

# Do State-Sponsored Retirement Plans Boost Retirement Saving?

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## Motivation

- Only ½ of U.S. private-sector workers have access to employer-sponsored retirement plan.
- 3 states have automatic state-based IRAs (OR, IL, CA); 7 more launching soon (CT, ME, MD, NJ, NM, NY, VA.)
- May increase % of workers with retirement account balances; depends on how many are willing/able to participate on an ongoing basis.
- Our evidence: administrative/survey data from OregonSaves Aug 2018 to April 2020.

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## Plan Design

- **Roth IRA with automatic enrollment**
  - ✓ No employer match.
  - ✓ Rollout to large employers (100+) Nov. 2017, progressively smaller employers over next 2 years.
  - ✓ **5% after-tax contribution rate** (with 1% auto-escalation each January to maximum of 10%)
- In our period: first \$1,000 went to stable value fund; additional contributions to age-appropriate target date fund (TDF).
- Recently: contributions swept to TDF > 90 days.

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## Industries: Low Wage, High Turnover

- **289,657** employee-employer pairs; **11,088** employers
- 18 2-digit NAICS
  - ✓ Food services           **31.5%** (of EE-ER pairs)
  - ✓ Temp. agencies       **11.4%**
  - ✓ Home health care     **9.3%**
  - ✓ Retail trade           **8.8%**
  - ✓ Agriculture           **7.5%**
- Av. (imputed) mo'ly after-tax income **\$2,365**
- Av. within-EE std dev mo'ly income   **\$892**
- Annual turnover rate                   **38.3%**

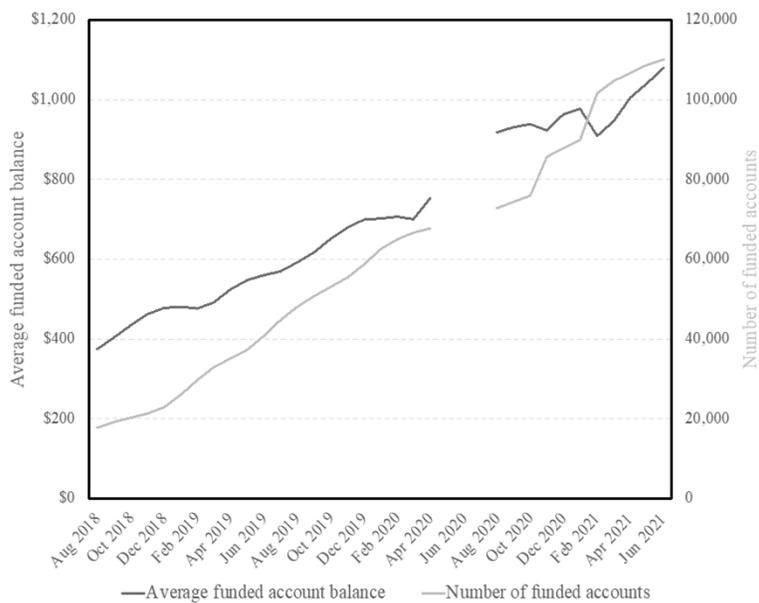
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## Participation

- Inferring steady-state participation rate for new program challenging:
  - Only 5,537 of 11,088 employers processed any OregonSaves contributions by 4/20.
  - **58.5%** formally opted out by 4/20.
  - **34.3%** EEs had + account balance/# EEs at firms that processed any contributions.
- Much lower than for 401(k) plans studied previously, but income much lower, firms smaller, jobs less stable.

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## Growth in OregonSaves



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## Account Balances

- Average account balance growing:

| 8/18  | 4/20  | 6/21    |
|-------|-------|---------|
| \$375 | \$754 | \$1,080 |

- Following av. account over time:

| 3 mos | 6 mos | 12 mos | 12 mos<br>(no TO) |
|-------|-------|--------|-------------------|
| \$246 | \$434 | \$698  | \$865             |

- Annual balance **\$865 = 3%** of implied annual after-tax income of **\$28,378** despite most participants saving at **5%**.
  - Gap likely reflects withdrawals, unobserved turnover

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## Reasons for Opting Out

- Two most common reasons are “I can’t afford to save” and “I have my own retirement plan”

| Primary reason for opting out                            | Count   | % of<br>opt outs | % of<br>employees |
|--|---------|------------------|-------------------|
| I can't afford to save at this time                      | 33,507  | 27.8%            | 11.6%             |
| I have my own retirement plan                            | 28,064  | 23.3%            | 9.7%              |
| I'm not interested in contributing through this employer | 17,027  | 14.1%            | 5.9%              |
| I don't trust the financial markets                      | 3,635   | 3.0%             | 1.3%              |
| I'm not satisfied with the investment options            | 2,274   | 1.9%             | 0.8%              |
| I would prefer a Traditional IRA                         | 1,636   | 1.4%             | 0.6%              |
| I don't qualify for a Roth IRA due to my income          | 644     | 0.5%             | 0.2%              |
| Other (open response)                                    | 8,110   | 6.7%             | 2.8%              |
| Other (no open response)                                 | 22,448  | 18.7%            | 7.7%              |
| No survey response                                       | 2,993   | 2.5%             | 1.0%              |
| All  | 120,338 | 100.0%           | 41.5%             |

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## Other Responses

- Open responses focus on employment (retired, PT work, leaving OR). Only 94 people complained about plan fees (1%)

| Primary reason for opting out                          | Count | % of opt outs | % of employees |
|--|-------|---------------|----------------|
| Other (open response)                                  | 8,110 | 6.7%          | 2.8%           |
| Not interested   | 2,819 | 2.3%          | 1.0%           |
| Near retirement age or retired                         | 991   | 0.8%          | 0.3%           |
| Objects to state-sponsored plan and/or auto-enrollment | 954   | 0.8%          | 0.3%           |
| Eligibility: No longer employed there                  | 805   | 0.7%          | 0.3%           |
| Part time / temporary work                             | 477   | 0.4%          | 0.2%           |
| Eligibility: Leaving Oregon / lives outside Oregon     | 378   | 0.3%          | 0.1%           |
| Prefers to choose own plan                             | 292   | 0.2%          | 0.1%           |
| Not ready to save or participate                       | 289   | 0.2%          | 0.1%           |
| Advised against plan                                   | 221   | 0.2%          | 0.1%           |
| Wants to research plan                                 | 151   | 0.1%          | 0.1%           |
| All other open responses                               | 733   | 0.6%          | 0.3%           |

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## Conclusions & Next Steps

- OregonSaves ↑ savings for workers in low-wage, high-turnover industries w/o 401(k) plans.
- Unclear if participants will treat balances as emergency or retirement savings.

## To study:

- Opt outs (age, firm size, local unemployment rate; new vs. existing employees; industry income, volatility, turnover)
- Links between turnover & account withdrawals
- Distribution of account balances

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