$100 Bills on the Sidewalk: Suboptimal Saving in 401(k) Plans

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Policy Abstract

In many employer-sponsored 401(k) plans, the employer will match an employee’s contribution to the plan. Despite the obvious advantages of employer matching, many employees still choose not to participate in their 401(k) plan, or choose contribution amounts that leave available employer dollars unused. One explanation is that these employees prefer to have their earnings available to spend, rather than tied up in a 401(k) plan. But what if they could withdraw their 401(k) savings anytime without a penalty? Why then, would they not take full advantage of the employer matching funds? This is precisely the opportunity that many workers have available when they reach 59½ years old. In this study, we focus on a sample of employees in this situation, finding that roughly half of them still choose either no contributions, or a contribution rate below the employer’s matching limit. The average annual loss among these employees is about 1.3 percent of their yearly salary. At one firm in the sample, the average loss was 2.2 percent of salary. In a combined survey/field experiment of these employees, we also explored how employees might change their behavior in response to new information. In some of the survey groups, we clearly explain the opportunity older workers have to contribute, obtain the employer match, and still withdraw the money anytime – all without penalty. The response to this information was infinitesimal, raising 401(k) contribution rates by just one tenth of one percentage point relative to a control group. Overall, the study has provided some interesting new information on the limits of information and interventions and even strong financial incentives to influence voluntary saving behavior.