Optimal Default Retirement Saving Policies: Theory and Evidence from OregonSaves

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Abstract

I study the optimal default savings rate in automatic enrollment retirement saving plans. If individuals tend to procrastinate to make an active decision, the optimal default rate should be high to encourage people to opt out of the default. If individuals tend to actively undersave, the optimal default rate should be low to encourage people to stay at the default. Using exogenous increases in the default savings rate in OregonSaves, the first state-sponsored auto-enrollment plan in U.S., I identify individual adherence to the default rate. Using survey data from OregonSaves-eligible workers, I estimate the degree of undersaving if workers actively switch to a non-default rate. Combining individual-level administrative data with survey data, I suggest that the optimal default savings rate 7%.

JEL Classification: D14, D60, D91, G51, H00

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1 Introduction

Since the outbreak of the COVID-19 pandemic, millions of unemployed workers have lost access to employment-based retirement plans. Moreover, survey data show that about one-third of U.S. population have used their savings to cover daily spending.\footnote{Survey data from Pew Research Center in August 2020: https://www.pewsocialtrends.org/2020/09/24/economic-fallout-from-covid-19-continues-to-hit-lower-income-americans-the-hardest/} This has led to increasing discussion among policymakers and researchers about mitigating the longer-term impact of the COVID-19 pandemic on retirement security. A new state-level policy that was introduced before the pandemic and is now gaining more attention is the state-sponsored automatic enrollment retirement plans. This is an effort to expand the coverage of automatic enrollment retirement plans among private sector workers. Seven states (Oregon, Illinois, California, Maryland, Connecticut, New Jersey, and Colorado) have passed legislation that private sector employers must make state-sponsored auto-enrollment plans available to workers if employers do not offer a plan.

A large literature has documented that automatically enrolling individuals into a retirement plan significantly increases their savings (Madrian and Shea, 2001; Choi et al., 2004; Beshears et al., 2009; Chetty et al., 2014). Moreover, a substantial fraction of participants passively save at the default savings rate determined by the plan designer. Despite the fact that auto-enrollment and the default savings rate significantly influence savings behavior, little is known about how to optimally set the default savings rate.

In this paper, I theoretically analyze and empirically identify the determinants of the optimal default savings rate that maximizes individual welfare. I then provide an explicit formula for the optimal default savings rate. A growing body of literature on optimal defaults suggests that, when individuals tend to procrastinate to make an active savings decision, setting the default savings rate at an undesirable level can compel individuals to opt out of the default rate and actively select a non-default preferred rate (Carroll et al., 2009; Goldin...
and Reck, 2018). In other words, the primary welfare effect of the default savings rate is to protect individuals from inaction caused by procrastination, status quo bias, or inattention.

This argument is based on a key assumption that individuals would actively choose a non-default preferred rate that maximizes their lifetime utility if opting out of the default rate. Previous empirical studies found that individuals might underestimate the amount of retirement savings they need due to financial illiteracy, misinformation, or myopia (Goda et al., 2020).

Motivated by these findings, this paper proposes an additional welfare effect of the default savings rate, namely, to correct protect individuals from undersaving. The distinction between inaction and undersaving is of interest because the two types of behavioral biases have opposite implications for the optimal default savings rate. If individuals tend to procrastinate rather than making an active decision, it might be welfare-improving to set the default rate at an undesirable level to compel individuals to opt out of the default rate and choose a non-default savings rate. In contrast, if the non-default rate that individuals actively choose does not maximize their lifecycle utility, it might be welfare-improving to set the default rate at a desirable level to encourage individuals to stay at the default rate.

To understand how the optimal level of the default savings rate is shaped by its welfare effects, I propose a unified framework that incorporates both types of behavioral biases: inaction and undersaving. The behavioral biases arise because individuals and the policymaker maximize individual utility differently. Individuals rely on their perception of how their lifetime utility should be modeled. To maximize their perceived utility, commonly referred to as decision utility, individuals either passively accept the default savings rate or actively elect a non-default preferred savings rate. Given individual binary choices of either staying or opting out of the default rate, the policymaker with more information or who is more forward-looking than individuals maximizes the normative utility. That describes the reality of how individual choices actually affect their lifetime welfare.
Based on the unified welfare framework, I derive a formula for the optimal default savings rate as a function of reduced-form sufficient statistics that can be empirically identified. The welfare analysis and the sufficient statistic formula do not necessarily rely on specific underlying behavioral models of why the default options affect individual behavior. I directly characterize how individual responses to different levels of the default rate impact their welfare. This approach allows my welfare analysis to incorporate a range of underlying behavioral models that explain the default effect on individual behavior.²

I implement the formula for the optimal default savings rate empirically by estimating two sets of key statistics. The first is a semi-elasticity measuring how individuals react to different levels of the default savings rate at an aggregate level. Using the exogenous increase in the default savings rate in the first state-sponsored retirement plan in U.S., OregonSaves, I find that on average about half of passive savers no longer stayed at the default rate as the default rate increased by one percentage point. While extensive previous research has examined the effect of default contributions, the causal effect of the default savings rate on saving behavior remains largely unclear due to data limitations. Previous studies dating back to Madrian and Shea (2001) have relied on data from employer-sponsored retirement plans where employers often match employee contributions to encourage employees to save. The presence of employer matching confounds the impact of the default rate on saving behavior, as employees’ saving decisions are now influenced by both the default rate and employer matching. Given that the state-sponsored retirement plan, OregonSaves, does not allow employer matching, it provides a unique opportunity to tease out the causal effect of the default savings rate on retirement savings.

The second set of statistics are revealed time preferences to infer whether individuals

²The traditional approach to such welfare and optimal policy questions usually requires structural estimation of an underlying model’s primitives, and then a numerical simulation of the effects of policy changes. I instead identify a set of sufficient statistics directly measuring from exogenous policy variations and survey data.
would actively undersave if they were to opt out of the default rate. These statistics reveal
the extent to which the default savings rates improves individual welfare by protecting them
from actively undersaving. If individuals are unlikely to actively undersave, the welfare effect
of correcting undersaving is dominated by the opposite welfare effect of correcting inaction.
I conduct an online survey to elicit the time preferences for OregonSaves-eligible workers,
in which I find that on average workers weakly prefer spending most of their income now
over dividing the income between now and the future. Plugging the point estimates into the
optimal formula, I find the optimal default savings rate to be 7%.

Contributions to the Literature. The welfare analysis of the default savings rate
proposed in this paper is related to three strands of literature. First, the optimal design of
default retirement saving policies – the default savings rate in particular – has been a focus
in recent research. Based on some early discussions about the welfare impact of the default
rate (Thaler and Sunstein, 2003; Carroll et al., 2009), Bernheim et al. (2015) provided the
first explicit guidance that the optimal default savings rate should be set at the employer
matching cap in an employer-sponsored retirement plan. My analysis and the formula for the
optimal default savings rate complement Bernheim et al. (2015), as I evaluate the optimal
default without employer matching. I also develop the first sufficient statistics formula for
the optimal default rate that directly connects the causal effect of the default rate with the
welfare analysis.

The present paper also contributes to the literature on optimal public policy with behav-
ioral agents, which has been studied extensively in the context of income tax (Saez, 2001,
2002; Farhi and Gabaix, 2020), commodity tax (O’Donoghue and Rabin, 2006; Allcott et al.,
2019), unemployment insurance (Chetty, 2008), and energy policy (Allcott et al., 2014; All-
cott and Taubinsky, 2015). I extend this literature to “nudge” policies, and in particular

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3Chetty (2009); Mullainathan et al. (2012); Chetty (2015) summarize how to incorporate behavioral biases
into the welfare analysis of public policy.
the default retirement savings rate. Farhi and Gabaix (2020) discussed optimal nudges in taxation, while I focus on optimal nudges in the context of default saving policies.

Finally, the present paper sheds light on two long-standing questions in household finance. The first is why a substantial fraction of American households saves so little. Hubbard et al. (1995) and Scholz et al. (2006) argue that the explanation largely lies in asset-based and means-tested welfare programs and Social Security benefits. Here I provide an alternative explanation: one reason people do not save is that they have limited access to automatic enrollment retirement plans. Many research in development economics have studied the impact of expanding access to auto-enrollment retirement plans. Blumenstock et al. (2018) used experimental interventions in Afghanistan to conclude that automatic enrollment not only increases savings, but also helps cultivate a saving habit. Carvalho et al. (2016) found that expanding access to savings accounts improves financial planning.\(^4\) The second question I address pertains to the optimal level of savings. There is little consensus on the optimal level of retirement savings, given the substantial heterogeneity in health, expected life expectancy, retirement lifestyle, and family structure across the population. Instead of thinking about individuals’ optimal level of savings, I provide a new perspective stemming from social welfare. Retirees lacking sufficient personal savings have to rely on social safety nets which increase the fiscal burden imposed on all taxpayers to finance these social programs. From a policy perspective, social welfare is maximized when the majority of people who can afford to save do so, leaving means-tested welfare programs to support only those people who cannot afford to save.

The rest of this paper is organized as follows. Section 2 describes the institutional background of the OregonSaves program and provides descriptive statistics for the first two years of the program as of April 2020. Section 3 discusses the welfare impact of the default rate in

\(^4\)Related research is also conducted in developed countries. Epper et al. (2020) used Danish administrative data and found that more impatient individuals are less likely to save or accumulate wealth than patient individuals, which could drive wealth inequality exceeding income inequality.
a sufficient statistic framework and presents an explicit formula for the optimal default rate. Section 4 describes the identification strategies and estimation results of the key statistics in the optimal default formula using OregonSaves administrative and survey data. In Section 5, I calculate the optimal default rate using the estimation results from Section 4. Section 6 concludes.

2 An Overview of OregonSaves

In this section, I provide the institutional background and some preliminary empirical evidence on the first state-based mandatory retirement savings program in the United States, called OregonSaves.

2.1 Institutional Background

The 2015 passage of Oregon House Bill 2960 set into motion the creation of the OregonSaves program, the first U.S. state-sponsored retirement savings program. The Oregon Retirement Savings Board was given statutory authority to research and design the plan, with a target launch date of July 2017. OregonSaves requires that all private-sector employers including non-profit organizations either offer their own retirement plans or enroll their employees in OregonSaves. Besides Oregon, nine states have passed the legislation to establish a state-sponsored retirement plan to date. Table 1 provides information on the state-sponsored plans across the states.

OregonSaves is structured as a Roth Individual Retirement Account (IRA), with automatic enrollment, a default (after-tax)savings rate of 5%, and employee-only contributions. Once an employer registers and provides OregonSaves with employees data, employees enter a 30-day enrollment period during which time their identity is verified and employees may
choose to opt out. A Roth account\(^5\) is created at the end of the enrollment period for each employee that has not opted out and whose identity is successfully verified. Enrollment in OregonSaves sets contributions levels at a 5\% default rate, though employees can choose to save at different rates (up to 100\% of pay), or opt out at any time. By default, the first $1,000 contributed into each participant’s OregonSaves account is invested in a money market account. When a saver’s account balance reaches $1,000, subsequent contributions default into an age-appropriate target date fund.

OregonSaves differs from conventional employer-sponsored retirement plans such as 401(k) or 403(b) plans in two key ways. First, OregonSaves participants may access their contributions invested in the money market account without penalty. The OregonSaves account is a combination of an emergency savings account (first $1,000 withdrawal without penalty), and a retirement savings account (long-term investment returns from target date funds). Second, OregonSaves allows workers to contribute to the same account via different employers. In other words, workers can accumulate retirement savings in the same account over time. This feature of account-specific contributions can potentially encourage employees to accumulate more personal savings, especially for those working in smaller firms with high job turnover rates.

OregonSaves was rolled out to private-sector workers lacking access to workplace retirement plans in seven waves. A first wave of firms volunteered to be in the pilot program, followed by six compulsory waves. Employer waves were determined by the number of employees at the firm, with larger employers having to register earlier than smaller firms. For example, the largest firms (100+ employees) began a compulsory registration period on October 1, 2017. The smallest firms (4 or fewer employees) was scheduled to start enrolling May 12, 2020, but the compulsory registration period for smaller firms has been postponed.

\(^5\)Contributions to a Roth account are not tax free, while qualified withdrawals and earnings in the account are tax-free.
to 2021 due to the disruption of the COVID-19 pandemic. In practice, however, some smaller firms did register earlier than required, and some unknown number of larger firms may not have registered to date. It has been announced that an employer penalty will be levied on companies that do not provide access to their own retirement plans or to OregonSaves for employees, but the date for implementation of the fines has been pushed back.

Once an employer is registered, the firm submits employees’ Social Security numbers, dates of birth, and names to OregonSaves, after which a 30-day enrollment period begins. During the enrollment period, employees may opt out of the program. If they do not do so during the first 15 days, OregonSaves then conducts an identity verification check. Employees who are successfully identified are then deemed eligible for enrollment at the end of the 30-day window.

2.2 Data and Descriptive Statistics

Using individual-level administrative data from the first three years of the OregonSaves program, I present empirical evidence on the impact of OregonSaves on expanding access to workplace retirement plans and on savings.\(^6\)

As of April 30, 2020, 11,088 employers had registered their businesses in OregonSaves. This means that they previously did not offer employer-sponsored retirement plans, and all current and future employees would have access to OregonSaves with an option to opt out. About 263,660 individuals had information provided to OregonSaves by an employer, and median firm size was 10. Employees’ median age in 2019 was 33. As of April 30, 2020, OregonSaves had accumulated $51 million in total assets.

Panel A of Table 2 itemizes the status of the 263,660 employees who had a chance to enroll in OregonSaves. During the enrollment window, 88,246 (33.5%) employees opted out, while another 23,076 (8.8%) employees opted out after the enrollment window. There were

\(^6\)Additional descriptive results are documented in Chalmers et al. (2019).
30,808 (11.7%) employees awaiting the background check, which, in many cases, extends their pending status. There were 11,760 (4.5%) employees who enrolled and passed their background checks, but their employers had not yet submitted payroll. Finally, 109,770 (41.6%) names were enrolled, where the background check was successfully completed, the employer was submitting deferrals for at least one employee, and the employee had not opted out. In a sense, these are the employees who may now participate in OregonSaves. Nevertheless, the 30,808 pending cases and the 11,760 employees still to contribute are also potential participants for whom I cannot yet observe their choices.

Panel B of Table 2 describes the group I term Eligible Active Workers (EAW): these are employees eligible for an OregonSaves account and who appear to be actively working for at least one employer making payroll contributions for at least one employee. To be more precise, the EAW group includes those who opted out of OregonSaves while still actively working, plus people with a positive account balance in the past but currently a zero balance, plus people with a positive account balance currently, plus people with a positive balance and positive current contribution. This group comprises 152,112 people. In this group, 23,579 individuals made a monthly contribution to their accounts in April 2020, with a median contribution amount of $90. For employees with a positive contribution amount and a positive savings rate, I estimate their median monthly incomes (=contribution/contribution rate) to be $1,800. By way of comparison, the March 2018 Current Population Survey reports average monthly income of $4,843 (and median income of $3,411) for individuals who worked in the previous year. This comparison supports the conclusion that OregonSaves serves a population with low- and mid- income levels.

Panel A of Table 3 presents data for the 67,668 OregonSaves participants having a positive OregonSaves account balance. Given total assets of $51 million, the median balance per account stood at $316 as of April 2020. Panel B of Table 3 shows that 46,179 of the 67,668 with a positive balance are classified as eligible active workers. The median account balance...
3 A Sufficient Statistic Framework for the Optimal Default Savings Rate

Optimally designing the default savings rate is one of the key policy considerations for state and municipal governments interested in launching a government-sponsored retirement savings program similar to OregonSaves. In this section, I develop a sufficient statistics framework to derive the optimal default rate depending on statistics that can be directly estimated from the OregonSaves data described in the previous section.

3.1 Setup

In a two-period intertemporal choice model, workers need to divide their labor income $Z$ between consumption and savings for retirement. Each worker has a underlying preferred savings rate, denoted $\theta$. The preferred savings rate is determined by three exogenous parameters, her income $Z$, her normative time preference $\delta$, and her behavioral time preference $\gamma$. The normative time preference $\delta$ captures the normative reasons to discount future utility (e.g. non-labor wealth, family structure, health, or bequest motive). The behavioral time preference $\delta$ captures the behavioral reasons to underestimate future utility (e.g. time inconsistency or misinformation). Appendix A presents details about the microfoundation of the preferred saving rate $\theta$. Workers with the same preferred saving rate are defined as the same type, $\theta := (Z, \delta, \gamma) \in \Theta$, where the density of each type is $m(\theta)$.

A policymaker launches an automatic enrollment retirement savings program with a default saving rate $r \in (0, 1]$. The default saving amount for a given type-$\theta$ of workers with earnings $Z(\theta)$ is $R(\theta) = r \cdot Z(\theta)$. Each type of workers chooses a pension saving amount $P(\theta)$
from two discrete options: the default saving amount $R(\theta)$ or the preferred saving amount $S(\theta)$. The preferred saving amount equals the preferred savings rate $\theta$ times their income: $S(\theta) = \theta \cdot Z(\theta)$. Workers allocate their income between consumption $C$ and savings $P$. The indirect decision utility function for a type-$\theta$ worker in the presence of a default rate $r$ is expressed as:

$$U(C(\theta), P(\theta); \theta, r, K) = u(C(\theta)) + \gamma(\theta)\delta(\theta)v(P(\theta)) - K \cdot 1\{P(\theta) = S(\theta)\},$$

where $C(\theta) + P(\theta) = Z(\theta)$ and $P(\theta) \in \{S(\theta), R(\theta)\}$. The functions $u(\cdot)$ and $v(\cdot)$ are both increasing and concave. The disutility $K$ in the presence of a non-zero default rate represents the perceived costs of actively opting out of the default choice. I will refer to $K$ as the opt-out costs,\(^7\) which include but are not limited to time and psychological costs of switching from the default rate to the worker’s preferred rate. I assume that the preferred saving rate $\theta$, which determines each worker’s type, is independent of the default rate $r$.

The policymaker thinks workers should maximize normative utility $N$, which can differ from decision utility $U$. The indirect normative utility function $N$ is formally expressed as:

$$N(C(\theta), P(\theta); \theta, r, K, \pi) = u(C(\theta)) + \delta(\theta)v(P(\theta)) - \pi K \cdot 1\{P(\theta) = S(\theta)\}$$

$$= U + (1 - \gamma(\theta))\delta(\theta)v(P(\theta)) + (1 - \pi)K \cdot 1\{P(\theta) = S(\theta)\},$$

subject to the same budget constraint $C(\theta) + P(\theta) = Z(\theta)$. Following Goldin and Reck (2018), I define $\pi K$ as the fraction of the normative opt-out costs: that is the realized cost after workers take action to opt out of the default that reduces their welfare by $\pi K$. The remaining fraction $(1 - \pi)K$ is the psychological opt-out costs that opted-out workers perceive ex ante but do not affect their welfare ex post. Similar to $K$, $\pi$ is assumed to be

\(^7\)The opt-out costs $K$ specifically mean the costs of opting out of the default option, not opting out of the savings program. Opting out of the program is considered as electing a zero saving rate.
homogeneous across the population.

Equation (2) presents two sources of discrepancy between $U$ and $N$. First, from the policymaker’s perspective, workers might undervalue the utility of savings. The size of the underestimation, $(1 - \gamma(\theta))\delta(\theta)v(P(\theta))$, is defined as the welfare internality of savings. This is the welfare gain of savings that workers do not consider when making saving decisions. One potential cause of this underestimation is due to the difference in time preferences between workers and the policymaker. Specifically, the policymaker is more forward-looking and discounts the value of future utility less than workers. This hypothesis is related to a large body of literature examining the disagreement in time preferences between the long-run self and the short-run self, where a policymaker can act like the long-run self (Laibson, 1997; O’Donoghue and Rabin, 1999). Moser and Olea de Souza e Silva (2017) and Choukhmane (2018) analyze the welfare consequences of time inconsistency in the context of retirement saving policies. A paper by Ericson and Laibson (2018) uses the term “present-focused” preferences to characterize individuals overestimating immediate utility compared to future utility documented in models such as hyperbolic and quasi-hyperbolic discounting, procrastination, and naivetè. Another potential reason for the underestimation of the utility of savings could be misinformation: that is, the policymaker may have more accurate information than do workers regarding public sources of retirement income such as Social Security and means-tested social transfers. Based on ambiguous or incorrect information, workers could be too optimistic about retirement support from social insurance and undervalue the importance of accumulating personal savings.

A second source of discrepancy between decision utility $U$ and normative utility $N$ could be that workers overlook the benefit from making an active decision. The size of the benefit from taking action, $(1 - \pi)K$, is defined as the welfare internality of action. This is the welfare gain of taking action because workers perceive the cost before opting out of the default but the cost does not exist after opting out. One potential cause is that workers
overestimate opt-out costs. Such a miscalculation could explain why people stay at the
default even though it may not be their preferred choice (Bernheim et al., 2015; Goldin and
Reck, 2018; Luco, 2019). Underestimation of the benefit from making an active decision
could also be caused by inattention (Caplin and Dean, 2015; Karlan et al., 2016; Gabaix,
2019). In the context of retirement savings, workers may fail to pay attention to planning
for retirement or notice any policy changes that could impact their retirement security, so
that they remain at the default.

Given worker’s type-specific choices of consumption $C(\theta)$ and savings $P(\theta) \in \{S(\theta), R(\theta)\}$,
the policymaker will select a default rate $r$ to maximize aggregate normative utility weighted
by type-specific Pareto weights $\alpha(\theta)$:

$$W(r) = \max_r \int_\Theta \alpha(\theta) N(C(\theta), P(\theta); \theta, r, K, \pi) dm(\theta)$$

subject to individual optimization

$$\{C(\theta), P(\theta)\} = \arg \max_{\{C, P\}} U(C, P; \theta, r, K)$$

where

$$C + P = Z(\theta) \text{ for all } \theta.$$

### 3.2 Optimal Default Savings Rate

Let $r^*$ denote the optimal default savings rate. Next I consider the welfare effect of a marginal
increase in the optimal default rate from $r^*$ to $r^* + dr$. Based on the individual optimization
problem characterized in Equation (4), workers of the same type select the same contribution
amount $P(\theta) \in \{S(\theta), R(\theta)\}$. For a continuum of types $\theta \in [0, 1]$, workers whose preferred saving rates are between $\theta_l$ and $\theta_h$ will adhere to the default saving rate where $\theta_l < d < \theta_h$. The density of workers saving at the default $m_r = m_l + m_h = \int_{\theta=d}^{\theta_l} dm(\theta) + \int_{\theta=d}^{\theta_h} dm(\theta)$.

I define workers who remain at the default as passive savers, where $m_l$ is the fraction of passive savers (in the population) whose preferred rates are below the default, and $m_h$ is the fraction of passive savers whose preferred rates are above the default. I refer to $m_l$ as $l$-type passive savers, and $m_h$ as $h$-type passive savers. Figure 1 displays how each type of passive savers responds to a marginal perturbation of the optimal default rate.

To derive a formula for the optimal default rate that is empirically implementable from the theoretical welfare framework, I introduce the following sufficient statistics:

- $\epsilon_l$: the (observed) semi-elasticity of the percentage change in the density of $l$-type passive savers with preferred rates below the default ($dm_l$) with respect to all passive savers ($m_r = m_l + m_h$), as the default rate increases by 1 percentage point ($dr$), equal to $\frac{dm_l}{m_r} \frac{1}{dr}$;

- $\epsilon_h$: the (observed) semi-elasticity of the percentage change in the density of $h$-type passive savers with preferred rates above the default ($dm_h$) with respect to all passive savers ($m_r = m_l + m_h$), as the default rate increases by 1 percentage point ($dr$), equal to $\frac{dm_h}{m_r} \frac{1}{dr}$;

- $g(\theta)$: type-specific social marginal welfare weights. This indicates the social marginal value of savings for a given type-$s$ worker relative to the marginal value of public funds ($\lambda$) evaluated at the optimal default rate in units of dollars. The social marginal welfare weight measures the social value of each dollar that a type-$\theta$ worker saves from the policymaker’s perspective. Specifically, the policymaker values an additional dollar of savings from a type-$\theta$ worker as much as $g(\theta)$ from public funds. The welfare weights
can be formally expressed as:

\[ g(\theta) := \frac{\alpha(\theta)v'_{R^*(\theta)}}{\lambda}. \] (5)

The derivative \( v'_{R^*(\theta)} := \frac{dv(R^*(\theta))}{dR^*(\theta)} \), where \( R^*(\theta) = r^*Z(\theta) \), \( r^* \) is the optimal default rate, and \( Z(\theta) \) is the labor income for type-\( \theta \) workers.

The welfare analysis is also based on several key assumptions sufficient to derive the optimal default rate:

1. Individuals make their saving decisions once at the beginning of their working lives.\(^8\)

2. The total opt-out costs \( K \) and the fraction of the normative opt-out costs \( \pi \) are homogeneous across types.

3. Individual preferred rates \( s \) are independent of the default rate \( r \).

4. The utility function of savings \( P(\theta) \) is linear: \( v(P(\theta)) = P(\theta) \).

Next I characterize the optimal default rate \( r^* \) based on the policymaker’s problem described in Equations (3) - (4). A marginal increase in \( r^* \) does not impact active savers because they have opted out of the default before the marginal increase. As previously defined, active savers are those whose preferred rates are below \( \theta_l \) or above \( \theta_h \).

A marginal increase in \( r^* \) affects passive savers who accept the default before the marginal increase. Their preferred rates are between \( \theta_l \) and \( \theta_h \). The welfare effect on passive savers can be decomposed into three components, which are visualized in Figure 1. The first component, which is expressed as the first term in Equation (6), represents the mechanical increase in

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\(^8\)Most retirement saving plans allow people to adjust their savings rates anytime, although in reality few people do so. Usually plan participants do not make active adjustments after they make their initial saving decisions (accepting the default, switching to a non-default rate, or opting out of the program) unless they face some exogenous shocks (i.e., income or unemployment shocks).
savings for passive savers as the default rate that they adhere to marginally increases. For a type-θ passive saver, the increase in savings changes her normative utility by \( \frac{dN(R^*(\theta))}{dr} \).

The second component of the welfare effect is the increase in \( h \)-type passive savers. \( H \)-type passive savers, denoted \( m_h \), are individuals with a preferred rate above the optimal default \( r^* \) and choosing to stay at the default because their preferred rate is close to the default. When the default rate is \( r^* \), some \( h \)-type individuals become active savers by opting out of the default rate. When the default rate marginally increases to \( r^* + dr \), \( h \)-type individuals on the margin between opting out and adhering to the default choose to stay at the default because the new default rate \( r^* + dr \) is closer to their preferred rate than \( r^* \). The increase in the fraction of \( h \)-type passive savers is expressed as \( \frac{dm_h}{dr} \) in the second term of Equation (6). Additionally, \( h \)-type individuals on the margin change their savings level. When they are active savers under \( r^* \), they save at their preferred amount: \( S_h = s_h Z_h \). When they are passive savers under \( r^* + dr \), they save at the default amount: \( R_h = (r^* + dr)Z_h \). Consequently, the normative utility changes from \( N(R_h) \) to \( N(S_h) \) as the default rate marginally increases.

The third component of the welfare effect is the decrease in \( l \)-type passive savers. \( L \)-type passive savers, denoted \( m_l \), are individuals with a preferred rate below the optimal default \( r^* \) and choosing to stay at the default. When the default rate is \( r^* \), some \( l \)-type individuals are passive savers by accepting the default rate. When the default rate marginally increases to \( r^* + dr \), \( l \)-type individuals on the margin choose to opt out of the default because the new default rate \( r^* + dr \) is farther from their preferred rate than \( r^* \). The decrease in the fraction of \( l \)-type passive savers is expressed as \( \frac{dm_l}{dr} \) in the third term of Equation (6). \( L \)-type individuals on the margin also change their savings level. When they are passive savers under \( r^* \), they save at their default amount: \( R_l = r^* Z_l \). When they are active savers under \( r^* + dr \),
they save at their preferred amount: \( S_l = s_lZ_l \). Therefore, the normative utility changes from \( N(S_l) \) to \( N(R_l) \) as the default rate marginally increases. The first-order condition for the social welfare function \( W \) in Equation (3) equals zero at the optimum:\(^{10}\)

\[
\frac{dW(r^*)}{dr} = \frac{d}{dr} \int_{\theta_l}^{\theta_h} \alpha(\theta)N(P(\theta))dm(\theta) \\
\approx \int_{\theta_l}^{\theta_h} \alpha(\theta) \frac{dN(R^*(\theta))}{dr}dm(\theta) + \frac{dm_h}{dm_l} \frac{d}{dr} \alpha_h(N(R_h) - N(S_h)) - \frac{dm_l}{dm_h} \alpha_l(N(S_l) - N(R_l)) \\
= 0.
\]

**Proposition 1.** Based on Assumptions 1-4, the default savings rate satisfies the following equation at the optimum:

\[
r^* = \frac{dI + dS_l - dS_h + dK_l - dK_h}{dR_l - dR_h}.
\]

**Proof.** See Appendix B. The overall welfare effect can be decomposed into several terms after the optimal default rate marginally increases from \( r^* \) to \( r^* + dr \):

1. The aggregate weighted social welfare gain to all passive savers on the intensive margin \( dI \): As the default rate increases marginally increases, \( l \)-type passive savers on the intensive margin increases their savings by \( dr \cdot Z_l \). Although they might feel indifferent to the marginal policy change, there is an increase in the welfare internality of savings, which is the realized welfare gain to passive savers that they do not internalize. Based on Equation (1), the marginal increase in the welfare internality of savings for a \( l \)-type worker is \( (1 - \gamma_l) \delta_l dr Z \), and the marginal increase is weighted by \( g_l \) in terms of its impact.
on social welfare. The social welfare gain on the intensive margin is then weighted by the fraction of $l$-type passive savers $\frac{m_l}{m_r} \cdot g_l \cdot (1 - \gamma_l) \delta_l dr Z_l$. Analogously, the social welfare gain to $h$-type passive savers is $\frac{m_h}{m_r} \cdot g_h \cdot (1 - \gamma_h) \delta_h dr Z_h$. The aggregate weighted social welfare gain on the intensive margin is:

$$dI = \frac{m_l}{m_r} \cdot g_l \cdot (1 - \gamma_l) \delta_l dr Z_l + \frac{m_h}{m_r} \cdot g_h \cdot (1 - \gamma_h) \delta_h dr Z_h.$$ 

The optimal default $r^*$ increases with $dI$. This suggests that, if passive savers benefit from saving at the default level, raising the default savings rate improves social welfare.

2. The welfare gain to $l$-type workers for switching to their preferred rate $s_l$ under the new default $r^* + dr$, denoted $dS_l$: As the new default rate is farther from their preferred rate, the fraction of the $l$-type workers on the margin of opting out of the default is: $\frac{dm_l}{m_r} = dr|\epsilon_l|$. Each $l$-type worker opting out of the default obtains the welfare internality of saving at their preferred rate $(1 - \gamma_l) \delta_l \theta_l Z_l$ weighted by $g_l$. The total social welfare gain is: $dS_l = dr|\epsilon_l| \cdot g_l \cdot (1 - \gamma_l) \delta_l \theta_l Z_l$.

The optimal default $r^*$ increases with $dS_l$. If $l$-type workers benefit from saving at their preferred rate, the policymaker should further raise the default rate and encourage $l$-type workers to make an active decision and elect their preferred rates.

3. The social welfare loss to $l$-type workers for opting out of the default rate, denoted $dR_l$: As $l$-type workers on the margin $(dr|\epsilon_l|)$ stop saving at the default, the social welfare loss equals the welfare internality of saving at the default $(1 - \gamma_l) \delta_l r^* Z_l$ weighted by its social marginal weight $g_l$. The total social welfare loss to $l$-type workers on the margin for no longer saving at the default is: $dR_l \cdot r^* = dr|\epsilon_l| \cdot g_l \cdot (1 - \gamma_l) \delta_l r^* Z_l$.

The optimal default $r^*$ decreases with $dR_l$. If $l$-type workers generate large welfare loss by opting out of the default, the policymaker should lower the default to keep them from opting out.

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11 By the definition of $\epsilon_l$ in Section 3.2, $\epsilon_l = \frac{dm_l}{m_r} \frac{1}{dr}$. 

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4. The social welfare loss to $h$-type workers for no longer saving at their preferred rate $s_h$, denoted $dS_h$: As the new default moves closer to $h$-type workers’ preference, the fraction of $h$-type workers on the margin of starting to save at the default ($\frac{dm_h}{m_r} = dr|\epsilon_h|)_{12}$ no longer have the welfare internality of saving at their preferred rate, $(1 - \gamma_h)\delta_h\theta_h Z_h$, weighted by $g_h$. The welfare loss to $h$-type workers for no longer saving at their preference is: $dS_h = dr|\epsilon_h| \cdot g_h \cdot (1 - \gamma_h)\delta_h\theta_h Z_h$.

The optimal default $r^*$ decreases with $dS_h$. If $h$-type workers significantly benefit from saving at their preferred rate, the policymaker should lower the default rate so that $h$-type workers do not accept the default as it is far from their preference.

5. The social welfare gain to $h$-type workers for starting to save at the default rate $dR_h$: As $h$-type workers on the margin $(dr|\epsilon_h|)$ start saving at the default, the social welfare gain for each $l$-type worker equals the welfare internality of saving at the default $(1 - \gamma_h)\delta_h r^* Z_h$ weighted by $g_h$. The total social welfare gain to $l$-type workers on the margin for starting to save at the default is: $dR_h \cdot r^* = dr|\epsilon_h| \cdot g_h \cdot (1 - \gamma_h)\delta_h r^* Z_h$.

The optimal default $r^*$ increases with $dR_h$. If $h$-type workers benefit from saving at the default rate, then the policymaker should raise the default to encourage them to save at the default.

6. The social welfare gain to $l$-type workers for making an active choice $dK_l$: For each $l$-type worker on the margin of electing their preferred rate, they obtain the positive welfare internality of action measured by $(1 - \pi)K$. It could be interpreted as the positive welfare gain for overcoming inertia and making an active savings decision. The welfare internality of action has social consequences because the marginal personal welfare gain can improve social welfare by $g_l$. The social welfare gain to all $l$-type workers on the margin $(dr|\epsilon_l|)$ for taking action is: $dK_l = dr|\epsilon_l| \cdot g_l \cdot (1 - \pi)K$.

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12 By the definition of $\epsilon_h$ in Section 3.2, $\epsilon_h = \frac{dm_h}{m_r} \frac{1}{d_r}$. 

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The optimal default $r^*$ increases with $dK_l$. If $l$-type workers benefit from making an active choice, the policymaker should raise the default to encourage them to opt out of the default.

7. The social welfare loss to $h$-type workers for no longer making an active choice is

$$\frac{dK_h}{dr} = |\epsilon_h| g_h (1 - \pi) K.$$

For each $h$-type worker on the margin of accepting the default, they become inactive and lose the welfare internality of action, $(1 - \pi) K$, weighted by $g_h$. The social welfare loss to all $h$-type workers on the margin of no longer taking action is:

$$dK_h = dr |\epsilon_h| \cdot g_h \cdot (1 - \pi) K.$$

The optimal default $r^*$ decreases with $dK_h$. If $h$-type workers significantly benefit from making an active choice, the policymaker should lower the default so that they have incentives to opt out of the default that is far from their preferred rate.

4 Estimating Key Parameters for the Optimal Default Savings Rate

In this section, I outline empirical strategies to identify key statistics to calculate the optimal default savings rate in Proposition 1 using OregonSaves data described in Section 2. Table 8 lists all the statistics that need to be estimated and their values. Key statistics discussed in this section are:

- $\epsilon_l$: the (observed) semi-elasticity of the percentage change in the fraction of $l$-type passive savers (with preferred rates below the default, denoted $dm_l$) with respect to the default rate

- $\epsilon_h$: the (observed) semi-elasticity of the percentage change in the fraction of $h$-type passive savers (with preferred rates above the default, denoted $dm_h$) with respect to the default rate;
• \(\delta_l, \delta_h\): the normative time preference for \(l\)- and \(h\)-type passive savers; and

• \(\gamma_l, \gamma_h\): the behavioral time preference for \(l\)- and \(h\)-type passive savers;

4.1 Semi-Elasticities \(\epsilon_l\) and \(\epsilon_h\)

The (observed) semi-elasticity \(\epsilon_l\) measures how many \(l\)-type passive savers stop saving at the default rate as the default marginally increases. \(L\)-type passive savers are previously defined as savers accepting the default and having a preferred rate below the default. As illustrated in Section 3.2 and Figure 1, when the default rate marginally increases, it further deviates from the preferred rates of some \(l\)-type passive savers. Consequently, in the presence of a higher default, some \(l\)-type passive savers under the lower default before the marginal increase now have a strong incentive to opt out of the default and switch to their preferences. The semi-elasticity \(\epsilon_l\) quantifies the decrease in \(l\)-type passive savers. Specifically, it represents the percentage change in the fraction of \(l\)-type passive savers \((dm_l)\) with respect to all passive savers \((m_r = m_l + m_h)\), as the default rate increases by one percentage point \((dr)\), equal to \[
\frac{dm_l}{m_r} \frac{1}{dr}.
\]

The (observed) semi-elasticity \(\epsilon_h\) quantifies how many \(h\)-type savers become passive savers as the default marginally increases. \(H\)-type passive savers are previously defined as savers adhering to the default and having a preferred rate above the default. When the default rate marginally increases, it moves closer to the preferred rates of some \(h\)-type savers. Therefore, more \(h\)-type savers who actively elected their preferred rates under the lower default are now likely to accept the higher default after the marginal increase. The semi-elasticity \(\epsilon_h\) quantifies the increase in \(h\)-type passive savers. Specifically, it measures the percentage change in the fraction of \(h\)-type passive savers \((dm_h)\) with respect to all passive savers \((m_r = m_l + m_h)\), as the default rate increases by one percentage point \((dr)\), equal to \[
\frac{dm_h}{m_r} \frac{1}{dr}.
\]

In this section, I describe how to use the exogenous increase in the default savings rate
in the OregonSaves program from 2018 - 2020 to estimate both semi-elasticities.

4.1.1 Identification of $\epsilon_l$

I exploit the exogenous increase in the default rate resulting from automatic escalation in the OregonSaves program to identify the changes in the fraction of passive savers. Automatic escalation is an exogenous increase in workers’ non-zero savings rate that happens annually starting from 2019. Every year on January 1, workers who had opened an OregonSaves account for at least six months will be eligible for automatic escalation. Their savings rate automatically increases by 1 percentage point. It applies to all OregonSaves participants even if they have opted out of the default savings rate. In addition, participants eligible for automatic escalation will experience an increase in their savings rate only if they agree to accept the automatic escalation arrangement. By default, all participants accept the arrangement unless they actively opt out. Section 2 describes more institutional background about automatic escalation.

I use the following sample to identify $\epsilon_l$ that quantifies how the fraction of passive savers changes with the default rate. Individuals who meet the following criteria are included in the sample: (1) Workers had actively worked for at least one employer offering OregonSaves one month before and three months after automatic escalation occurred; (2) Workers were eligible for automatic escalation. That is, workers’ OregonSaves accounts had been open for at least six months before automatic escalation; (3) Workers had saved at the default rate before automatic escalation; and (4) Workers had accepted the default automatic escalation arrangement one month before it took effect.

The first row of Panel A in Table 4 indicates the estimate of $\epsilon_l$ using automatic escalation for passive savers that occurred on January 1, 2019. The default rate automatically increased from 5% to 6%. I find that 13,389 workers staying at the 5% default rate were eligible for auto-escalation in December 2018: $m_r = 13,389$. Three months after their default rate
automatically increased to 6%, 6,246 of these workers actively elected a rate lower than 6%: $dm_l = -6,246$. That is the total decrease in $l$-type passive savers who actively elected a non-default rate lower than the new default after auto-escalation. Based on the definition of $\epsilon_l$:

$$\epsilon_l = \frac{dm_l}{m_r} \frac{1}{dr} = \frac{-6,246}{13,389} \frac{1}{6 - 5} = -0.47.$$  (7)

The estimate of $\epsilon_l$ suggests that after the default rate marginally increases by 1 percentage point, 47% of passive savers opted out of the default rate and elected a non-default rate lower than the new default.

Besides passive savers who experienced auto-escalation in 2019, I also use another sample of passive savers who experienced auto-escalation in 2020 to test the robustness of the estimate of $\epsilon_l$. The second row of Table 4 shows the estimate of $\epsilon_l$ using automatic escalation that took effect on January 1, 2020. Workers who joined the OregonSaves program between July 1, 2018 and June 30, 2019 were not eligible for auto-escalation in 2019 but eligible for auto-escalation in 2020. Among these workers, 27,846 of them saved at the 5% default rate of in December 2019 and their default rate increased to 6% on January 1, 2020: $m_r = 27,846$. Three months after the increase, 15,747 of these workers actively elected a rate lower than 6% : $dm_l = -15,747$. Using auto-escalation from 5% to 6% in 2020, I find

13Workers’ OregonSaves accounts are required to be open for at least six months before each automatic escalation to be eligible for the arrangement. Workers joined OregonSaves before July 1, 2018 were eligible for auto-escalation in 2019. Workers joined OregonSaves between July 1, 2018 and June 30, 2019 were eligible for auto-escalation in 2020.

14Based on the employment statistics from the U.S. Bureau of Labor Statistics, the unemployment rate in the state of Oregon caused by the coronavirus pandemic dramatically increased starting from April 2020. The first three months of 2020 were not significantly affected by the pandemic: https://www.bls.gov/eag/eag. or.htm. Here is the employment statistics from the U.S. Bureau of Labor Statistics Workers who changed their savings rate in the first three months of 2020 were mostly their responses to automatic escalation
that $\epsilon_l$ is estimated to be $-0.57$.\(^{15}\)

Taking the average of these two estimates using the 2019 sample and the 2020 sample, I find that as the default savings rate marginally increases by 1 percentage point, the fraction of passive savers reduces by 52%. These are passive savers who no longer saved at the default and switched to a non-default rate lower than the new default after the marginal increase.\(^{16}\)

### 4.1.2 Identification of $\epsilon_h$

The semi-elasticity $\epsilon_h$ measures the increase in passive savers as the default rate marginally increases. Some active savers under the low default might become passive savers when they face a high default rate. This is because for active savers who wish to save a large fraction of earnings, the high default is closer to their preferred savings rates than the low default.

To identify the increase in passive savers, I use auto-escalation for active savers. Although active savers opted out of the initial default savings rate and elected a non-default rate, some of them were still defaulted in the auto-escalation arrangement. Their non-default rate increase by 1 percentage point every year on January 1 until they actively opt out of auto-escalation. I use this exogenous variation to examine how many workers were active savers when the initial default rate was far from their preferred rates but passively accepted the marginal increase in their elected rates.

I use the following sample to study the transition from active savers to passive savers after auto-escalation: (1) Workers had actively worked for at least one employer offering OregonSaves one month before and three months after automatic escalation occurred; (2) Workers were eligible for automatic escalation. That is, workers’ OregonSaves accounts had been open for at least six months before automatic escalation; (3) Workers had switched to

\[^{15}\] $\epsilon_l = \frac{dm_l}{dr} = -\frac{-15.747}{7.846} = -0.57$.

\[^{16}\] Some passive savers completely opted out of the OregonSaves program after the default rate increases. They were considered as workers who switched to a zero savings rate.
a non-default and non-zero savings rate before automatic escalation; and (4) Workers had accepted the default automatic escalation arrangement one month before it took effect.

The first row in Panel B of Table 4 shows the estimate of $\epsilon_h$ using auto-escalation for active savers that occurred on January 1, 2019. Among all active savers who elected 7% as their savings rate before auto-escalation and met the criteria to be included in the sample, 26 of them stayed at 8% three months after auto-escalation. In other words, after auto-escalation, these 26 workers became passive savers by accepting their new default rate. The increase in passive savers is quantified by $\epsilon_h$ as follows:

$$\epsilon_h = \frac{dm_h}{m_r} \frac{1}{dr} = \frac{26}{13,389} \frac{1}{8 - 5} = 0.0006.$$  \hspace{1cm} (8)

The estimate of $\epsilon_h$ suggests that when the default rate marginally raises by 1 percentage point, the fraction of passive savers increases by 0.06%. Equation (8) indicates that when the default rate is 5%, 13,389 were passive savers (the same denominator as in Equation (7)). After auto-escalation, 26 workers who were previously active savers and elected 7% became passive savers by accepting the 8% default rate.

The second row in Panel B of Table 4 presents an estimate of $\epsilon_h$ using the sample of active savers who elected 8% before auto-escalation in 2019. After auto-escalation, their savings rate increased to 9%. Three months after auto-escalation, 14 workers who actively elected 8% before auto-escalation passively accepted 9%. Based on the definition of $\epsilon_h$ as shown in Equation (8), I find $\epsilon_h$ to be 0.03%.$^{17}$

The third and fourth rows in Panel B of Table 4 present the estimates of $\epsilon_h$ using auto-

$^{17}$ $\epsilon_h = \frac{14}{13,389} \frac{1}{9 - 5} = 0.0003.$
escalation for active savers on January 1, 2020.\textsuperscript{18} The average estimate of $\epsilon_h$ across all samples in 2019 and 2020 is 0.04%. This means that as the default rate marginally increases by 1 percentage point, the fraction of passive savers raises by 0.04%. These are active savers who elected a non-default rate higher than the old default before the marginal increase and passively accepted the new default after the marginal increase.

The size of $\epsilon_l$ is larger than $\epsilon_h$ by three orders of magnitude. This suggests that individuals with a low preferred savings rate are much more sensitive to the default rate than individuals with a high preferred savings rate. For individuals with a low preferred rate, many of them would opt out of the default when the default deviates from their preference. For individuals with a high preferred rate, their savings decisions are not significantly affected by the default rate.

4.2 Normative and Behavioral Time Preferences $\delta$ and $\gamma$

The time preference parameters in the optimal default rate formula in Proposition 1 captures how a normative and a present self would discount future utility differently due to reasons including present bias, inattention, and misinformation. This section illustrates how I elicit and estimate the time preferences.

4.2.1 Survey Design and Sample

The survey was done in two stages. The first stage is a baseline survey that was fielded in June 2018 to workers who had access to OregonSaves in the first few months since its launch. Both workers who opted out of OregonSaves and those who were participating were invited to answer the survey. The baseline survey includes questions to collect socioeconomic

\textsuperscript{18}The total number of passive savers before auto-escalation in the 2020 sample is 32,987. These are passive savers who joined OregonSaves before June 30, 2019 and were still active employees in 2020. This number is smaller than the sum of passive savers in 2019 and 2020 in Panel A of Table 4: $32,987 < 13,389 + 27,846 = 41,235$. This is because some passive savers counted in 2019 (13,389) were no longer active employees in 2020.
information and savings and debt outside OregonSaves. The second stage is a follow-up survey that was fielded in June 2019. The follow-up survey includes questions to elicit time preferences. There were 441 workers who completed the baseline survey. Among the 441 workers, 143 completed the follow-up survey (32.4% response rate).

Survey respondents had two weeks to answer both the baseline and the follow-up surveys through an email link. They answered the survey by clicking the customized link in the invitation email. For all respondents who completed the survey, they received a $40 Starbucks electronic gift card that was sent through an email two weeks after the completion of the surveys. In the survey invitation email, workers were informed that both the invitation email and the gift card were sent from the Oregon State Treasury. This ensures the credibility of the payments.

To address the question about whether workers who participated in the survey are representative of the entire OregonSaves population, I compare the age and the savings rate between survey respondents and all OregonSaves workers in Figures 9 and 10 of Appendix D. Both figures present evidence that the age distribution and the savings rate distribution of survey respondents closely follow the distributions of the overall population.

Although I was unable to provide survey payments that are based on individual survey responses, I show some supportive evidence that we can reasonably believe survey respondents truthfully answered survey questions. Figure 8 in Appendix D displays the difference in age between survey answers and administrative records. Survey respondents reported their age by answering the following question in the survey: “How old were you on your last birthday?” Additionally, all workers were asked to report their birth year when their OregonSaves savings account was open. The birth-year information was used to automatically invest workers’ contributions to an age-appropriate fund. Since I do not know workers’ exact birth date, there could be a one-year difference when we use survey responses and administrative records to compare age. Figure 8 in Appendix D shows that for more than
95% of all survey respondents, the age information from survey data is within the one-year difference from the age data in the administrative records. This suggests that most workers truthfully answered the survey questions. Additionally, Chapman (1996) has argued that despite the lack of incentives, participants often give truthful answers in hypothetical choices (Also see Frederick et al. (2002); Benhabib et al. (2010)).

4.2.2 Eliciting and Estimating Time Preferences

To elicit time preferences, survey respondents answered 16 hypothetical questions about how to allocate 100 experimental “tokens” to either a “sooner” time $t$, or a “later” time $t+k$, at different “token exchange rates” $r$. Participants faced 16 intertemporal decisions involving 16 combinations of $(t, k, 1+r)$, where $t = (0, 1)$, $k = (1, 2)$, and $1+r = (1, 1.01, 1.02, 1.05)$. Table 5 shows the time periods, token budgets, token unit values, and annual interest rates for all 16 combinations. Appendix C provides the survey questions where four questions with the same set of $(t, k)$ combination are displayed on the same page. Participants could change their answers to questions within the same set, but they could not change answers after they moved on to the next page with a different $(t, k)$ combination.

For each question, survey respondents moved a slider to choose $C$ tokens to receive at a sooner time and $R$ tokens to receive at a later time continuously along a convex budget set:

$$(1 + r)C + R = 100,$$  \hspace{1cm} (9)$$

where participants had a budget of 100 tokens for each question. Tokens allocated at a sooner time were worth $a_t$ while tokens allocated to a later time were worth $a_{t+k}$. For example, in the first question, each token was worth $\$100$ today and $\$100$ in a year. Participants were asked to move a slider to divide the 100 tokens between two time points as they preferred. In this question, $t = 0$, $k = 1$, and $1+r = \frac{a_{t+k}}{a_t} = 1$. If one allocated 60 tokens today and
40 tokens to a year away, the survey would show the total dollar amount she would have
today, $6,000 (= $100 × 60), and the total dollar amount she would have in a year, $4,000
(= $100 × 40). The total dollar amount allocated to a sooner time was denoted by $C$ and
the total dollar amount allocated to a later time was denoted by $R$ in Equation (9).

Since the specific purpose of the survey is to help estimate time preferences for Ore-
gonSaves workers, the interest rates in the experiment are designed to be close to the real
interest rate in the OregonSaves program. The initial $1,000 contributions are invested in
the money market fund and the vast majority of workers had accumulated savings less than
$1,000 when the survey was fielded. Therefore, the interest rate $r$ in the experiment ranges
from 0% to 5% to resemble the interest rate in the money market fund. This design helps
to estimate the time preferences for the specific population in this specific OregonSaves set-
ting. It also addresses the concern discussed in the literature that choices in time preference
experiments could be influenced by interest rates in their real life (Cubitt and Read, 2007;
Epper et al., 2020; Carvalho et al., 2016; Dean and Sautmann, 2020).

Given the intertemporal allocations that survey respondents made, I use the convex time
budget (CTB) approach to identify time preferences. It was first introduced by Andreoni
and Sprenger (2012) to simultaneously estimate the time preferences and the curvature
of the utility function, as time preferences could be affected by utility function curvature
(Anderhub et al., 2001; Frederick et al., 2002; Andersen et al., 2008). The CTB approach has
been widely used in monetary discounting experiments. Imai et al. (2019) summarized the
recent 28 articles using this approach. Andreoni et al. (2015) compared the CTB approach
with other widely used approach to elicit time preferences and specified the advantage of
the CTB approach. Cohen et al. (2020) also provided a summary of the long history of
experimental tests to elicit time preferences.

I use variations in starting times $t$ to identify respondents’ present bias parameter $\gamma$. I use
variations in delay length $k$ and interest rates $(1 + r)$ to identify the annual discount factor
δ and utility function curvature. Given consumption at a sooner time $C$ and consumption at a later time $R$, I express decision utility $U$ in the following three specifications. The first specification is a multi-period time separable CRRA (constant relative risk aversion) utility function subject to budget constraint (9):

$$U(C, R) = \frac{1}{\alpha}(C + W)^\alpha + \gamma \delta^k \frac{1}{\alpha}(R + W)^\alpha.$$  

The parameter $\alpha$ is the CRRA curvature parameter, $\gamma$ is the present bias parameter, $\delta$ is the annual discount factor, and $k$ is the delay length between the two time points. The variable $W$ is background consumption. Following Andreoni and Sprenger (2012), I assume that the background consumption level at two time points is the same. When I log-linearize the decision utility function $U(C, R)$, I obtain:

$$\ln \left( \frac{C + W}{R + W} \right) = \left( \frac{\ln \gamma}{\alpha - 1} \right) 1\{t = 0\} + \left( \frac{\ln \delta}{\alpha - 1} \right) k + \left( \frac{1}{\alpha - 1} \right) \ln (1 + r).$$  

(10)

$W$ is the minimum annual consumption level asked in the survey. $C$ and $R$ are survey responses to the intertemporal allocation questions described in Appendix C; $1\{t = 0\}$ is an indicator if the sooner time period is today; $k$ is the delay length between the sooner time and the later time described in Table 5; and $\ln (1 + r)$ is the natural log of the annual interest rate in Table 5. In order to handle corner solutions, I use a two-limit Tobit maximum likelihood regression to estimate parameters $\gamma$, $\delta$, and $\alpha^{19}$.

The second specification is the constant absolute risk aversion (CARA) utility function. The decision utility $U$ in this formulation subject to budget constraint (9) is expressed as:

$$U(C, R) = -\exp(-\rho C) - \gamma \delta^k \exp(-\rho R),$$

$^{19}$See Andreoni and Sprenger (2012); Augenblick et al. (2015) for a detailed explanation of using Tobit to estimate time preference parameters.
where $\rho$ is the coefficient of absolute risk aversion. The log-linearized utility function is:

$$C - R = \left(\frac{\ln \gamma}{-\rho}\right)1\{t = 0\} + \left(\frac{\ln \delta}{-\rho}\right)k + \left(\frac{1}{-\rho}\right)\ln (1 + r). \quad (11)$$

Further simplify the tangency condition above, I obtain the following solution function:

$$C = \left(\frac{\ln \gamma}{-\rho}\right)\frac{1}{2 + r} + \left(\frac{\ln \delta}{-\rho}\right)\frac{k}{2 + r} + \left(\frac{1}{-\rho}\right)\frac{\ln (1 + r)}{2 + r} + \frac{m}{2 + r}. \quad (12)$$

The third specification is the linear utility function as in Meier and Sprenger (2015):

$$U(C, R) = (C + W) + \gamma \delta^k (R + W).$$

After log-linearization, we have the following functional form:

$$\ln \frac{C}{R} = \ln(\gamma)1\{t = 0\} + \ln(\delta)k. \quad (13)$$

### 4.2.3 Results

Table 6 shows baseline estimates of $\gamma$ and $\delta$ taking into account the curvature of utility. There were 143 survey respondents who answered the time preference survey questions, and they made 1,765 intertemporal choices in total. Columns 1-2 show estimates of the CRRA regression (Equation (10)). The annual background consumption $W = 1,040$, equal to the negative of the minimum consumption level among all OregonSaves survey respondents. The average $\delta$ is 0.987 (standard deviation 0.005), and the average present bias parameter $\gamma$ is 0.994 (s.d. 0.006). Columns 3-4 show estimates of the CARA regression (Equation (12)). The average $\delta$ is 0.988 (s.d. 0.005) and the average present bias parameter $\gamma$ is 0.993 (s.d. 0.006).

\[^{19}\text{In estimation, I follow the approach in Andreoni and Sprenger (2012) to set } m/(2 + r) \text{ to 1.}\]
Tables 9 - 11 in Appendix E present additional estimates of $\gamma$ and $\delta$ and compare my estimates to those in previous studies. Despite some differences in the survey design between my experiment and previous experiments, my estimate of the present bias parameter $\gamma$ (0.994) is close to the average estimate in all previous studies (0.95), which is discussed in Imai et al. (2019). In summary, studies using the CTB approach find little evidence of present bias. Additionally, Carvalho et al. (2016) further test that there is no differential present bias between liquidity constrained and liquidity unconstrained individuals. Although some papers find present bias close to what Laibson et al. (2015) suggested, these experiments usually ask individuals to allocate real-effort task instead of money (e.g., Augenblick et al. (2015); Carvalho et al. (2016); Dellavigna and Pope (2018); Augenblick and Rabin (2019)). In this OregonSaves setting where workers need to decide how much to save, using the intertemporal time preferences over money is more appropriate.

5 Computing the Optimal Default Savings Rate

For a baseline calculation of the optimal default rate, I use the average value of the point estimates of the semi-elasticities presented in Table 4, where $\epsilon_l = -0.52$ and $\epsilon_h = 0.0004$. I assign the point estimate of the normative time preference presented in Table 6 to both $l$- and $h$-type passive savers: $\delta_l = \delta_h = 0.987$. The behavioral time preference for $h$-type and $l$-type passive savers are assumed to be the average level under CRRA utility shown in Table 4: $\gamma_l = \gamma_h = 0.994$.

Another key statistics in the formula for the optimal default is the social marginal welfare weight. It generally characterizes how the policymaker evaluates each dollar, or equivalently the social value of each dollar. This concept was introduced by Saez (2001, 2002) and widely used in the tax literature (Lockwood and Weinzierl, 2016; Saez and Stantcheva, 2016; Allcott et al., 2019; Hendren, 2019). In the tax literature, the social marginal welfare weight for
each income group usually measures the social value of transferring one dollar to a certain income group. In the context of default savings where there is no transfer across people, the social marginal welfare weight measures the social value of saving an extra dollar for each income group.

In Table 7, I report the estimates of the social marginal welfare weights for $l$-type passive savers (preferred rates below the default while saving at the default) and for $h$-type passive savers (preferred rates above the default while saving at the default). The welfare weight for a given type $g$ is the Pareto weight $\alpha$ normalized by the aggregate weighted Pareto weight $\bar{\alpha}$. The normalization ensures that the welfare weights only depend on the relative difference in income across types but are independent of the absolute size of income within type. I use observed data when the default rate is 5% to estimate the welfare weights at the optimal default. The first row of Table 7 presents the percent of passive savers for each type. Since the underlying preference of passive savers is unobserved, I use the following method to approximate the fraction of passive savers for each type. I use the observed fractions of active savers of each type to estimate the fraction of passive savers of each type. This approximation is based on an assumption that although the fraction of each type (active and passive savers combined) could be different, the ratio of active versus passive savers within type is the same.

The second row presents the estimated income for each type using the OregonSaves savings data in December 2019, which was the last month that all individuals faced 5% default rate. The individual-level monthly income equals the contribution amount divided by the contribution rate. Only individuals with a positive contribution amount and a positive rate are included. Imputed average annual income equals the average monthly income times 12. The third row shows that the primitive Pareto weight $\alpha$ equals the inverse of income. I follow the same method used in Saez (2002) to estimate the Pareto weight $\alpha$. The fourth row presents that the aggregate weighted Pareto weight is the primitive Pareto weight $\alpha$. 

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weighted by the percent of each type. The last row presents the final social marginal welfare weight for each type, where $g_l = 2.02$ and $g_h = 2.99$.

The optimal default rate is computed by plugging the baseline values listed in Table 8 into Proposition 1. The baseline optimal default rate is expressed as follows:

$$r^\ast\% = \frac{dI + dS_l - dS_h + dK_l - dK_h}{dR_l - dR_h}$$

$$= \frac{588.4 + 1,223.4 - 2.1 + 262.6 - 0.3}{305.8 - 0.2} \%$$

$$= 7\%.$$  \hspace{1cm} (14)

To put my calculation into perspective, we need to consider two additional factors. The first is that I use individual responses to auto-escalation of the default rate from 5% to 6% to estimate how two identical groups of workers would respond to two initial default rates 5% and 6%. Although using the exogenous auto-escalation could generate reasonable estimates as we compare different default rates in a local region, we cannot completely rule out the possibility that individuals who are presented with an initial 6% default rate could be more responsive than those who are auto-escalated from 5% to 6%. In the next section, I provide sensitivity analysis of how the optimal default rate could change when individuals are more responsive to the default.

The second factor that could impact the level of the optimal default is other retirement income sources such as Social Security. Individuals usually plan for how much to save based on the amount of Social Security benefits they think they would get in retirement. In the presence of a default option, the perceived level of Social Security benefits informs the decision on whether to passively accept the default or actively switch to a non-default rate. In my model, this binary decision is captured by the semi-elasticities, which are key determinants

\footnote{An empirical assumption required to calculate $dI$, the welfare impact on the intensive margin, is that I use an unweighted average welfare component to approximate a weighted average welfare component, as the underlying fractions of h-type and l-type savers are unobserved.}
of the optimal default rate. In short, the impact of Social Security on the optimal default is embedded in the measure of the semi-elasticities. In the next section, I discuss how policy changes in Social Security or other savings-related policy changes impact individual perceptions about their Social Security benefits, and subsequently impact how individuals respond to the default, and then eventually shape the level of the optimal default rate.

5.1 Sensitivity Analysis

Figures 2 - 7 present the optimal default savings rate $r^*$ under alternative values of the key parameters. In Figure 2, the solid curve presents how the optimal default $r^*$ varies with l-type semi-elasticity $\epsilon_l$, where $\epsilon_l$ measures the decrease in the fraction of passive savers whose preferred rates are below the default (l-type passive savers) as the default marginally increases. The intersection of the dash-dotted line and the solid curve is $r^*$ at the baseline value of $\epsilon_l$. The optimal default $r^*$ exponentially increases with $\epsilon_l$. When $\epsilon_l = -1$, all passive savers with preferred rates below the default would opt out of the default as it marginally increases. The policymaker should set the default around 6% to encourage some individuals to stay at the default. When $\epsilon_l = 0$, no passive savers would ever opt out regardless of the level of the default rate. The policymaker should set the default very high to increase savings which could maximize lifecycle utility subject to the budget constraint.

In Figure 3, the solid curves present how $r^*$ varies with h-type semi-elasticity $\epsilon_h$, where $\epsilon_h$ measures the increase in the fraction of passive savers whose preferred rates are above the default (h-type passive savers) as the default marginally increases. When $\epsilon_h$ is between 0 and 0.5, $r^*$ is bounded below 7% and decreases with $\epsilon_h$. When $\epsilon_h$ is between 0.5 and 1, $r^*$ is bounded above 14% and decreases with $\epsilon_h$. When the magnitude of $\epsilon_h$ is close to the magnitude of the baseline value of $\epsilon_l (= -0.52)$, the size of the increase in l-type passive savers equals the size of the decrease in h-type passive savers. The changes in the default rate induce little welfare effect as the total number of passive savers remains constant. The
optimal default $r^*$ could be either 0 or very large. If $\epsilon_h = 0$, no h-type active savers under a low default would want to become passive savers under a high default even though the high default is close to their preferred rate. The policymaker should set the default around 7% to maximize the lifecycle utility for existing passive savers. If $\epsilon_l = 1$, all h-type active savers under a low default would save at a high default. The policymaker should set the default relatively high around 14% to minimize the aggregate opt-out cost of h-type workers.

The solid curve in Figure 4 displays how $r^*$ varies with $\delta_l$, which is the average annual discount factor for savers with a preferred rate lower than the default. The dash-dotted line presents how $r^*$ varies with $\delta_h$, which is the average annual discount factor for savers with a preferred rate higher than the default. The dashed vertical line highlights $r^*$ under the baseline values of $\delta_l$ and $\delta_h$. The optimal default $r^*$ exponentially decreases with $\delta_l$. This suggests that when $\delta_l$ is low, the (positive) welfare internality of saving at the default for savers with a low preferred rate is small, measured by $dR_l$ in Proposition 1. The policymaker should set the default very high to encourage people with a low preferred rate to opt out of the default. When $\delta_l$ is high, the welfare internality of saving at the default is large. The policymaker should set the default around 7% to attract savers to stay at the default. Additionally, $r^*$ slightly increases with $\delta_h$. When $\delta_h$ is low, the (positive) welfare internality of saving at the default for savers with a high preferred rate is low, measured by $dR_h$ in Proposition 1. The policymaker should set the default relatively low to encourage these savers to opt out of the default. Since a low default deviates from these savers’ preferences, they do not have strong incentives to stay at the default. Moreover, since savers with a high preferred rate are not very responsive to the default implied by the small magnitude of $\epsilon_h$, the impact of $\delta_h$ on the optimal default $r^*$ is weak.

Figure 5 shows $r^*$ under different values of present bias parameters. The solid curves present how $r^*$ varies with $\gamma_l$, which is the average present bias parameter for savers with a preferred rate lower than the default (l-type savers). The dash-dotted line presents how
$r^*$ varies with $\gamma_h$, which is the average present bias parameter for savers with a preferred rate higher than the default (h-type savers). The dashed vertical line highlights $r^*$ under the baseline values of $\gamma_l$ and $\gamma_h$. When $\gamma_l$ is close to 1, l-type savers are neither present-biased nor future-biased. The policymaker should set the default either to a very high level or to zero so that l-type savers are compelled to select their preferred rates. When l-type savers are either present-biased ($\gamma_l < 1$) or future-biased ($\gamma_l > 1$), the optimal default is bounded between 5% and 8% to correct individuals from either actively under-saving or actively over-saving. The dash-dotted line shows that $r^*$ decreases with $\gamma_h$, which is the present bias parameter for h-type savers. If h-type savers are present-biased ($\gamma_h < 1$), the policymaker should set a high default that is above their preferred rate to encourage them to save more. Using a high default to encourage more default savings could be more effective to h-type savers than l-type savers because h-type savers are less likely to opt out of the default than l-type savers. If h-type savers are future-biased ($\gamma_h > 1$), $r^*$ is below 8% to attract these savers to save less than their preferred level by staying at the default.

In Figure 6, I show $r^*$ under a relaxed assumption that the total opt-out cost $K$ perceived by individuals is heterogeneous across different types of savers. The solid line presents how $r^*$ varies with $K_l$, which is the average perceived opt-out cost for savers with a preferred rate lower than the default. The dash-dotted line presents how $r^*$ varies with $K_h$, which is the average perceived opt-out cost for savers with a preferred rate higher than the default. The dashed vertical line highlights $r^*$ under the baseline values of $K_l$ and $K_h$, where $K_l = K_h = K = $250. Both $K_l$ and $K_h$ vary between 0 to $2,000, which is the maximum estimate in previous studies (DellaVigna, 2009; Bernheim et al., 2015). The optimal default $r^*$ increases with $K_l$ and is bounded under 13%. When the total opt-out cost perceived by savers with a low preferred rate ($K_l$) is high, the policymaker should set a relatively high default that significantly deviates from savers’ preferences. Consequently, the benefit of opting out of the default outweighs the perceived cost. More l-type savers would opt out of the default despite
the high perceived opt-out cost. Additionally, $r^*$ does not change with $K_h$. This is mainly because savers with a high preferred rate are unlikely to adjust their savings rate based on the level of the default rate, measured by the low semi-elasticity $\epsilon_h$.

Finally, in Figure 7, I present $r^*$ under another relaxed assumption that the fraction of the normative opt-out cost $\pi$ (with respect to the total perceived opt-out cost) is heterogeneous across different types of savers. The solid line presents how $r^*$ varies with $\pi_l$, which is the average fraction of the normative opt-out cost for savers with a preferred rate lower than the default. The dash-dotted line presents how $r^*$ varies with $\pi_h$, which is the average fraction of the normative opt-out cost for savers with a preferred rate higher than the default. The dashed vertical line highlights $r^*$ under the baseline values of $\pi_l = \pi_h = \pi = 0$. Both lines show that $r^*$ are bounded between 5% and 7% for any value of $\pi_l$ and $\pi_h$ between 0 and 1. This suggests that the extent to which individuals overestimate the opt-out cost does not significantly impact the level of the optimal default. This is partly explained by the relatively small magnitude of the welfare internalities of action $dK_l$ and $dK_h$ relative to other components in Proposition 1. The magnitude of each component in the baseline calculation is displayed in Equation 14.

6 Conclusion

This paper has proposed a tractable framework that directly connects empirical analysis of the causal impact of the default savings rate on individual saving behavior with welfare analysis of the optimal design of the default savings rate. I introduced a novel set of sufficient statistics to capture individual adherence to the default savings rate as the default rate varies. Given individual responsiveness to the default savings rate, I characterized how the level of the default savings rate impacts individual welfare. Specifically, the default savings rate could improve individual welfare by protecting workers from two types of behavioral biases:
actively undersaving and inaction. In a unified welfare framework that incorporates these
two biases, I showed that if workers tend to procrastinate to make an active decision, it might
be welfare-improving to set the default rate at an undesirable level to compel individuals
to opt out of the default rate and choose a non-default savings rate. In contrast, if the
non-default preferred rate that individuals actively choose does not maximize their lifecycle
utility, it might be welfare-improving to set the default rate at a desirable level to encourage
workers to stay at the default rate.

Using individual-level administrative and survey data from the first state-sponsored auto-
enrollment plan in the U.S. called OregonSaves, I found that, when the default rate increased
by one percentage point, on average about half of workers who had passively stayed at the
previous default rate switched to a non-default rate or opted out of the program. I also found
that OregonSaves-eligible workers show little evidence of undervaluing the utility of savings.
Given these estimates, a baseline calculation suggested that the optimal default savings rate
should be set at 7%, somewhat higher than the current 5% default rate.

Analyzing optimal policy with reduced-form empirical identification has been widely
adopted in the context of income transfer programs such as tax policy and social insurance.
The present paper extends the applicability of this approach to default saving policy, and
shows that the same approach to addressing welfare and optimal policy questions based on
empirical evidence can be applied to a broader context of economic policies including nudge
policy and retirement policy.
References


<table>
<thead>
<tr>
<th>State</th>
<th>Type of program</th>
<th>Status</th>
<th>Default rate</th>
<th>Program/Bill website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon</td>
<td>Mandatory auto Roth IRA</td>
<td>Launched in July 2017</td>
<td>5%, auto escalation up to 10%</td>
<td>OregonSaves</td>
</tr>
<tr>
<td>Illinois</td>
<td>Mandatory auto Roth IRA</td>
<td>Launched in May 2018</td>
<td>5%, no auto escalation</td>
<td>Illinois Secure Choice</td>
</tr>
<tr>
<td>California</td>
<td>Mandatory auto Roth IRA</td>
<td>Launched in July 2019</td>
<td>5%, auto escalation up to 8%</td>
<td>CalSavers</td>
</tr>
<tr>
<td>Maryland</td>
<td>Mandatory auto Roth IRA</td>
<td>Scheduled to launch in mid-2020</td>
<td>To be determined</td>
<td>MarylandSaves</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Mandatory auto Roth IRA</td>
<td>Bill passed in 2016</td>
<td>To be determined</td>
<td>Connecticut program</td>
</tr>
<tr>
<td>New Jersey</td>
<td>Mandatory auto Roth IRA</td>
<td>Bill passed in March 2019</td>
<td>3%</td>
<td>New Jersey Secure Choice Savings Program Act</td>
</tr>
<tr>
<td>Colorado</td>
<td>Mandatory auto Roth IRA</td>
<td>Bill passed in June 2020</td>
<td>5%</td>
<td>Colorado Secure Savings Program Act</td>
</tr>
<tr>
<td>Vermont</td>
<td>Voluntary to employers; auto Roth IRA to workers</td>
<td>Bill passed in June 2017</td>
<td>To be determined</td>
<td>Green Mountain Secure Retirement Plan</td>
</tr>
<tr>
<td>New York</td>
<td>Voluntary to employers; auto Roth IRA to workers</td>
<td>Bill passed in February 2018; scheduled to launch in April 2020</td>
<td>To be determined</td>
<td>New York State Secure Choice Savings Program Act</td>
</tr>
<tr>
<td>Washington</td>
<td>Expanding from a voluntary program to a mandatory program to all private-sector businesses</td>
<td>Voluntary program launched in 2015; bill for the mandatory program passed the State Senate in March 2019; waiting for a House floor vote</td>
<td>To be determined</td>
<td>Washington Secure Choice Savings Program Act</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>Expanding from a voluntary program only to non-profits to a mandatory program to all private-sector businesses</td>
<td>Voluntary program launched in October 2017; bill for the mandatory program introduced in January 2019</td>
<td>To be determined</td>
<td>Massachusetts Secure Choice Savings Program Act</td>
</tr>
</tbody>
</table>

Note: In a mandatory auto Roth IRA program, private-sector employers are required to provide employees access to either a state-sponsored plan or an employer-sponsored plan such as 401(k). Employees are automatically enrolled in a retirement plan with a default contribution rate. They can always opt out or elect a non-default contribution rate. Roth IRA is an individual retirement account where contributions are not tax-free but qualified withdrawals and earnings in the account are tax-free. Besides these 11 states that have passed the legislation for a voluntary or a mandatory program, about another 20 states have introduced legislation but not yet enacted. AARP summarized the status of these states: [https://www.aarp.org/ppi/state-retirement-plans/savings-plans/](https://www.aarp.org/ppi/state-retirement-plans/savings-plans/).
Table 2: Summary Statistics for Individuals Ever Had Access to OregonSaves, April 2020

<table>
<thead>
<tr>
<th>Panel A: All individuals</th>
<th>N</th>
<th>%</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unique individuals entered by employers</td>
<td>263,660</td>
<td>100.0</td>
<td>–</td>
</tr>
<tr>
<td>Immediate opted-out individuals</td>
<td>88,246</td>
<td>33.5</td>
<td>–</td>
</tr>
<tr>
<td>Delayed opted-out individuals</td>
<td>23,076</td>
<td>8.8</td>
<td>–</td>
</tr>
<tr>
<td>Pending individuals</td>
<td>30,808</td>
<td>11.7</td>
<td>–</td>
</tr>
<tr>
<td>Enrolled individuals w/o payroll info</td>
<td>11,760</td>
<td>4.5</td>
<td>–</td>
</tr>
<tr>
<td>Enrolled individuals with payroll info</td>
<td>109,770</td>
<td>41.6</td>
<td>–</td>
</tr>
</tbody>
</table>

| Panel B: Eligible active workers (EAW) | | |
| Total EAW | 152,112 | 100.0 | –  |
| Immediate opted-out workers | 68,320 | 44.9 | –  |
| Delayed opted-out workers | 17,228 | 11.3 | –  |
| EAWs with no balance | 25,624 | 16.9 | –  |
| Suspended contributors | 17,361 | 11.4 | –  |
| Contributors | 23,579 | 15.5 | –  |
| Average monthly contributions if > 0, April 2020 | – | – | 121 |
| Average monthly income | – | – | 2,284 |

Notes: Data from anonymized administrative records as of April 30, 2020. In Panel A, immediate opted-out individuals left the OregonSaves program during the first 30-day enrollment window. Delayed opted-out individuals left the OregonSaves program after the 30-day window. Pending individuals were in the background check, failed the background check, or in the 30-day window (all employers). Enrolled individuals with payroll information passed the background check and the initial 30-day window (at least 1 employer), but program is waiting for payroll information. Enrolled individuals with payroll information passed the background check, passed the initial 30-day window (at least 1 employer), and the same employer(s) provided payroll information. In Panel B, eligible active workers (EAW) are persons eligible for contributions (at least one employer) and inferred to be actively working on April 30, 2020. Individuals eligible for contributions have passed the background check and the 30-day enrollment window (at the same employer(s)), which provided payroll information for at least one employee at the firm. Suspended contributors are EAWs with a positive balance but no monthly contributions in April 2020. Contributors are EAWs with a positive balance and positive monthly contributions in April 2020.
Table 3: Summary Statistics for Individuals with a Positive Account Balance, April 2020

<table>
<thead>
<tr>
<th>Panel A: All individuals with a positive balance</th>
<th>N</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>All individuals with a positive balance</td>
<td>67,668</td>
<td>–</td>
</tr>
<tr>
<td>Opted-out individuals with a positive balance</td>
<td>7,347</td>
<td>–</td>
</tr>
<tr>
<td>Participating individuals with a positive balance</td>
<td>60,321</td>
<td>–</td>
</tr>
<tr>
<td>Median balance if positive</td>
<td>–</td>
<td>316</td>
</tr>
<tr>
<td>Total assets</td>
<td>–</td>
<td>51 million</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Panel B: Eligible active workers (EAW) with a positive balance</th>
<th>N</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAWs with a positive balance</td>
<td>46,179</td>
<td>–</td>
</tr>
<tr>
<td>Opted-out EAWs with a positive balance</td>
<td>5,239</td>
<td>–</td>
</tr>
<tr>
<td>Participating EAWs with a positive balance</td>
<td>40,940</td>
<td>–</td>
</tr>
<tr>
<td>Median balance if positive</td>
<td>–</td>
<td>420</td>
</tr>
</tbody>
</table>

Notes: Data from anonymized administrative records on April 30, 2020. Panel A reports statistics for all individuals ever had access to OregonSaves with a positive balance on April 30, 2020. Opted-out individuals with a positive balance are persons who opted out of the program before April 30, 2020 but had ever contributed and did not withdraw all contributions. Participating individuals with a positive balance are persons who were participating in the program on April 30, 2020, had ever contributed, and did not withdraw all contributions. Panel B presents statistics for eligible active workers (EAW) with a positive balance on April 30, 2020. EAWs are persons eligible for contributions (at least one employer) and inferred to be actively working on April 30, 2020. Individuals eligible for contributions have passed the background check and the 30-day enrollment window (at the same employer(s)), which provided payroll information for at least one employee at the firm.
Table 4: Estimates of Semi-Elasticities

<table>
<thead>
<tr>
<th>Panel A: $\epsilon_l$</th>
<th>Auto-escalation year</th>
<th>Sample size ($m_r$)</th>
<th>Decrease in passive savers ($dm_l$)</th>
<th>Default rate before increase (%)</th>
<th>Default rate after increase (%)</th>
<th>Value of $\epsilon_l$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>13,389</td>
<td>-6,246</td>
<td>5</td>
<td>6</td>
<td>-0.47</td>
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<tr>
<td></td>
<td>2020</td>
<td>27,846</td>
<td>-15,747</td>
<td>5</td>
<td>6</td>
<td>-0.57</td>
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<tr>
<td></td>
<td>Average value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.52</td>
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<table>
<thead>
<tr>
<th>Panel B: $\epsilon_h$</th>
<th>Auto-escalation year</th>
<th>Sample size ($m_r$)</th>
<th>Increase in passive savers ($dm_h$)</th>
<th>Default rate before increase (%)</th>
<th>Default rate after increase (%)</th>
<th>Value of $\epsilon_h$</th>
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<tr>
<td></td>
<td>2019</td>
<td>13,389</td>
<td>26</td>
<td>5</td>
<td>8</td>
<td>0.0006</td>
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<tr>
<td></td>
<td>2019</td>
<td>13,389</td>
<td>14</td>
<td>5</td>
<td>9</td>
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<tr>
<td></td>
<td>2020</td>
<td>32,987</td>
<td>61</td>
<td>5</td>
<td>8</td>
<td>0.0006</td>
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<tr>
<td></td>
<td>2020</td>
<td>32,987</td>
<td>30</td>
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<td>9</td>
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<td>Average value</td>
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<td>0.0004</td>
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</tbody>
</table>

Notes: This table presents the estimates of two semi-elasticities $\epsilon_l$ and $\epsilon_h$. The identification strategy and the results are discussed in Section 4.1. Panel A shows the results of $\epsilon_l$. Based on its definition expressed in Equation (7), $\epsilon_l$ measures how many passive savers no longer stay at the default rate after an exogenous increase in the default rate. The first row in Panel A shows that before the default rate increased from 5% to 6% on January 1, 2019, 13,389 passive savers stayed at the old default 5%. After the increase, 6,246 passive savers opted out of the 6% new default rate and switched to their preferred non-default rate lower than 6%: $\epsilon_l = -0.47 = \frac{-6,246}{13,389} \cdot \frac{1}{6-5}$. Using the samples in 2019 and 2020, I find the average value of $\epsilon_l$ is -0.52. Only eligible active workers (EAW) summarized in Tables 2 and 3 are included in the sample. Panel B presents the results of $\epsilon_h$. Based on its definition expressed in Equation (8), $\epsilon_h$ measures how many active savers under a lower default rate become passive savers under a higher default as the higher default is closer to their preferred rate. The first row in Panel B shows that when the default rate is 5%, 13,389 were passive savers while some workers actively elected 7% and their elected rate would be automatically increased to 8% on January 1, 2019. Among these workers who elected 7%, 26 of them accepted the 8% new default rate after their elected rate increased from 7% to 8% in 2019. These 26 workers were active savers under 5% default rate but passive savers under 8% default rate. Using this sample, I conclude that when the default rate marginally increases by 1 percentage point, passive savers increase by 0.06%: $\epsilon_h = 0.0006 = \frac{26}{13,389} \cdot \frac{1}{8-5}$. The second row of Panel B indicates that among all workers who actively elected 8%, after their elected rate increased to 9%, 14 of them accepted the 9% new default rate. This suggests that passive savers increase by 0.03% for each one percentage point increase in the default rate. Taking the average of all the estimates of $\epsilon_h$ using various samples in 2019 and 2020, I conclude the average value of $\epsilon_h$ is 0.0004.
Table 5: Choice Sets to Identify Time Preferences from Survey Responses

<table>
<thead>
<tr>
<th>Start date ( t ) (year)</th>
<th>Delay length ( k ) (year)</th>
<th>Total # of tokens</th>
<th>Token unit value sooner time ( a_t )</th>
<th>Token unit value later time ( a_{t+k} )</th>
<th>Annual interest rate ((1 + r))</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>0</td>
<td>1</td>
<td>100</td>
<td>99</td>
<td>100</td>
<td>1.01</td>
</tr>
<tr>
<td>0</td>
<td>1</td>
<td>100</td>
<td>98</td>
<td>100</td>
<td>1.02</td>
</tr>
<tr>
<td>0</td>
<td>1</td>
<td>100</td>
<td>95</td>
<td>100</td>
<td>1.05</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
<td>100</td>
<td>99</td>
<td>100</td>
<td>1.01</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
<td>100</td>
<td>98</td>
<td>100</td>
<td>1.02</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
<td>100</td>
<td>95</td>
<td>100</td>
<td>1.05</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>100</td>
<td>99</td>
<td>100</td>
<td>1.01</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>100</td>
<td>98</td>
<td>100</td>
<td>1.02</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>100</td>
<td>95</td>
<td>100</td>
<td>1.05</td>
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<tr>
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<td>2</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>100</td>
<td>99</td>
<td>100</td>
<td>1.01</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>100</td>
<td>98</td>
<td>100</td>
<td>1.02</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>100</td>
<td>95</td>
<td>100</td>
<td>1.05</td>
</tr>
</tbody>
</table>

Notes: This table shows variations in starting times \( t \), delay length \( k \), and interest rates \((1 + r)\) to identify the key parameters from survey responses (see text). These include the normative time preference \( \delta \), the behavioral time preference \( \beta \), and the utility function curvature. The survey was conducted in June 2019 to participants and opted-out workers ever had access to OregonSaves. Survey questions are provided in Appendix C. Parameters of interest are identified using regression models specified in Equations (10) and (11). Estimation results are presented in Table 6.
<table>
<thead>
<tr>
<th></th>
<th>CRRA</th>
<th></th>
<th>CARA</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Annual discount factor $\delta$</td>
<td>0.987</td>
<td>0.987</td>
<td>0.988</td>
<td>0.988</td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
</tr>
<tr>
<td>Present bias parameter $\gamma$</td>
<td>0.995</td>
<td>0.994</td>
<td>0.994</td>
<td>0.993</td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td>(0.006)</td>
<td>(0.006)</td>
<td>(0.006)</td>
</tr>
<tr>
<td>CRRA curvature $\alpha$</td>
<td>0.501</td>
<td>0.499</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.089)</td>
<td>(0.089)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CARA curvature $\rho$</td>
<td></td>
<td></td>
<td>0.00001</td>
<td>0.00001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>ln(annual income)</td>
<td>-0.00007</td>
<td></td>
<td>13.529</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.007)</td>
<td></td>
<td>(129.541)</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>0.002</td>
<td></td>
<td>28.364</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td></td>
<td>(18.826)</td>
<td></td>
</tr>
<tr>
<td>Number of dependents</td>
<td>0.022</td>
<td></td>
<td>394.440</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.016)</td>
<td></td>
<td>(278.043)</td>
<td></td>
</tr>
<tr>
<td>Background consumption W ($)</td>
<td>1,040</td>
<td>1,040</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>1,765</td>
<td>1,765</td>
<td>1,765</td>
<td>1,765</td>
</tr>
<tr>
<td>N. unique subjects</td>
<td>143</td>
<td>143</td>
<td>143</td>
<td>143</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-70.093</td>
<td>-57.766</td>
<td>-15,075.172</td>
<td>-15,062.091</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.310</td>
<td>0.432</td>
<td>0.002</td>
<td>0.003</td>
</tr>
</tbody>
</table>

Notes: Data from anonymized survey responses collected in June 2019. An online experimental survey was sent to 440 OregonSaves-eligible workers, including those who opted out and participating as of June 2019. There are 143 survey respondents who answered the time preference survey questions provided in Appendix C, and these respondents made 1,765 intertemporal decisions in total. All columns present estimation results from two-limit Tobit maximum likelihood regressions. Columns 1-2 show estimates of the regression specification in the form of Eq.(10) assuming constant relative risk aversion utility (CRRA). The dependent variable indicates the percentage change of consumption at a sooner time relative to a later time scaled by the background consumption: $\ln \left( \frac{C + W}{R + W} \right)$. The annual background consumption ($W = 1,040$) was set to equal to the negative of the minimum consumption level among all survey respondents. The average annual normative discount factor $\delta$ under CRRA is 0.987, and the average annual behavioral discount factor $\gamma$ under CRRA is 0.995. Columns 3-4 present estimates of the regression specification in the form of Eq.(12) assuming constant absolute risk aversion utility (CARA). The dependent variable is the consumption level at a sooner time: $C$. The average $\delta$ under CARA is 0.988 and the average $\gamma$ is 0.994. Columns 2 and 4 control for covariates as in Table 2 of Meier and Sprenger (2015). Individual-level data of covariates are collected from survey responses. Standard deviations clustered on the individual level in parentheses. Additional estimation results are presented in Appendix E.
Table 7: Social Marginal Welfare Weight $g$ Calculations

<table>
<thead>
<tr>
<th>Statistics $s = {l, h}$</th>
<th>$l$-type passive savers</th>
<th>$h$-type passive savers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximated percent of type $h_s$</td>
<td>45%</td>
<td>3%</td>
</tr>
<tr>
<td>Average annual income $Z_s$</td>
<td>$49,168$</td>
<td>$33,240$</td>
</tr>
<tr>
<td>Primitive Pareto weight $\alpha_s = \frac{1}{Z_s}$</td>
<td>0.00002</td>
<td>0.00003</td>
</tr>
<tr>
<td>Aggregate weighted Pareto weight $\bar{\alpha}<em>s = \sum</em>{s={l, h}} \alpha_s h_s$</td>
<td>0.00001</td>
<td>0.00001</td>
</tr>
<tr>
<td>Social marginal welfare weight $g_s = \frac{\alpha_s}{\bar{\alpha}}$</td>
<td>2.02</td>
<td>2.99</td>
</tr>
</tbody>
</table>

Notes: This table reports estimates of the social marginal welfare weights for $l$-type passive savers (preferred rates below the default while saving at the default) and for $h$-type passive savers (preferred rates above the default while saving at the default). The welfare weight for a given type $g_{s=\{l, h\}}$ is the Pareto weight $\alpha_s$ normalized by the aggregate weighted Pareto weight $\bar{\alpha}$. The normalization ensures that the welfare weights $g_s$ only depend on the relative difference in income across types but are independent of the absolute size of income within type. We use observed data when the default rate is 5% to estimate the welfare weights at the optimal default. The first row presents the approximated (unobserved) percent of passive savers for each type. I use the observed fractions of active savers of each type to approximate the fraction of passive savers of each type. This approximation is based on an assumption that although the fraction of each type (active and passive savers combined) could be different, the ratio of active versus passive savers within type is the same. The second row presents the estimated income for each type $Z_s$ using the OregonSaves savings data in December 2019, which was the last month that all individuals faced 5% default rate. The individual-level monthly income equals the contribution amount divided by the contribution rate. Only individuals with a positive contribution amount and a positive rate are included. Imputed average annual income equals the average monthly income times 12. The third row shows that the primitive Pareto weight $\alpha_s$ equals the inverse of income $\frac{1}{Z_s}$ same as in Saez (2002). The fourth row shows that the aggregate weighted Pareto weight is the primitive Pareto weight $\alpha_s$ weighted by the percent of each type $h_s$. The last row presents the final social marginal welfare weight $g_s$ for each type.
### Table 8: Baseline Optimal Default Savings Rate Calculations

<table>
<thead>
<tr>
<th>Statistics</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Statistics for l-type passive savers</strong></td>
<td></td>
</tr>
<tr>
<td>Semi-elasticity $\epsilon_l$</td>
<td>-0.52</td>
</tr>
<tr>
<td>Normative time preference $\delta_l$</td>
<td>0.987</td>
</tr>
<tr>
<td>Behavioral time preference $\gamma_l$</td>
<td>0.994</td>
</tr>
<tr>
<td>Annual income $Z_l$</td>
<td>$49,168</td>
</tr>
<tr>
<td>Social marginal welfare weight $g_l$</td>
<td>2.02</td>
</tr>
<tr>
<td>Preferred rate of passive savers on the margin $s_l$</td>
<td>0.04</td>
</tr>
<tr>
<td><strong>Panel B: Statistics for h-type passive savers</strong></td>
<td></td>
</tr>
<tr>
<td>Semi-elasticity $\epsilon_h$</td>
<td>0.0004</td>
</tr>
<tr>
<td>Normative time preference $\delta_h$</td>
<td>0.987</td>
</tr>
<tr>
<td>Behavioral time preference $\gamma_h$</td>
<td>0.994</td>
</tr>
<tr>
<td>Annual income $Z_h$</td>
<td>$33,240</td>
</tr>
<tr>
<td>Social marginal welfare weight $g_h$</td>
<td>2.99</td>
</tr>
<tr>
<td>Preferred rate of passive savers on the margin $s_h$</td>
<td>0.09</td>
</tr>
<tr>
<td><strong>Panel C: Opt-out costs</strong></td>
<td></td>
</tr>
<tr>
<td>Money-metric cost of opting out of the default rate $K$</td>
<td>$250</td>
</tr>
<tr>
<td>Fraction of normative opt-out cost $\pi$</td>
<td>0</td>
</tr>
<tr>
<td><strong>Panel D: Optimal default rate</strong></td>
<td></td>
</tr>
<tr>
<td>Baseline optimal default rate $r^*$</td>
<td>7%</td>
</tr>
</tbody>
</table>

Notes: Estimates of key statistics used to compute the optimal default savings rate in Proposition 1: All statistics in Panel A and Panel B are estimated from the OregonSaves data (see text). Estimates for $\delta_l$, $\gamma_l$, $\delta_h$, and $\gamma_h$ are identified using survey data collected from OregonSaves-eligible workers in Table 6 (see Section 4.2). Estimation procedures for $g_l$ and $g_h$ are provided in Table 7. In Panel C, the value of $K$ borrows from Choukhmane (2018). Calculation details for the baseline optimal default rate in Panel D are provided in Section 5.
Figure 1: Impact of a Marginal Perturbation of the Default Savings Rate $r$

(a) In this figure, $r$ is the default savings rate. Workers with a preferred savings rate between $s_l$ and $s_h$ save at the default rate $r$ because the default is close to their preferred rates. These workers are defined as passive savers, with density $m_r = m_l + m_h$, where $m_l$ are the fraction of passive savers with an underlying preferred rate between $s_l$ and $r$, and $m_h$ are the fraction of passive savers with an underlying preferred rate between $r$ and $s_h$. Workers with a preferred rate below $s_l$ or above $s_h$ actively opt out of the default rate. They are defined as active savers.

(b) Suppose the policymaker sets a default rate at $r'$ instead of $r$, where $r' = r + 0.01r$. When the default rate is $r'$, passive savers are workers with a preferred savings rate between $s_l'$ and $s_h'$. Their preferred rates are close to the new default rate $r'$. The total density of passive savers is denoted by $m_r'$. Active savers are workers with a preferred rate below $s_l'$ or above $s_h'$. The shaded rectangle, denoted by $P$, shows the fraction of workers who are passive savers both under $r$ and $r'$. These are workers with a preferred rate between $s_l$ and $s_h$. 

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Figure 1: Continued

(c) The shaded area, denoted by $L$, indicates the fraction of workers who are passive savers under the low default rate $r$ but active savers under the high default rate $r'$. These are workers with a preferred rate between $s_l$ and $s_l'$. They are passive savers under the low default $r$ because it is close enough to their preferred rates. They opt out of the high default $r'$ and become active savers because the high default $r'$ is far from their preferred rate.

(d) The shaded area, denoted by $H$, shows the fraction of workers who are active savers under the low default rate $r$ but passive savers under the high default rate $r'$. These are workers with a preferred rate between $s_h$ and $s_h'$. They are active savers under the low default $r$ because the low default is far from their preferred rates. They are passive savers under the high default $r'$ because the high default is close enough to their preferred rates.
Figure 2: Optimal Default Savings Rate $r^*$ under Different Values of Semi-Elasticity $\epsilon_l$

Notes: the solid curve presents how the optimal default $r^*$ varies with l-type semi-elasticity $\epsilon_l$, where $\epsilon_l$ measures the decrease in the fraction of passive savers whose preferred rates are below the default (l-type passive savers) as the default marginally increases. The intersection of the solid curve and the vertical dash-dotted line is $r^*$ at the baseline value of $\epsilon_l$. The optimal default $r^*$ exponentially increases with $\epsilon_l$. When $\epsilon_l = -1$, all passive savers with preferred rates below the default would opt out of the default as it marginally increases. The policymaker should set the default around 6% to encourage some individuals to stay at the default. When $\epsilon_l = 0$, no passive savers would ever opt out regardless of the level of the default rate. The policymaker should set the default very high to increase savings which could maximize lifecycle utility subject to the budget constraint.
Figure 3: Optimal Default Savings Rate $r^*$ under Different Values of Semi-Elasticity $\epsilon_h$

Notes: The solid curves present how $r^*$ varies with h-type semi-elasticity $\epsilon_h$, where $\epsilon_h$ measures the increase in the fraction of passive savers whose preferred rates are above the default (h-type passive savers) as the default marginally increases. The intersection of the solid curve and the vertical dash-dotted line is $r^*$ at the baseline level of $\epsilon_h$. When $\epsilon_h$ is between 0 and 0.5, $r^*$ is bounded below 7% and decreases with $\epsilon_h$. When $\epsilon_h$ is between 0.5 and 1, $r^*$ is bounded above 14% and decreases with $\epsilon_h$. When the magnitude of $\epsilon_h$ is close to the magnitude of the baseline value of $\epsilon_l$ ( = -0.52), the size of the increase in l-type passive savers equals the size of the decrease in h-type passive savers. The changes in the default rate induce little welfare effect as the total number of passive savers remains constant. The optimal default $r^*$ could be either 0 or very large. If $\epsilon_h = 0$, no h-type active savers under a low default would want to become a passive saver under a high default even though the high default is close to their preferred rate. The policymaker should set the default around 7% to maximize lifecycle utility for existing passive savers. If $\epsilon_l = 1$, all h-type active savers under a low default would save at a high default. The policymaker should set the default relatively high around 14% to minimize the aggregate opt-out cost of h-type workers.
Figure 4: Optimal Default Savings Rate $r^*$ under Different Values of Annual Discount Factors $\delta_l$ and $\delta_h$

Notes: The solid curve displays how $r^*$ varies with $\delta_l$, which is the average annual discount factor for savers with a preferred rate lower than the default. The dash-dotted line presents how $r^*$ varies with $\delta_h$, which is the average annual discount factor for savers with a preferred rate higher than the default. The dashed vertical line highlights $r^*$ under the baseline values of $\delta_l$ and $\delta_h$. The optimal default $r^*$ exponentially decreases with $\delta_l$. This suggests that when $\delta_l$ is low, the (positive) welfare internality of saving at the default for savers with a low preferred rate is small, measured by $dR_l$ in Proposition 1. The policymaker should set the default very high to encourage people with a low preferred rate to opt out of the default. When $\delta_l$ is high, the welfare internality of saving at the default is large. The policymaker should set the default around 7% to attract savers to stay at the default. Additionally, $r^*$ slightly increases with $\delta_h$. When $\delta_h$ is low, the (positive) welfare internality of saving at the default for savers with a high preferred rate is low, measured by $dR_h$ in Proposition 1. The policymaker should set the default relatively low to encourage savers to opt out of the default. Since a low default deviates from these savers' preferences, they do not have strong incentives to stay at the default. Moreover, since savers with a high preferred rate are not very responsive to the default implied by the small magnitude of $\epsilon_h$, the impact of $\delta_h$ on the optimal default $r^*$ is weak.
Notes: The solid curves present how $r^*$ varies with $\gamma_l$, which is the average present bias parameter for savers with a preferred rate lower than the default (l-type savers). The dash-dotted line presents how $r^*$ varies with $\gamma_h$, which is the average present bias parameter for savers with a preferred rate higher than the default (h-type savers). The dashed vertical line highlights $r^*$ under the baseline values of $\gamma_l$ and $\gamma_h$. When $\gamma_l$ is close to 1, l-type savers are neither present-biased nor future-biased. The policymaker should set the default either to a very high level or to zero so that l-type savers are compelled to select their preferred rates. When l-type savers are either present-biased ($\gamma_l < 1$) or future-biased ($\gamma_l > 1$), the optimal default is bounded between 5% and 8% to correct individuals from either actively under-saving or actively over-saving. The dash-dotted line shows that $r^*$ decreases with $\gamma_h$, which is the present bias parameter for h-type savers. If h-type savers are present-biased ($\gamma_h < 1$), the policymaker should set a high default that is above their preferred rate to encourage them to save more. Using a high default to encourage more default savings could be more effective to h-type savers than l-type savers because h-type savers are less likely to opt out of the default than l-type savers. If h-type savers are future-biased ($\gamma_h > 1$), $r^*$ is below 8% to attract these savers to save less than their preferred level by staying at the default.
Figure 6: Optimal Default Savings Rate $r^*$ under Different Values of the Total Perceived Opt-Out Costs $K_l$ and $K_h$

Notes: In this figure, I show $r^*$ under a relaxed assumption that the total opt-out cost $K$ perceived by individuals is heterogeneous across different types of savers. The solid line presents how $r^*$ varies with $K_l$, which is the average perceived opt-out cost for savers with a preferred rate lower than the default. The dash-dotted line presents how $r^*$ varies with $K_h$, which is the average perceived opt-out cost for savers with a preferred rate higher than the default. The dashed vertical line highlights $r^*$ under the baseline values of $K_l$ and $K_h$, where $K_l = K_h = K = $250. Both $K_l$ and $K_h$ vary between 0 to $2,000, which is the maximum estimate in previous studies (DellaVigna, 2009; Bernheim et al., 2015). The optimal default $r^*$ increases with $K_l$ and is bounded under 13%. When the total opt-out cost perceived by savers with a low preferred rate ($K_l$) is high, the policymaker should set a relatively high default that significantly deviates from savers’ preferences. Consequently, the benefit of opting out of the default outweighs the perceived cost. More l-type savers would opt out of the default despite the high perceived opt-out cost. Additionally, $r^*$ does not change with $K_h$. This is mainly because savers with a high preferred rate are unlikely to adjust their savings rate based on the level of the default rate, measured by the low semi-elasticity $\epsilon_h$. 

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Figure 7: Optimal Default Savings Rate $r^*$ under Different Values of the Normative Opt-Out Costs $\pi_l$ and $\pi_h$

Notes: In this figure, I present $r^*$ under another relaxed assumption that the fraction of the normative opt-out cost $\pi$ (with respect to the total perceived opt-out cost) is heterogeneous across different types of savers. The solid line presents how $r^*$ varies with $\pi_l$, which is the average fraction of the normative opt-out cost for savers with a preferred rate lower than the default. The dash-dotted line presents how $r^*$ varies with $\pi_h$, which is the average fraction of the normative opt-out cost for savers with a preferred rate higher than the default. The dashed vertical line highlights $r^*$ under the baseline values of $\pi_l$ and $\pi_h$, where $\pi_l = \pi_h = \pi = 0$. Both lines show that $r^*$ are bounded between 5% and 7% for any value of $\pi_l$ and $\pi_h$ between 0 and 1. This suggests that the extent to which individuals overestimate the opt-out cost does not significantly impact the level of the optimal default. This is partly explained by the relatively small magnitude of the welfare internalities of action $dK_l$ and $dK_h$ relative to other components in Proposition 1. The magnitude of each component in the baseline calculation is displayed in Equation 14.
Appendix

A Microfoundation of the Preferred Saving Rate $\theta$

The preferred saving rate, denoted $\theta$, is the non-default rate that individuals would choose if they opt out of the default savings rate. The preferred saving rate $\theta$ is chosen from a policy space $\tilde{\theta} \in [0, 1]$, where $\theta$ maximizes the following utility function:

$$\theta = \arg \max_{\tilde{\theta}} U(\tilde{\theta}) = \arg \max_{\tilde{\theta}} u((1 - \tilde{\theta}) \cdot Z) + \gamma \delta v(\tilde{\theta} \cdot Z) - K,$$

(15)

where $Z$ is the labor income, $\gamma$ is the behavioral time preference, $\delta$ is the normative time preference, and $K$ is the perceived cost of making an active decision. See Section 3 for detailed descriptions of these variables. Workers who choose $\theta$ as their preferred saving rate are defined as type-$\theta$ workers.

For a given type-$\theta$ worker, her preferred consumption amount $C(\theta) = (1 - \theta)Z(\theta)$, and preferred savings amount $S(\theta) = \theta Z(\theta)$. When there is a default savings rate $r$, she decides her pension saving amount $P(\theta)$ between two options: the default savings amount $R(\theta) = r \cdot Z(\theta)$ and her preferred saving amount $S(\theta)$. Her observed choice of saving amount in the presence of a default rate $r$ maximizes Equation (1) in Section 3.
B Proof of Proposition 1

The first-order condition for the social welfare function, Equation (3), equals zero at the optimal default rate $r^*$:

$$
\frac{dW(r^*)}{dr} = \frac{d}{dr} \int_{\theta = \theta_i}^{\theta_h} \alpha(\theta)N(P(\theta))dm(\theta)
\approx \int_{\theta = \theta_i}^{\theta_h} \alpha(\theta) \frac{dN(R^*(\theta))}{dr}dm(\theta) + \frac{dm_h}{dr} \alpha_h(N(R_h) - N(S_h)) - \frac{dm_l}{dr} \alpha_l(N(S_l) - N(R_l))
\tag{16}
$$

$$= 0.
$$

The first term in Equation (16) can be decomposed into two terms:

$$
\int_{\theta = \theta_i}^{\theta_h} \alpha(\theta) \frac{dN(R^*(\theta))}{dr}dm(\theta)
\approx \int_{\theta_i}^{r^*} \alpha_l \frac{dN(R_l^*)}{dr}dm_l + \int_{r^*}^{\theta_h} \alpha_h \frac{dN(R_h^*)}{dr}dm_h
= \alpha_l \frac{dN(R_l^*)}{dr}m_l + \alpha_h \frac{dN(R_h^*)}{dr}m_h
= \alpha_l \frac{dN}{dR_l^*} Z_l m_l + \alpha_h \frac{dN}{dR_h^*} Z_h m_h,
\tag{17}
$$

where $R_l^* = r^* \cdot Z_l$ so that $\frac{dR_l^*}{dr} = Z_l$. Based on Equation (2) that $N = U + (1 - \gamma_l)\delta_l v(R_l^*)$, the partial derivative $\frac{dN}{dR_l^*}$ can be rewritten as:

$$
\frac{dN}{dR_l^*} = \frac{d}{dR_l^*} (U + (1 - \gamma_l)\delta_l v(R_l^*))
= (1 - \gamma_l)\delta_l v'_R l^*
=(1 - \gamma_l)\delta_l \frac{g_l \lambda}{\alpha_l},
\tag{18}
$$
where \( g_l := \frac{\alpha_l v'_R}{\lambda} \) as defined in Equation (5) and \( v'_R := \frac{d v(R)}{dR} \). Similarly, \( \frac{dN}{dR_h} = (1 - \gamma_h) \delta_h g_h \lambda \).

Combining Equations (17) and (18), we rewrite the first term in Equation (16) as:

\[
\int_{\theta=\theta_l}^{\theta_h} \alpha(\theta) \frac{dN(R^*(\theta))}{dr} dm(\theta) \\
\approx \alpha_l \frac{\partial N}{\partial R^*_l} Z_l m_l + \alpha_h \frac{\partial N}{\partial R^*_h} Z_h m_h \\
= (1 - \gamma_l) \delta_l g_l \lambda Z_l m_l + (1 - \gamma_h) \delta_h g_h \lambda Z_h m_h. \tag{19}
\]

Based on Equation (2) that \( N = U + (1 - \gamma(\theta)) \delta(\theta) v(P(\theta)) + (1 - \pi) K \mathbb{1} \{ P(\theta) = S(\theta) \} \), where \( P(\theta) \in \{ R(\theta), S(\theta) \} \) and \( \theta \in \{ h, l \} \), the second term in Equation (16) can be rewritten as:

\[
\frac{d m_h}{d r} \alpha_h (N(R_h) - N(S_h)) = \frac{d m_h}{d r} \alpha_h \left( U(R_h) + (1 - \gamma_h) \delta_h v(R_h) - U(S_h) - (1 - \gamma_h) \delta_h v(S_h) - (1 - \pi) K \right) \\
= \frac{d m_h}{d r} \alpha_h \left( (1 - \gamma_h) \delta_h (v(R_h) - v(S_h)) - (1 - \pi) K \right). \tag{20}
\]

Workers on the margin of switching to their preferred saving amount \( S_h(= \theta_h Z_h) \) are indifferent between saving at the default and their preference when they evaluate these two choices using the decision utility \( U \). The same argument was applied in the optimal taxation literature in Saez (2002). Therefore, \( U(R_h) = U(S_h) \). Based on Assumption (4) that \( v(R_h) = R_h \) and the definition of \( g_h \) in Equation (5), \( \alpha_h = \frac{g_h \lambda}{v_R} = g_h \lambda \). Equation (20) can be
expressed as:

\[
\frac{dm_h}{dr} \alpha_h(N(R_h) - N(S_h)) = \frac{dm_h}{dr} \alpha_h \left( (1 - \gamma_h) \delta_h (v(R_h) - v(S_h)) - (1 - \pi) K \right) = \frac{dm_h}{dr} g_h \lambda \left( (1 - \gamma_h) \delta_h (r^* - \theta_h) Z_h - (1 - \pi) K \right). \tag{21}
\]

Similarly, the third term in Equation (16) can be expressed as:

\[
\frac{dm_l}{dr} \alpha_l(N(S_l) - N(R_l)) = \frac{dm_l}{dr} \alpha_l \left( U(S_l) + (1 - \gamma_l) \delta_l S_l + (1 - \pi) K - U(R_l) - (1 - \gamma_l) \delta_l R_l \right) = \frac{dm_l}{dr} g_l \lambda \left( (1 - \gamma_l) \delta_l (\theta_l - r^*) Z_l + (1 - \pi) K \right). \tag{22}
\]

Combining Equations (19), (21), and (22), we get

\[
\frac{dW(r^*)}{dr} = (1 - \gamma_l) \delta_l g_l \lambda Z_l m_l + (1 - \gamma_h) \delta_h g_h \lambda Z_h m_h + \frac{dm_h}{dr} g_h \lambda \left( (1 - \gamma_h) \delta_h (r^* - \theta_h) Z_h - (1 - \pi) K \right) - \frac{dm_l}{dr} g_l \lambda \left( (1 - \gamma_l) \delta_l (\theta_l - r^*) Z_l + (1 - \pi) K \right) = 0. \tag{23}
\]
We rearrange Equation (23) and plug in semi-elasticities \( \epsilon_l = \frac{dm_l}{dr} \frac{1}{m_r} \) and \( \epsilon_h = \frac{dm_h}{dr} \frac{1}{m_r} \):

\[
\frac{dW(r^*)}{dr}
= (1 - \gamma_l)\delta_l g_l Z_l m_l - \frac{dm_l}{dr} g_l (1 - \gamma_l)\delta_l (\theta_l - r^*) Z_l - \frac{dm_l}{dr} g_l (1 - \pi) K
\]
\[
+ (1 - \gamma_h)\delta_h g_h Z_h m_h + \frac{dm_h}{dr} g_h (1 - \gamma_h)\delta_h (r^* - \theta_h) Z_h - \frac{dm_h}{dr} g_h (1 - \pi) K
\]
\[
= 0
\]
\[
(1 - \gamma_l)\delta_l g_l Z_l m_l + |\epsilon_l| g_l (1 - \gamma_l)\delta_l (\theta_l - r^*) Z_l + |\epsilon_l| g_l (1 - \pi) K
\]
\[
+ (1 - \gamma_h)\delta_h g_h Z_h m_h + |\epsilon_h| g_h (1 - \gamma_h)\delta_h (r^* - \theta_h) Z_h - |\epsilon_h| g_h (1 - \pi) K
\]
\[
= 0,
\]

where \( \epsilon_l = \frac{dm_l}{dr} \frac{1}{m_r} < 0 \) and \( \epsilon_h = \frac{dm_h}{dr} \frac{1}{m_r} > 0 \) by definition. The overall welfare effect can be decomposed into several terms after the default savings rate marginally increases from \( r^* \) to \( r^* + dr \):

1. The aggregate weighted welfare gain to all passive savers on the intensive margin is 
   \[
dI = (1 - \gamma_l)\delta_l g_l Z_l m_l + (1 - \gamma_h)\delta_h g_h Z_h m_h.
\]

2. The welfare gain to \( l \)-type workers for switching to their preferred rate \( \theta_l \) under the new default \( r^* + dr \) is 
   \[
dS_l = |\epsilon_l| g_l (1 - \gamma_l)\delta_l \theta_l Z_l.
\]

3. The welfare loss to \( l \)-type workers for opting out of the default rate is 
   \[
dR_l = |\epsilon_l| g_l (1 - \gamma_l)\delta_l Z_l.
\]

4. The welfare loss to \( h \)-type workers for no longer saving at their preferred rate \( \theta_h \) is 
   \[
dS_h = |\epsilon_h| g_h (1 - \gamma_h)\delta_h \theta_h Z_h.
\]

5. The welfare gain to \( h \)-type workers for starting to save at the default rate is 
   \[
dR_h = |\epsilon_h| g_h (1 - \gamma_h)\delta_h Z_h.
\]
6. The welfare gain to $l$-type workers for making an active choice is $dK_l = |\epsilon_l| g_l (1 - \pi) K$.

7. The welfare loss to $h$-type workers for no longer making an active choice is $dK_h = |\epsilon_h| g_h (1 - \pi) K$.

Rearranging the last equation, we solve for the optimal default rate $r^*$:

$$r^* = \frac{dI + dS_l - dS_h + dK_l - dK_h}{dR_l - dR_h}.$$

C Survey Questions to Elicit Time Preferences

I designed two waves of survey to collect workers’ demographic information and time preferences. The surveys were sent out by the Oregon State Treasury. The first wave is a baseline survey that was sent out in June 2018 to collect demographic information. There are 440 workers (including enrollees and non-enrollees) who completed the baseline survey. These workers had access to OregonSaves in the first few months since its launch. The second wave is a follow-up survey that was sent out in June 2019 to collect time preferences. The 440 workers who completed the baseline survey were reached out to answer the follow-up survey. Among these workers, 143 of them completed the follow-up survey. The time preference questions were displayed in this section.

Survey design and the baseline results are explained in Section 4.2, Table 5, and Table 6. Appendix Section E presents supplementary results. Appendix Section D provides evidence that survey respondents truthfully answered survey questions and they are representative of all workers had access to OregonSaves.
OregonSaves Follow-Up Survey

Instructions: The following questions are all hypothetical, and your answers will not affect the amount of the gift card you will receive by completing the survey. In each of the following questions, please tell us how you think about tradeoffs between today and the future, by moving the slider. We ask you in each case to click the slider dividing 100 tokens between two dates. Here is an example:

Each token is worth $95 today and $100 in a year. How many tokens would you want to receive today?

<table>
<thead>
<tr>
<th>Amount you will have today</th>
<th>Amount you will have in a year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,650</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

This example shows how someone could divide 100 tokens between 70 today and 30 for a year from today. Each token today is worth $95, while each token for a year from today is worth $100. So this person would choose to receive $70*95=$6,650 today and $30*100=$3,000 a year from today.

Please use the slider to select the number of tokens you would like to receive today.

1. Each token is worth $100 today and $100 in a year. How many tokens would you want to receive today?

<table>
<thead>
<tr>
<th>Amount you will have today</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

2. Each token is worth $99 today and $100 in a year. How many tokens would you want to receive today?

<table>
<thead>
<tr>
<th>Amount you will have today</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

3. Each token is worth $98 today and $100 in a year. How many tokens would you want to receive today?

<table>
<thead>
<tr>
<th>Amount you will have today</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

4. Each token is worth $95 today and $100 in a year. How many tokens would you want to receive today?

<table>
<thead>
<tr>
<th>Amount you will have today</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Survey navigation:
Next will advance you to the following question. After the last question, be sure to select Submit to complete the survey.

OregonSaves is overseen by the Oregon Retirement Savings Board. Ascensus College Savings Recordkeeping Services, LLC (“ACRS”) is the program administrator. ACRS and its affiliates are responsible for day-to-day program operations. Participants saving through OregonSaves beneficially own and have control over their Roth IRAs, as provided in the program offering set out at saver.oregonsaves.com.

OregonSaves’ Portfolios offer investment options selected by the Oregon Retirement Savings Board. For more information on OregonSaves’ Portfolios go to saver.oregonsaves.com. Account balances in OregonSaves will vary with market conditions and are not guaranteed or insured by the Oregon Retirement Savings Board, the State of Oregon, the Federal Deposit Insurance Corporation (FDIC) or any other organization.

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OregonSaves Follow-Up Survey

Please use the slider to select the number of tokens you would like to receive today.

1. Each token is worth $100 today and $100 in two years. How many tokens would you want to receive today?
   1. Amount you will have today
      1. Amount you will have in two years

2. Each token is worth $99 today and $100 in two years. How many tokens would you want to receive today?
   2. Amount you will have today
      2. Amount you will have in two years

3. Each token is worth $98 today and $100 in two years. How many tokens would you want to receive today?
   3. Amount you will have today
      3. Amount you will have in two years

4. Each token is worth $95 today and $100 in two years. How many tokens would you want to receive today?
   4. Amount you will have today
      4. Amount you will have in two years

Survey navigation:
Next will advance you to the following question. After the last question, be sure to select Submit to complete the survey.

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OregonSaves Follow-Up Survey

Please use the slider to select the number of tokens you would like to receive in a year.

1. Each token is worth $100 in a year and $100 in two years. How many tokens would you want to receive today?
   
   Amount you will have in a year: 0
   Amount you will have in two years: 100

2. Each token is worth $99 in a year and $100 in two years. How many tokens would you want to receive today?
   
   Amount you will have in a year: 0
   Amount you will have in two years: 100

3. Each token is worth $98 in a year and $100 in two years. How many tokens would you want to receive today?
   
   Amount you will have in a year: 0
   Amount you will have in two years: 100

4. Each token is worth $95 in a year and $100 in two years. How many tokens would you want to receive today?
   
   Amount you will have in a year: 0
   Amount you will have in two years: 100

Survey navigation:
Next will advance you to the following question. After the last question, be sure to select Submit to complete the survey.

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Completed: [ ]
Please use the slider to select the number of tokens you would like to receive in a year.

1. Each token is worth $100 in a year and $100 in three years. How many tokens would you want to receive today?
   1. Amount you will have in a year
   1. Amount you will have in three years

2. Each token is worth $99 in a year and $100 in three years. How many tokens would you want to receive today?
   2. Amount you will have in a year
   2. Amount you will have in three years

3. Each token is worth $98 in a year and $100 in three years. How many tokens would you want to receive today?
   3. Amount you will have in a year
   3. Amount you will have in three years

4. Each token is worth $95 in a year and $100 in three years. How many tokens would you want to receive today?
   4. Amount you will have in a year
   4. Amount you will have in three years

Survey navigation:
Next will advance you to the following question. After the last question, be sure to select Submit to complete the survey.
D Supplementary Figures of Survey Respondents

Figure 8 provides evidence that survey respondents truthfully answered survey questions. Figures 9 and 10 show that survey respondents are representative of all workers eligible for OregonSaves.
Notes: This figure presents the difference in self-reported age from survey responses and from administrative data for 142 survey respondents who answered the time preference questions in June 2019. By comparing their age in survey responses with the age in the administrative data, this figure suggests that most survey respondents truthfully answered survey questions. One survey respondent was excluded as the age from survey response significantly deviates from the age in administrative records (survey age = 55, administrative data age = 29). All time preference questions are presented in Appendix C. Estimates of time preferences are presented in Table 6. Self-reported age in survey data was collected from survey responses to the following question: “How old were you on your last birthday?” Age from the administrative data is also self-reported. When workers open an OregonSaves account for the first time, they are asked to report their birth year so that part of their contributions would be invested into an age-appropriate fund. Age in June 2019 from the administrative data was calculated from the birth year. Without knowing the exact birth date, the estimated age from the administrative data could be one-year different from the age in survey. There are 137 survey respondents whose age in survey responses is within one-year difference from the estimated age using the administrative record. Five people reported their age in the survey that is more than one year younger than the estimated age from the administrative record.
Figure 9: Comparison of the Distribution of Age between the OregonSaves Population and Survey Respondents, June 2019

Notes: The blue solid curve shows the distribution of age for all workers ever had access to OregonSaves (including enrollees and non-enrollees) by the end of June 2019 (N = 186,888). The red dashed curve is the distribution of age for all survey respondents (including enrollees and non-enrollees) (N = 143). These two curves are close to each other although survey respondents are slightly older than the entire OregonSaves population. The average age of all OregonSaves workers is 37 in 2019. The average age of survey respondents is 43 in 2019. The survey to collect demographic information was fielded in June 2018. These survey respondents are the first wave of workers who had access to OregonSaves before June 2018. Most workers were automatically enrolled in OregonSaves in 2019 and early 2020.
Figure 10: Comparison of the Distribution of the Savings Rate between the OregonSaves Population and Survey Respondents, June 2019

Notes: The blue solid bar displays the discrete distribution of the savings rate in June 2019 for workers had access to OregonSaves before the end of June 2018 (N = 27,417). The blank bar presents the distribution of the savings rate in June 2019 for survey respondents. All survey respondents had access to OregonSaves before the end of June 2018. This figure shows the comparison of these two groups because they had access to OregonSaves during the same period of time and they both experienced automatic escalation on January 1, 2019. Survey respondents made similar savings choices as all workers who had access to OregonSaves during the same period. When survey respondents were asked time preference questions in June 2019, their answers should be representative of the larger OregonSaves population.
E Supplementary Results of Time Preferences

This section shows estimates of workers' time preferences and risk preferences in addition to the baseline estimates presented in Table 6.
Table 9: Additional Parameter Estimates of Time Preferences with the CRRA Utility Function

<table>
<thead>
<tr>
<th>Alternative background consumption $W$</th>
<th>$W = 0.01$</th>
<th>$W = 2,572$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual discount factor $\delta$</td>
<td>0.324</td>
<td>0.991</td>
</tr>
<tr>
<td></td>
<td>(0.173)</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Present bias parameter $\gamma$</td>
<td>1.023</td>
<td>1.002</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.005)</td>
</tr>
<tr>
<td>CRRA curvature $\alpha$</td>
<td>0.977</td>
<td>1.077</td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
<td>(0.012)</td>
</tr>
<tr>
<td>ln(annual income)</td>
<td>0.053</td>
<td>0.012</td>
</tr>
<tr>
<td></td>
<td>(0.046)</td>
<td>(0.005)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.002</td>
<td>0.015</td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td></td>
</tr>
<tr>
<td>Number of dependents</td>
<td>-0.107</td>
<td>-0.015</td>
</tr>
<tr>
<td></td>
<td>(0.112)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>4,365</td>
<td>1,765</td>
</tr>
<tr>
<td>N. unique subjects</td>
<td>97</td>
<td>143</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-2,870.98</td>
<td>-2,858.72</td>
</tr>
<tr>
<td>R$^2$</td>
<td>0.01</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Note: This table provides supplementary estimates of the regression specification in the form of Eq.(10) assuming constant relative risk aversion utility (CRRA) in addition to the baseline results in Table 6. All columns present estimation results from two-limit Tobit maximum likelihood regressions. The dependent variable indicates the percentage change of consumption at a sooner time relative to a later time scaled by the background consumption: $\ln \left( \frac{C - W}{R - W} \right)$. Columns 1-3 show estimates using the choice of the background consumption in Andreoni and Sprenger (2012): $W = 0.01$. Column 1 presents estimates in Column 4 of Table 2 in Andreoni and Sprenger (2012). These are the estimates using the same CRRA regression specification as Columns 2-3 and the baseline results. Columns 4-6 use the average annual background consumption in Andreoni and Sprenger (2012): $W = 2,571$. Column 4 presents estimates in Column 6 of Table 2 in Andreoni and Sprenger (2012). Columns 3 and 6 control for covariates as in Table 2 of Meier and Sprenger (2015). Individual-level data of covariates are collected from survey responses. Standard deviations clustered on the individual level in parentheses.
Table 10: Additional Parameter Estimates of Time Preferences with the CARA Utility Function

<table>
<thead>
<tr>
<th></th>
<th>CARA Eq.(11)</th>
<th></th>
<th></th>
<th>CARA Eq.(12)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Annual discount factor $\delta$</td>
<td>0.254</td>
<td>0.987</td>
<td>0.987</td>
<td>0.335</td>
<td>0.988</td>
<td>0.988</td>
</tr>
<tr>
<td></td>
<td>(0.159)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.136)</td>
<td>(0.005)</td>
<td>(0.005)</td>
</tr>
<tr>
<td>Present bias parameter $\gamma$</td>
<td>1.028</td>
<td>0.993</td>
<td>0.992</td>
<td>1.017</td>
<td>0.994</td>
<td>0.993</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.007)</td>
<td>(0.007)</td>
<td>(0.008)</td>
<td>(0.006)</td>
<td>(0.006)</td>
</tr>
<tr>
<td>CARA curvature $\rho$</td>
<td>0.008</td>
<td>0.00001</td>
<td>0.00002</td>
<td>0.007</td>
<td>0.00001</td>
<td>0.00001</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.001)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>$\ln$(annual income)</td>
<td>27.362</td>
<td></td>
<td></td>
<td>27.362</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(261.975)</td>
<td></td>
<td></td>
<td>(129.541)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>57.100</td>
<td></td>
<td></td>
<td>57.100</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(38.015)</td>
<td></td>
<td></td>
<td>(18.826)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of dependents</td>
<td>798.738</td>
<td></td>
<td></td>
<td>798.738</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(561.633)</td>
<td></td>
<td></td>
<td>(278.043)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>4,365</td>
<td>1,765</td>
<td>1,765</td>
<td>4,365</td>
<td>1,765</td>
<td>1,765</td>
</tr>
<tr>
<td>N. unique subjects</td>
<td>97</td>
<td>143</td>
<td>143</td>
<td>97</td>
<td>143</td>
<td>143</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>–</td>
<td>-16,152.86</td>
<td>-16,139.76</td>
<td>–</td>
<td>-15,075.17</td>
<td>-15,062.09</td>
</tr>
<tr>
<td>$R^2$</td>
<td>–</td>
<td>0.002</td>
<td>0.003</td>
<td>–</td>
<td>0.002</td>
<td>0.003</td>
</tr>
</tbody>
</table>

Note: This table provides supplementary estimates of the regression specification assuming constant absolute risk aversion utility (CARA) in addition to baseline results in Table 6. All columns present estimation results from two-limit Tobit maximum likelihood regressions. Columns 1-3 present results of the CARA tangency condition in the form of Eq.(11) where the dependent variable indicates the difference in consumption level at a sooner time relative to a later time: $C - R$. Column 1 presents estimates in Column 7 of Table 2 in Andreoni and Sprenger (2012). Columns 4-6 show results of the CARA solution function in the form of Eq.(12) where the dependent variable is the consumption level at the sooner time: $C$. Column 4 presents estimates in Column 8 of Table 2 in Andreoni and Sprenger (2012). Columns 3 and 6 control for covariates as in Table 2 of Meier and Sprenger (2015). Individual-level data of covariates are collected from survey responses. Standard deviations clustered on the individual level in parentheses.
Table 11: Additional Parameter Estimates of Time Preferences with Linear Utility

<table>
<thead>
<tr>
<th></th>
<th>Meier and Sprenger (2015)</th>
<th>OregonSaves data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Annual discount factor $\delta$</td>
<td>0.760</td>
<td>0.690</td>
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<tr>
<td></td>
<td>(0.0002)</td>
<td>(0.047)</td>
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<tr>
<td>Present bias parameter $\gamma$</td>
<td>0.712</td>
<td>0.973</td>
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<tr>
<td></td>
<td>(0.024)</td>
<td>(0.012)</td>
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<tr>
<td>ln(annual income)</td>
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<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual income/10K</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-0.001</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>Number of dependents</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>31,812</td>
<td>31,812</td>
</tr>
<tr>
<td>N. unique subjects</td>
<td>1,446</td>
<td>1,446</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-20,490.403</td>
<td>-20,374.52</td>
</tr>
<tr>
<td>R$^2$</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Note: This table provides supplementary estimates assuming linear utility. All columns present estimation results from two-limit Tobit maximum likelihood regressions. Columns 1-2 present my calculation using the estimates presented in Columns 1-2 of Table 2 in Meier and Sprenger (2015). The dependent variable is the log of the ratio of consumption at a sooner time relative to a later time: $\ln(C/R)$. Columns 3-5 show results using the same linear utility specification using the OregonSaves survey data. The estimates of $\delta$ in two studies are close. The estimates of $\gamma$ is higher using the OregonSaves data than in Meier and Sprenger (2015). Individual-level data of covariates are collected from survey responses. Standard deviations clustered on the individual level in parentheses.