

FIDUCIARY CORNER

October 2013

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Comperio views the issue of low default deferral rates as the single biggest obstacle in achieving favorable retirement outcomes for participants and plan sponsors.

Auto Enrollment— *A success but still room for improvement. Focusing on retirement readiness is key going forward.*

By Scott Fremer, CEBS and James R. Sotell, AIF

Automatic Savings Features Are Evolving

Since the Pension Protection Act of 2006, automatic enrollment and automatic contribution rate increases have become very popular features of 401(k) plan design. In fact, most surveys indicate that about 50% of 401(k) plans have automatic saving provisions.

While automatic features have helped participation and saving rates, there is concern that low default deferral rates can result in low savings rates. Also, auto enrollment is largely applied only to newly eligible employees. And even though automatic contribution increase provisions are common, they are often available on an opt-in basis.

Comperio views the issue of low default rates as the single biggest obstacle in achieving favorable retirement outcomes for participants and plan sponsors. Many plans today have better 401(k) participation rates, but lower average deferral rates due to auto enrollment with target deferrals of 3% of compensation.

There is a significant amount of research supporting the fact that participants, on average, need to save between 9-13% of their compensation.

With the typical auto enroll structure, they are saving 4.5%.* This means many participants will achieve about 50% of what they need in retirement.

Comperio has experience working with clients to structure plan design to achieve better participant outcomes (getting participants to a 9% savings level). For example :

Increase the auto enrollment level to 6%

Research has shown that increasing the automatic deferral rate to 6% does not significantly increase the percentage of employees that opt out of auto enroll.

Changing the Automatic Deferral Percentage to Correspond with the Company Match

Many plans have that, for example, match employee contributions 50% up to 6% are auto enrolling only at a 3% compensation level.

* 4.5% average savings is based upon 3% auto enroll and 50% match on the deferral



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Focusing on retirement readiness is key going forward.
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There is second generation of auto enrollment services that are designed to improve retirement outcomes for participants

There are other plan design strategies for auto enrollment beginning to emerge in the marketplace. Here are a couple of "second generation of automatic enrollment" strategies:

Automatically enroll all eligible employees

T. Rowe Price's *Getting Beyond Ordinary: Advances in Automatic Savings Program Design* notes that an "enhanced" program would **automatically enroll all eligible employees**, not just those who are newly eligible. An "advanced" program would periodically enroll non-participating employees.

Automatically increase deferral rates

T. Rowe Price report suggests that in an enhanced program, an effective approach to increasing participants' contribution rates is to require them to **opt out of automatic increases**, as opposed to opting in.

Another new technique is called "**auto boost.**" In this approach, deferral rates are automatically increased for current participants. Auto-boosting can help raise contribution rates to the basic default level and may maximize any company match.

A combination of auto-boosting and automatic rate increases could certainly help participants reach savings rates that are need to accumulate comfortable retirement savings amounts.

Best practices are suggested

The Defined Contribution Institutional Investment Association (DCIIA) recently released a white paper which, like the T. Rowe Price report, reviewed how automatic provisions can be structured to help participants achieve a better income replacement ratio in retirement. *Best Practices When Implementing Auto Features in DC Plans* reviewed case studies in which plan sponsors implemented auto features in "more robust" ways.

The review led to suggestions regarding best practices, including:

- Automatically enroll all current employees and future new employees in the plan.
- Establish the initial default deferral rate at a minimum of 6%.
- Implement automatic contribution rate increases of at least 1% or 2%, and set a maximum of no less than 15%.

A large contingent of retirement plan sponsors and consultants were initially concerned that participants would react negatively to being automatically enrolled. The reality is that 8.5 out of 10 participants that are automatically enrolled stay in the plan and do not opt out. This has been a great success for auto enrollment and achieving the goal of getting employees participating in their 401(k) plan. The next step is structuring an auto enrollment program that can support participants in achieving desired retirement outcomes.