

Retirement plan type and worker mobility

Selection and incentives in retirement plans affect job transitions

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ELEVATOR PITCH

The relationship between retirement plan type and job mobility is more complex than typically considered. While differences in plan features and benefit structure may directly affect employees' mobility decisions ("incentive effect"), the type of plan offered may also affect the types of employees a given employer attracts ("selection effect"), thereby affecting mobility through a second, indirect channel. At the same time, some employees may not be able to accurately assess differences between plan types due to limited financial literacy. These factors have implications for policymakers and employers considering retirement plan offerings.

KEY FINDINGS

Pros

- ⊕ The relationship between higher job mobility and increased prevalence of defined contribution plans is in part driven by employee preferences for higher job mobility.
- ⊕ The choice structure governing a transition between a defined benefit and a defined contribution plan is key for employee enrollment outcomes.
- ⊕ A firm considering a transition from a defined benefit to a defined contribution plan needs to consider the effects on existing employees separate from new employees.

Cons

- ⊖ Evidence shows that employees place low value on additional defined benefit plan benefits, which may be in part due to low financial literacy.
- ⊖ Even employees who make an active choice (i.e. complete paperwork) between a defined benefit and defined contribution plan at a given employer are highly influenced by which plan the employer selects as the default plan (i.e. plan enrollment if no choice is made).
- ⊖ More research is needed on retirement plan valuation by employees just starting their careers.

AUTHOR'S MAIN MESSAGE

Governments and employers considering a transition between defined benefit and defined contribution plans need to consider how different types of employees value the various features of the plans. Given that many employees may struggle to understand which retirement plan is right for them, a key consideration in any transition is how the choice is structured, including the default terms that specify the plan outcome if no active choice is made. Setting the default plan differently across employees based on characteristics—such as age or tenure—could offer better value to specific employees and help reduce retirement plan-related job mobility.

