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## Why Workers Leave Matching Dollars on the Table



A 2023 Vanguard study found that a quarter of participants deferred less than 4% of their income — generally below the threshold to maximize an employer match. While financial constraints play a role for some, psychological factors can also contribute. Understanding these cognitive biases can help explain why workers forfeit free money — and highlight strategies to help.

**Present bias and hyperbolic discounting.** People often prioritize immediate rewards over long-term benefits, driven by two related but distinct tendencies: present bias and hyperbolic discounting. Present bias causes employees to favor immediate gratification over future rewards, including employer matches. Hyperbolic discounting expands on this by showing how people increasingly undervalue rewards as the delay to receiving them grows longer. To help address present bias and hyperbolic discounting, employers can frame matches as “an instant 100% return” on contributions. Tools that reduce the psychological distance of future rewards — like visualizing one’s future self — can also help participants better connect with the long-term value of saving.

**Anchoring bias and the status quo.** Anchoring occurs when employees rely too heavily on initial information — like default rates — while the status quo bias can result in a preference for maintaining the current state, even if better options are available. Defaults can serve as psychological anchors, leading participants to assume these rates are sufficient — even if they fall short of the amount needed to max out their match. Employers can address this by raising default rates and adding auto-escalation features to increase savings over time.

**Paradox of choice.** When employees are faced with too many options — such as fund selections or allocation possibilities — they may feel overwhelmed and avoid making decisions altogether. Streamlining investment menu options, and offering simplified, automated paths to maximize matches, can help minimize the role of choice in the equation. You can also provide education around target date funds, framing them as a simpler, “one-decision” strategy.



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**Loss aversion.** This behavioral tendency leads people to feel the pain of losses more strongly than the pleasure of equivalent gains. For workers, the psychological weight of “losing” immediate paycheck money can outweigh the future benefits of the “free” match. Plan sponsors can counteract this by flipping the script and reframing the real loss as a missed financial opportunity — that is, what participants stand to lose in terms of the company match. Providing employees a personalized projection of missed matching dollars at their current deferral rate may stoke some healthy financial FOMO, and make the perceived cost of inaction more concrete and immediate.

**Social proof and normative behavior.** Employees are influenced by their perception of the financial habits of their peers. If maximizing the employer match isn’t seen as the norm, participation can suffer. Promoting retirement saving through success stories can help establish higher contributions as the standard more workers strive toward.

### **Preventing Retirement Gaps Is Easier Than Closing Them**

When employees fail to max out their match, it’s not just today’s dollars they lose. But with proactive steps, you can potentially preserve years of compounded growth and help prevent a retirement gap before it happens.

Sources

<https://institutional.vanguard.com/content/dam/inst/iig-transformation/insights/pdf/2023/how-americans-can-save-more-for-retirement.pdf>

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