Center for Financial Security
UNIVERSITY OF WISCONSIN-MADISON

Retirement & Disability Research Center

DOES A REQUIREMENT TO OFFER RETIREMENT PLANS HELP LOW-INCOME WORKERS SAVE FOR RETIREMENT? AN EARLY EVIDENCE FROM THE OREGONSAVES PROGRAM

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This study examines the first implemented state-run retirement program (Auto IRA) in Oregon (OregonSaves) in 2017 and provides early evidence of the significant impact on saving for retirement among uncovered private workers. The study uses two different data sets from the Surveys of Income and Program Participation (SIPP) panels 2014 and 2018 and the Current Population Surveys (CPS) running from 2013 to 2020 with Difference – in – Difference and even-study estimation method. This study contributes to the current literature by: (1) evaluate the impact of Oregon state requirement on providing retirement plan at work place on savings behaviors (IRA ownership and balance); (2) estimate the potential peer effects other types of retirement savings (401(k)); and (3) explore heterogeneous effects across different demographic groups

The Impact of the OregonSaves on IRA Participation and Balance

In the absence of universe and required retirement saving plans at work place, since 2012, many states took the initiative by passing legislations to implement state-facilitated retirement programs that aim at helping uncovered workers access to retirement plans. Among these states, California, Illinois, Massachusetts, Oregon, and Washington recently launched their programs by requiring employers to enroll their workers into state-run retirement programs.

First, I find that OregonSaves was associated with a higher probability of owning an IRA among private workers who previously did not participate in employer-based retirement plans. Specifically, I find relatively sizable effect (an average increase by 3 percentage points or 27 percent) on IRA participation among Oregon workers compared to the similar workers in other states after the OregonSaves rolled out in 2017.

Second, because the program gradually rolled out by firm sizes, the analysis by firm size groups (less than 10; 10 – 19; 20-49; 50-99; and 100 and over), I perform the analysis using the sample split by firm size group, and find that the effect appears to be driven by employees who worked for larger firms (firms with over 100 employees and more), with an estimated rise of 2.6 percentage points (or 24 percent) following the implementation of the Program. I observe large peer effects among employees at very small firms (less than

10 employees)[1]. The findings show the OregonSaves was associated a significant jump in enrolment, with 15.4 percentage points (or 109 percent) higher after 2017.

Third, the OregonSaves created positive impact among less advantageous groups. In particular, I find that the impact of the OregonSaves was centered among female (increase in IRA participation by 7 percentage points or 40 percent) and nonwhite (a rise in participation by 7 percentage points or 52 percent). Further, I also find that less educated (those with high school degrees) and lower-earning workers (those with family incomes were less than 25k) benefited from the state-run plan. Among these groups of workers, their IRA participation were 8 percentage points (or 73 percent) and 4 percentage points (or 44 percent) higher compared to the similar workers in other states following the OregonSaves' rollout.

Fourth, I find that the OregonSaves led to an increase by 3 percentage points (or 35 percent) in IRA balance and 4 percentage points (6 percent) in household retirement assets after the Program implemented.

Implications

- Access to retirement saving at work place is vital for workers. State-facilitated retirement program significantly help workers who previously lacked the access to retirement plans. In the absence of a national policy, state-level mandates might be an appropriate approach to boost retirement savings for uncovered workers in private sectors, which provides an effective policy option to improve retirement security.
- The observed relatively large treatment effects in this study suggests that mandatory policies such as OregonSaves might be more effective than tax incentives and traditional defined contribution plans such as 401(k) in raising savings for retirement.

Figure 1. Trends in IRAs, 2013-2019

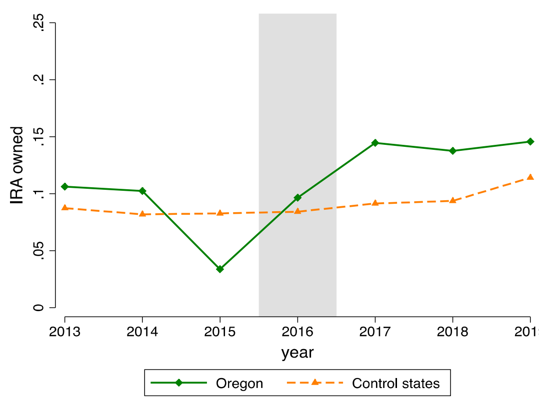
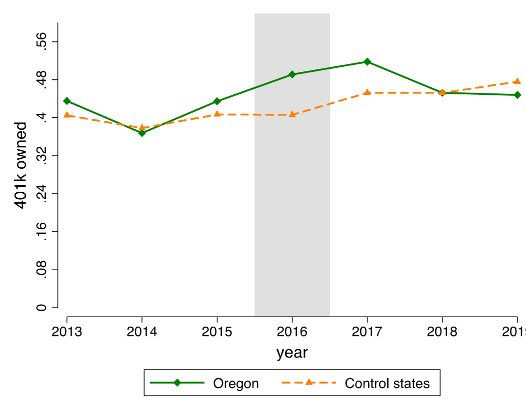


Figure 4. Trends in 401(k) plan, 2013-2019



Notes: Data come from the SIPP 2014 and 2018 panels, spanning from 2013 to 2020. Sample included workers aged 18 to 60 in private sector. For IRAs participation, the sample included private workers aged 18-60, who did not own any 401(k) plan. All figures are adjusted by sample weights.

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[1] This group of firms were required to sign up into the state-run plan by the end of year 2019. Therefore, one would expect very small to null effects among workers at these firms.