Decision Processes Colloquia

Monday, March 13, 2017

Where: 260 JMHH

When: 12:00 – 1:15 pm

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Borrowing to Save?
Unintended Consequences of Automatic Enrollment

ABSTRACT: How much of the retirement savings induced by automatic enrollment is offset by increased borrowing outside the retirement savings plan? We study a natural experiment created when the U.S. Army began automatically enrolling its newly hired civilian employees into the Thrift Savings Plan (TSP) at a default contribution rate of 3% of income. We find that four years after hire, as a percent of first-year annualized salary, automatic enrollment raises cumulative employer plus employee TSP contributions by 5.7% on average. However, automatic enrollment's effect on wealth net of debt is only 3.5% of first-year salary on average, representing a 38% crowd-out. We cannot reject the hypothesis that all of the increase in employee contributions induced by automatic enrollment is financed by debt, and that saving increases only because of the employer match.

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