Summary

I was motivated to write this book by the evidence that individuals make costly systematic investment mistakes in their retirement savings planning, such as investing in the wrong assets and under-diversifying their portfolios. These mistakes are difficult to explain using the toolbox of traditional economists. Behavioral economists have stepped into the breach to explain that people make these mistakes because they rely on heuristics and have certain biases in their thinking. However, behavioral economists have yet to develope a unifying theory as to why people have these biases and rely on heuristics.

In this book, I develop and test the theory that this bad investment behavior results from traits that evolved to help our distant ancestors survive and reproduce. I describe why it is important to understand the evolutionary history of our brains in order to understand why we may not be very good at solving retirement savings problems.

In the first substantive chapter, chapter 2, I apply evolutionary psychology to explain one of the mistakes that individuals have been shown to make in their retirement planning – the mistake of under-diversifying their portfolios. While the chapter is focussed on explaining when and why individuals may under-diversify their stock portfolios, the theoretical discussion on evolutionary psychology theories put forward in the chapter can explain why and when individuals will make other seemingly sub-optimal decisions relating to their retirement planning.

In chapter 3, I report on an online experiment that I conducted to test a hypothesis that I put forward in chapter 2; that is, that males for whom mate-seeking is salient under-diversify their stock portfolios more than other males. The results of the experiment support this hypothesis.

Regret is an emotion that evolved to help humans learn from their mistakes, which enhanced their survival and rates of reproduction. I hypothesize in chapter 4 that people make retirement savings decisions in such a way as to minimize regret. I also explain in that chapter why regret may also explain why defaults work so well in the retirement savings domain – people follow defaults because it is a regret reducing strategy.

Chapter 5 reports on an experiment that was conducted to test the hypothesis that regret may explain why defaults and communicating preferences of peers are so effective in changing behavior. The results of the experiment support this hypothesis.