Prompting Decisions on TSP Contribution

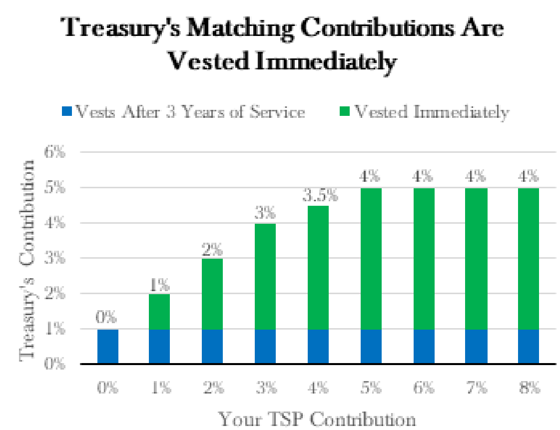
Testing the effect of prompted choice on TSP contribution rates

Agency Objective Support retirement security of employees, by encouraging new employees to contribute at least 5 percent to TSP.

Background The Federal Government operates a savings program for its employees known as the Thrift Savings Plan (TSP). New employees are automatically enrolled in the plan at a contribution rate of 3 percent, and nearly 90 percent of civilian employees participate in the plan. Civilian employees who contribute to TSP receive matching employer contributions up to a maximum of 5 percent. Nearly 1 in 3 new Treasury employees contributed less than 5 percent in FY 2015 and therefore lose overall compensation and retirement security. The success of *prompted choices* in private sector workplace savings—where employees are encouraged to choose whether to contribute and how much—suggests that many new employees might contribute more if they were encouraged to make a choice.[1]

Program Change In collaboration with the Department of the Treasury (Treasury), OES ran a pilot at new employee orientations in three Treasury bureaus. A suite of materials encouraged new employees to consider making a decision to contribute at least 5 percent: (i) information on matching in offer letters, (ii) a cover sheet and TSP-1 enrollment form given during orientation, (iii) revised slides and scripts during benefits presentations, (iv) inclusion of TSP matching decisions on the new employee's first week checklist, and (v) questions about TSP matching in the orientation follow-up survey.[2] Orientations were held roughly every two weeks.

Evaluation Methods Orientation logistics made random assignment infeasible. For the purposes of estimating impacts of the treatment at pilot bureaus, TSP contribution rates were collected at pilot bureaus in the same time period in the year preceding the pilot period, and from the other nine Treasury bureaus during the pilot and pre-pilot periods. We use a linear probability model to estimate the differences-in-differences treatment effects on retirement saving outcomes. We estimate the model with robust clustered standard errors with small sample correction.[3]



Results Across the three pilot bureaus, more than 90 percent of new employees who submitted TSP enrollment forms the day of the orientation contributed at least 5 percent. However, across nearly all bureaus --- including the three pilot bureaus and nine other comparable bureaus with status quo new employee orientations --- 2016 new employees reported fewer contributions above 5%, lower percentage contributions on average, and lower amounts of contribution than employees hired in 2015. The only positive change across all bureaus was the proportion reporting the default contribution rate of exactly 3%. The effects of the pilot were directed especially at new employees, so we analyze data for only these employees using linear regression.

[1] Carroll, Choi, Laibson, Madrian, and Metrick (2009). "Optimal Defaults and Active Decisions," *Quarterly Journal of Economics*, 124: 1639-1676.

[2] The pilot ran from 4/5/2016 to 10/17/2016 at Departmental Offices, Bureau of the Fiscal Service, and Office of the Comptroller of Currency.

[3] *Given the small number of bureaus, we confirmed our statistical tests using permutation tests. We here report confidence intervals produced using corrections to the robust cluster standard errors to account for the small number of clusters/bureaus.*

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Using a difference-in-difference estimator that pools information across the different bureaus, we find an increase in the likelihood of a new employee contributing at least 5 percent to TSP, a decrease in the proportion of new employees contributing at the default rate of 3 percent, and almost no change in average contribution rates. However, including bureau fixed effects in the model changes the picture, suggesting that it is difficult to separate the effects of the pilot from other factors related to the pilot bureaus. When we compared changes over time within each bureau in this way, new employees in the pilot bureaus seemed to contribute a bit less, in general, than the new employees in the other bureaus --- for example a 2.5 percentage point decrease in the likelihood of a new employee contributing at least 5 percent to TSP (p=0.72, 95% CI [-15.2, 10.2]), and 1.7 percentage point decrease in the likelihood of a new employee contributing the default of 3 percent to TSP (p=0.83, 95% CI [-16.0, 12.7]). Neither result was statistically significant, and there was no detectable effect on overall average contribution rates.

Conclusion While automatic enrollment into retirement savings plans have shown success at increasing participation, in the Federal Government many employees remain at the default contribution rate of 3 percent, forgoing both potential compensation and future retirement security. Overall, the employees in the new orientation program failed to substantially increase contribution rates compared to either pre-pilot contributions in those bureaus or contribution rates in non-pilot bureaus.