

Auto-Enrollment Retirement Plans for the People: Choices and Outcomes in OregonSaves

John Chalmers, Olivia S. Mitchell,
Jonathan Reuter & Mingli Zhong

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Background

- Social Security system in U.S. is not intended to serve as sole source of retirement income
- However, only ½ of U.S. private-sector workers have access to employer-sponsored retirement plan... **and those w/o access tend not to save**
- Numerous states have responded to perceived “retirement crisis” by introducing automatic-enrollment retirement plans
- **Oregon was first, launching OregonSaves in 2017**

Behavioral Finance to the Rescue?

- OregonSaves' goal is to increase retirement savings by extending automatic enrollment to lots of small employers
 - Madrian and Shea (2001) find large impact of auto-enrollment on participation rates, especially for younger, lower income workers
 - Recent work by Choukhmane (2021) and Beshears et al. (2021) question long-run impact; highlight role of employer match
- However, OregonSaves targets lower-income, higher-turnover industries and lacks employer match, **raising questions about who should participate and how much they'll save**

Research Questions

An increase in % of workers with meaningful retirement balances depends on how many are willing to participate on ongoing basis

- 1. Which industries are targeted by OregonSaves?**
- 2. Who chooses to participate and how much do they save?**
- 3. How does effective saving rate compare to default rate?**
- 4. Is OregonSaves better viewed as retirement savings or precautionary savings?**

Plan Design

- Employees auto-enrolled in individual retirement account
 - ✓ Rollout to large employers (100+) Nov. 2017, and progressively smaller employers over next 2 years
 - ✓ Default after-tax saving rate of 5%
 - ✓ Auto-escalate 1% each January (maximum of 10%)
 - ✓ No employer match... but no need to withdraw following turnover
- First \$1000 in contributions invested in money market fund; all additional contributions invested in target date fund

Data Sources

1. Oregon-provided administrative data (**8/18** to **4/20**)
 - Unit of observation is employee-employer-month
 - **289,657** Employee-Employer pairs and **11,088** Employers
 - **Employee:** age, eligibility date, employment status, saving rate, account balance, monthly flows, opt out date (if any), zip code, *survey data on opt out reason for those who opt out*
 - Employer: industry, zip code, enrollment date
2. Public data on monthly plan growth (**8/20** to **4/22**)

OregonSaves Serves Low-Wage Industries

Food services, temp agencies, home health care, retail trade

Ave. monthly income?

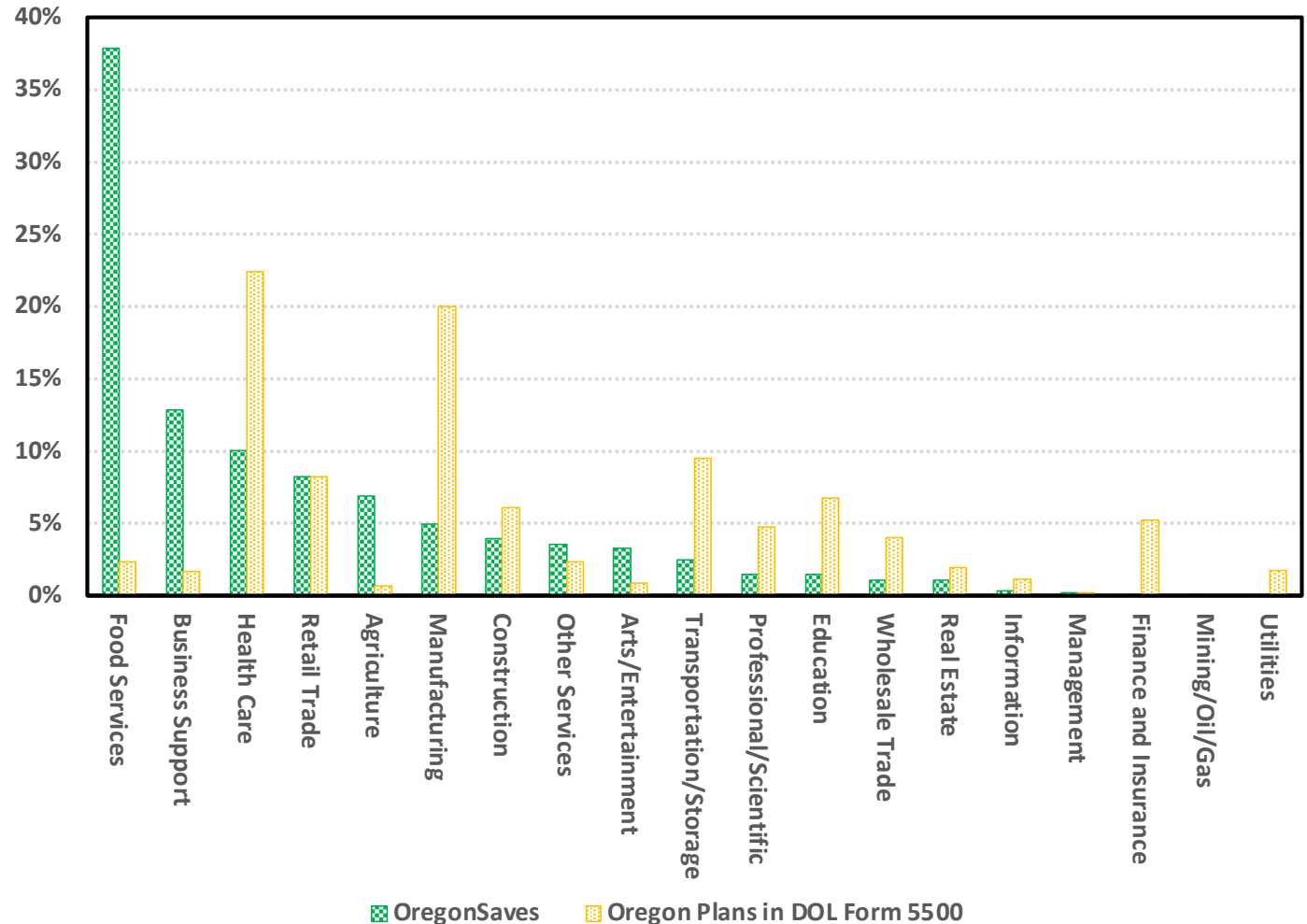
\$2,365

Ave. within-worker std. dev. of monthly income?

\$892

Annualized turnover rate?

38.3%



Participation Rate?

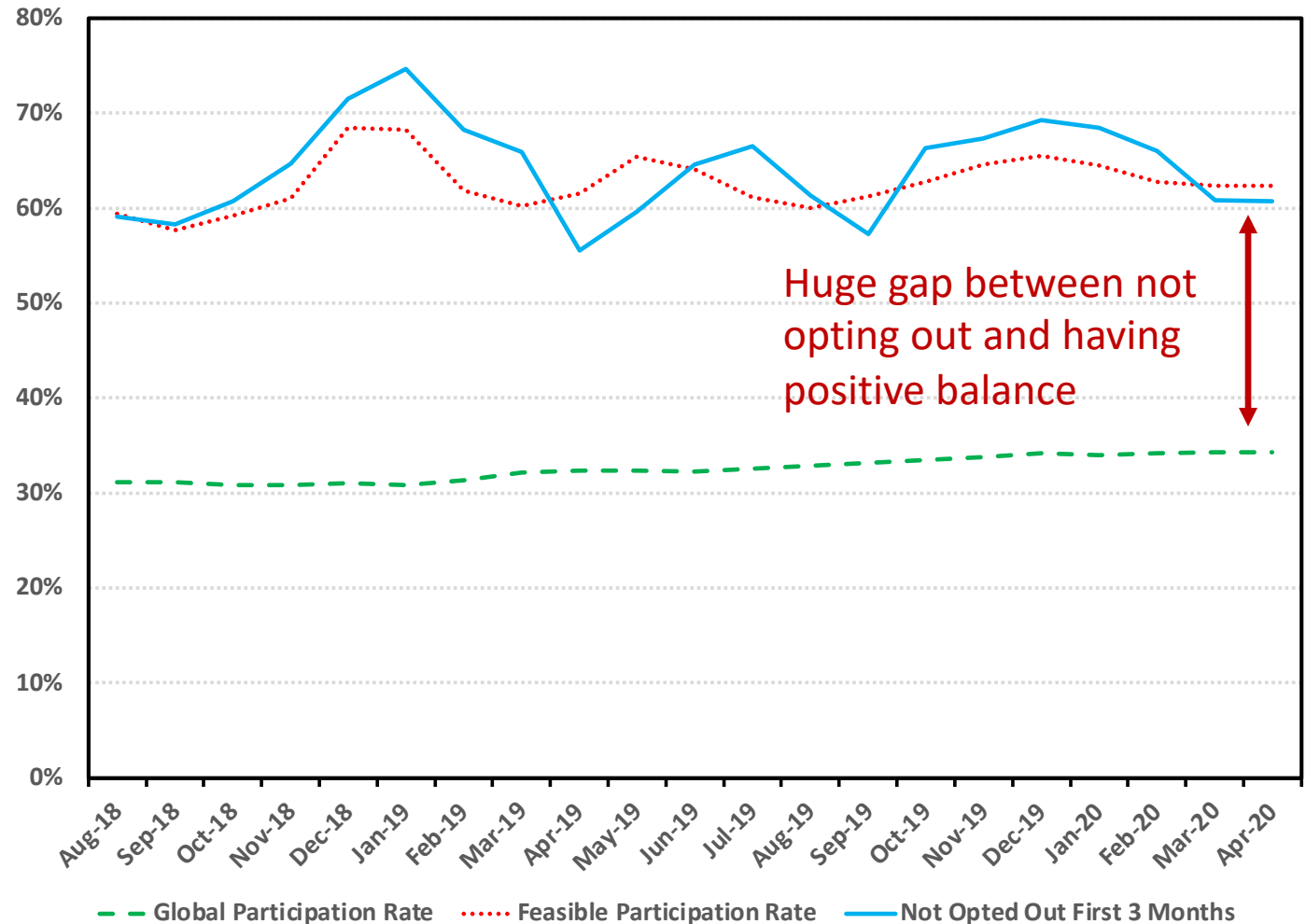
- Inferring steady-state participation rate for new program is challenging (Quinby et al. 2020):
 - Only ½ of 11,088 employers processed any OregonSaves contributions by **April 2020**
 - **58.5%** of employees **not** formally opted out by **April 2020**
 - But, among 226,178 employees at employers processing contributions, only **34.3%** have positive balance on **April 2020**
- Participation rates much lower than in 401(k)... which is not surprising given differences in income levels, job stability, and lack of matching contributions

Participation Rates

Global = # with + balance scaled by # working at ER processing contributions

Feasible = # ever have + balance scaled by # active, eligible employees at ER process. contrib.

Not Opted Out = 1 - % employees formally opting out during prior 3 months



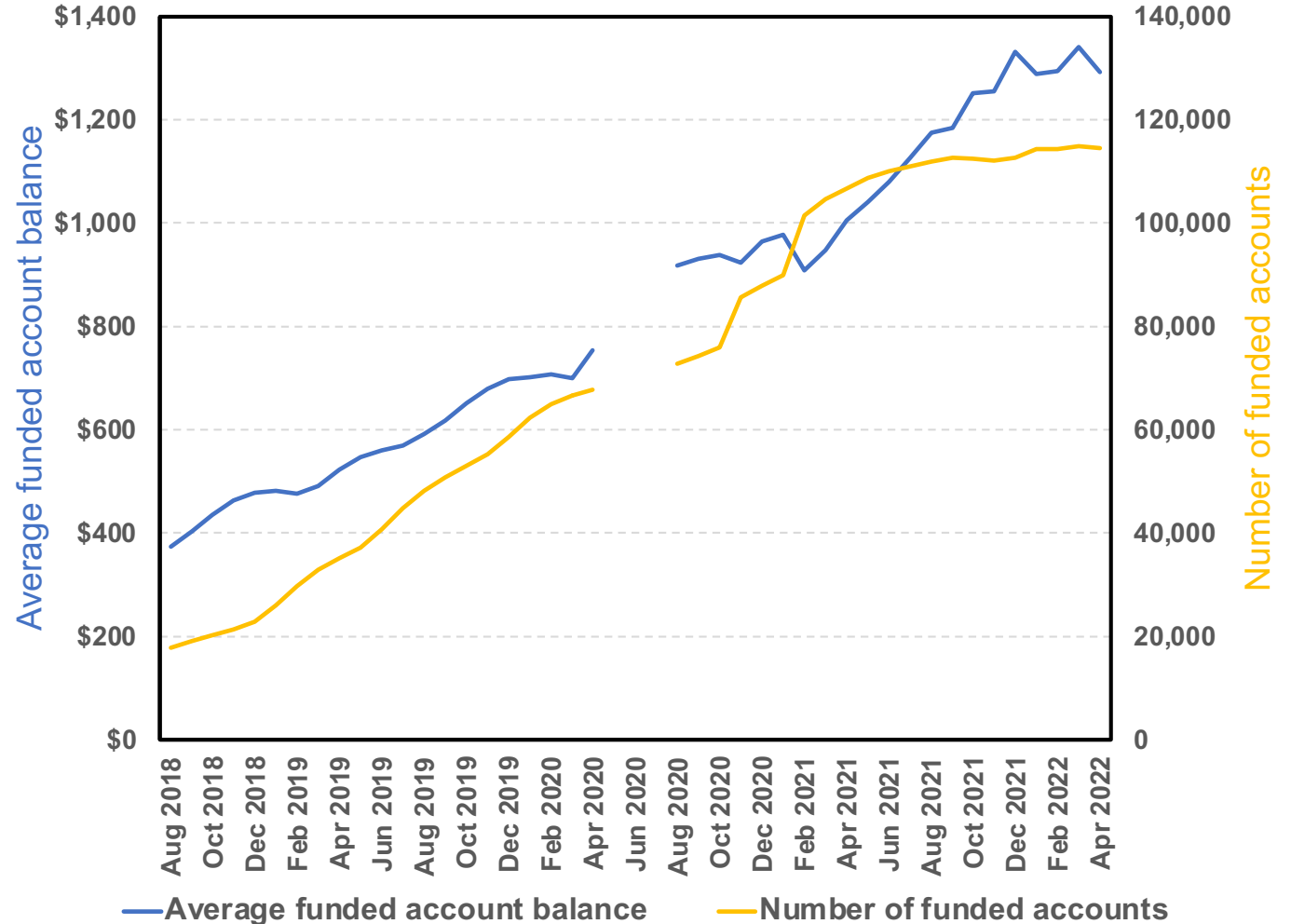
What Factors Predict Opting Out?

- **Survey:** “I can’t afford to save” (27.8% of those opting out) and “I have my own retirement plan” (23.3%) → *two valid, if quite different, reasons not to participate*
- Supplement survey evidence with series of regressions
 - Likelihood of opting out increasing in age, local unemployment rate
 - Decreasing in number of times exposed to OregonSaves and income level (lower income much more likely to make just one contribution)
 - Turnover → neither opt out nor accumulate assets, which helps explain large fraction who neither opt out nor save

Growth in OregonSaves

Number of funded accounts and average account balance rose during sample period and continue to rise

Increased volatility in account balances partly reflects increased exposure to market risk through TDFs



Evolution of Account Balances

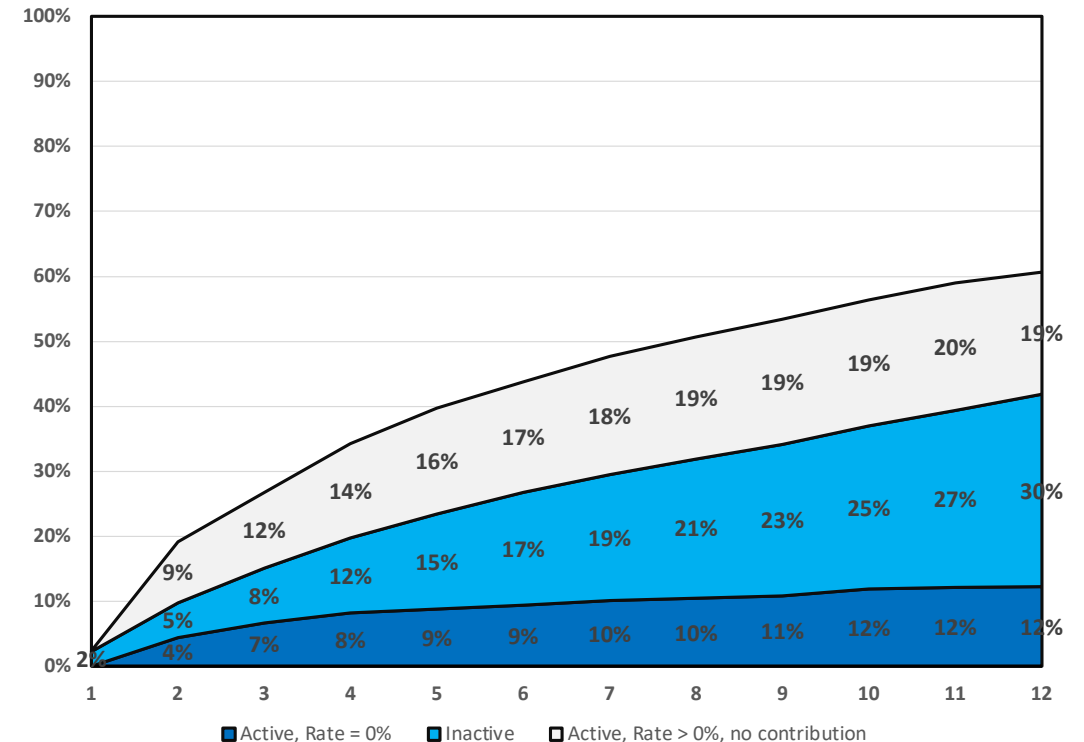
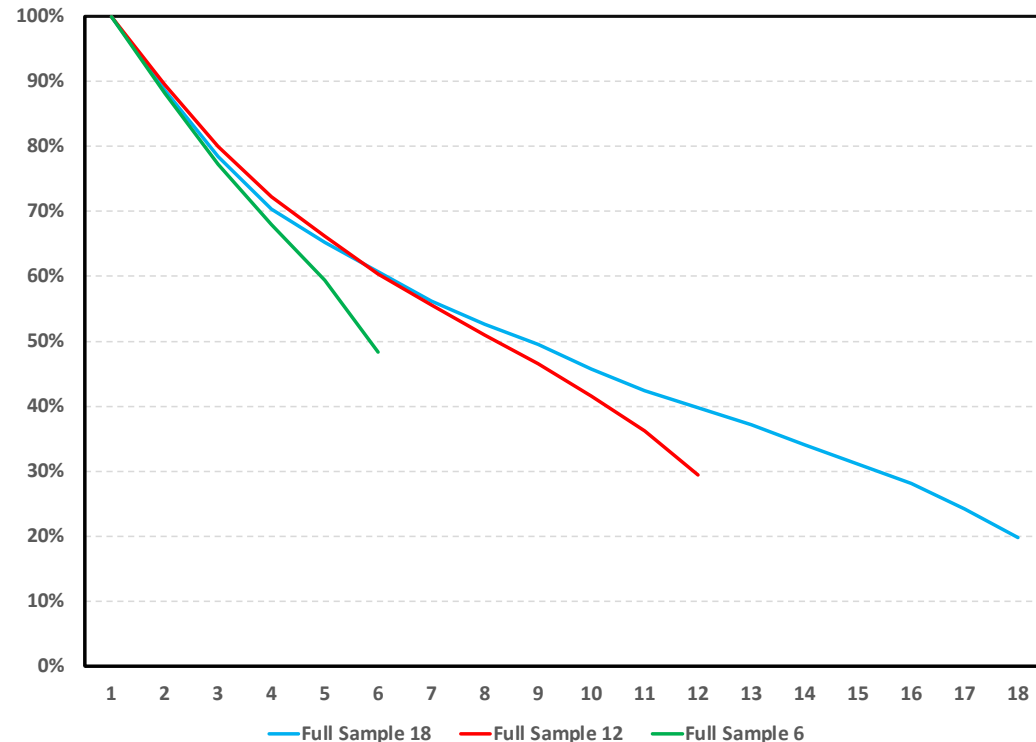
- Average account balance is growing...

Date	8/18	4/20	4/21	4/22
Participants	17,830	67,731	106,719	114,428
Ave. Balance	\$375	\$754	\$1,005	\$1,292

- ... but so is dispersion (event time within sample of contributors):

Contributors	3 mos	6 mos	9 mos	12 mos
Average	\$246	\$434	\$581	\$698
Median	\$189	\$307	\$349	\$348
25th	\$80	\$90	\$80	\$69
75th	\$319	\$613	\$851	\$1,025

How Persistent are Contributions?



- 60% of workers who make initial contribution make 5+ contributions over first 12 months; only 29% make contributions all 12 months
- Missing contributions driven by changes in saving rate and job turnover

Effective Saving Rate?

- With 100% participation rate and stable employment, best-case effective saving rate during first year for eligible workers is **5%**
- Among contributors, annual balance of **\$698** translates into **2.5%** effective saving rate
- Expanding sample to include those who opt out (but excluding those who neither opt out nor save), effective saving rate falls to **1.5%**
- Net savings are certainly increasing, but increases are modest

Retirement Savings or Emergency Savings?

- Given structure, one might expect participants to treat OregonSaves account as emergency savings account
- Outflows are much lumpier than inflows... but are much more likely to be associated with opting out of the program than with (recent) job turnover
- Data end in April 2020, as COVID was shutting down the economy; inflows fall sharply that month (likely in response to declining incomes) but outflows do not change

Summary

- OregonSaves ↑ savings for workers in low-wage, high-turnover industries w/o 401(k) plans
 - Given industry mix, we expect and find much lower participation rates than in earlier studies...
 - ... and for employees who opt out to cite lack of income
 - Modest, disperse account balances after 12 months driven by low wages and small fraction making regular contributions
- Behavioral nudges are useful at increasing savings, but low wages and high turnover generate significant head winds