

## **EXECUTIVE SUMMARY**

In the past few years, a growing number of employers have added automatic features, especially automatic enrollment, to their 401(k) plans. This national telephone survey of large employers with 401(k) plans, which was fielded from December 15, 2009 to February 24, 2010, was conducted in order to better understand large employer attitudes toward and experiences with two automatic 401(k) features—automatic enrollment and automatic escalation.

### **Key Findings**

#### ***Familiarity with Automatic Features***

Familiarity with automatic enrollment and automatic escalation is high among large employers with 401(k) plans. Specifically, the vast majority (94%) of employers surveyed report that they are either “very familiar” or “somewhat familiar” with automatic enrollment in 401(k) plans. While familiarity with automatic escalation is lower than familiarity with automatic enrollment, a majority (78%) of employers also report that they are either “very familiar” or “somewhat familiar” with automatic escalation.

#### ***Prevalence of Automatic Features***

Although nearly all large employers with 401(k) plans are at least somewhat familiar with automatic enrollment, the majority have not adopted it for their own 401(k) plan. Specifically, less than half (42%) of large employers with 401(k) plans report that their 401(k) plan includes automatic enrollment. Fewer (28%) report that their 401(k) plans have an automatic escalation feature.

Among employers with automatic enrollment, the average default deferral rate is 3.2 percent, with the majority of employers (55%) reporting a default rate of 3 percent.

#### ***Who Has Been Automatically Enrolled?***

The majority (58%) of employers with automatic enrollment report that they automatically enrolled only new hires when they first adopted automatic enrollment. Just over one third (35%) automatically enrolled all non-participating employees who were eligible for the plan.

Of those employers who automatically enrolled only new hires at adoption, only about one in ten (11%) report that they have automatically enrolled all non-participating employees at least once since adopting automatic enrollment.

#### ***What Types of Information Were/Would be Helpful?***

When asked which of 12 types of information were helpful (or would be helpful) in deciding whether or not to automate their 401(k) plan features, employers were most likely to select *information about legal and liability issues* (76%), *best practices* (72%), *impact on non-discrimination testing* (70%), *basic information about automatic enrollment* (67%), *information about implementation and maintenance* (67%), and *guidance handling employee communication* (66%).

### ***Reasons for Offering Automatic 401(k) Features***

Regardless of whether or not their 401(k) plan includes automatic features, all employers were asked to indicate the extent to which they believe each of six different statements represent a reason that companies adopt automatic features. In response, employers were most likely to identify the following as “major reasons” that companies offer automatic features:

- *It helps employees save more for retirement* (74%)
- *It is easier to pass nondiscrimination testing* (49%)
- *It demonstrates that we are a socially responsible company* (35%)

Interestingly, the three statements above were also the most frequently identified reasons for automatically enrolling all non-participating employees who are eligible for the plan.

### ***Reasons for Not Offering Automatic Features***

When asked why they do not have *automatic enrollment* for their 401(k) plan, employers without automatic enrollment most frequently cited *employee-related challenges* such as a concern that employees would not like automatic enrollment (30%), *costs* (20%), *contentment* with the status quo (14%), and a *lack of information* (10%).

When employers without *automatic escalation* were asked to explain their reasons for not including this feature in their 401(k) plan, the most frequent responses also related to employees and included the *company thinks employees would not like it* (66%) and the *company thinks employees would find it confusing* (52%). Additionally, one third of employers without automatic escalation (35%) indicated that the *company is concerned about matching costs*.

### ***Reasons for Automatically Enrolling Only New Hires***

Employers that automatically enroll only new hires were asked why they do not automatically enroll all non-participating employees who are eligible for the plan. As with the reasons expressed for not having automatic features, employee-related challenges were also the reasons most frequently expressed for limiting automatic enrollment to new hires. Specifically, the most frequent responses included *employee-related challenges* such as a concern that employees would not like automatic enrollment (21%), a belief that enrollment should be the *employee’s decision* (15%), *contentment* with the status quo (13%), *administrative challenges* (9%), and the state of the *economy* (8%).

### ***Likelihood of Adding or Expanding Automatic Features in the Next 12 Months***

Within the next 12 months, very few employers anticipate making changes to their 401(k) plans, such as adding either automatic enrollment or automatic escalation or expanding automatic enrollment to include all non-participating employees.

Specifically, when asked how likely they are to add automatic enrollment within the next 12 months, only one in six (16%) employers without automatic enrollment report that they are either “very likely” (4%) or “somewhat likely” (12%) to add it. Similarly, just over one in ten (11%) employers without automatic escalation report that they are either “very likely” (2%) or “somewhat likely” (9%) to add automatic escalation in the next 12 months.

Furthermore, among employers that have automatically enrolled only new hires within the past 12 months, only one in ten (10%) report that they are either “very likely” (3%) or “somewhat likely” (7%) to expand automatic enrollment within the next 12 months to include all non-participating employees who are eligible for the plan.

## **Implications**

Although the share of large employers with automatic enrollment and automatic escalation has grown over the past few years, these survey results are a reminder that obstacles to continued expansion of these automatic features remain. While some of the resistance expressed to adoption of automatic enrollment and/or automatic escalation (among those without these features) and expansion of automatic enrollment (among those who limit automatic enrollment to new hires) may reflect continued uncertainty about the direction of the economy and concerns about finances given that this survey was fielded relatively soon after a recession, the survey findings suggest that barriers unrelated to the economy persist. Such barriers include employee-related challenges, including concerns that employees would not like the changes or would find them confusing; costs; contentment with current policy; a lack of information; and administrative challenges.

The survey findings suggest that information about the cost implications of adopting automatic features, experiences of other employers, effects on plan pricing and plan provider fees, legal and liability issues, and best practices may be particularly useful in helping employers decide whether to automate their 401(k) plan features. In addition, efforts to encourage employers to expand automatic enrollment to all non-participating employees who are eligible for the 401(k) plan may be most effective if they focus on providing examples or data that show that employees do like automatic enrollment, countering the belief that the responsibility of enrolling should be left entirely up to the employee, and providing information that can reduce the administrative challenges.

Finally, messages that emphasize the fact that automation helps employees save more for retirement, makes it easier to pass non-discrimination testing, can be used to portray an employer as socially responsible, and can reduce the plan pricing or plan provider fees may also be useful in encouraging employers to adopt or expand automatic features.