

Blog Post 4

DANGER: automatic plan features

“Risk comes from not knowing what you're doing.”

-Warren Buffet

Approximately 4 out of 10 retirement plans use auto-enrollment, which is great! Without auto-enrollment, the average retirement plan participation rate is 75%, but with auto-enrollment the participation rate jumps to over 90%! Yet, the average enrollment rate that a person has setup is only 3%. If a person were to contribute 3% for the life of their retirement savings journey, they would have roughly 4 year of retirement savings..¹

Now, as a company decision maker, you can help! Here are two ways:

Start auto-enrollment at a meaningful rate

Add annual automatic increases

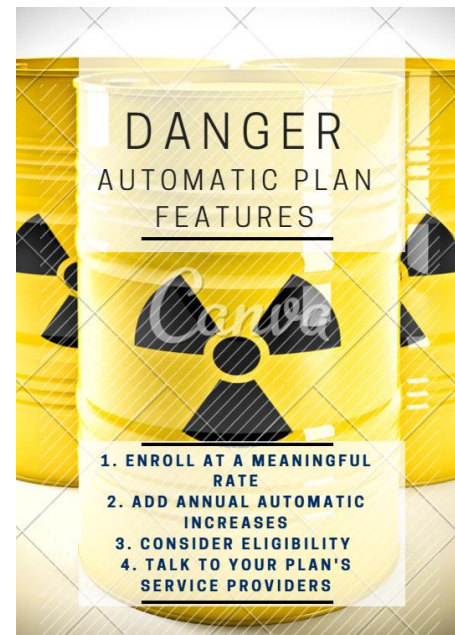
In a recent Principal Financial Group study, when plan sponsors increased the automatic enrollment rate to greater than 6%, approximately 72% of participants stayed in the plan, with an average deferral rate of 11.8%!²

Another idea to consider before implementing auto-enrollment is eligibility. If you are a company with high turnover rates, you may want to increase plan eligibility for employees who have completed 1 year of service.³

Lastly, prior to finalizing auto-enrollment features, speak with your payroll provider. It is important that they have a record keeping system that will alert your company of eligible employees and can easily deduct automatic contributions.

We hope you enjoyed this brief post on the benefits and best practices of automatic features. For more information or to review your plan's retirement readiness index, please contact us.

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¹ Basic formula. Assumptions of an annual salary of \$50,000 starting at age 21, contributing 3% of salary, in today's dollars: <http://money.cnn.com/calculator/retirement/retirement-need/>

² Principal Financial Group. New Data from The Principal Shows Impact of Automatic Enrollment in 401(k) Plans. May 2011. <https://www.principal.com/about/news/2011/ris-auto-enroll051711.htm>

³ IRS and DOL. Automatic Enrollment for 401(k) Plans for Small Business. November 2013. <http://www.dol.gov/ebsa/pdf/automaticenrollment401kplans.pdf>