How Have Workers Responded to Oregon’s Auto IRA?

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- Provider for the UK’s Automatic Enrolment reforms, opened April 1, 2013
- Now serves 574,000 employers and 3.7 million active members out of 6 million total
  - Over half earn under GBP 20k, half are under age 35
- 97% of employers have less than 50 employees
- 1% of employers have 250+ employees, but they make up 40% of NEST members

Source: “How the UK Saves,” Vanguard & NestInsight 2018 – data as of 1/31/18
NEST Opt-Out Rates

- 92% of NEST members are auto enrolled, 8% by active choice

- Two enrollment periods: Staging & Ongoing
  - Staging during phase-in of reforms had an 11% opt-out rate
  - Ongoing as new employees join a company has a 6% opt-out rate

- Opt-out for employees under age 44 was under 10% for both periods.

- Higher for smaller firms: 1-4 employees 18% & 13%, 5-49 is 11% and 7%

- Higher opt-out when total contribution is above 8% (15%)

- Reason to opt-out: 1/3 contributing to another pension, 20% other sources of income (only 44% of total responded)
NEST Inactive Members

• About 37% of the total membership

• Demographics very similar to those of active members

• Reasons for becoming inactive:
  – 60% left employer
  – 20% insufficient earnings
  – 0.5% decided to stop contributing
Implications for Oregon and the US

- Increased coverage in small business requires an intervention
- Auto enrollment into a simple, low cost retirement plan seems to work
- It is likely that opt-out rates for OregonSaves will decline once the phase-in ends
- Neither state-facilitated plans nor MEPs solve the lost account problem
But is this good for lower income workers?

• About one-third of US uncovered workers earn under $14,000/year. (AARP 2014)
  – 42% earn $25,000+

• 75% of workers under $14,000 and 62% of $14,000-25,000 have no retirement plan.

• 78% of households under $25,000 income have less than $2,000 for emergencies. (Pew 2015)

• Roughly 60% of lowest income quintile depend on Social Security for 90% of their retirement income (SSA 2017)
Using OregonSaves to Delay Social Security

- Retirement saving does not necessarily require using it for income over retirement.

- Money in OregonSaves could be used to delay taking Social Security benefits.

- A person who is entitled to a $700 monthly Social Security benefit at age 62, and who also has $8,400 or more in a state Auto IRA account, could withdraw $700 a month from the IRA for a year instead of beginning to take Social Security. When the retiree claims Social Security a year later, at age 63, the benefit would be $750 a month. (Pew 2018)
Using OregonSaves for Emergencies

- A financial emergency can turn into a crisis for lower income workers.
- OregonSaves uses a Roth IRA, which allows withdrawal of contributions at any time.
- The first $1,000 in OregonSaves goes into a liquid account.
Exempting Lowest Income Workers?

- The UK exempts workers making under GBP 10,000 per year ($13,000) from auto enrollment.
- The first GBP 6,032 ($8,000) of earnings are not counted for contributions.
- The UK’s 2017 Automatic Enrolment Review proposed to eliminate both limits as they result in under-saving for retirement.
- An exemption of lower income workers would hurt their ability to use OregonSaves to help deal with financial emergencies.
Does OregonSaves Increase Debt?

- We have little data about whether automatic enrollment causes higher consumer debt.

- One study suggests a higher level of housing & auto debt. (Beshears et al. 2018)

- There is no indication that it increases credit card or similar debt.
  - The only data point indicating this is not statistically significant

- More research is needed.
Conclusions

• OregonSaves is off to a good start

• If NEST is an indication, participation rates will increase

• OregonSaves is valuable for lower income workers
  – Emergency savings
  – Delay Social Security

• Exempting lower income workers would be a mistake

• There is no indication – as yet – that auto enrollment increases short-term consumer debt