

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

John Chalmers (University of Oregon), **Olivia S. Mitchell** (The Wharton School of the University of Pennsylvania), **Jonathan Reuter** (Boston College), **Geoffrey Sanzenbacher** (Boston College), **Mingli Zhong** (The Wharton School of the University of Pennsylvania)

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Introduction

Only half of the U.S. private-sector workforce is currently covered by employer-sponsored retirement plans. That fact has sparked debates about a national ‘undersaving crisis’¹ and prompted more than half of all states to move toward mandating private-sector firms to offer retirement saving accounts. Oregon has led the way with the OregonSaves program, which launched in 2017. This program seeks to expand access to workplace retirement plans with the goal of increasing workers’ personal savings, and thereby strengthening retirement security beyond Social Security and means-tested social transfers. OregonSaves works under state law by requiring that private-sector firms that do not offer a retirement plan to their employees must register and participate in the program. OregonSaves automatically enrolls eligible employees into Roth IRAs with a 5% default contribution rate (and automatic escalation). Employees may choose to opt out, or to save at a different contribution rate (up to 100% of their earnings). There is no required contribution by employers.

Analyzing administrative data from OregonSaves, we provide an initial look at the characteristics of eligible employees and their employers and preliminary estimates of participation rates in the nation’s first state-sponsored IRA. Furthermore, we examine differences in participation rates across employers and industries.

Institutional Background and Data

At the end of April 2019, 137,252 unique workers were provided access to OregonSaves. Individuals working at an employer covered by OregonSaves have a 30-

¹ See for instance, Miller et al. (2015), and a rebuttal by Biggs and Scheiber (2015).

day enrollment window to opt out or elect an initial contribution rate. About 30% of all workers opted out during the enrollment window by the end of April 2019. After the enrollment window, OregonSaves creates an account for workers who do not opt out during the enrollment window. Enrolled workers are eligible to contribute at their elected rates, or the default 5% rate if no action is taken. They can change their rates at any time. Accounts for enrolled workers have accumulated over \$18.3 million assets by the end of April 2019. A distinction between OregonSaves and typical employer-sponsored 401(k)-type of plans is that workers may contribute to the same account if they work at more than one employer, either simultaneously or over time.

We analyze monthly administrative data from OregonSaves from August 2018 – April 2019. The anonymized monthly data reports individual-level information including each person's monthly contribution rate, monthly contribution amount, account balance, and age. The data also reports whether the employee continues to work for her employer, and when her OregonSaves enrollment window has closed so that she is now eligible to contribute. Of the 137,252 workers ever had accessed to OregonSaves by the end of April 2019, some 94,880 actively worked for at least one employer offering OregonSaves and were eligible to contribute. We analyze this group of workers, whom we call Active Eligible Workers (AEW).

Results

Characteristics of workers and firms in OregonSaves

On average, the active eligible workers (AEWs) in our sample were 38 years old in 2019. About 3% of them worked for more than one employer offering OregonSaves in April, and 3% had OregonSaves accounts prior to working for their current employer(s).

Among the firms we observe offering OregonSaves, the average firm has 36 active employees. The average monthly firm-level turnover rate² is 2.6%³. This suggests that, between August 2018 and April 2019 during which administrative data are available, an OregonSaves-registered firm with an average firm size (36 employees) lost about 1 employee per month. Firms in food services, health care, retail trade, agriculture, and manufacturing are most frequently observed, while we see few firms from the finance, insurance, and management industries.

Opt-out rate in OregonSaves

As of April 2019, about 30% of all workers in OregonSaves opted out during the enrollment window. Among all active eligible workers (AEWs) in April 2019, 38% of AEWs opted out during the enrollment window; 6% elected a zero contribution rate while still keeping their accounts; 29% elected a positive contribution rate but had not yet made a first contribution; and another 27% elected a positive contribution rate with a positive account balance (called contributors). On average, contributors saved at a rate equal to 5% of their salary (the default rate), which resulted in average monthly contributions of \$107 and accumulated assets of \$706. Using data on individual contribution rates and contribution amounts by contributors, we estimate that the AEWs earned an average of about \$2,100 per month. This estimate likely overstates actual earnings, because we

² The monthly firm-level turnover rate per firm per month is calculated as the number of employees active last month but inactive this month divided by the average firm size, which is the average of the number of active employees this month and last month.

³ The national average monthly turnover rate in April 2019 is 3.7% based on data from Bureau of Labor Statistics: <https://www.bls.gov/news.release/pdf/jolts.pdf>.

cannot impute earnings for workers who opted out of the program or elected a zero rate, and who are more likely to be lower earners.

Opt-out rate by industry and firm characteristics

Opt-out rates vary substantially across industries. Finance and insurance have the highest opt-out rates (83%), while construction, manufacturing, and wholesale trade having above-average opt-out rates. Results from a binary logistic regression show that employees in smaller firms are more likely to opt out. In addition, employees in high turnover rate firms are also more likely to opt out, even when controlling for industry turnover rates and other variables.

Conclusion

Our preliminary analysis shows that OregonSaves provides access to workplace retirement accounts for individuals working at small to mid-sized firms with an average monthly earnings of \$2,100. Workers who participated in the program contributed an average of \$107 per month, about 5% of their pay. Employees in smaller firms and firms with high turnover rates are more likely to opt out than employees in other firms.

References

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