

# *Presentation to the Connecticut Retirement Security Board: Employee Enrollment Experiment*

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# Background

- The main goal of the employee survey is to estimate the effect of program design on opt-out rates.
- 3,044 participants responded to the employee survey, yielding an average of 340 participants per group.
  - Respondents had more income, were older, and were more likely to be white than non-respondents. This explains why only 30 percent of the sample (instead of 40 - 50 percent) did not have access to a plan.
  - Results were re-weighted so that participants matched demographics for uncovered workers in Connecticut.

# The bottom line: uncovered workers in the experiment behaved like covered workers in the real world.

- Approximately 20 percent of the participants opted out.
- Minorities, women, and young workers opted out at lower rates than whites, men, and older workers.
- Opt-out rates did not differ significantly between scenarios with 3-percent and 6-percent default contribution rates.

# Opt-out rates increase with age.

Age group	Opt out	Total	% Opt out
18-24	46	330	13.9%
25-34	159	853	18.6
35-44	106	543	19.5
45-54	169	732	23.1
55-64	106	421	25.2
65-74	53	144	36.9
75+	7	22	32.4
Total	645	3,044	21.2

*Source:* Authors' calculations from survey.

# Opt-out rates generally decrease with income.

Household income	Opt out	Total	% Opt out
Less than \$25,000	148	578	25.7%
\$25,000-\$50,000	154	730	21.1
\$50,000-\$75,000	117	588	19.9
\$75,000-\$100,000	72	408	17.8
More than \$100,000	153	740	20.7
Total	645	3,044	21.2

*Source:* Authors' calculations from survey.

# Minorities opt out at a lower rate.

Race	Opt out	Total	% Opt out
White, non-Hispanic	542	2,430	22.3 %
Black, non-Hispanic	34	188	18.0
Hispanic	40	277	14.5
Other	29	149	19.5
Total	645	3,044	21.2

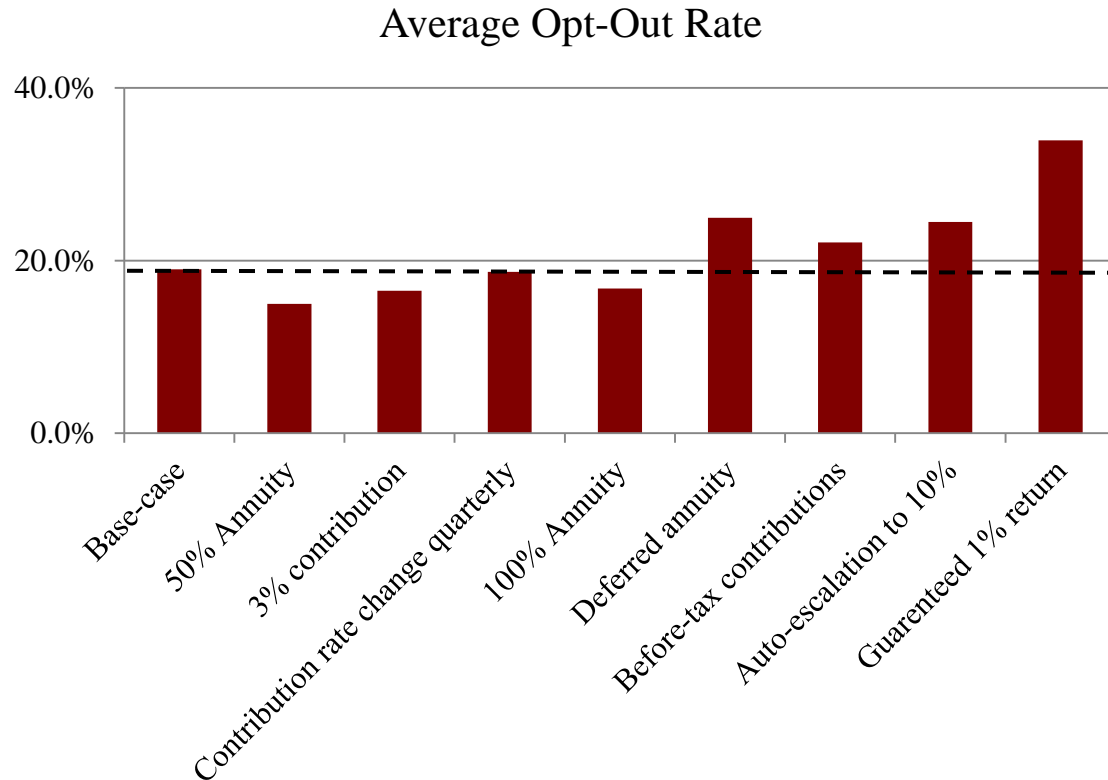
*Source:* Authors' calculations from survey.

# Women opt out at a lower rate.

Gender	Opt out	Total	% Opt out
Male	365	1,571	23.2 %
Female	280	1,473	19.0
Total	645	3,044	21.2

*Source:* Authors' calculations from survey.

# Opt-out rates vary from the base-case when program design is changed.



Source: Authors' calculations from survey.



# Which benefit designs influence opt-out?

- We compare the base-case to each scenario using linear regression.
- We control for age, income, gender, and race.
- The statistical significance of the difference in opt-out rates is used to assess the likelihood that the observed difference is due to chance.

# Base-case

*Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.*

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- 6 percent of your pay, or \$60 per every \$1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

Detailed information on the program can be found [here](#).

# Effect of default contributions on opt-out

*From a baseline opt-out rate of 19.0 percent:*

- +2.3 percentage points if pre-tax contributions (not statistically significant).
- +5.5 percentage points if contribution rate automatically escalates from 6 percent to 10 percent (statistically significant).
- -3.9 percentage points if default contribution rate is 3 percent (marginally statistically significant).
- -1.6 percentage points if contribution rates can be changed quarterly (not statistically significant).

# Effect of withdrawal options on opt-out

*From a baseline opt-out rate of 19.0 percent:*

- + 6.1 percentage points if 15 percent of assets are used to buy a deferred annuity (statistically significant).
- - 4.3 percentage points if 50 percent of assets are used to buy an immediate annuity (marginally statistically significant).
- -2.9 percentage points if 100 percent of assets are used to buy an immediate annuity (not statistically significant).

# Effect of guarantee on opt-out

*From a baseline opt out rate of 19.0 percent:*

- + 12.9 percentage points if presented with the statement: *“Your assets will be guaranteed to grow by at least 1 percent per year. Your assets will be unlikely to grow by more than the guaranteed 1 percent.”* (statistically significant)

# Other findings

- Opt-out rates did not vary as a function of: 1) the existence of debt or other financial obligations; 2) a spouse with access to a DC plan or IRA; or 3) firm size or tenure.
- The difference in opt-out rates did not vary as a function of demographic or economic variables. For example, low-income respondents did not opt-out at a higher rate than high-income respondents in response to auto-escalation.