How Do Consumers Finance Increased Retirement Savings?

Evidence from a new panel of individual-level spending, saving, and borrowing

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New retiree cohorts increasingly rely on Defined Contribution plans to supplement Social Security in retirement. To encourage contributions to these plans, employers as well as state and local legislators are expanding automatic enrollment policies, including defaulting employees into participation and automatically increasing default minimum contribution rates over time. Such policies have been demonstrated to increase participation and savings in retirement saving plans, especially for low-income and minority workers. However, the extent to which these policies will improve **the economic security of future SSA beneficiaries** depends on how workers finance increased retirement savings. In this project, we ask: How does autoenrollment impacts workers' balance sheets? Are increased retirement contributions accommodated with ease? Or might some workers face financial hardship from the reduction in liquidity and cash flow after increasing their contributions to a less liquid retirement account?

To address these questions, this project will use a new database from a prominent U.K. financial institution created by linking retail customers' deposit and credit accounts with data on their employer-sponsored saving accounts. We take advantage of two policy changes that increased the minimum default pension contribution rate for all workers from 2% to 5% in April 2018 and from 5% to 8% in April 2019. We propose to measure how workers financed increased retirement contributions by: reducing spending (with detailed data on expenditures across categories), reducing non-retirement savings (with data on checking account balances and non-retirement savings accounts), or increasing borrowing (with data on credit card debt and other forms of borrowing). We will also explore the disparate impacts of autoenrollment policies across several demographic and socioeconomic categories including gender, with special attention to how low-income and liquidity-constrained workers are affected by higher autoenrollment default contribution rates. From a policy perspective, our results and heterogeneity analysis can provide practical guidance for designing state-run auto-IRA programs, which target more liquidity-constrained and traditionally underserved populations.