An Automatic 401(k) Can Improve a Woman’s Retirement Outlook
An Automatic 401(k)—Can Improve a Woman’s Retirement Outlook

If poverty in retirement was a disease, millions of American women would be at risk and not even suspect it. Today, one out of eight women age 65 and older is poor. More than one in five who never married is poor. Two out of five single African American and single Hispanic women over 65 are poor.

Two major reasons for this are that women tend to leave the workforce to provide family caregiving, and that they earn lower salaries. This makes it less likely they will earn a pension and be unable to save consistently for retirement. These barriers to savings are evident in women’s low participation in 401(k) retirement savings plans. As well, surveys tell us that women lack confidence in their ability to save and invest well enough to live comfortably in retirement. However, women can help protect themselves from poverty in retirement by consistently and wisely saving and investing during the years they are working.

Employers can help break down barriers to women’s saving by automating their 401(k) plan, which can have a dramatic impact on women’s participation.
Automatic Features
The automatic 401(k) can have one or more features that occur without employee intervention:

- **Automatic Enrollment**—Eligible employees are enrolled in the organization’s 401(k) automatically unless they opt out within a specified period.

- **Automatic Contribution Rate**—A specified percentage of an enrolled employee’s pay is automatically deferred into the organization’s 401(k) plan.

- **Automatic Investment**—Employee contributions are automatically directed to a pre-determined “default” investment such as a balanced fund, life cycle fund, or professionally managed fund.

- **Automatic Escalation**—The percentage of an employee’s pay that is automatically directed to a 401(k) account automatically increases by a certain amount.

- **Automatic Rollover**—The 401(k) account balance of a departing employee is automatically rolled over into a prudent investment vehicle such as an IRA or other 401(k) plan.

At any point, employees can choose to opt out of these “default” options and make their own decisions.

Benefits for Women
Studies have shown that “Automatic 401(k)s” boost women’s plan participation from 35 percent to 86 percent. The decision points in a 401(k) plan have important implications for employees’ retirement income security, particularly for women:

<table>
<thead>
<tr>
<th>Participant Decision Points</th>
<th>Traditional 401(k) Plan Design Problem</th>
<th>Impact on Women</th>
<th>Automatic 401(k) Plan Design Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrolling</td>
<td>Barriers:</td>
<td>Only 56% of women who are eligible for a 401(k) actually participate.</td>
<td>Barriers are eliminated; enrollment is automatic. Employees can opt out.</td>
</tr>
<tr>
<td>Setting and adjusting deferral rates</td>
<td>Barriers:</td>
<td>Thirty-seven percent of women think they need less than $250,000 in savings to retire. Women are less likely than men to increase their investment amount.</td>
<td>Barriers are eliminated; contribution rate is set and goes up each year or with each pay raise. Employees can override.</td>
</tr>
<tr>
<td>Making investment decisions</td>
<td>Barriers:</td>
<td>Women are less confident than men in their level of investment knowledge.</td>
<td>Barrier is eliminated. Assets are invested in a balanced fund, life cycle fund, or managed account. Employees can override.</td>
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<tr>
<td>Handling account access between jobs</td>
<td>Too often, employees will cash out the account for immediate spending needs, failing to use the benefit for its intended use.</td>
<td>Women are more likely than men to cash out their accounts between jobs.</td>
<td>The account is automatically rolled over to the new employer’s 401(k) plan or to a Rollover IRA on the employee’s behalf. Employees can override.</td>
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</tbody>
</table>

1 “401(k)” as a general term refers to all similar retirement saving plans, including 403(b), 457, and thrift plans.

2 Professor Brigitte Madrian, Wharton.

3 Employee Benefit Research Institute, 2006.

4 Iowa State University, 2006.

Benefits to Employers

Employers are driving the growth of automatic 401(k)s. According to the Profit Sharing/401(k) Council of America, more than 30 percent of 401(k) plans with more than 5,000 participants have adopted automatic enrollment—and the trend is catching on with employers of all sizes. 

Implementing one or more automatic 401(k) features can be beneficial to an employer. Automatic 401(k)s can:

- Make it easier to pass or completely eliminate nondiscrimination testing.
- Fulfill fiduciary responsibilities by selecting an appropriate automatic default investment.
- Improve retirement income adequacy for employees.
- Potentially improve productivity by reducing turnover and training costs.
- Enhance the suite of employer benefits, helping to recruit and retain valuable employees.

“We have automatic enrollment and the Step Ahead (automatic escalation) plan. We just added both within the last few months. So far the response has been very positive!”—GTE Federal Credit Union President & CEO Wendell Sebastian

Women face many obstacles in achieving financial security in retirement, but having an inadequate 401(k) savings doesn’t have to be one of them. The Automatic 401(k) represents an important way for employers to help women overcome the barriers to their future financial security.
Surveys show employees appreciate automatic 401(k)s because they make savings easier. *With an automatic 401(k), employees can:*

- Start saving earlier
- Save more
- Save smarter
- Worry less

> “I think everyone who comes to work here now is really lucky because they get signed up for the plan automatically. It's made easy for them. They can start saving money right away without really having to think much about it.”
> —Costco Employee Tawanna Freeman

Automatic enrollment can be a win-win. Research shows employers typically experience an increase in their participation rates while employees feel more confident in their retirement readiness. For employers, employees, and the public at large, the automatic 401(k) promises greater retirement security.

**Automatic Features Gaining Popularity**

*Employers are increasingly adopting automatic 401(k) features.*

- Twenty-three percent of plan sponsors automatically enrolled new employees in 2006 compared to 14% the prior year (*2006 Annual 401(k) Benchmarking Survey conducted by Deloitte Consulting*)
- Nineteen percent of employers with 10-1000 employees currently offer automatic enrollment (*2006 Principal Financial Well Being Index Survey*)
- Fourteen percent of plan sponsors automatically increased deferrals over time in 2005 compared to only 7% in 2004 (*2006 Profit Sharing Counsel of America 49th Annual Survey*)

_Government is making automatic 401(k)s easier to implement. Laws and regulations now:*

- Affirm that state laws do not preclude or restrict automatic enrollment.
- Allow for an employee grace period for “unwinding” an automatic enrollment.
- Provide safe harbors for prudent default investments.

> “It’s not left wing or right wing; it’s the right thing to do for our country and for corporate America.”
> —Former Congressman Jack Kemp
Strong retirement savings and investor education go hand in hand; employers that complement 401(k)s with workplace-based investor education. The most successful programs offer:

- Audience segmentation
- Continual communication and education about financial issues
- Sources for personal response and support
- Vigilant follow-up and evaluation

“The workplace is THE opportunity to give American workers basic financial education.”
— Weyerhaeuser Human Resources Director Sally Hass

Resources
A number of organizations provide information on automatic 401(k)s and other retirement savings and investment issues. They include:

- AARP
  [www.aarp.org/auto401k](http://www.aarp.org/auto401k)
- Retirement Security Project
  [www.retirementsecurityproject.org](http://www.retirementsecurityproject.org)
- NASD Smart 401(k) Investing
  [www.nasd.com/investorinformation](http://www.nasd.com/investorinformation)