Discussion of

"Borrowing to Save? The Impact of Automatic Enrollment on Debt"

John Beshears, James Choi, David Laibson, Brigitte Madrian, and (introducing) William Skimmyhorn

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Jonathan Reuter
Boston College & NBER

Context

- We know from team's many publications that auto-enrollment increases 401(k) participation and anchors savings rates...

    - In other words, auto-enrollment has causal impact on savings rate *within retirement savings plan featuring auto-enrollment*

    - Also find heterogeneous treatment w.r.t. proxies for financial sophistication

- Auto-enrollment enshrined in PPA of 2006 and design of state-sponsored retirement plans

- Harder to determine whether auto-enrolled savings:

    a) Crowd out existing savings,
    b) Leak out to fund non-retirement expenses,
    c) Result in higher levels of debt (i.e., "borrowing to save")

- Chetty et al. (2014): 1.0% increase in *mandatory* savings rate is associated with 0.8% in total savings rate in Denmark

What Does This Paper Do?

- **Natural experiment** re: savings rates of civilian Army employees
  - Cohort hired on or after August 1, 2010 auto-enrolled in TSP with default savings rate of 3.0%; earlier cohort was not
  - Default **employEE** rate of 3.0% results in **employER** match of 3.0%
  - Authors compare accumulated contributions and future debt levels of cohorts hired 12 months before and 12 months after this change

- Incremental contributions after **48 months**?
  - On average, additional **EE** contributions of **2.6%**
  - On average, additional **EE+ER** contributions of **5.8%** (**thanks to match**)
  - *Authors observe neither account balances nor investment choices*

- Incremental debt after **48 months**?
  - Non-auto and non-mortgage debt is unchanged
  - Auto loan balances increase by 2.0% of initial annual income (~ $1,120)
  - Mortgages balances increase by 7.4% of initial annual income (~ $4,144)

- **Ignoring mortgages, net worth increases by level of ER match**

My Take

- This is an important paper that gets us one step closer to understanding net effect of auto-enrollment on household saving, borrowing, and consumption.

- My comments fall into five categories

  1. Highlighting how auto-enrollment could increase/decrease participant welfare... with and without an employer match

  2. Considering heterogeneous treatment

  3. Suggesting possible extensions to the paper

  4. Advertising related research in two other settings

  5. Asking if there are other potential downsides to defaults?

Auto-Enrollment and Welfare?

EXCLUDING EMPLOYER MATCH:

1. Auto-enrollment crowds out IRA savings ➔ **(WEAKLY) BENEFICIAL**
    - Higher contribution limits plus fiduciary standard of care

2. Auto-enrollment crowds out current consumption ➔ **BENEFICIAL**
    - Thanks to smoother consumption profile (which is underlying policy goal)
    - **Caveat:** *Would be helpful to know more about changes in consumption*
        - *More beneficial if consume fewer lottery tickets*
        - *Less beneficial if consume fewer healthy foods, medical visits, etc.*

3. Auto-enrollment crowds out liquid savings ➔ **PROBABLY HARMFUL**

4. Auto-enrollment leads participants to finance current consumption through borrowing ➔ **DEFINITELY HARMFUL**

5. Auto-enrollment relaxes future borrowing constraints ➔ **BENEFICIAL(?)**
    - **...** unless borrowing constraints increase welfare by minimizing amount that individuals can spend on cars and boats and time share

Auto-Enrollment and Welfare?

INCLUDING EMPLOYER MATCH:

- Net benefit of auto-enrollment certainly increases relative to auto-enrollment without a match

- Average auto-enrolled employee makes $1680 EE contribution and receives $1680 ER match ➜ **3.0% raise from participating**

- If EE contributions crowd out liquid savings, must weigh 3.0% decrease in liquid savings (which authors cannot directly observe) against 6.0% increase in illiquid savings ➜ **PROBABLY BENEFICIAL**

- If EE contributions lead employee to finance current consumption through borrowing, must weigh costs associated with borrowing 3.0% of income against 6.0% increase in less-liquid savings ➜ **PROBABLY HARMFUL**

TL;DR: While this paper is measuring the causal impact of auto-enrollment on debt holding match rates constant, the expected welfare effect likely varies with level of ER match, which varies across settings

Heterogeneous Treatment?

- In fully rational model, households that cannot afford to save 3% will opt out... either before or after the first contribution ➜ we shouldn't expect to find debt effects among remaining participants
  - Mullainathan & Shafir (2013): low income individuals good at cash mgmt.

- Madrian and Shea (2001): largest contribution effects on "low-income, the young, blacks, and Hispanics" ➜ subpopulations had lowest participation rates without auto-enrollment
  - Overall, 39% of auto-enrolled have opted out by month 48
  - What are opt out rates within these subsamples?
  - Do changes in debt in year t-1 predict opt out in year t?

- Subpopulation analysis in Table 5 confirms higher contribution effects among those with lower income and education (as does Figure 3)
  - Lack of positive and significant impact on non-auto and non-mortgage debt is encouraging... although precise estimates would require much larger sample sizes

Possible Extensions?

- **Ranked from most to least promising:**
  - Study changes in nature of consumption by matching with account-level data from JP Morgan Chase (e.g., Ganong and Noel (2017)), another anonymous bank (Adam Jorring (2017)), or USAA
  - Study changes in liquid savings account balances using supplemental Equifax data on savings account balances (Ankit Kalda (2017))
  - Use auto registrations data to determine if extra dollars are being spent on prestige (Mercedes vs. Honda) or reliability (old vs. young Honda)
  - Survey participants to ask how they funded retirement contributions or why they opted out
  - Exploit geographic variation in housing price appreciation

Coming Attractions

- Study of opt out decisions and debt levels in OregonSaves, state-sponsored retirement that went live **11/17**
  - Administrative data ✚ survey data on reason for opting out or withdrawing funds ✚ credit bureau data (hopefully)
  - Measuring changes in debt levels is long-term goal

- Study of opt out decisions and debt levels in NEST in response to new minimum EE and ER contribution rates
  - Currently 6.3 million participants (8% opt out) with minimum EE+ER of 2% and minimum ER of 1%
  - **4/18:** minimum EE+ER becomes 5% and minimum ER becomes 2% ➜ EE likely to increase from 1% to 3%
  - **4/19:** minimum EE+ER becomes 8% and minimum ER becomes 3% ➜ EE likely to increase from 3% to 5%

Downsides to Defaults?

1. Optimal savings rate may vary with socioeconomic status

   - Fortunately, finding in this paper suggest 3% default savings rate is unlikely to result in increases in non-auto and non-mortgage debt even for those with salary < $34k and Vantage score < 620

2. Optimal investment option may vary with socioeconomic status

   - Systematic risk of default option should condition on income if:

     - Lower equity allocations of lower income households reflects greater risk aversion...

     - ... but not if it reflects a lack of understanding that households with high SSA replacement rates should allocate marginal dollar to equity

3. Lack of engagement today w.r.t. savings rates and investment options may result in a lack of engagement in the future w.r.t. asset allocation, retirement income levels and annuitization

   - Cronqvist, Thaler, Yu (2018); Reuter and Richardson (2017)