

Social Security Administration: 401(k) Automatic Enrollment

This paper summarizes the empirical evidence on automatic enrollment in 401(k) plans. The evidence strongly suggests that automatic enrollment affects savings outcomes at every step along the way.

Lead Agency:

Social Security Administration

Agency Mission:

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

Principal Investigator:

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General Description:

This project assesses the impact on savings behavior of several different 401(k) plan features, including automatic enrollment, automatic cash distributions, employer matching provisions, eligibility requirements, investment options, and financial education. The author presents new survey evidence on individual savings adequacy, basing many of the conclusions on an analysis of micro-level administrative data on the 401(k) savings behavior of employees in several large corporations that implemented changes in their 401(k) plan design. The analysis identifies a key behavioral principle that should partially guide the design of 401(k) plans: employees often follow "the path of least resistance." For better or for worse, plan administrators can manipulate the path of least resistance to powerfully influence the savings and investment choices of their employees.

The paper presents empirical evidence on how automatic enrollment affects retirement savings outcomes at all stages of the savings lifecycle, including savings plan participation, savings rates, asset allocation, and post-retirement savings distributions. The paper is significant, because it is able to show why defaults have such a tremendous impact on savings outcomes. The paper concludes with a discussion of the role of public policy towards retirement saving when defaults matter. This research has had a direct effect on policy. The Pension Protection Act of 2006 provides statutory authority for employers to automatically enroll workers in defined contribution plans.

Excellence:

What makes this project exceptional?

Significance:

How is this research relevant to older persons, populations and/or an aging society?

- Effectiveness:*** What is the impact and/or application of this research to older persons?
- Innovativeness:*** Why is this research exciting or newsworthy?

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