

Dear HR Manager:

Why do you sponsor a 401(k) plan? Maybe it's part of your strategy to attract talent, or to encourage key employees to stay. If you are like most plan sponsors, you run the plan to help your employees save and invest for a financially secure retirement.

Yet sometimes it seems like your employees don't get it. You see it in lagging participation levels, inadequate deferral rates, and poor investment decisions.

You've tried to get your employees to take action. But when your efforts don't get results, the retirement readiness of your employees suffers. Plus, the plan can fail nondiscrimination testing, leaving you to deal with the headache of restricting or returning excess contributions to higher paid employees.

It doesn't have to be this way. A highly effective solution—the “Automatic 401(k)” —is sweeping the defined contribution landscape. For employees offered such a plan, participation is automatic. Your employees are enrolled at a pre-set contribution rate defined by the plan, providing reliable methods for you to withhold employee contributions and offer investments for those contributions. Employees are in the plan unless they opt-out. Automatic enrollment promotes higher levels of participation without fighting employee inertia. Now, inertia works in your employees' favor.

From 2006 to 2010, the percentage of 401(k) plan with automatic enrollment jumped from 24 percent to greater than 42 percent.¹ After final guidance was published in February 2009, survey results in 2010 demonstrate nearly half (49 percent) of the survey respondents include an automatic plan design within their plan.²

The reason for the success of automatic 401(k) plans? They remove impediments that too often stand in the way of employee participation—from the “analysis paralysis” over investment decisions, to simply getting sidetracked and not taking action to sign up and start saving. Automatic plans also offer design options with different levels of administrative relief.

The time is right to join the march toward a simpler and better 401(k). You have the experiences of early automatic 401(k) adopters as well as the Pension Protection Act of 2006 and final regulations published by the Internal Revenue Service in February of 2009 to guide you. The following information will help prepare you to upgrade your plan to meet your needs and put your employees on a steady course to retirement security.

Retirement Made Simpler™ is a coalition formed by AARP, the Financial Industry Regulatory Authority (FINRA), and the Retirement Security Project (RSP) to encourage employers to help their employees save more effectively. For more information, or to download an electronic version of any of the following documents, please visit:

www.RetirementMadeSimpler.org.

Sincerely,

Retirement Made Simpler

¹ Profit Sharing/401(k) Council of America. *54th Annual Survey of Profit Sharing and 401(k) Plans*. 2011.

² Deloitte Consulting LLP. *401(k) Benchmarking Survey*. 2010 Edition.