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

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Previewing Takeaways

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)

Background

Savings Automation May Help

"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.

Enrollment
…into a defined contribution retirement savings plan

Transfers
…from a paycheck, or one account to another

Escalation
…of the amount contributed over time

Rebalancing
…of investments to achieve a particular asset allocation
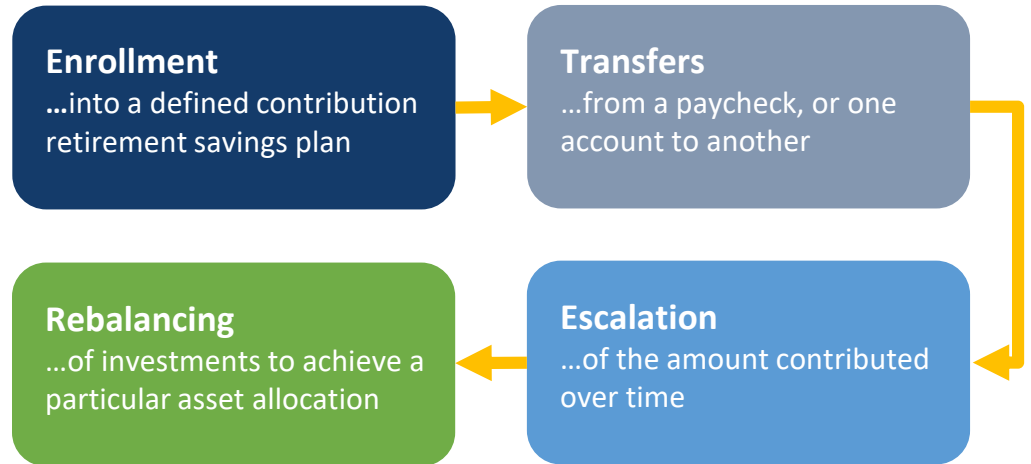
Why is Automation Important?

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 1. Review of recent literature on savings automation and associated financial welfare outcomes

Paper	Behavioral constraint or strategy	Design or Methodology	Outcomes examined	Subgroups examined for differential effectiveness of strategy (if any)
Retirement				
Burke et al. (2015)	AE in DC plan	Survey data from Health and Retirement Survey (HRS), [2008 and 2010 survey waves] (employee AE is self-reported)	Participation, contribution, opt out from AE plans	• Age • Marital status • Income • Education • Wealth
Beshears et al. (2022)	AE in Thrift Savings Plan (TSP) for civilian employees of the US Army	Comparison of pre-AE employees (hired 8/1/2009 to 7/31/2010) and post-AE employees (hired 8/1/2010 to 7/31/2011). [8 years of semiannual credit bureau data, 6/2007 to 12/2014]	Debt, auto debt, first mortgage debt, contributions, savings	• Low income • Age <30 • High school education • Black • Hispanic • Credit score <620
Quinby et al. (2020)	AE in OregonSaves, an individual retirement account (IRA) program	Administrative data [1 year of data from 2018 to 2019] (no comparison group)	Participation, pre-retirement withdrawals	None

Forthcoming paper

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*

		A **Non-Retirement** Savings Account			
		Do not automate	Automate	I do not have this	**Row Totals**
Retirement Savings Account	Do not automate	20.69%	8.46%	1.17%	30.32%
	Automate	12.67%	23.32%	3.40%	39.39%
	I do not have this	3.94%	6.35%	20.00%	30.30%
Column Totals		37.30%	38.14%	24.57%	**100%**

Automation and Financial Welfare for the Impatient

Differences by time preferences

► 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
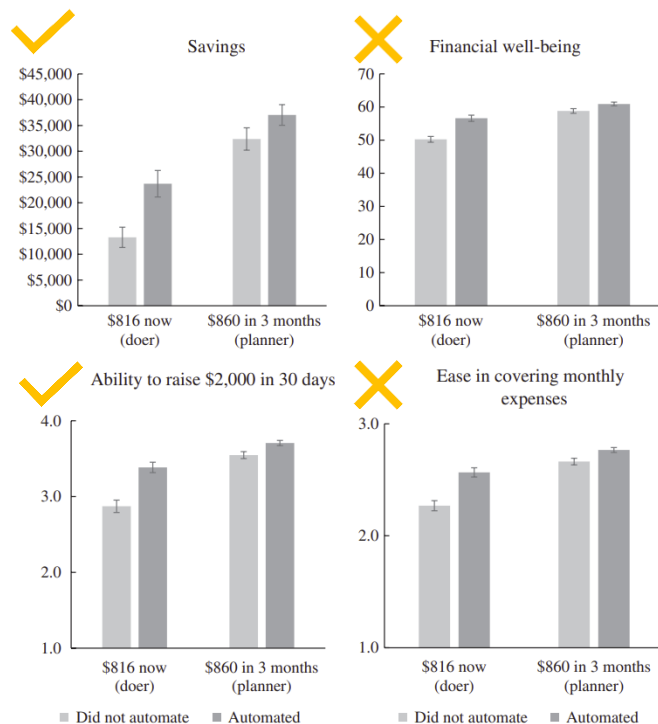
Conclusion and Discussion

▶ 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!