

# News Release

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## **SCHWAB STUDY IDENTIFIES KEY 401(k) PLAN FEATURES THAT HELP DRIVE PARTICIPATION AND SAVINGS RATES**

Study finds that use of professional advice can play a critical role, but additional plan features also positively impact people's behavior

**SAN FRANCISCO, Nov. 16, 2010** — Charles Schwab, a 401(k) service provider to approximately 1.5 million company retirement plan participants, today released additional details from a recent research study, "The New Rules of Engagement for 401(k) Plans". The study shows that while professional advice plays a critical and direct role in positively impacting the behavior of 401(k) plan participants, additional 401(k) plan features including the employer match, automatic enrollment and automatic savings increases can have a significant impact as well. The study, which combines an in-depth behavioral analysis of 401(k) plans serviced by Schwab Retirement Plan Services, Inc. and a nationwide attitudinal survey of more than 1,000 401(k) plan participants, shows a correlation between these features and increased employee participation and savings rates.

"A key finding in our research is the importance of getting 401(k) participants engaged in professional advice," said Steve Anderson, head of Schwab Retirement Plan Services. "But in addition to the critical role advice plays in driving positive participant behavior, our research further proves the strong benefit that the employer match and automatic plan features can have in driving increased participation and savings in 401(k) plans."

According to the Schwab study, the employer matching contribution, automatic enrollment and automatic savings increases can have the following key benefits:

- **Employer matching contributions** are the biggest motivating factor for employees to participate in their 401(k) plan, cited by 69 percent of respondents in Schwab's nationwide survey. In addition, the formula a plan sponsor uses for offering a match can have a significant impact on people's savings level in plans.
- **Automatic enrollment** helps plan sponsors drive increased participation in 401(k) plans. In an analysis of Schwab-serviced plans, sponsors automatically enrolling employees had a 15 percent higher participation rate in 2009 than those that did not offer automatic enrollment.
- **Automatic savings increases** can be an important plan feature to drive increased savings rates in plans. According to the analysis of Schwab-serviced plans, 83 percent of participants enrolled in an automatic savings program remained at the increased contribution rate a year after enrollment.

## **Professional Advice Makes a Difference for 401(k) Investors**

In a [press release](#) issued on September 15, Schwab also detailed the positive impact professional advice can have on 401(k) investor outcomes, including:

- **Improved savings rates** – Seventy percent of participants who receive 401(k) advice increase their deferral rates and those savings rates nearly double as a result, from five percent to 10 percent of pay.
- **Greater diversification** – Participants who receive advice have a minimum of eight asset classes in their 401(k) portfolio compared to fewer than four for those choosing their own investments.

- **More disciplined investing behavior** – The vast majority (92%) of advice users stayed the course in their 401(k) portfolios from July 2008 through February 2009.

### **Make the Employer Match a Priority**

While 69 percent of Schwab survey respondents cited the employer match as the reason they enrolled in their 401(k) plan, one quarter (25%) of survey respondents said they chose not to enroll in their company 401(k) plan because their employer does not offer a high enough match. In fact, according to the analysis of Schwab-serviced plans, overall plan participation increases to 76 percent when a match is offered versus 70 percent when it isn't.

According to the analysis of Schwab-serviced plans, 73 percent of companies currently offer matching contributions. Schwab's study also notes a connection between how a company offers its 401(k) plan matching contribution, known as the "matching formula", and employee savings levels. Plan participants are likely to choose the plan's "match ceiling" as their savings deferral level in order to maximize the employer contributions they can receive. According to Schwab's plan analysis, up to 25 percent of participants save at the employer match ceiling, depending on an employer's match formula, so by raising the ceiling, employers can boost savings rates.

For example, here are two possible employer match formulas:

- Employer A offers a 100 percent match, up to three percent of an employee's compensation
- Employer B offers a 50 percent match, up to six percent of an employee's compensation

In both these cases, an employee could receive an employer match equal to three percent of compensation, but because of Employer B's higher match ceiling, an employee in this plan would have to defer an additional three percent into the plan to receive the maximum employer match. The maximum cost of the match to the employer remains the same.

### **The Power of Automatic Enrollment**

The analysis of 401(k) plans serviced by Schwab finds that companies automatically enrolling employees had a 15 percent higher participation rate in 2009 than those that did not offer automatic enrollment (88% compared to 73%). In addition, plans conducting automatic enrollment experienced a 13 percent increase in participation from 2005 to 2009, compared to a one percent decrease among plans with no automatic enrollment.

	<b>2005 Participation</b>	<b>2006 Participation</b>	<b>2007 Participation</b>	<b>2008 Participation</b>	<b>2009 Participation</b>
<b>Automatic Enrollment for All Employees</b>	74.49%	74.53%	78.44%	82.40%	87.59%
<b>No Automatic Enrollment</b>	74.43%	73.07%	72.48%	70.74%	73.04%

### **Automatic Savings Increases Can Improve the Effectiveness of Automatic Enrollment**

"While it is now widely acknowledged that automatic enrollment can drive improved participation rates in 401(k) plans, a more revealing finding in our research highlights the positive impact an automatic savings increase feature can have when combined with automatic enrollment," noted Anderson. "What we are seeing is participants who are automatically enrolled at a lower savings rate, say three percent of pay, tend to remain at that level, which puts them in a difficult position to meet their long term savings goals. Automatically increasing their deferral rate takes automatic enrollment to the next level and helps employees overcome inertia around saving more in their plan."

According to the analysis of Schwab-serviced 401(k) plans, 83 percent of participants enrolled in an automatic savings program remained at the increased contribution rate a year after enrollment. In addition, a participant automatically enrolled into a 401(k) plan at a default savings rate of three percent will have cumulative deferrals of more than 2.5 times over a 30 year period if their employer implements an automatic savings increase until the deferral rate reaches 8%, and they remain in program:

	<b>Cumulative deferrals into 401(k) plan over 30 year period</b>
<b>Participant w/ 3% deferral rate</b>	\$128,040
<b>Participant w/ 3% deferral rate that increased by 1% annually up to 8%</b>	\$321,038

\*Assumes \$50,000 income, 2% annual salary increase, and 5% annual rate of return

"Asset allocation is important, but people really need to save their way to retirement," emphasized Anderson. "Step one is getting people to participate in a 401(k) plan. But that isn't enough. We also need to encourage people to save at a level that is likely to help them meet their goals, and our research shows that professional advice and automatic savings increases can play an important role in helping people save more."

### **About the Charles Schwab New Rules of Engagement Study**

Participant survey data was derived from responses of 1,005 U.S. consumers who are employed full or part-time and participate in their company's 401(k) retirement plan. The online survey was fielded by Koski Research from June 9-17, 2010.

Plan and participant analytics represent 911 qualified defined contribution plans and 755,000 participants serviced by Schwab Retirement Plan Services, Inc., a subsidiary of The Charles Schwab Corporation. Data was collected between January 1, 2005 and June 30, 2010.

Employer match contributions are taxed when a distribution from an account.

### **About Charles Schwab**

The Charles Schwab Corporation (NYSE: SCHW) is a leading provider of financial services, with more than 300 offices and 7.9 million client brokerage accounts, 1.5 million corporate retirement plan participants, 673,000 banking accounts, and \$1.5 trillion in client assets. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member [SIPC](http://www.sipc.org), [www.sipc.org](http://www.sipc.org)), and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through its Advisor Services division. Its banking subsidiary, Charles Schwab Bank (member FDIC and an Equal Housing Lender), provides banking and mortgage services and products. More information is available at [www.schwab.com](http://www.schwab.com) and [www.aboutschwab.com](http://www.aboutschwab.com). (1110-7060)

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