

The Impact of Automatic Enrollment on 401(k) Match Rates: A Methodological Note

February 2010

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Automatic enrollment in employer retirement savings plans has received considerable attention recently since behavioral studies show that workers are more likely to participate in their employer's plan if automatically enrolled. And increased participation means more workers likely will retire with some pension savings. However, our recent study "Will Automatic Enrollment Reduce Employer Contributions to 401(k) Plans?" raised the question of how employers will pay for these additional compensation costs.

Our paper offers three hypotheses: (1) firms leave pension and other compensation arrangements unchanged, thereby increasing total compensation paid to workers; (2) firms reduce nonpension compensation to keep total compensation at the same level before autoenrollment was introduced (for example, by reducing wages or other benefits); or (3) firms reduce the match offered to workers to offset the increase in costs. Using data from 2007 Form 5500 filings, we find some evidence to support the third hypothesis. Controlling for size, industry, and other characteristics, we find that employers with autoenrollment seem to have lower match rates than those without autoenrollment. While this result is intuitive to us and describes a seemingly rational response by profit-maximizing firms, we also explore other explanations. We do not, however, have information on how nonpension compensation might be changing, so for us to comment on the generosity of plan sponsors is impossible.

More recently, an advance summary of a forthcoming brief from the Employee Benefit Research Institute (EBRI) reports that 225 large plans implementing automatic enrollment between 2005 and 2009 had higher match rates in 2009 than in 2005, suggesting that employers may have increased pension contributions over the period. While EBRI's results seem to conflict with ours, it is not clear that they do. The two studies measure different concepts—ours measures the ratio of employer to employee contributions for a sample of 826 large 401(k) plans and the EBRI study measures the change in the potential match rate for a sample that includes switches from defined benefit to 401(k) plans. The studies also use different time frames.

Further research is needed to better understand the decisionmaking of plan sponsors. Ideally, researchers would have a large sample of 401(k) plans reporting match rates before and after automatic enrollment to understand employer responses. The question of how employers respond to automatic pension enrollment is an important element of the debate over how to increase retirement income savings for all Americans.

References:

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