



Shift to auto-enrollment plans lifts 401(k) participation Modified framework addresses retirement savings hurdles

By Brian Clappier
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Employer-sponsored 401(k) retirement plans have increasingly adopted an automatic enrollment framework, helping overcome persisting problems of eligible non-participants in traditional 401(k) programs. By simplifying the retirement planning process and making employees opt out rather than opt into retirement savings plans, auto-enrollment avoids “analysis paralysis” and allows participant inertia to work in favor of a secure financial future. The Shriver Center supports this development, and encourages companies to further assist employees by matching contributions and offering financial education programs.

Participants’ reactions to the new plans have been dramatically positive. According to a recent survey done by the Retirement Made Simpler coalition, 95 percent of nearly 700 adults enrolled in automatic 401(k) programs said that the vehicle makes saving for retirement easy, and 85 percent said it helped them start saving earlier than they originally planned. Only seven percent of those auto-enrolled opted out of the plan. An additional survey by Diversified Investment Advisors, Inc. found that out of 223 companies with 1,000 or more workers, 62 percent have implemented auto-enrollment, a seven percent increase from 2006, while a further 33 percent say they are considering auto-enrollment.

Contribution levels for auto-enrollment plans typically start at three percent of income, according to Internal Revenue Service Guidelines, and employees have up to 90 days after enrollment to opt out and receive their money back. Annual contribution levels can then automatically escalate by one percent each year, up to the maximum contribution level of 10 percent.

The programmatic shift is due in large part to the Pension Protection Act (PPA) of 2006, a pension overhaul bill that took effect on January 1, 2008, and opened the door for companies to add auto-enrollment by easing liability concerns over withholding worker wages.

For more information on auto-enrollment retirement plans, please contact Dory Rand at doryrand@povertylaw.org or Brian Clappier at brianclappier@povertylaw.org. You may also learn more about developments in retirement planning on the Brookings Institution website: <http://www.brookings.edu/topics/retirement.aspx>.