
Studies Support Pairing Auto-Escalation with Auto-Enrollment

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Auto-enrolling 401(k) plan participants without also incorporating an auto-escalation feature might be a counterproductive exercise. J.P. Morgan Asset Management survey data suggests that average 401(k) plan deferral rates have been trending downward even though more employers are adopting auto-enrollment. The apparent culprit: low auto-deferral rates.

Stats Tell the Story

From 2012 to 2014, the average annual contribution rate was 7.2%. This is down slightly from the 7.4% average in the prior two-year period, and well below the 8% average during 2007 to 2008.

Even though 45% of surveyed employers auto-enroll new participants, just 31% have auto-escalation features built in. One interesting note from the study: For plans with at least \$200 million in assets, the numbers are considerably higher — 62% of these high-asset plans have automatic enrollment and 48% use auto-escalation clauses.

The most common auto-enrollment default deferral rate is only 3%, according to the most recent Defined Contribution Institutional Investment Association (DCIIA) survey. Participants who defaulted into such a low deferral rate generally don't increase it significantly. With typical annual auto-increase increments of only 1%, it'll take new employees several years to begin deferring at reasonable levels, and many more to reach the 15% that DCIIA sees as ideal.

The DCIIA survey reveals impressive deferral rates for plans that both auto-enroll and auto-escalate participants. "Plan sponsors who offer both automatic enrollment and automatic contribution escalation have over twice as many participants with retirement savings rates over 15% (14% of respondents) as those that don't offer both (6% of respondents)," according to the survey.

Change is in the Air

So why don't plan sponsors implement these features? According to the survey, plan sponsors with less than \$50 million in plan assets were concerned about complaints from participants (28%) and feared it would be seen as paternalistic (18%). And a whopping 31% have never considered using it.

But the DCIIA study concluded that, when properly implemented, automatic features can make a positive difference. Contact your benefits specialist to learn how to use both auto-enrollment and auto-escalation clauses to help benefit your employees.

For more information on BPM's Employee Benefit Plan services, please visit our website or contact Jenise Gaskin at (925) 296-1016.