

## How Much Would OregonSaves Decrease Retirement Deficits in Oregon? Preliminary Evidence

The Employee Benefit Research Institute (EBRI) Retirement Security Projection Model® (RSPM®) estimates that the aggregate national retirement deficit or Retirement Savings Shortfall (RSS)<sup>1</sup> is \$4.13 trillion for U.S. households headed by those between the ages of 35 and 64.

One of the major contributors to this deficit is lack of access to workplace retirement plans among those whose employers do not sponsor such retirement plans.<sup>2</sup>

A federal auto-IRA proposal had been included in several versions of the Obama administration's budget, proposing that employers above a particular size threshold that do not currently offer an employment-based retirement plan would be required to automatically enroll their workers in an IRA. Likewise, the Automatic Retirement Plan Act of 2017 (ARPA) is a federal proposal geared to require greater adoption of auto-enrollment plans by employers. In a previous *Fast Facts* (#305, June 19, 2018) EBRI explored how much these federal proposals might reduce retirement deficits, estimating decreases ranging from \$268 billion to \$645 billion.

Not content to wait for a potential federal solution to this retirement plan coverage challenge, a number of states have launched their own retirement savings initiatives.

The first of these to come online, Oregon's program (OregonSaves) launched in July 2017 with a small pilot group of employers.<sup>3</sup> Since then, it has expanded in phases starting with larger employers in 2018. The registration deadlines for employers are as follow:

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Employer Size (Number of Employees)	Required Implementation Date
100 or more	15-Nov-17
50 to 99	15-May-18
20 to 49	15-Dec-18
10 to 19	15-May-19
5 to 9	15-Nov-19
4 or fewer	15-May-20

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<sup>1</sup> The Retirement Savings Shortfalls are present values at age 65 and represent the additional amount that individuals will have to save by age 65 to eliminate their expected deficits in retirement (which, depending on the simulated life-path, could be a relatively short period or could last decades). For more information see Jack VanDerhei, "Retirement Savings Shortfalls: Evidence from EBRI's Retirement Security Projection Model®," *EBRI Issue Brief* no. 410 (Employee Benefit Research Institute, February 2015).

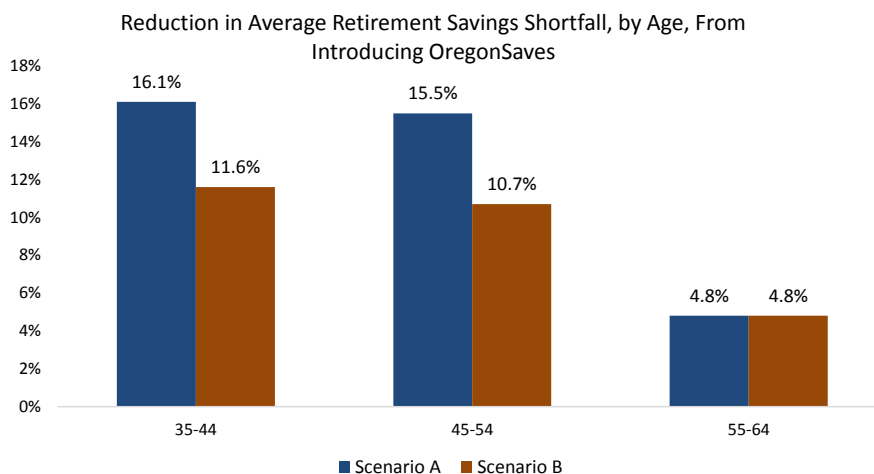
<sup>2</sup> See Figure 4 of Jack VanDerhei, "EBRI Retirement Security Projection Model®(RSPM) – Analyzing Policy and Design Proposals," *EBRI Issue Brief* no. 451 (June 2018) for an analysis of how retirement deficits are related to future years of eligibility in defined contribution plans.

<sup>3</sup> <https://www.oregonsaves.com/home/overview/faqs.html>

The employees' contributions are made post-tax and the contribution rate is defaulted to 5 percent. The rate automatically increases by 1 percent each year, until it reaches 10 percent (unless the employee opts out of automatic increases). Employees can opt out of the program or choose a savings rate of as little as 1 percent and as much as 100% of gross pay, up to annual Roth IRA contribution limits.<sup>4</sup>

## Reduction in Retirement Deficits From Introducing OregonSaves

The following figure provides the reduction in average Retirement Savings Shortfall, by age, from introducing OregonSaves under two alternative scenarios. Under Scenario A, we assume a 25 percent opt-out initially<sup>5</sup> but then assume in the second year that no one who is still contributing will opt out. Moreover, we assume that once the auto-escalation process starts, it will continue without opt-out until it reaches the 10 percent maximum (or the applicable Roth contribution constraint, if less). Under Scenario B, we take what might be thought of as more realistic assumptions; not only do we have a 25 percent opt-out rate initially, but we also attempt to model the distribution of individuals who chose a (non-zero) deferral other than 5 percent. We also start the auto-escalation process in year two in this scenario; however, we use survey data to predict whether—and if so, how soon—employees will opt out of the auto-escalation.



Source: EBRI Retirement Security Projection Model® Version 2258.

Scenario descriptions:

A: 25 percent opt out initially, auto escalation up to 10 percent, no opt out on escalation

B: 25 percent opt out initially, auto escalation up to 10 percent, opt out on escalation and reduction from initial 5 percent from VanDerhei, J. (2007). *The Expected Impact of Automatic Escalation of 401(k) Contributions on Retirement Income* (9th ed., vol. 28, pp. 1-8). EBRI Notes

Whether one believes scenario A or B is the more appropriate set of assumptions, it is clear from the Figure that younger age cohorts will benefit more from OregonSaves. For those currently ages 35-44, the average RSS reduction is 16.1 percent for Scenario A and 11.6 percent for Scenario B. The reductions stay approximately the same for those currently ages 45-54;<sup>6</sup> the average RSS reduction is 15.5 percent for Scenario A and 10.7 percent for Scenario B. However the reductions fall to less than half of those numbers for those currently ages 55-64

<sup>4</sup> For 2018, employees can save up to \$5,500 per year if they are younger than 50 and \$6,500 per year if they are 50 or older, as long as they have that much in compensation and are under certain income levels based on their modified adjusted gross income.

<sup>5</sup> Nevin Adams, “OregonSaves: One Year Later,” *NAPA Net*, 9 July 2018, discusses the 27 percent opt out rate currently reported for OregonSaves and the reasons that may account for it being so much larger than that typically found in the private sector. Other commentators have hypothesized that this number will likely decrease with time given increased familiarity with the system; however, it is important to note that the additional waves that will enter from now until the year 2020 will all have fewer than 50 employees, and that may result in a different opt out rate.

<sup>6</sup> This is primarily due to the impact of the catch-up limits at age 50.

(reflecting how little time they have to benefit from these modifications); the average RSS reduction is 4.8 percent for both Scenario A and Scenario B.

When additional information is available on the opt out rates across all employer sizes and information on the opt out rates for auto-escalation are available, EBRI will update this analysis and provide a much wider array of scenarios.<sup>7</sup>

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<sup>7</sup> For examples, see Jack VanDerhei, “Auto-IRAs: How Much Would They Increase the Probability of ‘Successful’ Retirements and Decrease Retirement Deficits? Preliminary Evidence from EBRI’s Retirement Security Projection Model®”, *EBRI Notes*, vol. 36, no. 6 (June 2015): 11–29.