

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%**

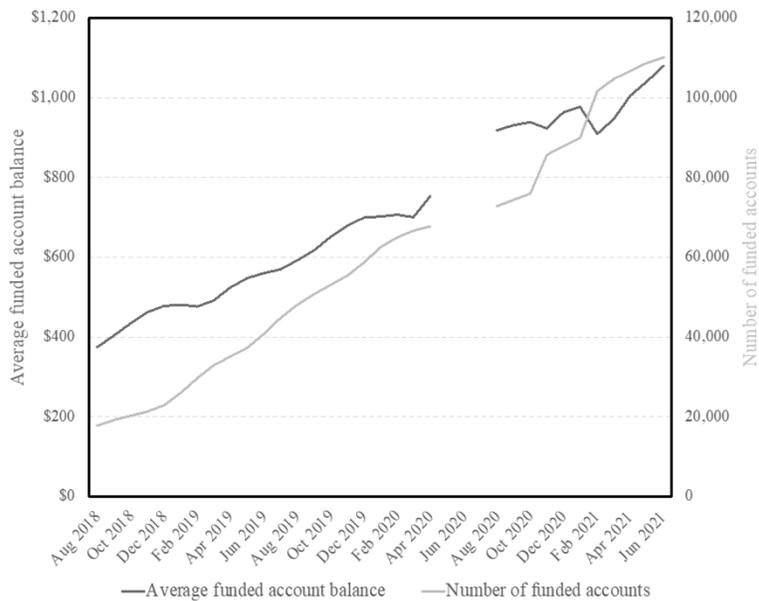
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Participation

- 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 (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 opt outs	% of 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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