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Automatic enrollment in public supplemental retirement plans

Abstract

This paper examines the prevalence of automatic enrollment provisions in public sector supplemental retirement plans. Available evidence indicates that relatively few government retirement systems have adopted automatic enrollment provisions for their supplemental retirement saving plans. We explore some factors that might explain this lack of interest in automatic enrollment by public employers, including: state laws that specifically prohibit the use of auto enrollment, the overhead costs of adding the policy, the perception that governments are already providing an adequate retirement plan and union concerns about the impact of reduced take-home pay.

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Virtually all full-time, public employees are covered by employer-provided retirement plans.[1] In general, enrollment in these plans is mandatory, i.e., participation is a condition of employment for most full-time workers. In this study, we refer to these plans as the "primary retirement" plans offered by employers. For most career state and local public employees, these pension plans are expected to be their largest source of income in retirement. Historically, almost all these plans were defined benefit (DB) plans, and people retiring with 25 to 30 years of service could expect a benefit at retirement equal to, roughly, 50% to 60% of their final earnings.[2] However, over the past two decades, many public-sector employers have instituted changes in their DB plans, reducing the value of future retirement benefits. Although most public primary retirement plans remain DB plans, there has in recent years been a trend for some governments to offer defined contribution (DC) or hybrid plans (a combination of DB and DC) as their primary retirement plan.

Given these reductions in retirement benefits, an important question is whether future retirees will have sufficient income to maintain their economic well-being throughout retirement. One strategy for increasing future retirement income is for employers to offer and for employees to contribute to employer-sponsored retirement DC saving plans. Beginning in the 1980s, public employers began offering employees the opportunity to contribute to such plans, typically either a 401(k), 403(b) or 457 plan.[3] Most government employers offer their employees the opportunity to make voluntary contributions to these DC plans, referred to as "supplemental retirement plans."

In the public sector, these supplemental plans rarely include employer matching contributions as an incentive to participate. With coverage by relatively generous DB primary plans, and the lack of employer matches to supplemental plans, the limited available evidence indicates that only a small proportion of covered employees contribute to the supplemental retirement plans.[4] Should low participation rates in supplemental saving plans concern public employees, employers, or policy makers? If so, should employers consider new policies to enhance employee saving for retirement, such as automatic enrollment into their supplemental plans?

In this paper, we examine the prevalence of automatic enrollment provisions in public sector supplemental retirement plans and consider factors that may inhibit their adoption. Available evidence indicates that relatively few government employers have adopted automatic enrollment provisions.

We explore some factors that might explain this lack of interest in automatic enrollment policies by public employers. Barriers include state laws that specifically prohibit the use of auto enrollment in public retirement plans,[5] the overhead costs of adding the policy, the perception that governments already provide adequate retirement plans for their workers, and union concerns about the impact of reduced take-home pay.[6] Individual employees may also oppose having money taken from their pay without their explicit consent. Note that automatic enrollment policies must allow workers to decline participation in the plan. Automatic enrollment does not mean mandatory and continuous contributions to the supplemental saving plan.

In contrast, automatic enrollment is a rapidly expanding provision in many retirement saving plans in the private sector. The Pension Protection Act of 2006 provided that 401(k) plans that adopt automatic enrollment provisions would satisfy certain nondiscrimination rules. Following passage of this legislation, there has been a rapid expansion of private sector employers adopting automatic enrollment provisions in their 401(k) plans. In most cases, 401(k) plans offered by private sector employers are the only retirement plan available to employees, while in the public sector, these plans are usually supplemental to workers' primary plan. More recently, the passage of the SECURE 2.0 Act requires that, beginning in 2025, newly created 401(k) and 403(b) plans must have automatic enrollment provisions if these plans are the employer's primary retirement plan.

1 The Bureau of Labor Statistics (2022) reports that 99% of full-time state and local workers had access to an employer-sponsored retirement plan.

2 While public employees tend to have longer tenures relative to private sector workers, not all public sector workers remain with the same employer for 30 years. Individuals with fewer years of service who leave public service during their 40s and 50s will have substantially lower benefits when they retire from the labor force than those who remain on the job into their 60s (see Clark, Craig, and Wilson, 2003, pp. 13-20).

3 These numbers refer to the section of the Internal Revenue Code that defines the various plans by employer type. 457 plans can only be provided by state and local government and certain non-governmental entities. 403 plans can be offered by public schools and certain charities. Any type of employer can offer a 401(k) plan.

4 See Clark and Pelletier (2020, 2022).

5 Interestingly, several states have instituted auto-IRA programs for private sector workers. These plans require that firms without any other retirement plan must use payroll deductions to fund a state-managed IRA for their employees. Evidence (Quinby et al., 2019; Chalmers et al., 2021) suggests that these programs have increased participation, but it is too early to know if they will significantly increase retirement income.

6 Union leaders may also be concerned that promoting DC plans may weaken support for the primary DB plan. Union membership is much higher among public employees (U.S. Bureau of Labor Statistics, 2025), so opposition from unions may play a role in blocking the adoption of automatic enrollment in supplemental plans.

Retirement plans in the public sector

As noted above, virtually all public employers provide their full-time employees with a retirement plan. Participation in these plans is mandatory, and workers are typically required to contribute to the retirement plan. Most public pensions are DB plans. Table 1 reports some of the key characteristics of 85 statewide pension plans covering state employees, local employees, and/or teachers. The table indicates the type of primary retirement plan offered to participants, whether participants in the plans are covered by Social Security, the type of employees included in the plan, and the 2023 funding ratio of the plan.[7] The following discussion examines how the incidence of automatic enrollment in the supplemental saving plan varies across these characteristics.

TABLE 1. DETAILS OF STATE-MANAGED PUBLIC RETIREMENT PLANS

State	Name of plan	Employees covered	Primary pension plan	Social Security coverage	FY 2023 funding ratio of plans
Alabama	ERS	S,L	DB	Yes	63.4
Alabama	TRS	T	DB	Yes	65.1
Alaska	PERS	S,L	DC	No	67.0
Alaska	TRS	T	DC	No	76.8
Arizona	SRS	S,L,T	DB	Yes	71.8
Arkansas	PERS	S,L	DB	Yes	81.4
Arkansas	TRS	T	DB	Yes	82.1
California	PERS	S,L	DB	Yes	72.0
California	TRS	T	DB	No	75.9
Colorado	PERA	S,L,T	DB or DC	No	67.0
Connecticut	SERS	S	DB	Yes	52.0
Connecticut	TRS	T	DB	No	59.8
Delaware	SEPP	S,T	DB	Yes	87.0
Florida	FRS	S,L,T	DB, DC or hybrid	Yes	81.4
Georgia	ERS	S	Hybrid	Yes	72.0
Georgia	TRS	T	DB	Yes	78.2
Hawaii	ERS	S,L,T	DB	Yes	62.2
Idaho	PERS	S,L,T	DB	Yes	83.7
Illinois	SRS	S	DB	Yes	44.7
Illinois	TRS	T	DB	No	44.8
Illinois	MRF	L	DB	Yes	96.6
Indiana	PERF	S,L,T	Hybrid or DC	Yes	85.4
Indiana	TRF	S,L,T	Hybrid or DC	Yes	75.0

The type of workers covered by these plans is shown by S = state employees, L = local government employees and T = teachers.

7 A DB funding ratio is the total value of plan assets divided by the present value of expected liabilities. The higher the ratio, the better a plan is positioned to pay future pension benefits.

TABLE 1. DETAILS OF STATE-MANAGED PUBLIC RETIREMENT PLANS (CONTINUED)

State	Name of plan	Employees covered	Primary pension plan	Social Security coverage	FY 2023 funding ratio of plans
Iowa	PERS	S,L,T	DB	Yes	89.7
Kansas	PERS	S,L,T	Cash balance	Yes	74.0
Kentucky	KERS	S	Cash balance	Yes	54.8
Kentucky	CERS	L	Cash balance	Yes	25.2
Kentucky	TRS	T	DB	No	58.6
Louisiana	SERS	S	DB	No	68.5
Louisiana	TRSL	T	DB	No	75.8
Maine	PERS	S,L,T	DB	No	85.0
Maryland	SPRP	S,L,T	DB	Yes	70.6
Massachusetts	SERS	S	DB	No	71.3
Massachusetts	TRS	T	DB	No	58.7
Michigan	SERS	S	DB	Yes	71.6
Michigan	MERS	L	DB, DC or hybrid	Yes	72.5
Michigan	PSERS	T	DC or hybrid	Yes	68.8
Minnesota	MSRS	S	DB	Yes	83.6
Minnesota	PERA	L	DB	Yes	95.1
Minnesota	TRA	T	DB	Yes	76.9
Mississippi	PERS	S,L,T	DB	Yes	56.1
Missouri	SERS	S	DB	Yes	83.6
Missouri	LAGERS	L	DB	Yes	95.1
Missouri	PSRS	T	DB	No	85.9
Montana	PERS	S,L	DB or DC	Yes	74.8
Montana	TRS	T	DB	Yes	72.5
Nebraska	SEPP	S	Cash balance	Yes	101.8
Nebraska	SPP	T	DB	Yes	98.6
Nebraska	CEPP	L	Cash balance	Yes	102.0
Nevada	PERS	S,L,T	DB	No	75.5
New Hampshire	NHRS	S,L,T	DB	Yes	67.2
New Jersey	PERS	S,L	DB	Yes	54.3
New Jersey	TPAF	T	DB	Yes	43.8
New Mexico	PERA	S,L	DB	Yes	67.7

TABLE 1. DETAILS OF STATE-MANAGED PUBLIC RETIREMENT PLANS (CONTINUED)

State	Name of plan	Employees covered	Primary pension plan	Social Security coverage	FY 2023 funding ratio of plans
New Mexico	ERA	T	DB	Yes	62.9
New York	ERS	S,L	DB	Yes	96.6
New York	TRS	T	DB	Yes	98.6
North Carolina	TSERS	S,T	DB	Yes	89.4
North Carolina	LGERS	L	DB	Yes	88.6
North Dakota	PERS	S,L	DB	Yes	66.9
North Dakota	TRF	T	DB	Yes	71.2
Ohio	PERS	S,L	DB, DC or hybrid	No	83.8
Ohio	STRS	T	DB, DC or hybrid	No	81.3
Oklahoma	PERS	S,L	DB	Yes	100.7
Oklahoma	TRS	T	DB	Yes	75.1
Oregon	PERS	S,L,T	Hybrid	Yes	77.5
Pennsylvania	SERS	S	DB	Yes	69.6
Pennsylvania	PSERS	T	Hybrid or DC	Yes	63.6
Rhode Island	ERS	S,T	Hybrid	Yes	62.8
South Carolina	SCRS	S,L,T	DB	Yes	57.9
South Dakota	SRS	S,L,T	DB	Yes	100.1
Tennesssee	CRS	S,L,T	DB or hybrid	Yes	98.8
Texas	ERS	S	Cash balance	Yes	70.8
Texas	TRS	T	DB	No	77.5
Texas	MRS	L	DB	Yes	89.7
Utah	SRS	S,L,T	DC or Hybrid	Yes	95.4
Vermont	SRS	S	DB	Yes	70.3
Vermont	TRS	T	DB	Yes	59.3
Virginia	SRS	S,L,T	Hybrid	Yes	81.3
Washington	PERS	S,L	Hybrid	Yes	97.3
Washington	TRS	T	Hybrid	Yes	92.0
West Virginia	PERS	S,L	DB	Yes	96.3
West Virginia	TRS	T	DB	Yes	77.8
Wisconsin	WRS	S,L,T	DB or DC	Yes	98.6
Wyoming	WRS	S,L,T	DB	Yes	78.5

The 85 plans are described in detail in the biannual reports produced by the Wisconsin Legislative Council. The information presented in the table was obtained from (a) a review of the websites of each plan and (b) the latest report of the Wisconsin Legislative Council. The funding ratio is from the NASRA Public Fund Survey, https://www.nasra.org/publicfundsurvey.

Over the past two decades, governments have made numerous changes to their DB formulas, resulting in a reduction in value of future retirement benefits for public employees. In an effort to enhance the sustainability of funding, public DB retirement systems have: increased age and service requirements for normal retirement, lowered benefit multipliers, increased the number of years used to calculate final average earnings, increased employee contribution rates, and/or reduced or eliminated cost-of-living provisions. These pension reforms result in lower retirement benefits.[8] In general, governments have enacted these reforms in an effort to reduce the rising cost of annual pension contributions, which were increasing as a percent of public expenditures, and lower the unfunded liabilities associated with these plans. Data in Table 1 show how funding ratios varied across public plans in 2023.[9] These data reflect the large differences in the funding status of primary retirement plans across the states.

In addition to benefit provision changes for governments retaining DB plans, there is also a trend toward public employers offering newly hired workers coverage in DC, cash balance[10], and hybrid plans. The transition to these plans may also affect future retirement benefits. The increase since 2000 in the full retirement age for Social Security also implies that benefits from Social Security, claimed at any age, are lower than they were prior to this change. Furthermore, approximately 28% of public employees are not covered by Social Security, so they rely more heavily on their employer pension (Congressional Research Service, 2023).[11] The lack of coverage by Social Security might affect the preference of workers for adopting automatic enrollment. Table 1 shows that employees in 17 of the 85 plans listed are not covered by Social Security. Unless Congress changes laws affecting how Social Security benefits are financed, employees in the other 68 will have their future benefits reduced by approximately 20%.

With the decline in future pension and Social Security benefits, how will employers, workers and policymakers respond? Unless other forms of saving are increased, well-being in retirement will be lower for future retirees. One of the easiest methods of retirement saving is employees contributing to supplemental retirement plans through payroll deductions. We know of no comprehensive data source with details on the provision of supplemental retirement plans by public employers. In a review of 85 large state-managed retirement systems we find most employers in these systems offer a supplemental retirement saving plan, but only a few have adopted automatic enrollment.[12] Rarely do public employers offer employer-matching contributions as an inducement to participate in these plans. In the next section, we describe the pension systems and the plans they offer.

Coverage of public sector plans

Many public pension systems cover different types of workers (see Table 1). About half of the states manage pension plans that cover only teachers. In the other states, teachers are included in plans that also cover other state employees. In some states, local employees are included in plans with state employees. In other states, local employees are covered by plans that only include local government employees.[13] In plans that include different types of workers, participants with the same primary plan may have very different options for supplemental retirement saving plans. For example, state employees might be eligible for state-managed 457 plans, while schoolteachers might be covered by 403(b) plans managed by the local school board. Thus, the availability of a primary pension plan does not necessarily imply that all participants in that plan are included in the same type of supplemental plan. This is an important observation in understanding the extent of employees covered by automatic enrollment.

Abashidze, Clark, and Craig (2023) found that limiting coverage of a retirement system to a single type of worker, such as teachers, improves their bargaining power and limited the decline in retirement benefits over the past few decades. In the case of supplemental plans managed by individual school districts, the diversity of interests can yield different types of supplemental plans, and different ways they are managed. This could reduce the overall bargaining power of teachers when it comes to this benefit.

8 In general, these changes to benefit formulas are only applied to newly hired workers. Abashidze et al. (2023) find that for state-managed plans for teachers, the average reduction in initial retirement benefits for teachers retiring under plan rules in place in 2020 was 11% compared with those retiring under the plan formulas in 2000.

9 The funding ratio for pension plans is defined as plan assets divided by plan liabilities. Thus, the ratio indicates the proportion of promised benefits that could be paid if the plan was terminated and no future contributions were made.

10 Cash balance plans are technically DB plans, but they tend to have very different benefit formulas from those of the DB plans referred to above.

11 There's some concern that plans that include workers not covered by Social Security may not be providing a retirement income consistent with federal regulations (Quinby et. al., 2020).

12 The 85 plans are described in detail in biannual reports produced by the Wisconsin Legislative Council.

13 See the reports by the Wisconsin Legislative Council that show the type of employees covered by state-managed plans.

What is automatic enrollment?

In contrast to the mandatory coverage of primary retirement plans, participation in supplemental retirement saving plans is always voluntary. Traditionally, newly hired employees were given the option to enroll in the plan and select a contribution rate. Unless the individual actively chose to participate, they were not included in the saving plan. Limited evidence indicates that participation rates of public employees in supplemental plans where the worker had to opt into the plan is rather low, perhaps because they are already covered by the mandatory plan and Social Security, which both require employee contributions (Clark & Pelletier, 2020, 2022).

Automatic enrollment provisions of DC plans require that new employees be enrolled in the supplemental saving plan unless the new employee actively opts out of participation. Such default enrollment provisions require that the employer also set a default contribution rate and a default investment into which the contributions are placed. Automatic enrollment provisions must allow the worker to opt out of the plan at any time and to change their contribution rate or their investments every 90 days.

Research on the use of automatic enrollment in the private sector indicates this policy substantially increases participation in the short run but, over time, some participants still opt out of these plans (Reuter, 2024).[14] An additional concern with automatic enrollment policies is that workers may respond to increased contributions to their retirement plans by incurring larger debts in other areas of their finances. Limited evidence on the adoption of automatic enrollment in the public sector shows an even larger increase in participation, in part, because of the very low participation rate without automatic enrollment (Clark & Franzel, 2011; Clark & Pelletier, 2020, 2022; Sanford, 2014, 2023).

The decision to adopt automatic enrollment provisions in the public sector is determined by state laws and influenced by employers, unions, and employee preferences. Many states have laws that explicitly prevent the adoption of automatic enrollment, with some states applying different rules if the plan is collectively bargained.[15] This legal distinction might imply that collectively bargained plans should be more likely to adopt automatic enrollment provisions. In other states, laws allow for automatic enrollment for state employees but not local government workers, such as schoolteachers and municipal employees. The state may adopt automatic enrollment for its workers but leave the decision to use it up to school districts and local governments. Even if legal within a state, adding an automatic enrollment provision to a supplemental plan is not typically required, and public retirement systems may decide not to adopt it or defer adding it through plan design inertia. The preferences and policies supported by unions and individual employees may be influenced by the desire to protect take-home pay. Union coverage is much greater among public employees compared to the incidence of collective bargaining in the private sector—35.2% compared with 6% (U.S. Bureau of Labor Statistics, 2024). Employers and workers may also be concerned by the cost of adopting automatic enrollment and the fees associated with the administration of the policy.

The existing level and type of benefits may also affect the willingness of employers to institute automatic enrollment and the desire of workers to be covered by this policy. A series of factors might influence the probability of automatic enrollment being offered. For example, should employees who are not covered by Social Security place a higher value on being automatically enrolled into a supplemental plan? Are workers who participate in a DB plan more likely to find contributing to a supplemental saving plan more desirable compared to those already participating in a DC plan? Does greater generosity of the defined benefit make workers less likely to feel they need additional saving? Others may feel that contributing more to retirement savings leaves less money for consumption today, while not providing any additional needed income for retirement consumption.

How are supplemental retirement saving plans managed?

As noted above, even when various governmental units participate in the same state-managed pension system, public school districts and local governments do not necessarily offer the same supplemental saving plans as state employees. For example, many school districts manage their own 403(b) plans for the teachers in their districts. Clark and Hanson (2013) examined 403(b) plans in all 50 states and found significant differences in oversight across states. Clark and Richardson (2010) showed the impact of state-managed plans with a small number of providers, as compared with governments allowing any willing provider in the plans. Clark, Pathak, and Pelletier (2018) examined plans in North Carolina, where school districts offered their own 403(b) plans, but where teachers also had access to state-managed 457, 401(k) and 403(b) plans. The adoption of automatic enrollment may prove to be more difficult in states where management is at the local level and many plan providers are bidding for dollars. This issue also makes it more difficult to determine the incidence of automatic enrollment in the public sector.

14 Retirement saving plans in the private sector are typically the only pension plan offered by employers, and, generally, the plan has significant employer-matching contributions.

15 NAGDCA (2023) has a detailed review of state laws and regulations on the adoption of automatic enrollment for public employees.

Current status of automatic enrollment in public sector supplemental plans

To determine the incidence of automatic enrollment in the public sector, we reviewed the web pages of 85 large statewide pension systems included in the Wisconsin Legislative Council biannual review of public plans. In 2021, these plans covered 21 million active employees, beneficiaries, and annuitants. The plans included 13 retirement systems that covered only state employees, 26 systems that included only teachers, 22 systems that included state and local employees and teachers, eight systems with only local employees, 13 with state and local employees, and three systems that covered state employees and teachers.[16]

For each pension system, we searched for information on primary and supplemental plans. A DB plan is the most common primary plan offered by state governments, with 54 public-sector primary plans (64% of all plans), and with 78% of those plans also having Social Security coverage. Hybrid (11%) and cash balance (7%) plans are the next most prevalent single plan offered, with DC plans comprising only 4% of the plans. And 15% of systems offer workers a choice of primary plan.

The rules governing the supplemental retirement plan often differ between state employees and other public workers included in the same system. For those systems with a primary DC plan or a hybrid plan with a DC component, we do not consider participation in the mandatory plan as automatic enrollment. Rather we focus on whether the employee is automatically enrolled into a supplemental plan. Another interesting provision is whether employees are allowed to contribute additional money to the DC component of the mandatory plan. Most public sector systems provide at least one type of supplemental plan.

Incidence of automatic enrollment provisions

Before governing boards of public retirement systems can adopt automatic enrollment provisions for their supplemental retirement saving plans, state governments must determine whether these provisions are legal in public retirement plans. We identified 30 plans in 24 states where automatic enrollment into voluntary supplemental saving plans is not restricted by state legislation. Of these 30 plans (i.e., the plans for which governing boards could adopt automatic enrollment provisions), 14 retirement systems in 12 different states have adopted automatic enrollment provisions for newly hired employees (see Table 2). In addition to these retirements systems, California, Florida, New Jersey, and Pennsylvania allow automatic enrollment for public employees provided the plan is collectively bargained. However, the plans covering state employees and teachers in these states have not adopted automatic enrollment provisions. This highlights two important observations. First, more than half of the states specifically prohibit the use of automatic enrollment of public employees in supplemental retirement plans. Second, only about half of the retirement systems that could adopt automatic enrollment provisions have chosen to do so.

As noted earlier, public retirement plans generally require significant employee contributions, and most workers are also covered by Social Security. Thus, many public workers are covered by mandatory retirement programs that require employee contributions of 12% to 20% percent of salary. Given these levels of reductions in current earnings, it is not anticipated that default contribution rates associated with automatic enrollment would be very high. The final column of Table 2 shows the default contribution rates for those systems that have adopted automatic enrollment. The two Alaskan systems have a default contribution of 6.13% of pay, but note that Alaskan public employees and teachers are not covered by Social Security. Four systems have a default contribution of 3%, while the Texas system covering state employees has a 1% rate, and four states specify the default contribution in dollar amounts.

16 Abashidze et al. (2023) show that the types of workers covered by a plan affected the rate of decline in the generosity of teacher retirement benefits.

TABLE 2. PUBLIC PENSION PLANS IN STATES THAT ALLOW RETIREMENT SYSTEMS TO ADOPT AUTOMATIC ENROLLMENT IN SUPPLEMENT RETIREMENT PLANS FOR SOME OR ALL PUBLIC EMPLOYEES

Adopted auto Plans and coverage	Default Primary plan	Supplemental plan	Enrollment	Contribution
Alaska: S/L	DC	401(a)	Yes	6.13% of pay
Alaska: T	DC	401(a)	Yes	6.13% of pay
Colorado: S/L/T	DB or DC	401(k) and 457	No	
Connecticut: S	Hybrid	401(a)*	No	
Connecticut: T	Hybrid	401(a)*	No	
Georgia: S	Hybrid	457*	No	
Georgia: T	DB		No	
Idaho	DB	401(k)	Yes	No contribution
Illinois: S	DB	457	Yes	3% of pay
Illinois: T	DB	457	Yes	3% of pay
Indiana: S/L	Hybrid, DC	457*	No	
Indiana: T	Hybrid, DC	457*	No	
Iowa: S/L/T	DB	457	No	
Kansas: S/ L/ T	CB	457	No	
Kentucky: S	CB	401(k)	Yes	$30/month
Louisiana: S	DB	457	No	
Michigan: S	DC	401(k)	Yes	3% of pay
Missouri: S	DB	457	Yes	1% of pay
Nevada: S/L/T	DB	457	No	
New Hampshire: S/L/T	DB	457	Yes	N/A
Ohio: S	DB, DC, hybrid	457	457	No
Ohio: T	DB, DC, hybrid	457	No	
South Dakota: S/L/T	DB	457	Yes	$25/month
Tennessee: S/L/T	Hybrid	457	No	
Texas: S	CB	401(k)	Yes	1% of pay
Utah: S/L/T	DC, hybrid	401(k)	No	
Virginia: S/L/T	Hybrid	457, 401(a)	No	
Washington: S/L	Hybrid	457	Yes	3% of pay
West Virginia: S/L	DB	457	Yes	$10/pay period
Wyoming: S/L/T	DB	457	Yes	$20/month

*Employees can contribute additional money to DC component of primary plan.

The type of workers covered by these plans is shown by S = state employees, L = local government employees and T = teachers.

Does the type of primary retirement plan influence adoption of automatic enrollment in supplemental retirement saving plans?

A key question is whether the type of primary retirement plan influences the decision of a governing board in establishing automatic enrollment policies. Systems that have adopted automatic enrollment provisions include retirement systems with DB plans as their primary pension plan, primary cash balance plans, primary hybrid plans and primary DC plans.

To reveal any usage patterns of automatic enrollment across these pension systems, we report the systems with automatic enrollment separately, based on the type of primary plan. Table 3 lists the 15 state retirement systems that have a DC plan only or as a choice between the DC plan or a DB plan or a hybrid plan.[17] Only eight of these plans are in states where automatic enrollment is permitted. Among these eight plans, only the two Alaskan plans and the Michigan plan covering state employees had adopted automatic enrollment into the supplemental plan.

TABLE 3. AUTOMATIC ENROLLMENT PROVISIONS IN PUBLIC SYSTEMS WITH PRIMARY DC PLANS

State	Plan	Coverage	SSA	Auto enroll	Primary plan options
Alaska	PERS	S, L	No	Yes	DC only
Alaska	TRS	T	No	Yes	DC only
Colorado	PERS	S, L, T	No	No	DC, DB
Florida^	FRS	S, L, T	Yes	No	DB, hybrid
Indiana	PERF	S, L	Yes	*	DC, hybrid
Indiana	TRS	T	Yes	*	DC, hybrid
Michigan	SERS	S	Yes	Yes	DC only
Michigan^	MERS	L	Yes	No	DB, hybrid
Michigan^	PSERS	T	Yes	No	DC, hybrid
Montana^	PERS	S, L	Yes	No	DC, DB
North Dakota^	PERS	S, L	Yes	No	DC, DB
Ohio	PERS	S, L	No	*	DC, hybrid
Pennsylvania^	PSERS	T	Yes	No	DC, hybrid
Utah	RSS, L,	T	Yes	*	DC, hybrid
Wisconsin^	WRS	S, L, T	Yes	No	DC, DB

* Can contribute additional money to DC component of hybrid plans.
^ State doesn't allow automatic enrollment.

The type of workers covered by these plans is shown by S = state employees, L = local government employees and T = teachers.

17 In most states where workers have a choice of pension plans, the default plan is either the DB plan or a hybrid plan.

Some of the DC components of the primary plans allow participants to contribute additional funds to their accounts. This distinction is important because automatic enrollment in a separate saving plan has a default contribution rate. In contrast, those plans that allow additional voluntary contributions to the primary DC plan do not necessarily result in additional contributions.

Table 4 shows information for the 18 retirement systems that offer hybrid plans solely or as a choice, with DC or DB plans being other options. Some overlap exists between these plans and the ones shown in Tables 2 and 3. Six of these plans are in states that do not allow automatic enrollment for public employees. Of the 12 systems in which automatic enrollment could be adopted, only the Virginia and Washington plans covering state and local employees have adopted automatic enrollment in the supplemental saving plan. Systems allowing additional contributions to the DC component of the hybrid plan include the Connecticut plan for state employees, the Indiana and Ohio plans that include state and local employees, the Ohio plan for teachers, and the Utah system covering state and local employees and teachers.

TABLE 4. AUTOMATIC ENROLLMENT FOR PUBLIC SYSTEMS WITH HYBRID PLANS

State	Plan	Coverage	SSA	Auto enroll	Primary plan options
CT	SERS	S	No	*	Hybrid only
Florida^	FRS	S, L, T	Yes	No	Hybrid, DC, DB
Georgia	ERS	S	Yes	No	Hybrid only
Indiana	PERF	S, L	Yes	*	Hybrid DC
Indiana	TRF	T	Yes	No	Hybrid, DC
Michigan	MERS	L	Yes	No	Hybrid, DB, DC
Michigan	PSERS	T	Yes	No	Hybrid, DC
Ohio	PERS	S, L	No	*	Hybrid, DC
Ohio	STRS	T	No	*	Hybrid only
Oregon^	PERS	S, L, T	Yes	No	Hybrid only
Pennsylvania^	SERS	S	Yes	No	Hybrid only
Pennsylvania^	PSERS	T	Yes	No	Hybrid, DC
Rhode Island^	ERS	S, T	Yes	No	Hybrid only
Tennessee	ERS	S, L, T	Yes	No	Hybrid only
Utah	SRS	S, L, T	Yes	*	Hybrid, DC
Virginia	SRS	S, L	Yes	Yes	Hybrid only
Washington	PERS	S, L	Yes	Yes	Hybrid, DB
Washington^	TRS	T	Yes	No	Hybrid DB

* Can contribute additional money to the DC component of hybrid plans.
^ State doesn't allow automatic enrollment.

The type of workers covered by these plans is shown by S = state employees, L = local government employees and T = teachers.

Recently, a few states have shifted to cash balance plans as the primary retirement option. Six systems are shown in Table 5; however, only three are in states that permit automatic enrollment for covered employees. Of the three cash balances that could adopt automatic enrollment, only the Kentucky and Texas plans for state employees have adopted automatic enrollment.

Defined benefit plans remain the dominant type of retirement plan for public employees. Our review of the 85 plans indicates that 54 have only a DB primary plan, with another nine systems offering DB plans as an option. Of these 63 plans, only 14 are in states that allow public employees to be covered by automatic enrollment provisions for supplemental plans, and only seven of these systems have adopted automatic enrollment (see Table 2).

In summary, only 14 of the 85 retirement systems in our study have adopted automatic enrollment provisions. A small proportion of systems with each type of primary pension plan have chosen to adopt automatic enrollment provisions. It is important to remember that only about half of all these systems have the legal option of adopting automatic enrollment.

TABLE 5. AUTOMATIC ENROLLMENT FOR SYSTEMS WITH CASH BALANCE PLANS

State	Plan	Coverage	SSA	Auto enroll	Primary plan options
Kansas	PERS	S, L, T	Yes	No	CB only
Kentucky	KERS	S	Yes	Yes	CB only
Kentucky^	CERS	L	Yes	No	CB only
Nebraska^	PEPP	S	Yes	No	CB only
Nebraska^	CEPP	L	Yes	No	CB only
Texas	PERS	S	Yes	Yes	CB only

^State doesn't allow automatic enrollment. Kentucky requires state workers to automatically enroll, but prohibits auto-enrollment for local workers.

The type of workers covered by these plans is shown by S = state employees, L = local government employees and T = teachers.

Why have so few public retirement systems adopted automatic enrollment policies for their supplemental plans?

About half of the states have specific laws and regulations that restrict the use of automatic enrollment, and only half of the plans that could adopt automatic enrollment have chosen to do so. These observations raise two questions: Why do state policymakers want to prevent the adoption of automatic enrollment, and why do pension governing boards decline to adopt automatic enrollment when they could?

Why should state policymakers want to support the adoption of automatic enrollment?

In general, state and local governments provide relatively generous retirement benefits, and virtually all government units have established retirement plans for their employees. Participation in these plans is typically a condition of employment; as a result, almost 100% of full-time public employees are covered by primary retirement plan. These plans tend to be relatively more generous for longer-tenured employees, and retirees with 25 to 30 years of service can expect a pension benefit equal to roughly 50% to 60% of their final earnings. Approximately three-quarters of public employees are also included in the Social Security system. Thus, many career public sector employees can expect combined retirement income from both their employer-provided DB pension and Social Security to replace 80% or more of their final years' earnings.

In this environment, state policymakers and pension governing boards may wonder why there might be a need for automatic enrollment policies in their supplemental plans. One reason is the questionable sustainability of the current systems, and another is the recent significant reductions in future retirement benefits enacted by many states. Public sector employees tend to have more generous retirement benefits than workers in the private sector.[18] Expenditures on pensions for state and local employees and teachers have risen over time as a percentage of total state budgets, which strains the ability of governments to continue funding their retirement plans. As policymakers look for ways to slow the growth of annual pension expenditures, further reforms to benefit formulas can be expected to reduce initial retirement benefits for many public employees in the future. One policy change that could help retirees offset the decline in their primary pensions is to increase contributions to supplemental retirement saving plans. Adoption of automatic enrollment policies may increase participation in these plans.

Why do pension governing boards decline to adopt automatic enrollment?

What is the cost to the government of adopting automatic enrollment? Public pension systems are typically managed by a governing board composed of individuals representing employers, members, unions, and other public agencies. Representatives from these groups may have competing interests. As noted above, employers may be worried about the administrative cost of introducing automatic enrollment. Individual members may be more concerned about the reduction in current income compared to the higher income in retirement. Unions tend to favor DB plans as the primary retirement benefit, and they may have concerns that support for DC supplemental plans would lead to a decline in support for DB pensions. Given these competing interests, it is not surprising that many systems decide against adopting automatic enrollment.[19]

18 A possible reason for this is that public employees receive lower annual earnings in exchange for higher pension benefits (Craig, 1995).

19 For example, in 2014, the American Federation of State, County and Municipal Employees formally resolved to "aggressively defend against attacks on our members' defined benefit pensions." See: https://www.afscme.org/about/governance/conventions/resolutions-amendments/2014/resolutions/retirement-security-for-all

Conclusion

While public employees have historically had retirement benefits that many experts would consider adequate, at least when compared to private sector benefits, the rise in annual costs of these pensions and growing unfunded liabilities of many plans have resulted in changes in benefit formulas that will reduce future retirement benefits for many newly hired public employees as a percentage of final annual earnings. One method of filling potential retirement income gaps is through increased contributions to supplemental saving plans. Automatic enrollment of employees into these plans typically increases participation and contributions. Relatively few studies have analyzed the impact of automatic enrollment in public plans, while studies from the private sector indicate immediate increases in participation rates that tend to decline over time. Beshears, et al. (2024) provide a nice summary of the positive effects of automatic enrollment policies associated with increases in participation rates. They also discuss the potential decline in this effect over time and the possibility that higher retirement savings in employer plans might lead to increases in debt in other areas of their financial portfolio.

It seems reasonable that public retirement boards should consider whether automatic enrollment would be a helpful policy for public sector workers, especially for younger employees and future participants. In many states, implementing automatic enrollment policies would require a change in state laws. This study has shown that even where automatic enrollment is legal, relatively few systems have adopted the policy. One reason is that, for a variety of reasons, important interest groups, such as employees, unions and employers, may not favor the adoption of automatic enrollment policies for supplemental retirement saving plans. For example, employees may not fully understand the benefit of participating in a workplace DC plan. Or employers may feel that the DB plan is adequate for achieving their workforce objectives.

Over half of the states prohibit the use of automatic enrollment of public employees in supplemental retirement plans, and only about half of the retirement systems that could adopt automatic enrollment provisions have chosen to do so.

Factors that might explain this lack of interest in automatic enrollment by public employers include: the overhead costs of adding the policy, the perception that governments are already providing an adequate retirement plan, and union concerns about the impact of reduced take-home pay. If the value of public sector pension benefits continues to erode, which seems likely given the financing issues we reviewed above, it remains to be seen whether the cost of these factors will continue to outweigh the potential benefits of automatic enrollment in supplemental plans.

In summary, a major dilemma facing American state and local employees and teachers is how to achieve a desired level of retirement income given recent changes in retirement policies. The replacement rate from pension benefits for most newly hired public employees will be substantially lower than the retirement income promised to employees hired in earlier years. In addition, employees covered by Social Security are potentially facing a 20% or greater cut in their promised benefits. How can employees make up for these expected declines in retirement income? One way is for workers to enroll in supplemental retirement savings plans, boosting their savings and future retirement income. Due to continued funding pressures, however, many governments have also increased employee contributions to the primary pension plan while reducing future benefits. Most policy analysts also anticipate that either Social Security taxes will be increased, benefits reduced, or a combination of both. Thus, newly hired public employees are facing the possibility of lower retirement benefits from both their pension and Social Security while paying a higher percentage of earnings for these lower benefits. An open question is whether future employees will have the capacity to close the retirement income gap through voluntary supplemental plan contributions if their net earnings are being reduced by higher primary plan contributions and Social Security taxes. And importantly, what can public sector employers do to ensure that retirement benefits packages remain an integral component of their recruitment and retention strategies? Given these pressures, automatic enrollment may provide a potential solution to strengthening public sector retirement plans and helping workers reduce their retirement income gaps.

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