

Plan Sponsors: Employees Want Automatic Retirement Plan Features, So Why Not Offer Them?

Eighteen years ago, the retirement industry rolled out automatic enrollment to help combat employee inertia, increase participation in workplace retirement plans, and foster higher savings rates. Still, a surprising number of plan sponsors don't offer it. However, employees say they value defined contribution plans, and they desire automatic enrollment and escalation features.

A recent survey revealed this disparity between the DC plan benefits employers offer and those that employees actually say they want. It's an interesting conundrum that provides food for thought for plan sponsors considering ways to modify their retirement plans to better fit employees' needs.

Overall, just 21% of plan sponsors offer automatic enrollment, the survey found. However, 71% of workers would like to be auto-enrolled in their retirement plan. Breaking it down, large companies (41%, with 500 or more employees) are more likely than small, non-microcompanies (28%, with 100-499 employees) and microfirms (18%, 1-99 employees) to offer an auto-enroll feature.



Is a 3% Automatic Deferral Enough?

In plans with automatic enrollment, sponsors report median default contribution rates of 3% of annual pay, according to the survey. However, industry observers fear that this number may mislead participants, as it implies that a minuscule deferral rate is sufficient to fund a comfortable retirement. In most cases, however, it is not.

Fortunately, workers seem to understand this, as many say they believe 6% (median) would be an appropriate deduction from their paycheck upon being automatically enrolled in a 401(k) or similar plan.

Auto-Escalation Is Appealing

Moreover, 67% of employees say they would like their employer to offer auto-escalation. In fact, they would opt for an automatic increase in their contributions of 1% of their pay annually, or each time they receive a raise, until they decide to switch off the auto-escalation feature. Again, larger company plans are more likely to offer auto-escalation — 43% automatically increase participants' contributions every year, while just 26% of small and microcompanies do so, the survey found.

The survey findings are revealing, particularly with regard to how plan sponsors and employees view features such as auto-enrollment and auto-escalation. The knowledge that employees desire these provisions creates an opportunity for sponsors to proactively encourage participation in retirement plans. By implementing these features to increase participation and salary deferrals, sponsors play a key role in making it easier for workers to save and prepare for retirement.

You can see the study, from Transamerica Center for Retirement Studies, online at <http://tinyurl.com/TCRSsurvey>.



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