Do Defaults Have Spillover Effects? The Effect of the Default Asset on Retirement Plan Contributions

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Key Findings and Policy Implications

This paper examines how changing the default asset from a low-risk, low-return government securities fund to a lifecycle fund affected employee saving in the federal Thrift Saving Plan (TSP). The focus of the study is on the potential spillover effects from the default investment allocation to the amount of participant contributions to the plan. The data are drawn from personnel records of the U.S. Office of Personnel Management and include TSP contribution elections by new employees. The paper finds that:

- After the policy change, more employees made a passive enrollment decision, accepting the default investment in the lifecycle fund, but also accepting the default contribution rate. Measured 24 months after their hiring date, employees with the lifecycle default were 9 percentage points more likely to be passively invested in the TSP.

- Importantly, the increased acceptance of the plan's default options *reduced* plan contribution rates from levels that had previously been proactively selected by employees making an active choice.

- The employee's default contribution rate in the TSP is lower than the rate required to obtain the full employer matching contribution to the plan. Thus, be increasing the number of employees passively accepting the plan defaults, the policy change had the spillover effect of inducing fewer employees to maximize the employer's matching contribution to the plan.

While past research shows that defaults can affect whether people make passive or active choices, the potential spillover effects across default provisions have not been widely studied. The findings from this study illustrate the potential unintended consequences of changing defaults in one domain on related but separate domains.

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