Results from an Employee Enrollment Experiment for a State Retirement Initiative

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Background

- Connecticut asked CRR to study how uncovered workers might respond to their proposed legislation.

- In response, CRR designed a study to answer two questions:
    1. Do uncovered workers behave like covered ones when automatically enrolled in a retirement savings program?
    2. How do workers respond to program features not yet tested in the research literature, but proposed in Connecticut's legislation?

Our approach

- Workers were asked whether they wanted to opt out of the program after reading the program description.
    - This decision is not exactly like auto-enrollment because the worker is immediately given the option to opt out.
    - Under present law, auto-enrollment is not realistic since no way to default people automatically.

- Instead of asking about preferences over different options, study presented each worker one program with certain features.

For example, some workers see the "base case" program design.

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- 6 percent of your pay, or $60 per every $1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

Detailed information on the program can be found here.

Other workers see a program with a 3-percent default contribution rate.

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- 3 percent of your pay, or $30 per every $1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

Detailed information on the program can be found here.

While other workers see a program with a deferred annuity, or some other design.

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- 6 percent of your pay, or $60 per every $1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access 85 percent of your account balance without penalty or taxes when you retire. The remaining 15 percent of your account balance will be used to provide you with monthly payments that will start at age 82 and continue as long as you live (like your Social Security Benefit). If you die before your spouse, he/she will continue to receive half of your monthly benefit for as long as he/she lives.

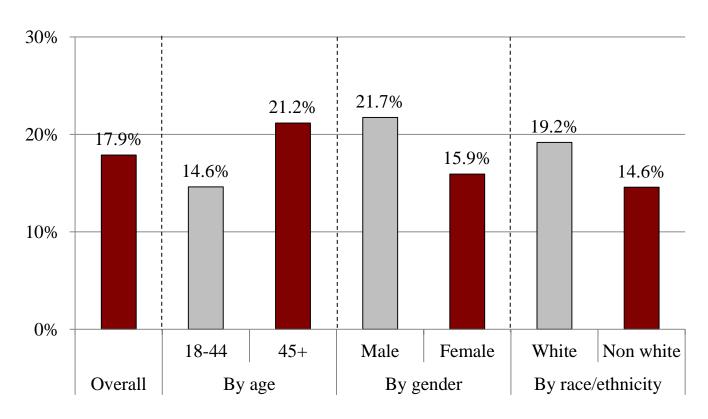Detailed information on the program can be found here.

Uncovered workers in base case behaved similarly to workers in the real world.

- 18 percent opted out of the program, only slightly higher than studies of covered auto-enrolled workers.

- Opt-out rates did not differ significantly between scenarios with 3-percent and 6-percent default contribution rates.

Opt-out rates varied by demographics consistent with expectations.

Opt-out Rates Under Base Case for Select Demographic Groups

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Connecticut was also interested in how specifics of their legislation would affect opt out.

- Auto-escalation

- Roth versus traditional IRA design

- Frequency of allowed contribution changes
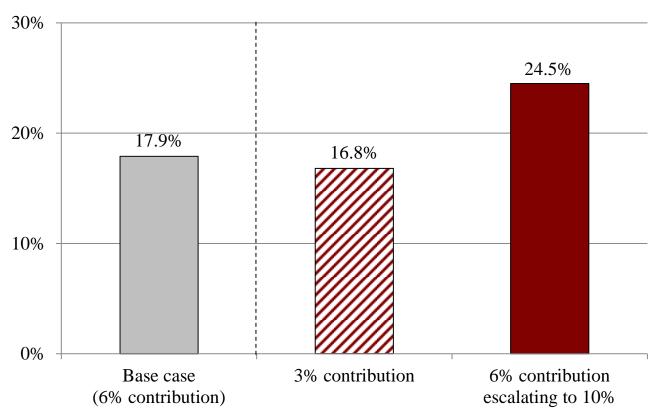
- Guarantees

- Annuitization as default withdrawal method

To analyze the response across different scenarios, regression analysis was used.

- The regression analyzed each worker's decision to participate based on whether they saw the base case or another feature.
  - The controls included age, income, gender, and race.

- The coefficient on each feature tells how much more or less likely a person is to participate relative to the base case.
  - A statistically significant coefficient means the observed difference is not due to chance.

Contribution rates: Auto-escalation leads to higher opt-out than a 6-percent default.
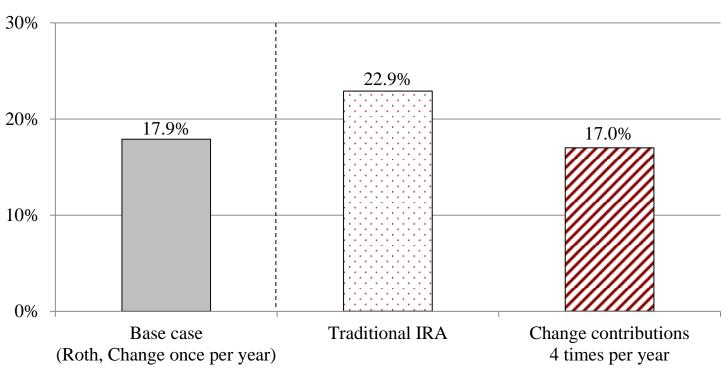
Opt-out Rates Under Various Contribution Rate Options

Note: Solid bar significantly different from base case at 5-percent level.
Source: Knowledge Networks Survey of Uncovered Workers.

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IRA structure: Roth preferred, but allowing frequent changes to contribution rate has no effect.
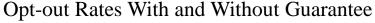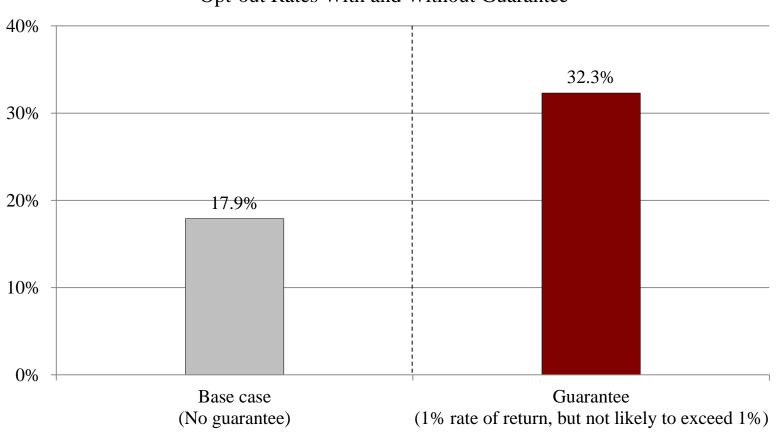
Opt-out Rates Under Various IRA Structures

Note: Dotted bar significantly different from base case at 10-percent level.
Source: Knowledge Networks Survey of Uncovered Workers.

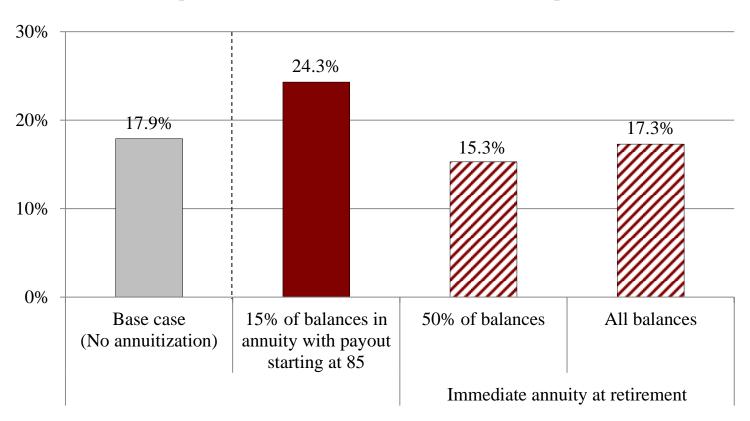# Guarantee: Offering a guarantee significantly increases opt out when cost made clear.

Opt-out Rates With and Without Guarantee

Source: Knowledge Networks Survey of Uncovered Workers.

Annuitization: Respondents opted out more with deferred annuity, no reaction to others.

Opt-out Rates Under Various Annuitization Options

Source: Knowledge Networks Survey of Uncovered Workers.

Conclusion

- The base case is a good place to start – nothing resulted in significantly lower opt out.
    - Roth, 6-percent contribution rate, target date fund selected by state, annual contribution rate changes, no guarantee.

- Certain features may lead to higher opt-out:
    - Auto-escalation to 10-percent contributions;
    - Using a traditional IRA structure (marginally);
    - A guarantee that limits upside returns; and
    - Including an automatic deferred annuity.

Appendix: Regression analysis

- For each scenario (e.g., 3-percent default), a regression was performed comparing the sample of individuals who saw the "base case" to a sample who saw that scenario:

$$\text{Pr}(Opt\ out_i) = \beta_0 + \beta_1 NotBase_i + \beta_2 White_i + \beta_3 age_i + \beta_4 Male_i + \beta_5 Inc_i + \varepsilon_i$$

- The coefficient β_1 is the difference in opt out for two otherwise similar individuals viewing different programs.
  - When positive and significant, it indicates the feature caused higher opt out than the base case.