Does Borrowing Undo Automatic Enrollment’s Effect on Savings?

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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 automatically 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.

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