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“Are Empowerment and Education Enough? Underdiversification in 401(k) Plans”
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The collapse of Enron, WorldCom, and Global Crossing wiped out much of their employees' 401(k) savings, which had been heavily invested in employer stock. In response, bills have been proposed in Congress that would give employees the right to sell the employer stock in their 401(k), or that would require companies to educate their workers about the risks of not doing so. We find that these empower-and-educate approaches are unlikely to significantly reduce 401(k) employer stock holdings. In six natural experiments in which employer stock holding requirements were relaxed, we find only a modest response. We also find that the publicity surrounding the 401(k) meltdowns at the above firms had little effect on employer stock holdings among workers from other firms: real-life lessons about underdiversification risks do not seem to translate well into action. We conclude by discussing alternative legislative approaches and general implications for savings policies and pension regulation.

JEL codes: D14, G11, G23, G28