

WORKING PAPER

Executive Summary

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STATE WAGE-PAYMENT LAWS, THE PENSION PROTECTION ACT OF 2006, AND 401(K) SAVING BEHAVIOR

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401(k) plans are the dominant form of employer-provided retirement saving in the United States. In the 1990s, some plans began to adopt automatic enrollment, whereby employees are defaulted into participating in and deferring salary through the plan, but may opt out. Despite research suggesting that automatic enrollment was highly effective in promoting employee retirement saving, by 2005 less than 10 percent of plans had such a provision.

Although the Internal Revenue Service (IRS) had issued rulings in 1998 and 2000 that automatic enrollment was permissible for newly hired and existing employees, respectively, an oft-cited reason in the industry and popular press for the reluctance of employers to adopt such plans was that this design ran counter to some states' wage-payment laws, which forbid wage deductions without the written permission of the employee, something not obtained explicitly in auto-designed plans. However, there has been no evidence that these concerns constituted a binding constraint on firms' pension choices.

The paper's focus is on the impact of the Pension Protection Act of 2006 (PPA2006), which set forth federal rules for the legality of auto-enrolled plans that superseded any state wage-payment laws, on 401(k) saving behavior in a panel of 703 mid-career individuals working for non-federal employers and who self-reported being eligible to participate in a 401(k). The analysis used a natural experiment methodology and compared the 401(k) participation and contributions of workers residing in states with wage-payment laws requiring written permission versus those in states without such laws before (2004) versus after (2008) passage of PPA2006.

There are four primary findings:

- The empirical analysis indicates that these laws indeed significantly deterred the expansion of 401(k) participation through automatic enrollment.
- Controlling for state, year, other pension coverage, earnings, demographics, and employment characteristics, on average, 401(k) participation was 7 percentage points higher for workers in states requiring written permission (relative to those in states that did not) after (relative to before) the law change.

- There is little impact on 401(k) contribution amounts, indicating contribution rates under auto-enrollment were similar for workers in opt-in plans.
- Overall, these results suggest that PPA2006 broadened, rather than deepened, retirement saving through 401(k) plans in those states with binding wage-payment laws.

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