Do Automatic Savings Policies Actually Increase Savings?

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Key Findings and Policy Implications

This paper revisits the question of how effective automatic savings policies are at increasing saving in employer-sponsored retirement plans. It uses administrative data from the 401(k) plans at eight firms that introduced automatic plan enrollment and/or default automatic escalation in savings rates. The paper finds that:

The net long-term impact of automatic savings policies is moderated by high employee turnover, a large percentage of 401(k) balances withdrawn upon employment separation, and employees who opt out of the auto-escalation default.

The net savings rate increase generated by automatic enrollment is 0.5 percent of income. The net savings rate generated by default auto-escalation introduced on top of pre-existing automatic enrollment is 0.3 percent of income. The net savings rate generated by the simultaneous introduction of automatic enrollment and default auto-escalation is 0.7% of income.

Employees with positive balances under automatic policies withdraw a higher proportion of these balances upon separation, and only 37% of those with an auto-escalation default accept it at their first auto-escalation date.

Automatic savings policies have been widely adopted in part because of the strength of the empirical evidence that they increase retirement savings accumulation. This paper concludes that the strength of the evidence has been overstated. Although we do find that automatic savings policies have a positive impact on savings, the effects are modest after taking into account the steeper increase in savings over time by those who are not subject to automatic policies, high employee turnover rates, the high rate of cash leakage upon job separation, and the low acceptance of automatic escalation defaults.