



## AMERICAN BENEFITS COUNCIL

# 401(k) *fast facts*

## AUTOMATIC ENROLLMENT

**Automatic enrollment allows employers to commit a percentage of a worker's salary to a defined contribution plan, such as a 401(k), unless they opt out.** While automatic enrollment has been explicitly permitted since Internal Revenue Service (IRS) issued Revenue Ruling 98-30 allowing "negative election" programs in 1998, the Pension Protection Act of 2006 (PPA) made important provisions for these programs, establishing a new nondiscrimination testing safe harbor and directing the U.S. Department of Labor to issue guidance on selecting prudent default investments.

**Take-up rates for defined contribution plans still lag far behind take-up rates for defined benefit plans.** The national take-up rate (an estimate of the percentage of workers with access to a plan who participate in a plan) for defined contribution plans was 79 percent in 2006, compared with 96 percent for defined benefit plans. (U.S. Department of Labor, U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2006," August 2006)

- Behavioral economists have found that inertia plays a major role in how workers participate and invest in 401(k) plans; employees participating in retirement plans tend to stay in retirement plans, while employees not participating in retirement plans tend to stay out. (Center for Retirement Research at Boston College, "401(k) Plans Are Still Coming Up Short," March 2006)

**Automatic enrollment increases participation in defined contribution plans.** Research shows that automatic enrollment increases participation by as much as 35 percentage points. (Center for Retirement Research at Boston College, "401(k) Plans Are Still Coming Up Short," March 2006)

- In 2005, The Employee Benefit Research Institute (EBRI) reported that two-thirds of workers who do not contribute to their employer's retirement plan nonetheless say they would stay in such a plan if their employer automatically enrolled them in one. ("Encouraging Workers to Save: The 2005 Retirement Confidence Survey," April 2005)

**Automatic enrollment is an area of dramatic growth in defined contribution plans.** The Profit Sharing Council of America (PSCA) reports that 16.9 percent of survey respondents have automatic enrollment, up from 10.5 percent in 2004 and 8.4 percent in 2003.

- Of the 163 respondents in a forthcoming EBRI/Mercer Human Resources Consulting survey, 66 percent have already adopted automatic enrollment or currently are considering adopting it. (CCH Pension, "Automatic Enrollment, Automatic Escalation, and Roth 401(k) Accounts Gaining Popularity," July 17, 2007)
- Deloitte reports that 23 percent of responding plan sponsors are automatically enrolling new employees, with another 29 percent reporting that they are considering automatic enrollment. ("Annual 401(k) Benchmarking Survey, 2005/2006 Edition," July 11, 2007)
- A Hewitt survey says that 36 percent of respondents already offer automatic enrollment to new employees, with more than half the remainder "very likely" or "somewhat likely" to implement it this year. If the employers who are "very likely" to implement automatic enrollment for new employees move forward, at the end of 2007 the prevalence of automatic enrollment may surpass the 50 percent mark. Two-thirds of plans with automatic enrollment are making a change to the default investment, either to comply with the qualified default investment alternative provisions of the PPA, or to simply improve results for participants. (Hewitt Hot Topics in Retirement 2007)