

EXECUTIVE SUMMARY

Many employers provide the opportunity for their employees to save for retirement through a 401(k) plan. These employers know that workers have become increasingly responsible for ensuring their own financial security in retirement. However, in 2006, almost a quarter of private industry workers who had access to a defined contribution plan at establishments with 100 or more workers did not participate.¹ Also, research shows that many people do not save enough to meet their retirement needs. For example, “more than half of workers saving for retirement report savings and investments (not including the value of their primary residence or any defined benefit plans) of less than \$50,000 (52 percent)”.² The opportunity exists to increase 401(k) participation and savings rates nationwide.

In the past few years, an increasing number of employers have introduced automatic features to their 401(k) plans. In traditional 401(k) plans, workers must make numerous choices, including whether to sign up, how much to contribute, how to allocate investment funds, how often to rebalance their portfolios, and what to do with the available funds upon job change. With an automatic 401(k)—sometimes called an opt-out plan—the situation is reversed. Workers are automatically enrolled in the plan unless they actively choose not to participate. They are assigned a reasonable contribution level, which companies may elect to increase over time, and placed into a prudent investment fund such as a lifecycle or balanced fund. Employees can choose to change these at any time.

This growing trend of automating 401(k) plan features led AARP to conduct a survey in the winter of 2006-2007 to examine mid-size employers’ awareness, understanding, and attitudes about automatic 401(k)s. The national telephone survey was conducted by Harris Interactive, Inc. Mid-size employers are defined as companies with 500 to 5,000 employees. Interviews were conducted with a total of 800 employers that offer a 401(k) plan, nearly a quarter of whom automatically enroll employees in their plan. The margin of sampling error for total respondents is +/- 3.5 percent, the margin of sampling error for respondents that have automatic 401(k) enrollment is +/- 6.6%, and the margin of sampling error for respondents that do not have automatic 401(k) enrollment is +/- 4.1%.

The following are key findings from the report:

- Most mid-size employers are familiar with automatic 401(k) features. Nine in ten employers are very or somewhat familiar with automatic enrollment and seven in ten employers are very or somewhat familiar with automatic escalation. Larger companies (i.e., those with 1,000 to 5,000 employees) are more likely to be familiar with automatic enrollment and automatic escalation than smaller companies (i.e., those with 500 to 999 employees).
- Nearly four in ten employers that do not have automatic enrollment are likely (very or somewhat) to add it in the next year.

¹ United States Department of Labor (2006). National Compensation Survey: Employee Benefits in Private Industry in the United States.

² Employee Benefit Research Institute (2006). Issue Brief No. 292.

- Among major reasons for adopting automatic 401(k) plan features, over eight in ten employers that have automatic enrollment cite “employees save more for retirement.” Almost five in ten employers cite “it demonstrates that we are a socially responsible organization” and over four in ten cite “it is easier to pass nondiscrimination testing.”
- The most commonly cited reason for choosing not to have automatic enrollment is a lack of information or awareness about automatic enrollment (mentioned by 23% of employers that do not have automatic enrollment). Nearly two in ten employers cite concerns about cost as well as a belief that their employees would not like automatic enrollment. Less than one in ten employers cite administrative hurdles or challenges related to implementation.
- Primary responsibility for making the decision to add automatic 401(k) features most often rests with human resources (HR) personnel. Over four in ten employers report HR staff having primary responsibility, compared with fewer than two in ten employers that report staff at the level of president, vice president, chief operating officer or owner. Primary responsibility for making the decision is more likely to reside with human resources department personnel and with a committee at companies with 1,000 to 5,000 employees than at companies with 500 to 900 employees. In contrast, primary responsibility is more likely to reside with personnel at the president, vice-president, or chief operating officer level at companies with 500 to 999 employees than at companies with 1,000 to 5,000 employees.
- Four in ten employers cite plan providers and related individuals as the type of outside organization or individual that would be or has been most influential in their company’s decision about whether or not to automate their 401(k).
- The majority of employers feel that information about the following topics either was or would be helpful when deciding whether or not to automate their 401(k) plans: legal issues, cost implications, basic information about automatic enrollment, questions to ask one’s provider, guidance assessing existing information, peer group experiences and investment default options. Employers that do not have automatic enrollment are more likely than employers that do have automatic enrollment to cite legal issues, cost implications, and peer group experiences as helpful information.
- Over eight in ten employers would find websites, publications, individual meetings, and training to be useful sources of information about automatic 401(k)s.
- Over six in ten employers offer financial education to their employees related to their 401(k) plan. Most employers (80%) believe that “financial education is equally important whether automatic 401(k) features are in place or not.”
- Of the companies that are very or somewhat likely to use free, unbiased financial education for their employees from an outside organization, nearly all would find in-person seminars or group meetings very or somewhat useful. Over seven in ten employers would find a web site maintained by a third party, content integrated into their

company's web site, and content integrated into their company's newsletter very or somewhat useful.

The findings suggest that while the concept of automatic 401(k) enrollment and escalation are not new to mid-size employers, employers need more information about both. The study finds that many companies are considering adopting automatic features and some are likely to do so in the next year. However, it also reveals that the majority of companies without automatic enrollment would find "basic information about automatic enrollment" helpful when deciding whether or not to automate their 401(k) plan feature. In addition, some employers cite a lack of information as a reason for not having automatic enrollment in their 401(k) plan.

Outreach to mid-size employers should recognize the key role that human resources department personnel play in the decision making process about 401(k)s at most companies. Human resources staff have either primary responsibility for making decisions about adding automatic features to their company's 401(k) plan or they are involved in the decision making process at seven in ten companies. Plan providers are also a key audience since many employers that do not have automatic enrollment identify providers as likely to be influential in their company's decision about whether or not to automate their 401(k).

Material designed for employers should address legal issues and cost implications related to automating 401(k) plan features, the two types of information most commonly cited as useful by companies that do not have automatic enrollment. Material for employers would also benefit from addressing questions for employers to ask providers, basic information about automatic enrollment, and the experiences of peer mid-size employers, the three next most frequently cited information needs.

In addition, material should take into account employers' motivations for automating their 401(k) plan features. Most companies automate their 401(k) plan features (or believe others do) to help employees save more for retirement. Many employers are also motivated (or believe others are motivated) by passing nondiscrimination tests more easily, being perceived as a socially responsible company, and improving staff recruitment or retention.

Employers appear open to a variety of sources of information about automatic 401(k)s and formats for financial education related to 401(k)s. Therefore, any organizations seeking to educate employers should take additional considerations into account, such as cost and ease of distribution as well as the ability to update content.

In 2004, there were over 19.6 million paid employees in firms with 500 to 5,000 employees in the United States.³ It is important to understand mid-size employers' awareness, understanding, and attitudes about automatic 401(k)s since these employers are a potential gateway to increased 401(k) participation and retirement savings for so many people.

³ United States Census Bureau (2006). www.census.gov. Printed April 3, 2007.