



Automatic 401(k) Case Study

Power Company Amps up Retirement Plan

For years, the U.S. arm of a global utilities company worried about lackluster 401(k) plan participation. The plan had a great line-up of investment options and a generous employer match. But the company’s 8,600 employees weren’t taking advantage of it.

Out of concern for their employees’ retirement security, the company began considering the idea of adding automatic features to the 401(k) plan. They hesitated, though. The company didn’t see many other employers adopting automatic features. They weren’t interested in being among the first. Then came what a financial executive of the company refers to as “the tipping point.”

“We started seeing more and more companies automatically enrolling their employees,” she explained. “We are liability-conscious, but when we saw the trend, our comfort level went up with it.”

The automatic features have been in place for just over a year, but the company is already pleased with the results. “Our participation rate is up for both our union and non-union employees. Plus, we use a managed account approach for the investment default, so we feel our people are appropriately invested based on their individual needs.”

Company Snapshot

Type:	U.K.-based Publicly-traded	Participation Rate:	Non-union 92% Union 84%
Industry:	Electric Utility	Automatically Enrolls:	New hires as well as existing with \$0 account balances (or an annual basis for employees who are non-participants).
U.S. Employees:	8,600	Default Contribution Rate:	6%
401(k) Plan Assets:	\$1.6 billion	Contribution Increases:	Automatic if employee chooses
		Default Investment:	Managed account



How They Do It

Automatic Enrollment

The company automatically enrolls all non-union employees and half of the non-union population. New employees are enrolled 45 days following their date of hire.

The company originally intended to limit automatic enrollment to new hires. Recently, though, it added annual enrollment for employees with zero account balances. “We automatically enroll employees only if they have no account balance. We don’t want to capture employees who are not currently contributing but have account balances. That would mean moving their existing balances into the default account, which would cause an unintended change to their investment allocation.”

The overall opt-out rate hovers at around 20 percent. It isn’t clear yet why employees opt-out. Even at this rate, though, the overall participation rate is a healthy 92 percent for non-union employees, and 84 percent for union employees.

Default Contribution Rate

The company set the default contribution rate at six percent to align with the employer matching contribution. “We thought it made sense to set [the default contribution rate] at a level for employees to get the full match.”

Participants can sign up for their contributions to increase automatically each year. The default increase is one percent a year, up to 15 percent of pay. Participants can choose a different rate for the automatic increases if they want.

Default Investment Fund

The company’s 401(k) plan participants have a range of investment options, including several lifecycle funds. (These funds are invested based on an employee’s expected retirement date.) However, the company didn’t think the lifecycle funds were the right investment default for their employees. “Our people have a solid defined benefit pension, and they also tend to retire early. We felt the lifecycle default wasn’t particularly useful.”

Instead, the company decided to implement managed accounts. The managed account firm pulls age, years of service, and expected pension payout data from information the plan service provider makes available. Each participant’s 401(k) account is then invested across funds available in the plan based on this specific information.



“Power”-ful Advice

The company has no complaints about the implementation process, and is pleased with the results so far. The additional cost from paying the employer matching contribution to more participants is trivial, since automatic enrollment tends to capture lower earners.

The company does offer the following advice: Make sure your 401(k) plan investment provider has the systems in place to support the automatic features. Establish mutually agreed upon and documented roles, responsibilities and procedures for future reference and updates when necessary. Also, set up audit procedures to make sure that the correct population is being automatically enrolled.

In other words, this power company advises you to avoid any unexpected shocks.