

Does Borrowing Undo Automatic Enrollment's Effect on Savings?

JOHN BESHEARS, JAMES J. CHOI, DAVID LAIBSON,
BRIGITTE C. MADRIAN, AND WILLIAM L. SKIMMYHORN

Key Findings and Policy Implications

This paper examines the extent to which the increased saving in retirement plans induced by automatic enrollment is offset by borrowing outside the plan. It focuses on a policy change for U.S. Army civilian employees that automatically enrolled new hires in the Thrift Savings Plan, beginning in August 2010. To study the combined effects on savings and borrowing, the analysis uses employee-level administrative payroll data, matched with individual-level credit reports from a national credit bureau. The paper finds that:

- Automatic enrollment at the low default contribution rate chosen by the TSP has a modest positive effect on average cumulative contributions to the TSP and a large positive effect at the left tail. Four and a half years after hire, the effect on cumulative contributions as a percent of an employee's first-year salary is 6% at the mean, 17% at the 25th percentile, and 32% at the 10th percentile.
- There is also an increase in debt that partially offsets the savings increase. When accounting for changes in debt (measured 48 to 52 months after hire), automatic enrollment increases net wealth by only 3% of first-year income at the mean and 8% of first-year income at the 10th percentile. However, there is relatively little crowd-out at the 25th percentile, where the net wealth effect at months 48-52 is 15%.

As automatic enrollment has been adopted in increasing numbers of retirement plans across the country, understanding its full effect on people's financial balance sheets – both positive and negative – is important in evaluating its overall policy impact.

JOHN BESHEARS is an Assistant Professor of Business Administration at Harvard Business School and an NBER Faculty Research Fellow.

JAMES CHOI is Professor of Finance at Yale School of Management and an NBER Research Associate.

DAVID LAIBSON is a Professor at Harvard University and an NBER Research Associate.

BRIGITTE C. MADRIAN is the Aetna Professor of Public Policy and Corporate Management at Harvard's Kennedy School of Government and an NBER Research Associate.

WILLIAM L. SKIMMYHORN is Assistant Professor of Economics in the Department of Social Sciences at the United States Military Academy.

Complete RRC Working Papers are available on our website: <http://www.nber.org/aging/rrc/papers/>

This research was supported by the U.S. Social Security Administration through grant #RRC08098400-08 to the National Bureau of Economic Research as part of the SSA Retirement Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.