climate change**[1]

**US$44 trillion**

(by 2060, global cumulative cost)

**Chronic disease**[2]

**US$47 trillion**

(2010–2030, global cumulative cost)

**Retirement savings gap**[3]

**US$14 trillion**

(US single-year cost)

## 2 Universal behavioral biases drive these challenges:

| | | | | |
|---|---|---|---|---|
| **"Homo Economicus"** | Consider the future impact of our decisions | Utility from gaining $100 = Disutility from losing $100 | Participate in a plan based on preferences | Motivated by economic sticks and carrots |
| **Behavioral economics** | Excessively discount the future | Utility from gaining $100 < Disutility from losing $100 | Higher participation if choice is opt-out than if it is opt-in | Social norms often more powerful than market norms |

| | Smart technologies | Hyperbolic time discounting | Loss aversion | Status quo bias | Social norms |
|---|---|---|---|---|---|
| **Pact** | GPS verifies gym attendance | Weekly rewards make payback immediate and tangible | Weekly pact commits money to exercising | Prior week's pact carried forward unless changed | |
| **Save More Tomorrow** | | Commit to start saving "tomorrow," not today | Increase in contributions tied to future raises | Enrolled until individual opts out | |
| **Opower** | Online and mobile customize messaging and nudges | | | | Customized messages comparing energy use to that of peers |

## 3 Innovative models are bringing it all together

1. Citi, Energy Darwinism II: Why a Low Carbon Future Doesn't Have to Cost the Earth (2015)
2. World Economic Forum and the Harvard School of Public Health, The Global Economic Burden of Non-communicable Diseases (2011)
3. National Institute on Retirement Security, The Retirement Savings Crisis: Is It Worse Than We Think? (2013)

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