



Automatic 401(k)

Making it
easier to save
for retirement.

Retirement Made Simpler

HELPING YOU AUTOMATE YOUR 401(k) STEP-BY-STEP



An automatic 401(k) starts employees saving without requiring them to make any initial investment decisions.



Automatic 401(k)s— Retirement Made Simpler

Employers can help their employees maximize retirement savings the easy way—through automatic 401(k)s. Use this publication to learn more.

Retirement Reality

One of the best ways for employees to build an adequate nest egg is to maximize savings through their 401(k). But far too many are not doing so, for a variety of reasons:

- Procrastination due to complex retirement savings decisions
- Paralysis resulting from lack of investment knowledge
- Preoccupation with work, family, and other immediate demands

A simple solution is the “automatic 401(k).” An automatic 401(k) starts employees saving without requiring them to make any initial investment decisions. Saving becomes automatic. Requiring no action on an employee’s part effectively eliminates the major stumbling blocks to 401(k) participation. What is the result? More employees save—and save more.

“Auto” Features

Automatic 401(k) features occur without employee intervention. Three features characterize the basic “auto” plan:

- 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, lifecycle fund, or professionally managed fund

Additional features may include:

- Automatic Escalation—The percentage of an employee's pay that is automatically directed to a 401(k) account automatically increases by a certain amount at a given point in time

At any point, employees can make their own investment decisions, change the default options, or stop their participation.

“ 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

Benefits to Employers and Employees

Employers are driving the growth of automatic 401(k)s, and they are recognizing the value of automatic 401(k) features.

In addition to being a socially responsible course of action, automatic 401(k)s can:

- Make it easier to pass or completely eliminate nondiscrimination testing
- Help 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

A recent study by Retirement Made Simpler overwhelmingly confirmed what many employers implementing automatic 401(k)s have come to find: Employees appreciate automatic 401(k)s because they make saving easier.

With an automatic 401(k), employees can:

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

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





Automatic Features Gaining Popularity

According to the 50th Annual Survey of Profit Sharing and 401(k) Plans released by the Profit Sharing/401k Council of America, 41% 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:

- 31% of plans with 200-999 participants have adopted automatic enrollment compared to 19% the previous year
- 31% of plans with 1,000-4,999 participants have adopted automatic enrollment compared to 24% the previous year

Other important automatic features that ensure retirement readiness also are making big gains, for instance, more than 50% of all automatic plans are using a lifecycle fund or model portfolio, also known as a retirement target date fund.

In addition, nearly 30% of companies offer automatic escalation in conjunction with automatic enrollment, with more than 40% of those escalating employees to rates between 8 and 15%, according to the survey, “Trends and Experiences in 401(k) Plans,” released October 29, 2007 by Hewitt Associates.

Government also 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

Financial Education

Strong retirement savings and financial education go hand in hand. Employers 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

“ 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. ”

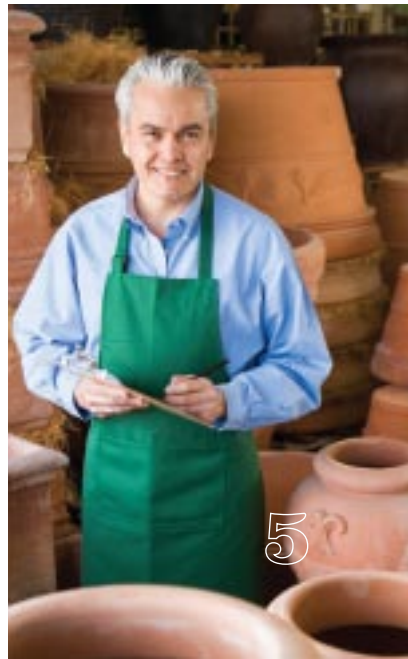
— Costco Employee Tawanna Freeman

A New Online Resource

RetirementMadeSimpler.org—a Web site developed by a coalition of trusted organizations, each committed to automatic 401(k)s.

Visit the Web site for:

- Easy steps to automate your 401(k)
- Answers to your automatic 401(k) questions
- Success stories from employers that have implemented automatic 401(k)s
- Research to help you better understand automatic 401(k)s
- Tools to assist you in implementing automatic 401(k)s





Retirement Made Simpler

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www.RetirementMadeSimpler.org

Three different organizations, three different missions. Why are we all committed to automatic 401(k)s? Because we know that Americans are not saving enough for retirement—and we can help. By combining our resources and expertise, AARP, the Financial Industry Regulatory Authority (FINRA), and the Retirement Security Project (RSP) pool our varied strengths to help employers and their employees save more effectively.



www.aarp.org/auto401k



www.finra.org

The Retirement Security Project

The RSP logo is a dark blue square containing the letters "RSP" in white, bold, sans-serif font.

www.RetirementSecurityProject.org