Deepening our understanding of savings automation in retirement and non-retirement contexts

Pension Research Council Symposium

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The work represented here represents the author’s opinions and does not necessarily reflect the opinion of the authors’ affiliations.
Despite some downsides, research shows benefits of automating retirement savings

Questions remain about non-retirement, which has different decision architecture

Research has examined demographic differences but less so psychological ones

Research has focused on longitudinal outcomes but not lifecycle outcomes

What will the policy impact be? What about the rise of state IRAs?
Background

People in the U.S. have insufficient savings

► **1 in 5**: Workers who are very confident they will have enough money to live comfortably in retirement (EBRI 2023)

► **1 in 4**: Retirees who are very confident they will live comfortably throughout retirement (EBRI 2023)

► **57%**: Share of households with enough savings to cover living expenses (FHN 2023)
“Automation” occurs when an aspect of the savings process happens without a consumer needing to act.

Many aspects of the savings process can be automated.
Why is Automation Important?

Automation may offer opportunities to improve savings

► Automation addresses some saving challenges
  ○ Saves time and effort to start and maintain savings
  ○ Behavioral Life Cycle Hypothesis suggests greater benefits of behavioral constraints (like savings automation) for impatient consumers
  ○ (Possibly) limited attention can be beneficial to reducing over-trading

► New policy may affect use of automation
  ○ Secure 2.0: Most new 401(k) and 403(b) plans must automatically enroll employees into retirement plans (contributions at 3% and automatic escalation of 1%).
  ○ Employers can automatically enroll employees into emergency savings accounts
  ○ The rise of State Auto IRAs (example: Oregon Saves)
Automation Consistently Shows Benefits

Recent research

► Eight papers on retirement savings:
  ○ Enrollment increases participation and net savings
  ○ Escalation increases contribution rates

► Only two papers on non-retirement savings:
  ○ Enrollment increases savings (Berk et al. 2022)
  ○ Greater savings for those without a strong “savings habit” (Newmeyer et al. 2021)

► Generally stronger impacts for younger, lower income individuals
  ○ (e.g., Cribb and Emerson 2021)

<table>
<thead>
<tr>
<th>Paper</th>
<th>Behavioral constraint or strategy</th>
<th>Design or Methodology</th>
<th>Outcomes examined</th>
<th>Subgroups examined for differential effectiveness of strategy (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berk et al. (2015)</td>
<td>AE in DC plan</td>
<td>Survey data from Health and Retirement Survey (HRS); [2008 and 2010 survey waves] (employee AE is self-reported)</td>
<td>Participation, contribution, opting out from AE plan</td>
<td>Age, Marital status, Income, Education, Wealth</td>
</tr>
<tr>
<td>Beshours et al. (2022)</td>
<td>AE in Thrift Savings Plan (TSF) for civilians employed by the US Army</td>
<td>Comparison of pre-AE employees (hired 8/1/2009 to 7/31/2019) and post-AE employees (hired 8/1/2010 to 7/31/2011); [8 years of semiannual credit bureau data, 6/2007 to 12/2014]</td>
<td>Debt, auto debt, first mortgage debt, contributions, savings</td>
<td>Low income, Age &lt;30, High school education, Black, Hispanic, Credit score &lt;620</td>
</tr>
<tr>
<td>Quilty et al. (2020)</td>
<td>AE in OregonSaves, individual retirement account (IRA) program</td>
<td>Administrative data [1 year of data from 2018 to 2019] (no comparison group)</td>
<td>Participation, pre-retirement withdrawals</td>
<td>None</td>
</tr>
</tbody>
</table>
Challenges Underlying Net Benefits

Does automation lead to saving too little or too much?

► Default contribution rates may be seen as recommendations
  ○ This can lead to lower contribution rates (Vanguard, 2021)
  ○ ... that are mitigated when using automatic escalation and automatic enrollment (Vanguard, 2021)

► Portfolio allocations may be too conservative or risky
  ○ Target date funds may alleviate these issues (Mitchell & Utkus, 2022)
  ○ and are becoming the default allocation (Vanguard, 2021)

► Reduced liquidity from “over” saving can lead to:
  ○ Early withdrawals and loans (Beshears et al. 2018; Vanguard 2021)
  ○ Increased debt in certain circumstances (Beshears 2022; 2024)
  ○ Reduced contributions in later jobs (Choukhmane 2021)

► Automation may increase “account abandonment”
  ○ More common among smaller account balances (Goodman et al. 2023), which in turn are more common among lower income consumers (John et al 2021a)
Heterogeneity in Automation

Ownership ("I do not have this" account) differs by:
- Race/ethnicity
- Education
- Employment
- Amount saved

Automation positively correlated with:
- Financial socialization
  - e.g., When growing up, my family discussed family financial matters with me.
- Financial skill
  - e.g., I know how to make myself save

<table>
<thead>
<tr>
<th>Retirement Savings Account</th>
<th>Do not automate</th>
<th>Automate</th>
<th>I do not have this</th>
<th>Row Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not automate</td>
<td>20.69%</td>
<td>8.46%</td>
<td>1.17%</td>
<td>30.32%</td>
</tr>
<tr>
<td>Automate</td>
<td>12.67%</td>
<td>23.32%</td>
<td>3.40%</td>
<td>39.39%</td>
</tr>
<tr>
<td>I do not have this</td>
<td>3.94%</td>
<td>6.35%</td>
<td>20.00%</td>
<td>30.30%</td>
</tr>
<tr>
<td>Column Totals</td>
<td>37.30%</td>
<td>38.14%</td>
<td>24.57%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Behavioral Life Cycle Hypothesis suggests that people who are impatient will benefit more from constraints like automated savings.

Analysis of CFPB survey data confirms this hypothesis for some outcomes.
Savings automation is a broadly worthwhile intervention, especially for retirement savings

- Consistent increases in participation, contribution rates, net savings
- However, these proximate outcomes may paint an incomplete picture (e.g., findings on account abandonment, increased 401(k) withdrawals)
- Automation is more impactful for groups that also tend to be less likely to have access to it

Remaining questions:

- What drives differences between retirement and non-retirement automation benefits? (And is automation of non-retirement savings as beneficial?)
- How do the benefits evolve for long-run retirement security? (More than a few years after implementation)
- Will consumers benefit from policy -- SECURE 2.0? State Sponsored Auto-IRAs?
Thank you!