Do State-Sponsored Retirement Plans Boost Retirement Saving?

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Only about 52% of the U.S. private-sector workforce is currently covered by an employer-sponsored retirement plan (Pension Rights Center, 2019). To increase the fraction of workers with retirement savings outside of Social Security, states are increasingly mandating that private-sector firms offer automatic-enrollment retirement saving accounts to their employees.[1] OregonSaves was the first state-sponsored retirement plan to launch. Whether the program will significantly increase the fraction of Oregon workers with meaningful retirement account balances depends on how many workers are willing and able to participate on an ongoing basis. We use a combination of administrative and survey data to show that the number of funded accounts and average account balance are both steadily increasing, and that the number of workers with pre-existing retirement accounts is likely small. We also show that OregonSaves disproportionately serves workers in low-wage, high-turnover industries; that participation rates are lower than in 401(k) plans with automatic enrollment; and that the most common reason that workers give for not participating in the program is a lack of disposable income.

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[1] OregonSaves and Illinois' Secure Choice began enrolling employees in 2017, and California's CalSavers in July 2019. As of August 2021, Colorado, Connecticut, Maine, Maryland, Massachusetts, New Jersey, New Mexico, New York, Vermont, Virginia, and Washington had also taken steps to offer state-sponsored IRAs featuring automatic enrollment. Updates at: https://www.aarp.org/ppi/state-retirement-plans/savings-plans/.

I. Plan Design

OregonSaves opened on a pilot basis to a small number of employers in July 2017, and to employers with 100+ employees in November 2017. Over the next two years, progressively smaller employers joined in four waves, and the final wave (firms with four or fewer employees) was targeted for 2022 (OregonSaves Retirement Savings Board, 2021a). The plan is structured as a Roth IRA with automatic enrollment; the default savings rate is 5% of after-tax income, with automatic escalation of 1% per year (to a maximum of 10%). Unless the worker elects otherwise, the first $1,000 contributed into the individual's account is held in a stable value fund, and all additional contributions are invested in an age-appropriate target date fund (see Quinby et al. (2020) and Chalmers et al. (2021) for more details on the plan's design). Unlike typical 401(k) plans, there is no employer match nor is there automatic withdrawal of account balances following job turnover (e.g., Beshears et al. 2021; Hung et al. 2021).

II. Data

Much of our analysis is based on anonymized employee-level data from Ascensus, the plan administrator initially engaged by the State of Oregon. As described in Chalmers et al. (2021), these data cover August 2018 to April 2020 and are subject to a data use agreement. We observe when employers add employees to the system and update their employment status, and when workers formally opt out or change their saving rates. When employees do opt out, they are asked to provide their primary reason for doing so, and we observe their answers. We also observe monthly contributions to and withdrawals from each OregonSaves account. We scale monthly contributions by saving rates to infer monthly earnings (for those who contribute). A 6-digit North American Industry Classification System (NAICS) code is available for most employers. In total, we observe data on 289,657 employees and 11,088 employers, across 673 narrowly-defined industries. We obtain monthly statistics for August 2020 to June 2021 from the OregonSaves Program Monthly Dashboard (OregonSaves Retirement Savings Board, 2021a).

III. Workers Served by OregonSaves

While OregonSaves serves employers across 18 broad industries, the typical covered employee works in an industry with low wages and high turnover. The top five industries are food services (representing 31.5% of employees), business support (e.g, temporary help services and janitorial services; 11.4%), health care (e.g., home health care and assisted living facilities; 9.3%), retail trade (8.8%), and agriculture (7.5%). Across all contributors, the average imputed monthly after-tax income is $2,365, and the average within-employee standard deviation of imputed monthly after-tax income (measured across the subset of months with positive contributions) is $892. Under the assumption of steady annual employment, the average implied annual after-tax income is $28,380, less than half of the nationwide average of $54,129 (Current Population Survey, 2019). Moreover, for many of the workers targeted by OregonSaves, the assumption of steady employment is unrealistic. Based on observed changes in employment status each month, the likelihood that an employee covered by OregonSaves stops working at a given employer over the next 12 months is 38.3%. Two of the highest annualized turnover rates are in food services (48.6%) and health care (46.5%). Because many employers appear not to report turnover to OregonSaves, actual turnover rates are likely much higher (Chalmers et al., 2021).

IV. Account Balances and Participation Rates

Consistent with the expectation that automatic enrollment would increase the retirement savings of employees who lacked access to an employer-based retirement plan, a large number of workers is saving through OregonSaves. Plan assets increased from $6.7 million to $51.0 million during our sample period, and to $118.9 million by the end of June 2021. Figure 1 plots growth in the number of funded accounts and account balances: the number of funded accounts grew from 17,830 in August 2018, to 67,731 in April 2020, to 110,047 in June 2021. Over this same period, the average account balance grew from \$375, to \$754, to \$1,080. Of course, these average account balances combine newer and older accounts. When we condition on participants who made at least one contribution into OregonSaves and follow these accounts forward, the average account balance was \$246 after three months, \$434 after six months, and \$698 after 12 months. Conditioning on employees still classified as active after a year, the average account balance after 12 months rose to \$865. This is approximately 3% of the participant average annual after-tax income of \$28,378. Because contributors almost always save at the default savings rate of 5%, the lower amount saved suggests that actual after-tax income is lower than we estimate (because of unobserved job turnover), or that some contributions are subsequently withdrawn.

Inferring a steady-state participation rate from the evolving administrative data is challenging (Quinby et al., 2020). Of the 289,657 employees in our dataset, 120,338 formally opted out by April 2020, for an implied participation rate of 58.5%. Nevertheless, many of these employees had yet to contribute to their OregonSaves accounts. Some set their savings rate to 0% without formally opting out; some left their employer before an OregonSaves contribution was processed (and did not bother to opt out); and some worked at an employer that had not yet started processing OregonSaves contributions. If we divide the number of employees with positive account balances in April 2020 by the number of employees working at firms that had begun to process OregonSaves contributions, the participation rate is 34.3%. (Quinby et al. (2020) estimate the participation rate to be between 48% and 67%; Chalmers et al. (2021) estimate it at between 34% and 62%.)

Regardless of the exact number, participation rates in OregonSaves are significantly lower than in private-sector 401(k) plans having automatic enrollment. For example, Madrian and Shea (2001) reported an 86% firm-level participation rate under automatic enrollment. Yet it is worth emphasizing that their study focused on a large retirement plan that included an employer contribution match, and where employees earned significantly more than the average U.S. worker (see their Table 3). Hung et al. (2021) studied the link between job turnover and plan withdrawals using Vanguard administrative data from January 2010 to December 2013. In 230 automatic enrollment plans, the participation rate was 92%, mean annual income $67,638, and 35.5% of the employees hired during the study period were no longer employed on December 31, 2013, resulting in a mean tenure of 1.7 years (see their Table 1). In such cases, higher income levels, more stable employment, and the addition of an employer match would be anticipated to drive up participation rates compared to the OregonSaves population.

V. Reasons for Opting Out

When opting out, employees are asked to elect their primary reason for opting out from a list of seven pre-specified explanations, plus “Other,” which allows them to record an open response. Table 1 summarizes the responses from the 120,338 employees who formally opted out through April 2020. Of these, 86,787 employees selected one of the seven pre-specified reasons: the two most popular were “I can’t afford to save at this time” (27.8% of opt outs; 11.6% of all employees) and “I have my own retirement plan” (23.3% of opt outs; 9.7% of all employees). Those offering the first answer reinforce the point that OregonSaves targets employees in industries with low wages and high turnover. The fact that fewer than 10% of employees offered the second answer suggests that the vast majority of employees was not saving for retirement before OregonSaves was introduced. The third most popular answer was “I’m not interested in contributing through this employer” (14.1% of all opt outs), while “I don’t trust the financial markets" (3.0% of all opt outs) was a distant fourth.

Among the 30,558 employees who chose "Other," only 8,110 provided any details in the open response (excluding 726 responses that we map back into one of the pre-specified reasons). Of those who did, over one-third wrote "Not interested" or something similar (2.3% of opt outs). Other common reasons for opting out included being too old to begin saving (0.8%), no longer working at the employer (0.7%), being a part-time or temporary worker (0.4%), or living outside or planning to leave Oregon (0.3%). Finally, although participant fees averaged around 100 basis points per year, only 94 employees (less than 0.1%) cited fees as the primary reason for opting out.

VI. Conclusions

Employees in low-income, high turnover jobs face substantial challenges in accumulating meaningful retirement savings. Even if employee participation rates in OregonSaves were 100%, monthly contributions would still be relatively low during participants' worklives (due to their low earnings), falling to zero during periods of unemployment. Despite these limitations, we observe that many employees are accumulating assets within OregonSaves, and others opt out for apparently economically rational reasons ("can't afford to save" and "existing retirement plan"). Structuring OregonSaves as a Roth IRA eliminates forced withdrawals following job turnover; this is beneficial as the latter reduce net savings associated with automatic enrollment (Beshears et al. 2021; Hung et al. 2021). While the Roth structure removes the possibility of an employer match, high job turnover in this population is likely to be a more important factor to consider in plan design. Future work will focus more directly on the role that income plays in opt out decisions, as well as the link between job turnover and withdrawals. This will allow us to shed more light on whether OregonSaves account balances are more appropriately viewed as retirement assets or liquid savings.

Acknowledgements: This research was supported by a grant from the US Social Security Administration (SSA) to the Michigan Retirement Research Center (MRRC) as part of the Retirement Research Consortium (RRC). We also thank the AARP, Pew Foundation, US Social Security Administration, and Wharton's Pension Research Council/Boettner Center for financial support. We benefited from helpful comments from Jeffrey Brown, Mark Iwry, David John, James Poterba, and Geoffrey Sanzenbacher, and seminar and conference participants at Brandeis, Rutgers, University of Arizona, University of Illinois, the 21st Social Security Administration Retirement and Disability Research Consortium Annual Meeting, and the NBER Conference on Incentives and Limitations of Employment Policies on Retirement Transitions. We are also grateful to OregonSaves staff for numerous helpful discussions, and Yong Yu and Wenliang Hou for excellent research assistance. Findings and conclusions are solely those of the authors and do not represent the views of SSA, any agency of the Federal Government, the MRRC, OregonSaves, or any other institutions with which the authors are affiliated. The project received IRB exemptions from Boston College (Protocol 19.050.01), University of Oregon (RCS 06252018.028), and University of Pennsylvania (Project Number 080117). The findings and conclusions are solely those of the authors and do not represent the views of SSA, any agency of the Federal Government, the MRRC, OregonSaves, or any other institutions with which the authors are affiliated.

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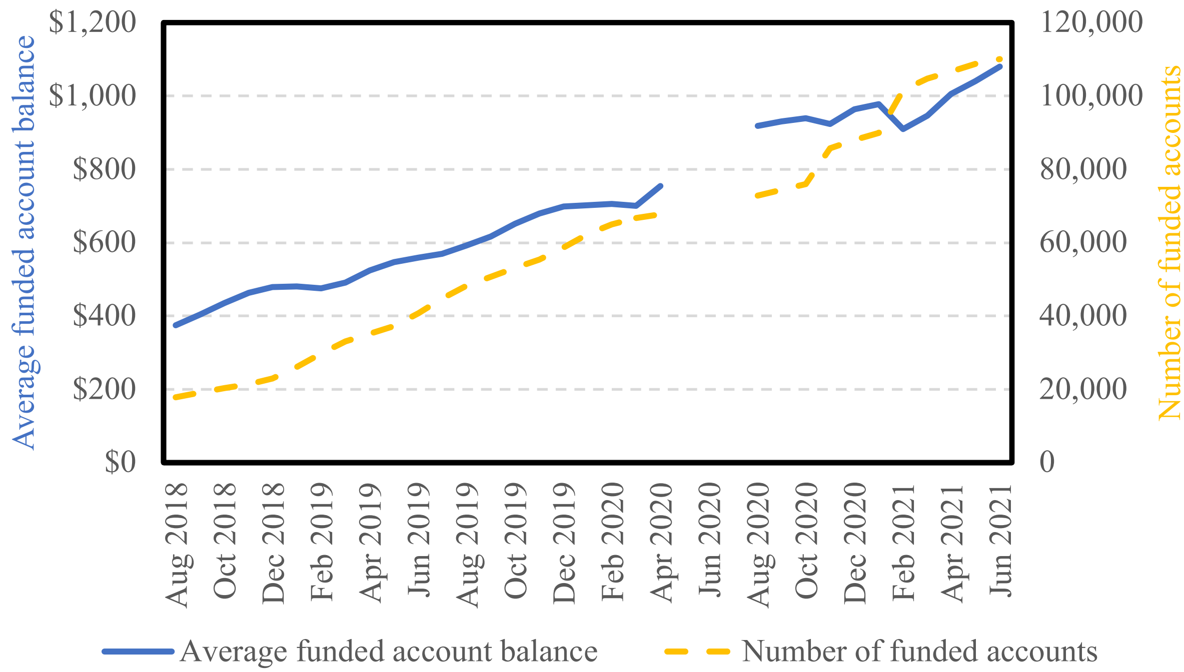
Figure 1: Average Funded Account Balance and Number of Funded Accounts



Notes: The total number of funded accounts increased from 17,830 to 67,731 during our study period, and from 72,835 to 110,047 between August 2020 and June 2021. The average account balance grew from $375 to $754 during our study period, and from $918 to $1,080 in the more-recent public data. *Source:* Authors' calculations for August 2018 to April 2020 from administrative data; values for August 2020 to June 2021 obtained from the "OregonSaves Program: Monthly Dashboard" (OregonSaves Retirement Savings Board, 2021a).

Table 1: Primary Reason for Opting out of Oregon Saves

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%
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%
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%

Notes: Table 1 summarizes reasons employees gave for opting out of OregonSaves, when presented with a list of seven reasons (“I can't afford to save at this time” through “I'm not satisfied with the investment options”). Employees were also allowed to choose “Other” and provide an open response. We tabulate the ten most-popular open responses. The column “% of opt opts” scales by number of opt outs (120,338), while “% of employees” scales by number of employees (289,657). *Source:* Authors’ tabulation of survey responses provided by Ascensus.