Title: Do Automatic Savings Policies Actually Increase Savings?
Authors: John Beshears, James Choi, David Laibson
Focal Area: Economic Security of SSA Beneficiaries

We propose to revisit the question of whether automatic enrollment and contribution auto-escalation are effective at increasing retirement savings. Previous research has almost always dropped employees from the analysis sample once they leave the firm that implemented the automatic policy. Since annual job turnover rates in the U.S. typically exceed 40%, ignoring what happens to departed employees' savings is a potentially important omission. We know from previous research that many employees cash out their 401(k) balances when leaving their job. Furthermore, automatic escalation will, by design, significantly raise your contribution rate only if you remain at the firm for many years.

We will use administrative employee-level 401(k) data from eleven firms that adopted an automatic savings policy for new hires only from a certain date onward. We will estimate the effect of the automatic savings policy by comparing the cohort that was hired in the year after policy adoption to the cohort that was hired in the year prior to policy adoption (and hence was never subject to the automatic savings policy). Importantly, we will not drop employees when they leave the firm, but will track what happens to their 401(k) balances afterwards.

We anticipate that the positive savings effects of a given firm's automatic savings policy will be significantly attenuated once we take into account pre-retirement withdrawals and the fact that the savings policy no longer acts upon a worker who leaves the firm. Because we do not observe retirement contributions of departed workers after they leave the firm, we will also present a calibrated model where workers transition across multiple firms over their entire working life to see what the lifetime savings accumulation effects are when the entire economy adopts one type of automatic savings policy versus another.