

THE PERSISTENCE OF DEFAULTS: WHEN, WHY AND FOR WHOM

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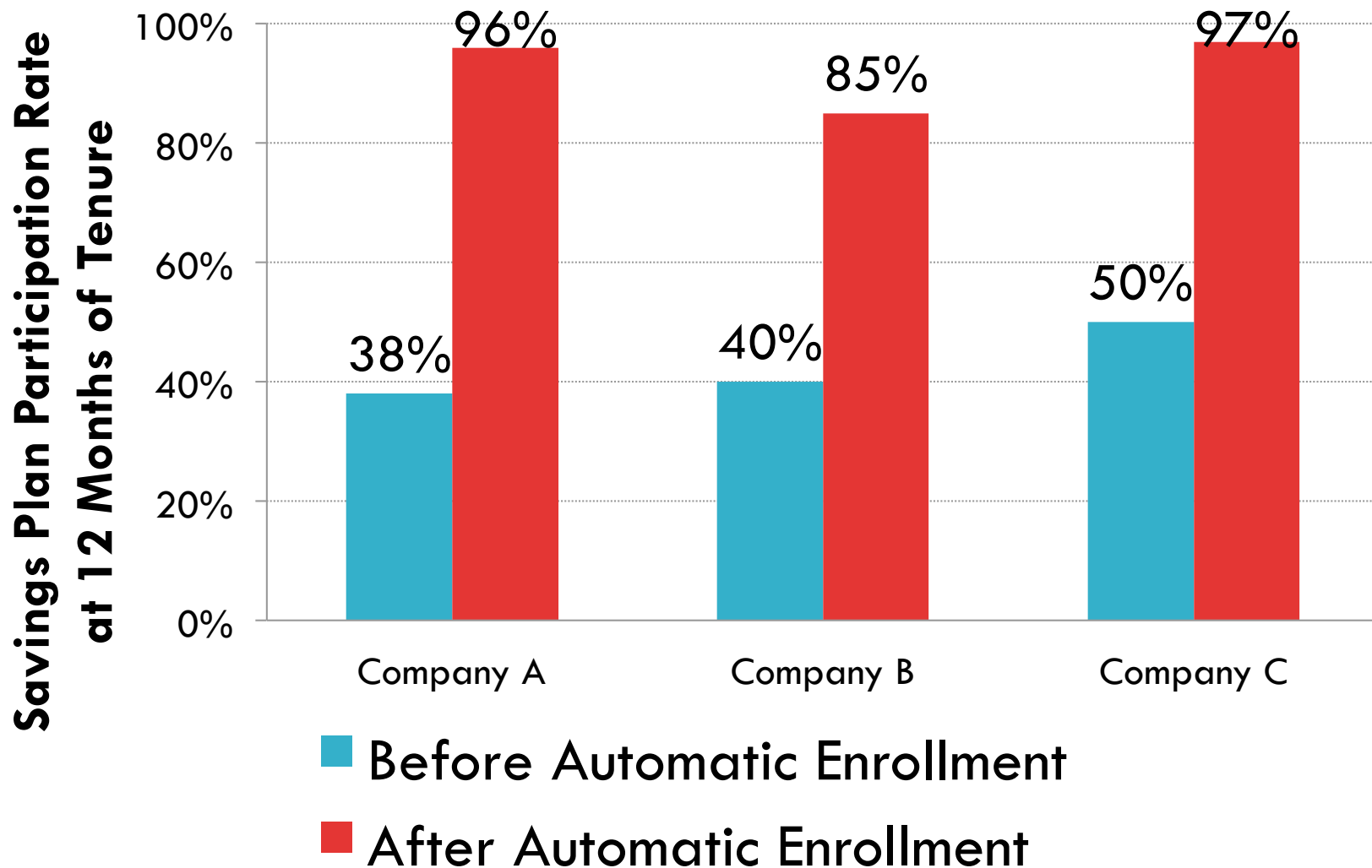
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Automatic Enrollment and Savings Plan Participation



Why are defaults so sticky?

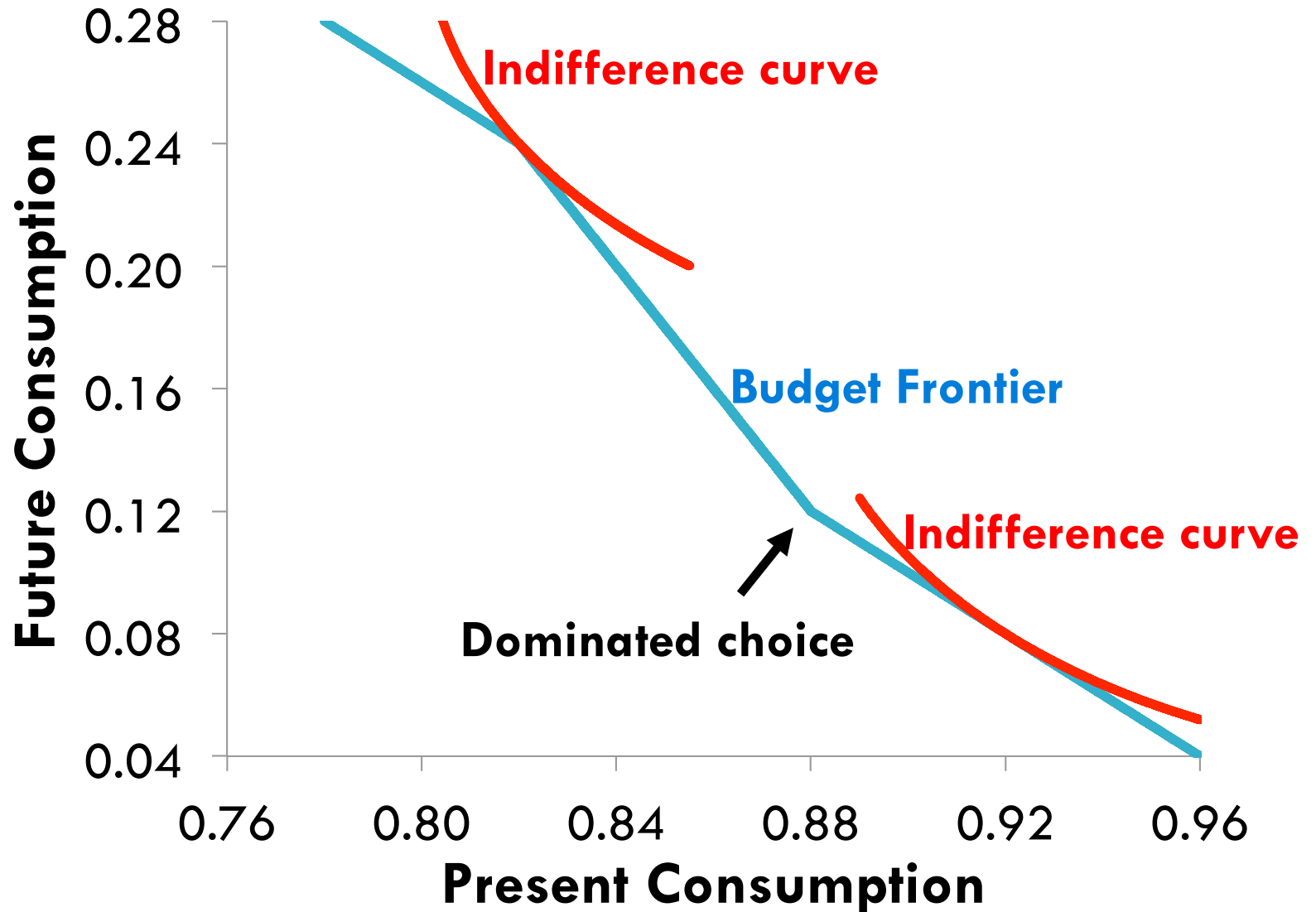
- Because the default is optimal?
 - Low income households may stick with default contribution rate of 3% because that is roughly the right savings rate for them.
- Because some people stick to a default even if it's suboptimal?
- Key test: find a **suboptimal** default and see who, if anyone, sticks to it.

A Suboptimal Default

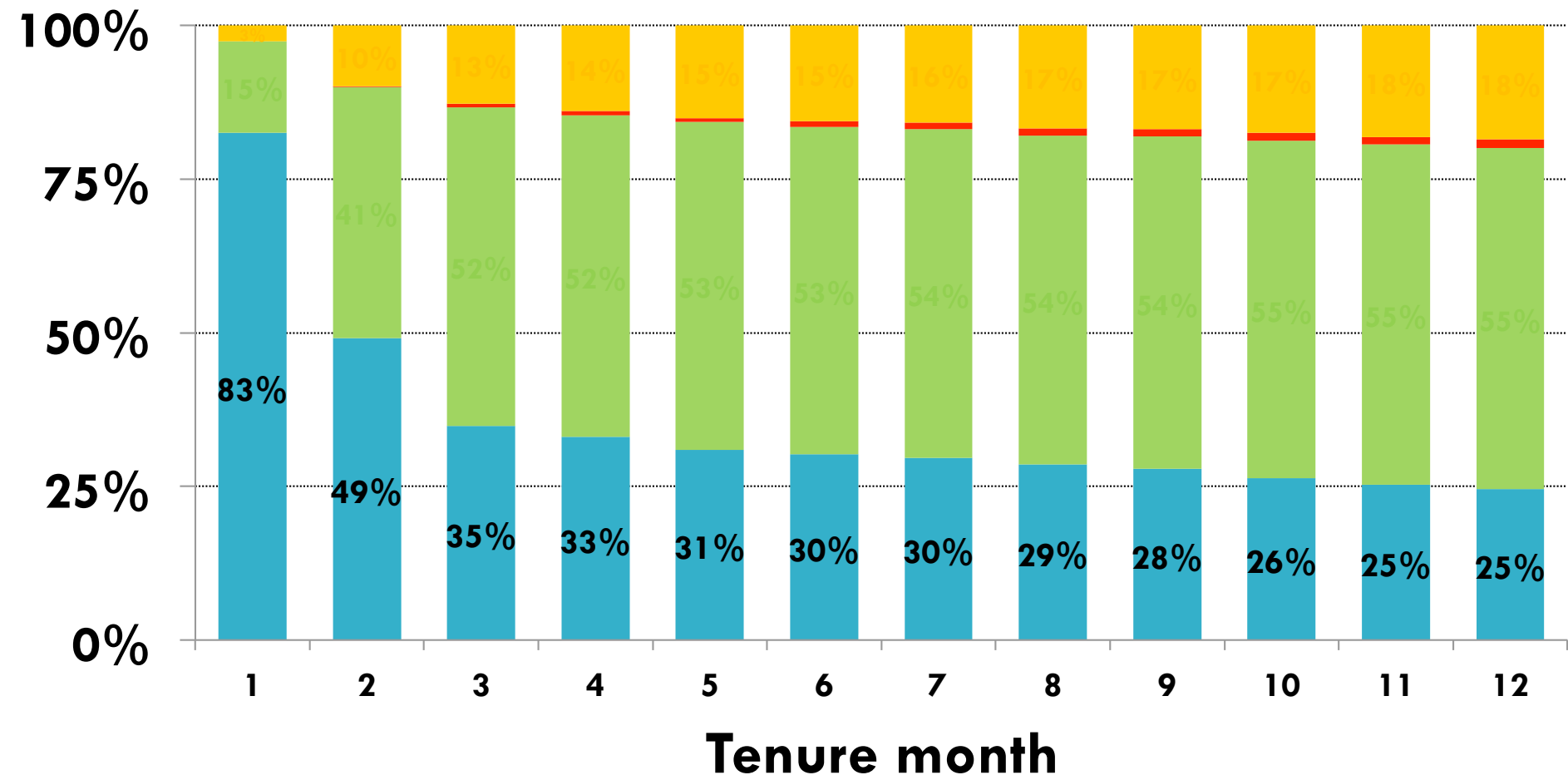
- ❑ Large Company
- ❑ 100% match on contributions of 12%-18% of pay
- ❑ **No match** on first 12% of contributions

- ❑ What contribution rate is hard to defend as an **optimal** saving rate?
- ❑ At a 12% saving rate you are saving the maximal amount without getting a dime of matching money.
- ❑ At this company, the default savings rate is 12%.

Two-Period Budget Set



Persistence of the Default Contribution Rate

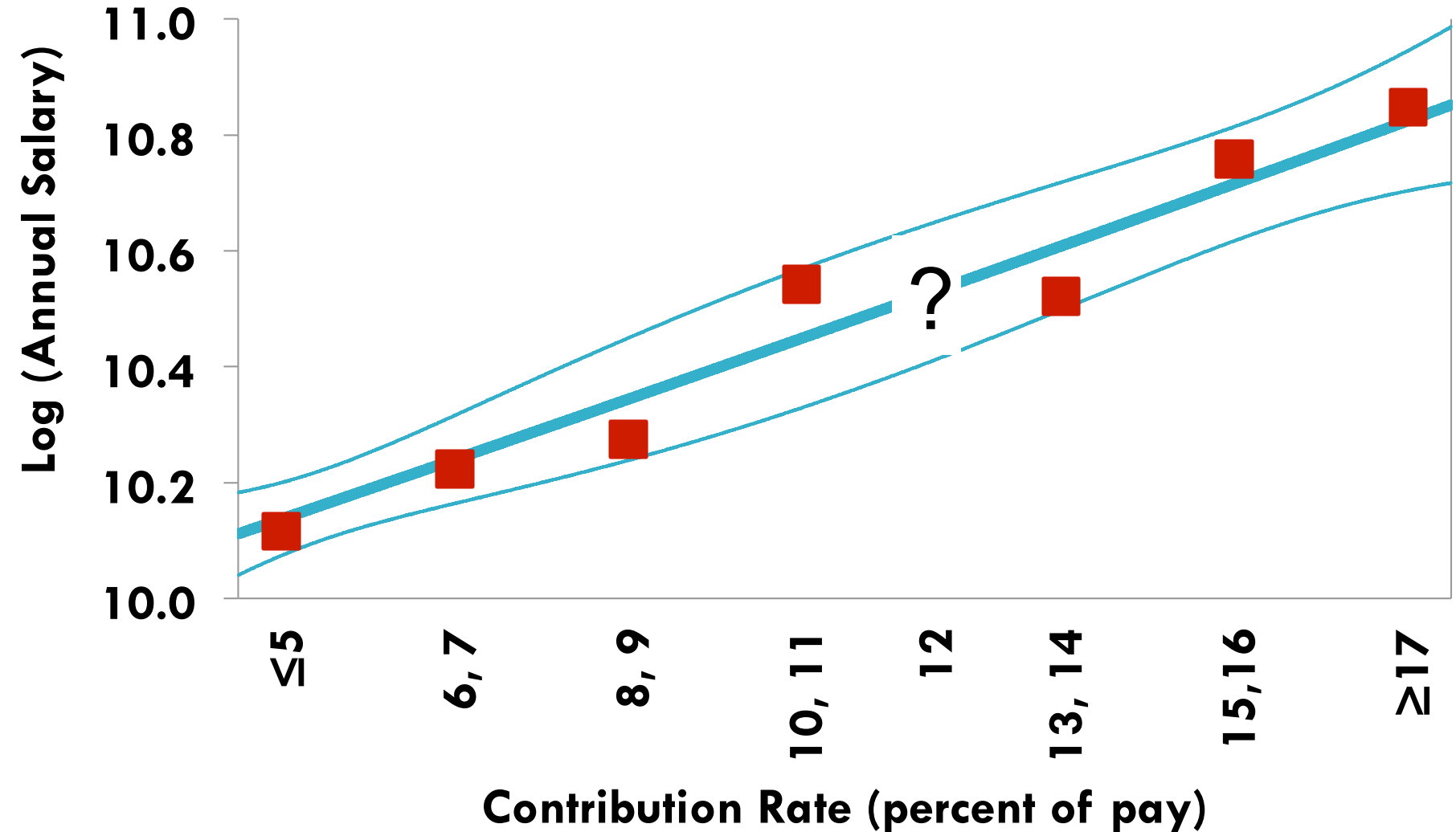


■ At Default ■ Opted Out <12% ■ Opted Out =12% ■ Opted Out >12%

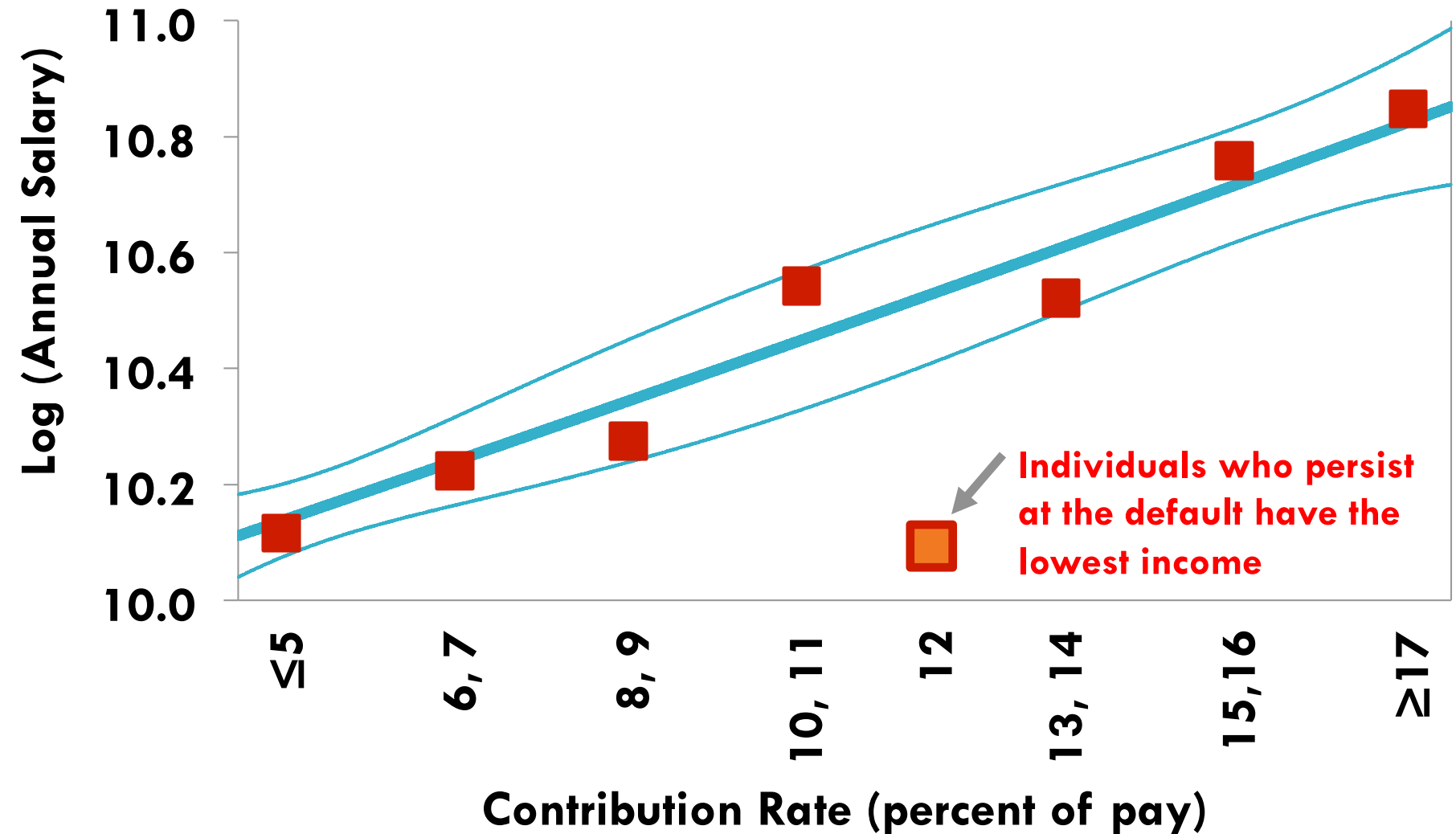
Distribution of Contribution Rates: 12 Months



Who Sticks at a Bad Default?



Who Sticks at a Bad Default?



Regression Analysis of Employee Salaries

	(1)	(2)
Contribution rate=12%	-0.351*** (0.051)	-0.321*** (0.048)
Contribution rate (percent of pay)	0.042*** (0.004)	0.030*** (0.004)
Female	--	-0.199*** (0.037)
Married	--	0.113*** (0.041)
Age (years)	--	0.013*** (0.003)
F.E. for first tenure month	No	Yes
R ²	0.150	0.287
Sample Size	N=671	N=671

Conclusion

- Probability of opting out falls with income
 - ▣ We have replicated this result with other companies
- This is true whether the default savings rate is set low or high.
- Policy recommendation: set defaults with low income households in mind
 - ▣ They are the ones who are likely to stick to the default whether or not the default is right for them