EBRI FAST Facts
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Reducing the Retirement Deficit: EBRI Examines Four Possible Scenarios

The OregonSaves program began in July 2017 to provide defined contribution (DC) plan coverage for those workers in the state of Oregon who are not currently eligible for an employer-sponsored DC plan. The program requires employers to automatically enroll workers into a post-tax individual retirement account (IRA). The program's default contribution rate is 5 percent; contributions automatically increase by 1 percent each year until they reach 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 percent of gross pay, up to annual Roth IRA contribution limits.

With more than a year of experience with the OregonSaves plan, the Employee Benefit Research Institute (EBRI) asked the question: What if OregonSaves were a national program? How would that impact the retirement security of American workers? We further asked how a national version of OregonSaves would compare with nationwide implementation of 401(k) safe harbor plans[1] among employers who do not currently offer a defined benefit (DB) or DC plan. We examined both using EBRI's Retirement Security Projection Model® (RSPM). The incremental benefit of including a full auto portability system in addition to these changes was also simulated.

As shown in Figure 1 below, for the youngest age cohort (those currently ages 35–39), a "national" OregonSaves plan would provide a 16.3 percent reduction in retirement deficits, as measured by the simulated average retirement savings shortfalls (RSS) of workers that age. Not surprisingly, the reduction would be smaller for those closer to age 65. In that case, the reduction would be only 3.1 percent for those currently ages 60–64.

Overall, a national OregonSaves program would reduce the simulated retirement deficits for all households 35–64 by $456 billion (see Figure 2), or 12 percent of the $3.83 trillion under the baseline projected deficits.

In contrast, the 401(k) safe harbor plan expansion would reduce the retirement deficits for the youngest cohort by an additional 8.8 percentage points for an overall reduction of 25.2 percent. The additional reduction for those ages 40–44 would be slightly higher (9.2 percentage points), but by ages 60–64 the additional reduction would only be 2.5 percentage points. Overall, this scenario would reduce the simulated retirement deficits by $645 billion, or 17 percent of the $3.83 trillion under the baseline assumptions.

Finally, we added a full auto portability scenario to both of the retirement plan access expansion scenarios. Under the "national" OregonSaves plan with full auto portability, simulated retirement deficits would be reduced by $759 billion, or 20 percent of the $3.83 trillion under the baseline assumptions. Under the 401(k) safe harbor plan expansion with a full auto portability scenario, simulated retirement deficits would be reduced by $1,031 billion, or 27 percent of the $3.83 trillion under the baseline assumptions.

[1] A safe harbor 401(k) plan is similar to a traditional 401(k) plan, but, among other things, it must provide for employer contributions that are fully vested when made. These contributions may be employer matching contributions, limited to employees who defer, or employer contributions made on behalf of all eligible employees, regardless of whether they make elective deferrals. The safe harbor 401(k) plan is not subject to the complex annual nondiscrimination tests that apply to traditional 401(k) plans. Safe harbor 401(k) plans that do not provide any additional contributions in a year are exempted from the top-heavy rules of section 416 of the Internal Revenue Code.

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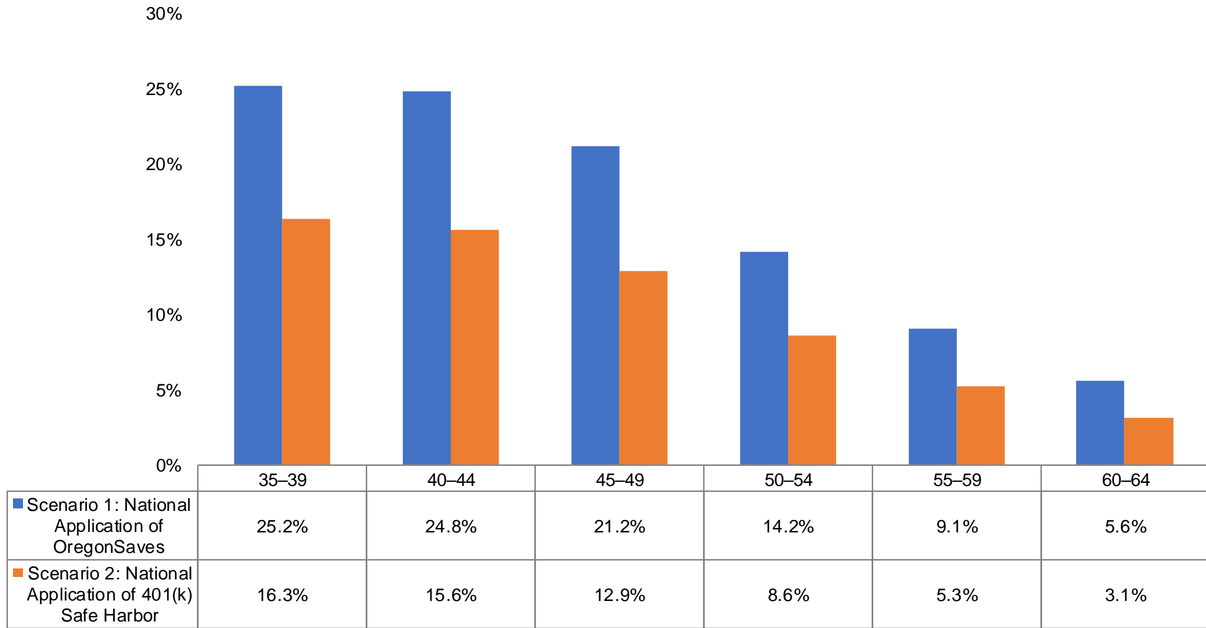
Figure 1
Reduction in Average Retirement Savings Shortfalls, by Age: National Application of OregonSaves vs. 401(k) Safe Harbor

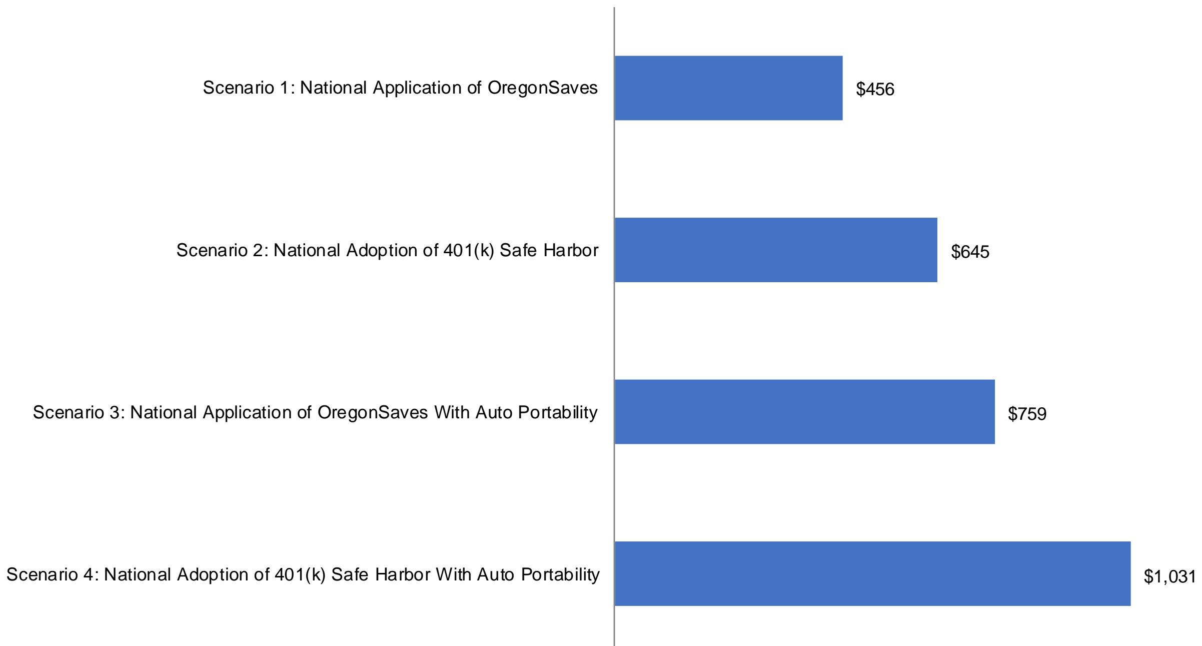


	35–39	40–44	45–49	50–54	55–59	60–64
Scenario 1: National Application of OregonSaves	25.2%	24.8%	21.2%	14.2%	9.1%	5.6%
Scenario 2: National Application of 401(k) Safe Harbor	16.3%	15.6%	12.9%	8.6%	5.3%	3.1%

Scenario 1: OregonSaves applies in all states. 25 percent opt-out initially, auto-escalation up to 10 percent, opt-out on escalation, and reduction from initial 5 percent from VanDerhei, Jack, "The Expected Impact of Automatic Escalation of 401(k) Contributions on Retirement Income," *EBRI Notes*, vol. 28, no. 9 (Employee Benefit Research Institute, September 2007).

Scenario 2 descriptions: All employers that are not currently offering a plan adopt a 401(k) safe habor plan with matching contributions. Opt-out assumptions based on empirical observations.

Figure 2
Reductions in Aggregate Retirement Savings Shortfalls (in Billions)



Source: EBRI Retirement Security Projection Model® Version 2258. Baseline Retirement Savings Shortfalls = $3.83 trillion.

Auto portability provides a system where a 401(k) participant's account from a former employer's retirement plan would be automatically combined with their active account in a new employer's plan. This would help keep the defined contribution (DC) assets in the retirement system and — in theory — reduce leakage from cashouts upon employment termination. This is important because studies have found that cashouts are the most significant form of leakage from DC plans, especially among workers with low plan balances. Previous EBRI research simulated the impact of defined contribution cashouts on the retirement outcomes as well as the beneficial impact from an auto portability system.

The EBRI report, "What if OregonSaves Went National: A Look at the Impact on Retirement Income Adequacy," is published as the October 31, 2019, *EBRI Issue Brief* and is available online here.

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