WORKING
PAPER

Evaluating Workplace Education for New Hires

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EVALUATING WORKPLACE EDUCATION FOR NEW HIRES

Executive Summary

The primary object of this research project is to determine the effectiveness of employer-provided financial education on the retirement saving choices of newly hired workers. Many newly hired workers do not take advantage of employer-provided retirement saving programs, which is particularly surprising when there are substantial employer matches to employee contributions. This project examines the role financial literacy and financial education can play in the saving decisions of newly hired workers. Because the project utilizes data from several large employers, a key contribution is uncovering how the responsiveness to interventions varies across types of employees (including low wage workers, those just entering the labor force, and differences between men and women) and between institutional arrangements (such as automatic enrollment, employer matches, and the existence of other retirement plans).

At the beginning of the research period, the investigators reached agreement with six employers to participate in the project. The employer partners are BB&T, Progress Energy, Pepsi Bottling Ventures, Martin Marietta Materials, North Carolina State University, and the Williams Companies. The first months of the grant were spent in developing a close working relationship with the employer partners. During that time the investigators collected data on each employer's benefit plans and on the type of information given to new employees during orientation and in the months following their employment.

Each of the employers in this study offers their employees the opportunity to contribute to a voluntary defined contribution plan, typically a 401(k) plan; however, the characteristics of these plans vary substantially across the employers. Two of the employers have adopted opt-out

plans that automatically enroll individuals in the retirement saving plan while new workers in the other employers must actively choose to enroll in the plan. All of the employers except one provide an employer match to employee contributions; however, the extent of the match varies from 50 percent to 100 percent. Some employers immediately start matching, while in other firms workers must wait for a year before the match is provided.

The investigators carefully selected their employer partners so that there would be considerable variation in the terms of the retirement saving programs. The diversity in the plan characteristics provides the investigators the opportunity to assess the impact of various forms of interventions by the employers. In addition to the characteristics of the plans, the investigators have also gathered information on the type of information provided to new employees, when the information is given, the method of delivery, and the extent of follow concerning the opportunity to participate in the retirement saving plan.

As a first step in this research, each of the employers agreed to provide administrative data on all employees hired in 2008 and 2009. These data included information on starting salary, date of employment, gender, and age. In addition, information on contributions to retirement saving plan as of May/June/July (depending on the timing of delivery) 2010 were submitted to the investigators. Thus, the investigators were able to calculate participation and contributions rates by date of hire for each person hired during those two years. This allowed for the determination how participation rates change due to length of service, automatic enrollment, becoming eligible for employer matches, and information provided to workers in the first months of employment. The report presents data on the number of workers hired by each employer in 2008 and 2009 along with participation and contribution rates by length of employment, age, salary level, and gender.

These data show the role of defaults and information in workers' decisions to participate in voluntary retirement savings plans and provide guidance for future work that will shape the interventions and controlled experiments that are proposed in our application for year 2 funding. The research thus far provides important insights into the determinants retirement saving rates in companies that offer voluntary defined contribution pension plans. Among our employers, participation rates are much higher among workers in the opt-out plans. Participation rates increase around the time that employer matches are provided or increased. There is little or no drop out among workers who were automatically enrolled in the retirement plan. However, among employers using an "opt-out" enrollment procedure, workers predominately remain at the default contribution level and therefore do not take full advantage of the employer match initially. The data suggest that there may be teachable moments when the provision of financial education and information can have its most pronounced effect. The researchers also found that the standard opt-in plans have lower enrollment rates for lower-income, younger, and female workers, while the employers using the auto-enrollment procedure had no statistically significant differences in plan participation between these groups. Finally, the researchers found evidence that for workers hired during the time period when the stock market was at its lowest point, plan participation was not only initially lower, but is still lower today.

Our employer partners are very enthusiastic about this research project and its findings. They remain interested in participating in the research and learning more about the interaction between their retirement programs and the extent and quality of information they are providing to their employees. They have provided input into the research methodology and regularly ask interesting questions that stimulate our thinking on the topic. We regularly provide our partners with updates on the research. Each of the employers has agreed to work with the investigators in the coming year to develop and conduct controlled experiments around the teachable moments identified in the research. These experiments will vary the information provided to new hires over time and across groups. These interventions are described in more detail in the Year 2 proposal submitted by the investigators. The results from analysis thus far indicate opportunities to explore the impact of specific types of information provided at key moments during the first few years of employment.