THE PERSISTENCE OF DEFAULTS:
WHEN, WHY AND FOR WHOM

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Automatic Enrollment and Savings Plan Participation

<table>
<thead>
<tr>
<th>Company</th>
<th>Before Automatic Enrollment</th>
<th>After Automatic Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>38%</td>
<td>96%</td>
</tr>
<tr>
<td>Company B</td>
<td>40%</td>
<td>85%</td>
</tr>
<tr>
<td>Company C</td>
<td>50%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Savings Plan Participation Rate at 12 Months of Tenure

Before Automatic Enrollment

After Automatic Enrollment
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

Future Consumption vs. Present Consumption

- Indifference curve
- Budget Frontier
- Dominated choice
Persistence of the Default Contribution Rate

Tenure month

At Default  Opted Out <12%  Opted Out =12%  Opted Out >12%
Distribution of Contribution Rates: 12 Months

Fraction of Employees

Employee Contribution Rate (percent of pay)
Who Sticks at a Bad Default?

Log (Annual Salary) vs. Contribution Rate (percent of pay)
Who Sticks at a Bad Default?

Individuals who persist at the default have the lowest income.
### Regression Analysis of Employee Salaries

<table>
<thead>
<tr>
<th>Feature</th>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution rate=12%</td>
<td>-0.351***</td>
<td>-0.321***</td>
</tr>
<tr>
<td>Contribution rate (percent of pay)</td>
<td>0.042***</td>
<td>0.030***</td>
</tr>
<tr>
<td>Female</td>
<td>--</td>
<td>-0.199***</td>
</tr>
<tr>
<td>Married</td>
<td>--</td>
<td>0.113***</td>
</tr>
<tr>
<td>Age (years)</td>
<td>--</td>
<td>0.013***</td>
</tr>
<tr>
<td>F.E. for first tenure month</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>R2</td>
<td>0.150</td>
<td>0.287</td>
</tr>
<tr>
<td>Sample Size</td>
<td>N=671</td>
<td>N=671</td>
</tr>
</tbody>
</table>
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