

## **The Evolution of 401(k) Balances Under Automatic Enrollment**

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### Key Findings and Policy Implications

This paper examines whether households' pre-retirement withdrawals from 401(k) plans made months or years after they have experienced automatic enrollment offset any increase in plan balances induced by automatic enrollment. It analyzes this issue by studying a 401(k) plan that introduced automatic enrollment in 2005, and comparing the long-term saving and withdrawal decisions of employees hired in the year just before and the year just after its introduction. The detailed data on contributions and withdrawals from the plan come from the plan administrator for a Fortune 500 company in the financial services sector. The paper finds that:

- Automatic enrollment (AE) leads the post-AE cohort to have markedly higher plan participation rates than the pre-AE cohort and a higher average plan contribution. At five years of tenure, average plan balances as a fraction of starting salary are ten percentage points higher under automatic enrollment among employees who remain at the firm. Even without conditioning on continued employment five years after hire, the post-AE cohort has plan balances that are higher than the pre-AE cohort by six percentage points of starting salary.
- The post-AE cohort has higher average cumulative roll-outs and higher average cumulative cash withdrawals compared to the pre-AE cohort. However, these differences only slightly counteract the greater 401(k) balance accumulations of the post-AE cohort relative to the pre-AE cohort. Cumulative withdrawals five years after hire are higher under automatic enrollment by more than one percentage point of starting salary, but plan balances are nonetheless higher by six percentage points of starting salary.
- The results are qualitatively similar for all four quartiles of the company's income distribution. Thus, while automatic enrollment increases 401(k) withdrawals and 401(k) loans, these factors only modestly offset the increase in contributions, resulting in a net positive effect on balances.

The policy relevance of the study is in reinforcing the core finding from other research that automatic enrollment leads to greater overall wealth accumulation.

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