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HOW HAVE WORKERS RESPONDED TO OREGON'S AUTO-IRA?

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Introduction

Only about half of private sector workers are covered by employer-sponsored retirement savings plans at any given time, and few workers save without one. The net result is that roughly a third of retired households end up solely reliant on Social Security benefits, which were never intended to be their only source of income.[1] In the absence of federal action to close the coverage gap, some states have passed legislation to implement auto-IRAs, which require employers who do not offer a retirement plan to automatically enroll their workers in an IRA-based saving program sponsored by the state.

The primary goal of auto-IRAs is to improve retirement security among uncovered workers, who would automatically start to build assets through the program. In practice, the extent to which workers benefit will depend on how they respond – workers who do not opt out, save at a meaningful rate, and avoid raiding their nest egg before retirement for non-essential expenses will improve their odds. But those who opt out of the program, or participate but do not use the program to improve their overall financial situation, will not be better prepared for retirement. Therefore, to assess the overall impact of an auto-IRA, one would need comprehensive financial data for a household, including debt, income, and saving over a long period of time. But an early look can still be useful, so this *brief* examines the experience of Oregon to date, which recently became the first state to implement an auto-IRA program (called OregonSaves). The goal is to answer a limited question: how do workers who gain access to an auto-IRA initially interact with the program?

The discussion proceeds as follows. The first section provides background on OregonSaves' goals, design, and implementation. The second section describes the data used in the analysis. The third section discusses the initial results emerging from the early data. The final section concludes that the majority of eligible workers do participate and tend to stick with the default deferral rate. As more data become available, both on new participants and on current participants' longer-term behavior, researchers should be able to assess the impact of OregonSaves on the overall financial status of participating households.

Background

The goal of OregonSaves is to provide a retirement savings vehicle to over 1 million workers. These workers fall into three broad groups: 1) those whose employers do not offer a retirement plan to any workers; 2) those whose employers offer a plan for which

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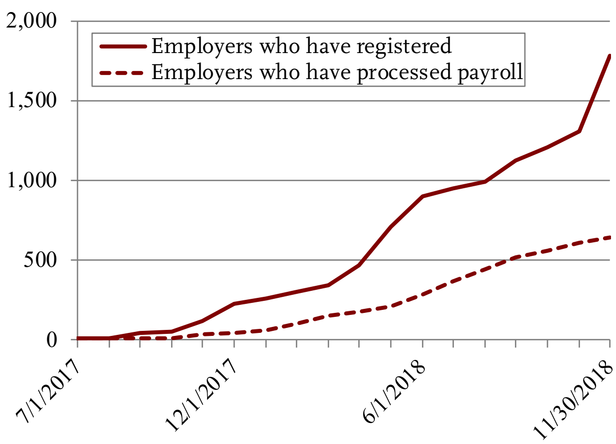
they are ineligible; and 3) self-employed workers who are not saving for retirement. So far, the program has started its rollout to the first group – those whose employers do not offer any retirement plan – which represents about 500,000 workers. The other two groups are being allowed to opt in to the program (employers already offering a plan are not required to automatically enroll workers not covered by their plan), although data on their behavior is not yet available.

The rollout of OregonSaves started with a group of pilot employers in July 2017, followed by employers with 100 or more workers in October 2017, and employers with 50 or more workers in May 2018. As of November 15, 2018, all employers with 50 or more workers and without a plan should have registered for the program – OregonSaves estimates that this group includes a little over 600 employers. Employers with between 20-49 employees are being asked to enroll by December 15, with employers with under 20 employees to follow. These smaller employers make up the bulk of the 30,000+ firms who will be affected by the program, and are scheduled to enroll by May 2020.

Employers play a key role in the rollout process, which starts with an invitation to register with the program. Once registered, employers are asked to enter employee information within 30 days. Information can be entered using a payroll system or electronic records, or manually via an employer online portal. The program administrator then sends a notice to all eligible workers at the newly registered employer, informing them that they will be enrolled in the program unless they opt out within 30 days. Once this opt-out period has ended, employers have 30 days to set up payroll deductions for the employees who have not opted out (see Figure 1).

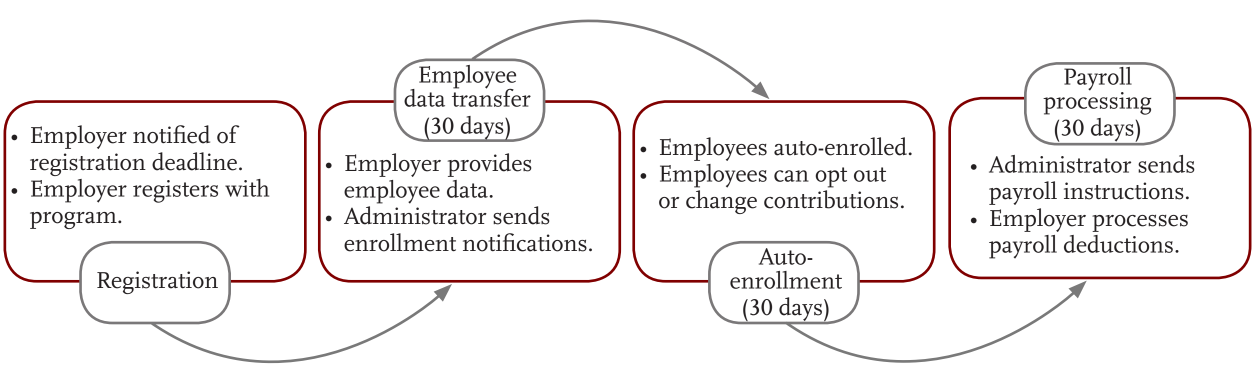
Oregon's registration exceeded expectations at the November 15 deadline for firms with over 50 employees, with over 1,200 registered employers at that time. The reason is simple – Oregon allowed smaller employers to enroll early, and over 600 did so. The figure also shows a sharp uptick in registration recently, with about 500 employers registering in the last month as the mid-December deadline approaches, leading to a total of about 1,800 registered firms (see Figure 2). However, the figure also shows that only about a third of the employers who have registered have actually begun submitting their employees' contributions, a lag that existed even before the most recent group of employers registered. This lag may continue, as smaller employers who will be more likely to manage their payroll manually, instead of electronically, regis-

Figure 2. Rollout of OregonSaves to Employers



Source: Authors' calculations from OregonSaves' data.

Figure 1. OregonSaves Rollout: From Registration to Payroll Processing



Source: OregonSaves Employer Registration Timeline.

ter.[2] The takeaway is that the expected employers are registering, although getting their workers to begin saving may take more time than anticipated.

For participating employees, OregonSaves is designed to have a meaningful default contribution rate, automatic escalation, and a low-fee investment pathway.[3] The default deferral rate – 5 percent of pay that automatically increases by 1 percent per year until reaching 10 percent – would ensure that a 25-year-old average uncovered earner who participated continuously in the program could retire at age 67 with an 80-percent replacement rate.[4] To ensure that people who opt out *after* 30 days (and therefore made some contributions) can get all of their money back, the first $1,000 in deferrals is invested in a capital preservation fund, with additional deferrals invested in an age-based target date fund.

The question is: how do workers actually respond to these design features? To date, researchers who have focused on auto-IRAs have had to make assumptions based on the behavior of 401(k) participants and on surveys of uncovered workers. Yet, compared to workers with 401(k)s, affected workers have higher levels of job instability, are more likely to work part-time, and are more likely to be financially stressed. And while surveys of these workers have projected relatively low opt-out rates of 20-30 percent and a tendency to stick with default contribution rates, it has always been unclear whether these patterns would hold when actual dollars are at stake.[5] Fortunately, initial OregonSaves data allow a first look at how previously uncovered workers behave when they obtain access to an employer-based retirement savings account.

Data

The OregonSaves administrative data used in this *brief* are for employers who registered from July 2017 to the last day of November 2018, and include employee work status (i.e., active versus inactive), opt-out status, payroll information, contribution rates, and – for those who have saved through the program – asset balances and allocations as of November 30, 2018 (see Table 1).[6]

To assess worker behavior, these data are used to construct a sample of employees who could, in theory, participate at a given point in time. To participate, an employee must be:

1. an active employee of an employer who has set up their payroll deductions;
2. program eligible (i.e., age 18+ w/ proper ID); and
3. eligible to have contributions deducted (i.e., more than 30 days have passed since employee invited).

Table 1. Data Available from Oregon's Retirement Savings Program

Worker data	Employer data
Employment status	Size of employer
Date eligible to make contributions	Registration date
Participation status	Payroll processed date
Account balance, with history	Industry
Deferral rate	Type of payroll system
Opt out reason if opted out	Communication method
Age	
Payroll status and pay cycle	
Contribution history	
Income	
Withdrawals	
Reason for withdrawal	

Source: Authors' communications with Ascensus, the OregonSaves administrator.

As of November 30, 2018, 39,524 employees met these criteria.[7] With these data in hand, the *brief* turns to a first look at the program.

Initial Results

The three main outcomes of interest are: 1) the number of uncovered workers the program is reaching; 2) whether they are participating; and 3) whether they stick to the default contribution rates and investment options in a way that will result in significant assets accumulating by the time they retire. The available data from OregonSaves can be used to report on all of these outcomes, although this *brief* does not report on investment behavior since most of the assets are still held in the capital preservation fund.

Program Growth

Despite the lag between registration and contributions discussed above, approximately 22,000 workers had accounts with a balance on November 30, 2018; and these workers held over $10 million in total assets (see Figures 3a and 3b, on the next page). The program is also growing at a steady rate – in 2018, it has been adding an average of nearly 2,000 actively contributing employees per month (see Appendix Table A2).

Figure 3a. Workers with Account Balances in OregonSaves

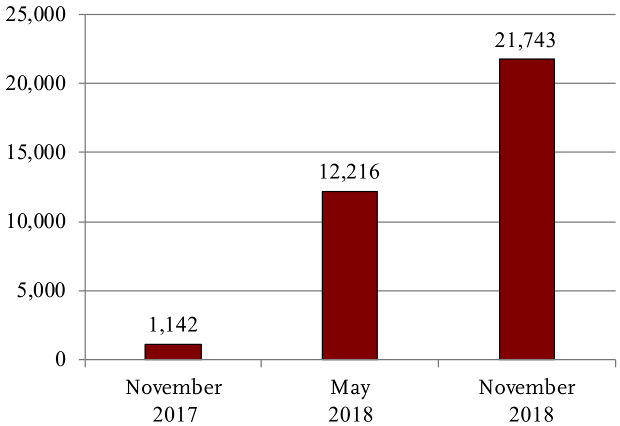
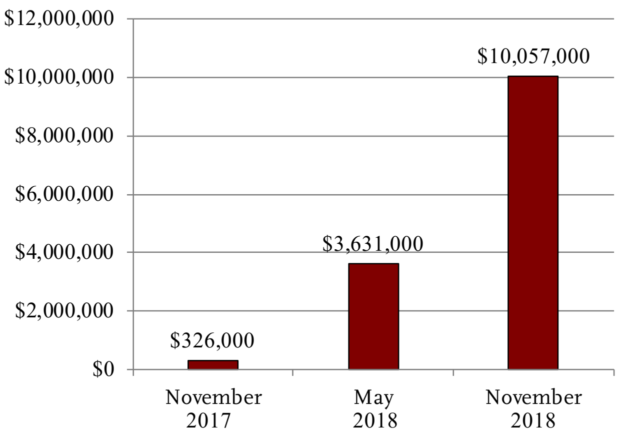


Figure 3b. Total Assets in OregonSaves Accounts



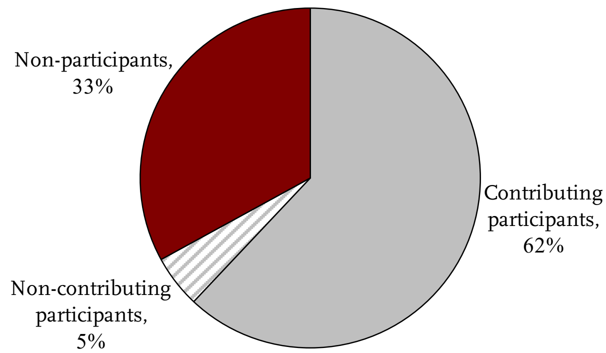
Source: Authors' calculations from OregonSaves' data.

Program Participation

Of the 39,524 individuals currently able to participate in the program, 62 percent were participating (see Figure 4), although a little over one-quarter of them were still waiting for their first contribution to be made.

On the other hand, 33 percent were not participating. This non-participation occurs for two reasons: 1) the worker formally opted out of the program (29 percent); or 2) the worker set contributions to zero before making an initial contribution (4 percent). Finally, about 5 percent of the sample were non-contributing participants, i.e., they had made some contributions to the program but had since set their contributions to zero (see Appendix Table A3 for a detailed breakdown).

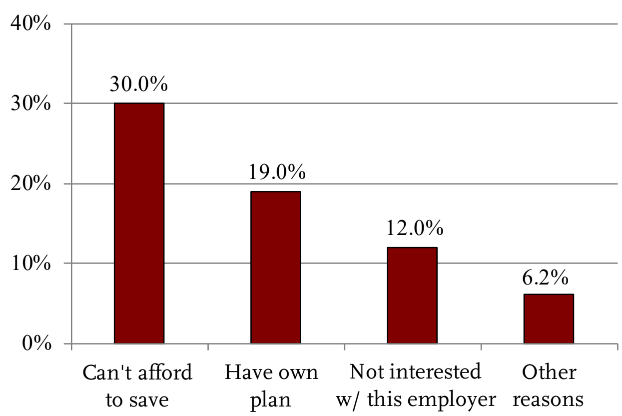
Figure 4. Program Participation in OregonSaves



Source: Authors' calculations from OregonSaves' data.

Workers who chose not to participate offered three main reasons: 1) 30 percent said they could not afford to save; 2) 19 percent said they had their own or another retirement plan (e.g., through a spouse); and 3) 12 percent said they did not want to save through this particular employer, perhaps because they did not expect the relationship to last long or because they have another job where the employer is not yet registered (see Figure 5).

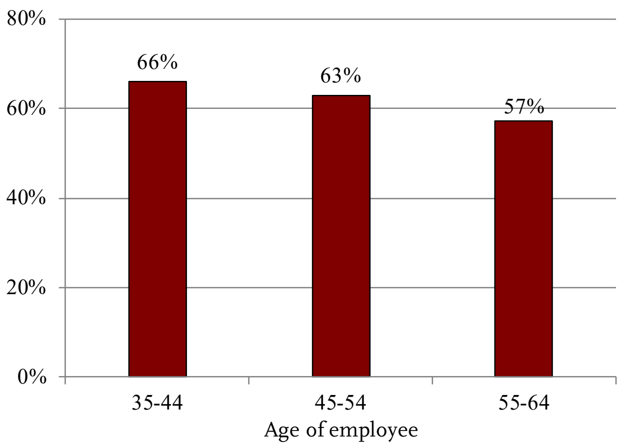
Figure 5. Prevalence of Reasons Given for Not Participating in OregonSaves



Note: See endnote 8.
Source: Authors' calculations from OregonSaves' data.

One takeaway from the earlier survey research on auto-IRAs was that older workers may be less likely to participate than younger ones – either because they were able to save through a spouse's plan or because they were simply less likely to be passive. Figure 6 shows that the data so far suggest this hypothesis holds up, with younger workers participating more often than older ones.

Figure 6. Percentage of Workers Participating in OregonSaves, by Age Group



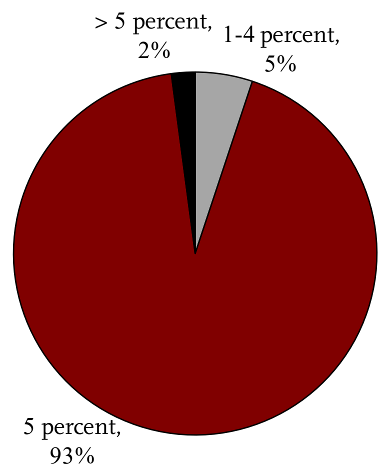
Source: Authors' calculations from OregonSaves' data.

Of course, participating in the program is only the first step to saving a meaningful amount for retirement. The next step is saving a significant share of earnings. Although the default contribution rate is set up to do so, the question is: do workers stick to it?

Participant Response to Default Contribution Rate

As mentioned above, OregonSaves has a default contribution rate and escalation rate designed to be high enough for significant assets to accrue by retirement. As of November 30, 2018, 93 percent of contributing participants had not changed their default deferral rate of 5 percent. Of the remaining 7 percent who had made a change, 5 percent had decreased their deferral rate and 2 percent had increased their rate – usually to 10 percent (see Figure 7). The stickiness of the default mirrors participant behavior in 401(k) plans and means that the average contribution rate is right around 5 percent. It is worth noting that workers' response to auto-escalation is still an open question, as that process does not begin until 2019.

Figure 7. Deferral Rate among Participants



Source: Authors' calculations from OregonSaves' data.

Conclusion

Early results from OregonSaves answer some questions, point out challenges, and suggest avenues for future research. First, to date, nearly 22,000 previously uncovered workers have begun to accumulate assets in this first-of-its-kind program. Preliminary data suggest that the majority of eligible workers are participating and that those participants are, by and large, remaining passive with respect to their contribution rate. As far as whether participants will stay with the default investment options and will refrain from making withdrawals until retirement, more time is needed to tell.

Oregon's implementation has also highlighted challenges related to being the first such program in the country. Perhaps the most immediate challenge appears to be helping employers unfamiliar with OregonSaves to provide timely and accurate data, process payroll deductions, and stay on top of changes to employees and payroll deductions. Speeding up this process should result in a larger participant pool, and would ensure that the employees affected – who tend to be more mobile than the average worker – have a chance to save before they leave any given employer. Still, the preliminary data from OregonSaves show that important assumptions about how workers would react to the availability of auto-IRAs appear to be holding up, at least in the context of their behavior within the program. The data will ultimately offer other states a unique perspective on the factors related to the success of their programs, and will make it possible for researchers to investigate the extent to which such programs will actually improve retirement security.

Endnotes

1 See Munnell and Chen (2017), Munnell et al. (2016), or Dushi, Iams, and Trenkamp (2017).

2 Preliminary data show that almost 80 percent of employers with 200 or more employees handle payroll through some electronic system, while only 13 percent of employers with fewer than 50 employees do so.

3 Unlike 401(k) plans, which typically include an employer matching contribution, employers can not contribute to an employee's auto-IRA account.

4 This replacement rate estimate includes Social Security as well as income from the auto-IRA program and assumes a 4-percent drawdown rate and a 4-percent real return on investments.

5 For example, see Belbase and Sanzenbacher (2017).

6 OregonSaves' recordkeeper, Ascensus, collected and extracted the data.

7 See Appendix, including Table A1, for more detail on sample construction.

8 These data include non-participants who opt out or set their contribution rate to zero before contributing. The "other reasons" category from Figure 5 includes respondents who said "don't trust financial markets," "not satisfied with investment options," "don't qualify for Roth IRA due to income," or "prefer traditional IRA." (It is worth noting that OregonSaves will begin allowing workers to choose a traditional IRA early in 2019.) Not shown in Figure 5 are the 33 percent of non-participants who either did not provide a reason or generically reported "other" as the reason.

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APPENDIX

Appendix

Table A1 describes how the sample was reduced from the full sample of individuals included in the OregonSaves data to the one described above that was used to analyze participation. As mentioned, as of November 30, 2018, only 644 of the 1,782 registered employers in Oregon had actually processed at least one payroll contribution to OregonSaves, meaning that their employees have had a chance to make contributions to the program. These employers have a total of 72,544 employees. Of these, 51,009 were still active and 39,524 had been invited over a month ago and had valid data, meaning they were ready to start contributing.

Table A1. Sample Construction

	Remaining sample	Sample attrition
Total employee records	72,544	
...who are active employees	51,009	21,535
...with valid data	40,712	10,297
...and are contribution eligible	39,524	1,188

Source: Authors' calculations from OregonSaves data.

Table A2 provides more detail on how this participation has led to growth in the total number of accounts and assets in the program over time.

Table A2. Growth in OregonSaves Funded Accounts

Month/year	Workers with assets	Employers with payroll deductions	Assets (in dollars)
Pilot launch			
07/2017	79	9	$82,000
08/2017	91	10	94,000
09/2017	104	16	107,000
10/2017			
Full launch	1,029	37	202,000
11/2017	1,142	48	326,000
12/2017	1,546	63	438,000
01/2018	3,814	107	737,000
02/2018	7,389	154	1,280,000
03/2018	8,684	180	1,981,000
04/2018	10,377	214	2,771,000
05/2018	12,216	284	3,631,000
06/2018	14,674	367	4,682,000
07/2018	16,474	441	5,656,000
08/2018	18,182	521	6,797,000
09/2018	19,429	564	7,832,000
10/2018	20,598	611	8,948,000
11/2018	21,743	644	10,057,000

Note: Workers with assets include workers who are inactive at their current employers but have a balance.
Source: Authors' calculations from OregonSaves data by the end of each month.

Finally, Table A3 provides more detail on the employee participation calculation, offering more detail than Figure 4 in the main body of the *brief*.

Table A3. Employee Participation

Employee categories	Sample size	Share
Total sample	39,524	100.0%
Contributing participants	24,677	62.4
Participants with an account balance	17,001	43.0
Participants awaiting first contribution	7,676	19.4
Non-contributing participants	1,846	4.7
Zero saving rate with account balance	1,697	4.3
Zero saving rate after full withdrawal	149	0.4
Non-participants	13,001	32.9
Set saving rate to zero before contributing	1,714	4.3
Opt-out action before contributing	11,287	28.6

Source: Authors' calculations from OregonSaves administrative data.

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