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DCIIA
Plan Sponsor Survey 2014

Focus on Automatic Plan Features

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Defined Contribution Institutional Investment Association

INTRODUCTION

by Lew Minsky, Executive Director of DCIIA

The passage of the Pension Protection Act of 2006 (PPA) ushered in a new era for retirement savings plan design by providing guidelines for automatic enrollment, automatic contribution escalation and the use of default investment funds known as Qualified Default Investment Alternatives (QDIAs). Since then, we have seen tremendous growth in both the number of plans offering target date funds (TDFs) and other default alternative investment options such as managed accounts and collective trusts, and in participant utilization. The ICI 2015 Fact Book reports that 71% of plans in 2013 offered TDFs compared to 57% in 2006, a 14 percentage point increase. Furthermore, 41% of participants in 2013 held TDFs, versus 19% in 2006; this represents a 10 percentage point increase in TDF assets (from 5% of 401(k) assets in 2006 to 15% in 2013). Another survey showing directionally similar results is a 2014 study by Morningstar that found a 10.5% increase in target date fund mutual funds for the year of 2013 alone.[1] By any measure, this is demonstrable progress. PPA was a transformative piece of legislation. It was also the result of the combined efforts of policymakers, retirement industry experts and motivated plan sponsors working together to identify common ground and to create opportunities for workers to enhance their retirement savings.

While these directional signals are strong, there are still areas for improvement, most notably in automatic contribution escalation and re-enrollment efforts. There is also a discernable difference in the use of automatic features by large plan sponsors and smaller plan sponsors. These areas indicate that we all need to continue to work together to provide additional education and tools for plan sponsors, ones that will encourage more small plan sponsors to adopt automatic features and large plan sponsors to implement auto features more robustly (such as through higher initial automatic contribution enrollment defaults and the increased use of both auto escalation and re-enrollment).

One major topic that also clearly needs further study and clarification in the industry is: what are the appropriate, or even "optimal", savings levels for different plan participants? Our survey's results indicate that many plan sponsors instinctively believe that something over 10% is probably the "right" number. The academic community has generally argued that individuals need to save at robust levels. For example, one recent academic study found that the typical household needs to save approximately 15% of earnings in order to accrue sufficient retirement savings.[2] The Defined Contribution Institutional Investment Association (DCIIA) continues to strongly advocate for encouraging robust savings targets, and we believe a 15% savings rate is a reasonable aspirational goal.

With all of this in mind, DCIIA is delighted to share its third biennial survey of plan sponsors' use of automatic features. Further, we are pleased to report that there has been a 172% increase in the number of responses to our survey since we first approached the plan sponsor community four years ago. With the recent creation of the DCIIA Retirement Research Center, we look forward to building on this survey, and to introducing new ones in the future.

DCIIA sees the results of the current 2014 survey as a clear call to action for anyone who is interested in helping ensure the retirement security of American workers through the private retirement savings system. Although the system has made tremendous progress since the passage of PPA nine years ago, there is so much more that can be done by simply encouraging plan sponsors to incorporate auto features in a thoughtful, outcome-focused way when setting their plan designs. This survey identifies specific roadblocks standing in the way of a more robust adoption of automatic features. Many of these roadblocks could, it appears, be overcome through a combination of clearing up behavioral and legal misperceptions, educating plan sponsors about the flexibility they have in adopting auto features and removing certain structural impediments. We look forward to working with others to ensure that these roadblocks are removed, and the opportunity PPA handed us to positively impact retirement security outcomes is fully realized.

SECTION I
SUMMARY OF KEY FINDINGS

DCIIA recently completed its third biennial survey of defined contribution (DC) plan sponsors' use of automatic plan features, or "auto features", such as automatic enrollment, automatic contribution escalation and plan re-enrollment. This survey of over 450 plan sponsors, ranging from sponsors of the largest plans (over $1 billion) to the smallest (under $5 million), found that the adoption of auto features is having its intended effect: more participants are saving for retirement, and saving at increasingly higher and more meaningful rates. The survey also showed us, however, that much work remains to be done.

The survey identifies both the promise of what is possible and the barriers that remain to adoption of automatic features in a number of plans. DCIIA offers the following findings in the hope that plan sponsors, regulators, policymakers and service providers will be prompted to encourage more plan sponsors to adopt these automatic features and will be better able to identify potential ways that barriers to adoption can be eliminated.

Automatic Features Adoption

- Plan sponsors of the larger plans (greater than $200 million) continue to adopt automatic enrollment, with 62% of survey respondents indicating that they utilize this feature, compared to just 44% in 2010.
- Since 2010, however, the level of automatic contribution escalation has leveled off (46% in 2010, and 48% in both 2012 and 2014), suggesting that real barriers still exist.
- Use of plan re-enrollment, whereby participants' assets are invested into the plan's default investment option unless the participant opts out, has increased from 6% in 2010 to 19% in 2014 but remains an underused practice to improve participant asset allocation.

Automatic Features Impact

- Plans that use both automatic enrollment and automatic contribution escalation benefit from higher retirement savings versus those who do not.
  - Automatic enrollment: Plans that offer automatic enrollment reported higher participant savings levels than plans that do not. Thirty percent of plans with automatic enrollment reported a savings level of at least 10%, whereas only 18% of plans without automatic enrollment have savings levels of 10% or more.
  - Automatic contribution escalation: Almost one-third (31%) of plans with automatic contribution escalation reported actual savings rates greater than 10%, while plans without automatic contribution escalation reported that only 20% of participants have savings rates over 10%.
- Over three-quarters of plan sponsor respondents (82%) reported that they recommend an optimal savings rate (plan sponsor and participant contributions combined) of 10% of wages or more. However, only 35% of respondents reported an actual savings rate at 10% or more.
- 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 do not offer both (6% of respondents).

Barriers to Adoption

The survey found that the barriers to implementation are similar for both automatic enrollment and automatic contribution escalation. Interestingly, these barriers are not limited to cost.

- Plan size is a common, but not the sole, factor associated with obstacles to implementation of automatic enrollment and automatic contribution escalation:

Automatic Enrollment

- Large plans (>$200 MM)
  - Cost: 30% of those plans that do not have automatic enrollment reported that the cost of matching is an obstacle.
  - Supplemental nature of DC plan: 22% of those plans stated that the DC plan was supplemental to a defined benefit (DB) plan.
- Small plans (<$50 MM)
  - Not needed: 30% of those plans that do not have automatic enrollment said it is unnecessary because participation is already high.
  - Employee sentiment: 27% of those plans said they have not offered it out of concern that employees would complain.
  - Awareness: 23% of those plans said that they have not really considered using it.

Automatic Contribution Escalation

- Large plans (>$200 MM)
  - Philosophical opposition: 21% of plans that do not have automatic contribution escalation noted that they did not implement it because doing so was too paternalistic.
- Small plans (<$50 MM)
  - Awareness: 31% of plans that do not have automatic contribution escalation said that they have not really considered using it.
  - Employee sentiment: 28% of those plans are concerned that employees would complain.
  - Philosophical opposition: As with large plans, 18% of those plans noted that they did not implement it because it was too paternalistic.

- There is a reported lack of understanding among survey respondents of the risks and unintended consequences of implementing or optimizing automatic plan features.
- Very few plans reported that they modeled potential outcomes when considering implementing or modifying automatic plan features. One could surmise this is due to a perceived lack of effective plan sponsor tools to analyze alternatives appropriate for each plan's unique characteristics and objectives.

Overcoming the Barriers

Our survey's findings suggest that adopting automatic features helps increase retirement savings. However plan sponsors, industry service providers, policy makers and regulators all have work to do to ensure that the adoption of these emerging best practices continues to expand. The results, in combination with DCIIA's recommended best practices to increase automatic feature adoption, make the case for:

- Decision support tools to estimate costs and implications of automatic features adoption
- Development of best practices for plan design, feature optimization and implementation

Our findings suggest that when properly implemented, these features are impactful. This study also demonstrates that the true challenge lies in developing a framework in which plan sponsors can confidently implement these features, thus allowing both sponsors and their employees to improve outcomes.

Please refer to A Call to Action for additional information on best practices.

SECTION II DETAILED FINDINGS

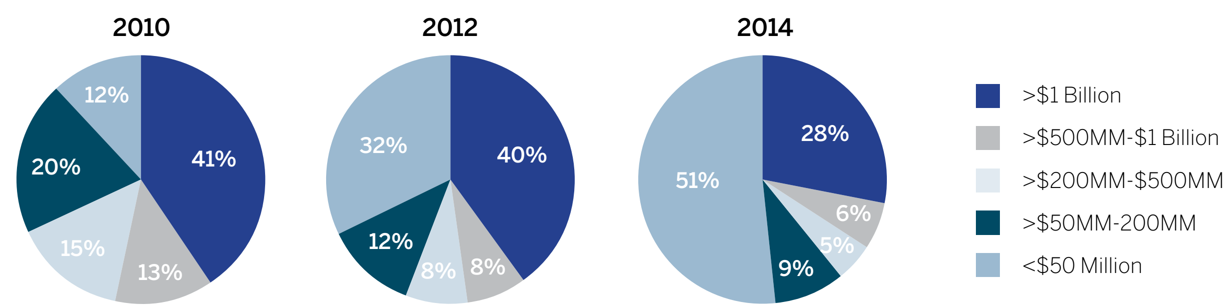
About the Respondents

DCIIA conducted its biennial survey of plan sponsor adoption of auto features from December 2014 through February 2015. Plan sponsors were solicited for participation through commercially available lists, a media partnership with PlanSponsor.com, and partnerships with select recordkeepers and advisory firms. In total, 471 DC plan sponsors responded to the survey. They represent a broad array of DC plan types, industries and plan sizes. The plans ranged in size from mega plans (greater than $1 billion), to small plans (under $5 million).

As reflected in **Figure 1**, this year's survey includes a significant increase in participation from smaller plans compared to our prior surveys, resulting in a better

Figure 1

Survey respondents by plan size



2010 n = 101, 2012 n=118, 2014 n = 471

representation of the broader market. Due to this significant change in the study population, this analysis normalizes the 2014 responses for all time series comparisons by eliminating the smaller plans that were underrepresented in the prior surveys. This should allow for more appropriate comparisons over time.

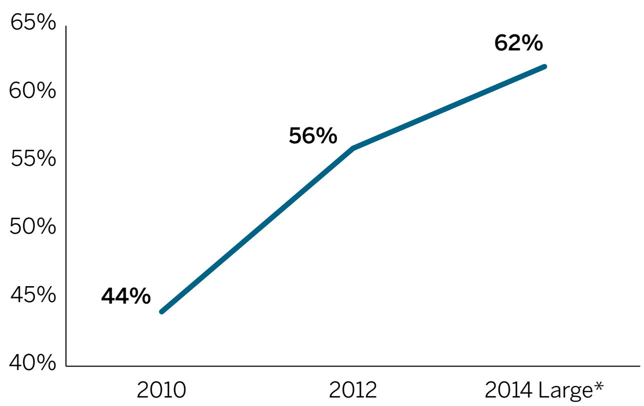
Usage of Automatic Plan Features

Large Plans Take The Lead

Our 2014 survey found that the number of large plans (greater than $200 million) that offer automatic enrollment rose, but at a slower rate than it had in the past, increasing 6% from 2012 and 18% from 2010. Sixty-two percent of large plan respondents reported implementing automatic enrollment. The overall slowing growth in automatic enrollment suggests that future adoption is likely contingent upon removal of barriers – whether philosophical, regulatory, or matters of perception. (See **Figure 2**.)

Figure 2

Percentage of plans offering automatic enrollment

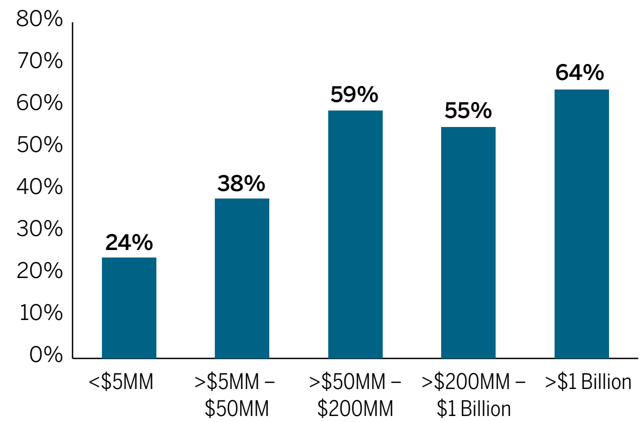


2010 n=101, 2012 n=118, 2014 Large n=185
*Large = plans over $200 million

In contrast, smaller plans may be at a pivotal moment to increase automatic enrollment through education efforts. The linear relationship between plan size and adoption of automatic enrollment points to considerable opportunity, since only 24% of the smallest plans currently utilize automatic enrollment. In part, however, it may be the case that it is easier for small plans to effectively communicate the importance of participating in retirement savings than it is for large plans and that having an automatic enrollment program is less important for smaller plans. (See **Figure 3**.)

Figure 3

Use of automatic enrollment by plan size



2014 n= 211

The majority of all plans that use automatic enrollment reported that they also automatically enroll new employees upon hire (89%) while a smaller number of respondents (13%) reported that they periodically automatically enroll non-participating eligible employees. Twenty-two percent also reported that they conducted a sweep of all employees when automatic enrollment was initially implemented.

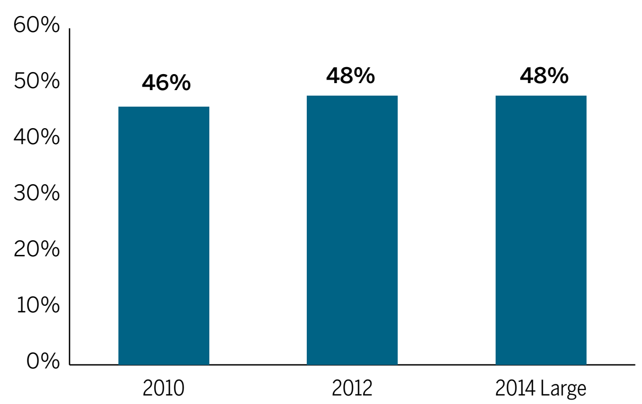
Automatic Escalation: At A Plateau?

DCIIA's 2014 survey reveals that the percentage of plans offering automatic contribution escalation is unchanged since our last survey, and is only slightly higher than it was in our first survey in 2010. The impact is notable across plan size, where the largest plans (over $1 billion) reported a 53% adoption rate, versus the smallest plans (under $5 million), which reported that only 11% of plans has done so.

As depicted in **Figure 4**, the growth in the overall use of automatic contribution escalation appears to have remained constant at 48%. Respondents who have not adopted automatic contribution escalation reported that they had decided that to do so would be too paternalistic, or too costly from a matching perspective, or not necessary as participants' contribution rates are already high enough. Only 6% of respondents noted that they are at least somewhat likely to offer automatic contribution escalation during the next 12 months. In addition, 35% of respondents that do utilize it do so on an opt-in voluntary basis, rather than as a default.

Figure 4

Percentage of plans offering automatic contribution escalation



2010 n=101, 2012 n=118, 2014 Large n=185

Re-Enrollment Is Little Utilized

Re-enrollment has been employed by a relatively small percentage of plan sponsors in our study, compared to other automatic plan features. It is utilized by only 15% of all survey respondents (19% of plans over $200 million in assets). Twenty-nine percent of plan sponsors reported that they have not considered re-enrollment because they are already comfortable with the overall asset allocation of their participants. Interestingly, 20% also reported that they have not ruled out the possibility of implementing re-enrollment in the future.

RE-ENROLLMENT

As defined in our survey, re-enrollment occurs when the plan sponsor informs participants that their existing assets and future contributions will be invested in the plan's QDIA (a TDF, balanced fund or managed account) unless the participants opt out within a certain election window.

Note: The survey results suggest that there is a lack of awareness of this strategy, which may be a contributing factor to the relatively low level of implementation. In Defined Contribution Plan Success Factors, DCIIA addresses re-enrollment and suggests several strategies for consideration.[3] DCIIA is currently considering additional study on this subject to develop common terminology and clarify how re-enrollment can be implemented.

Larger plans were more likely to have engaged in re-enrollment than smaller plans, but the difference is not striking (17% of plans over $1 billion versus 11 % of plans under $5 million). It is interesting to note, however, that smaller plans were more likely to explain that they are not interested in re-enrollment because they are already comfortable with their participants' asset allocation (35%), whereas larger plans said that they are concerned there would be too much risk in engaging in re-enrollment (17%).

Barriers to Adoption

Automatic Enrollment: Despite Success, Barriers To Adoption Persist

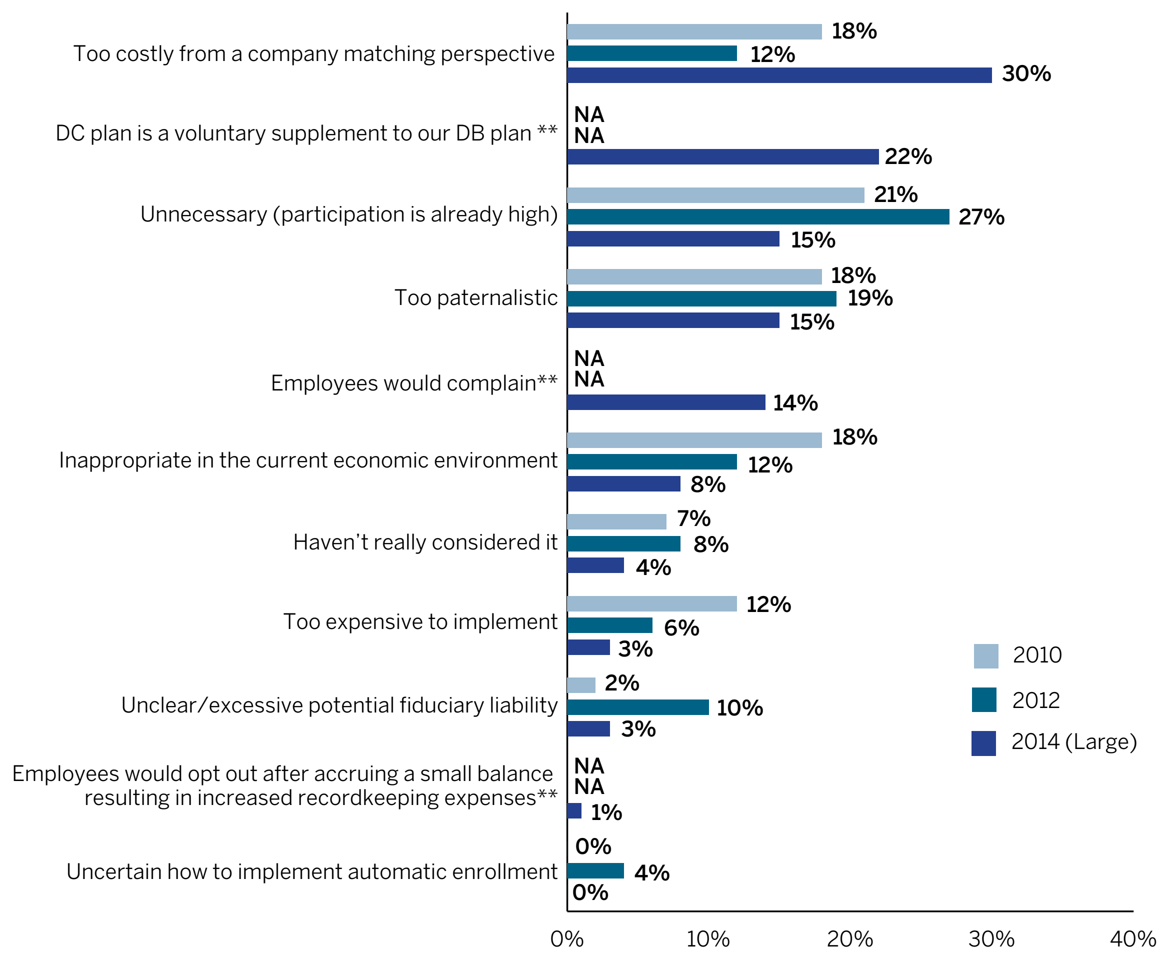
Among all survey respondents, there was no single reason plan sponsors gave for their decision not to use automatic enrollment. Some stated that doing so would be too paternalistic (18%). Others reported they do not use automatic enrollment because their employees would complain (22%). Interestingly, 25% of all plans reported that automatic enrollment was unnecessary as their participants were already saving enough.

Relatively few respondents said that they intend to implement automatic enrollment: Only one-tenth of those who do not offer it today said they were at least somewhat likely to implement automatic enrollment in the next twelve months. (See **Figure 5** for large plan sponsor reasons for not offering automatic enrollment.)

A small but noteworthy number (5) of respondents explained in an optional comment that their plans are regulated by state laws that prohibit such practices, viewing the act of automatically defaulting employees as a form of wage garnishment. This is an interesting finding, suggesting that, while there have been many positive regulatory developments to allow for the use of automatic plan features, some regulatory obstacles still remain.

Figure 5

Large plan sponsor reasons for not offering automatic enrollment *



Among those whose plan does not offer automatic enrollment, 2010 n=57, 201 n=52, 2014 Large n=73

* Respondents were permitted to select multiple choices

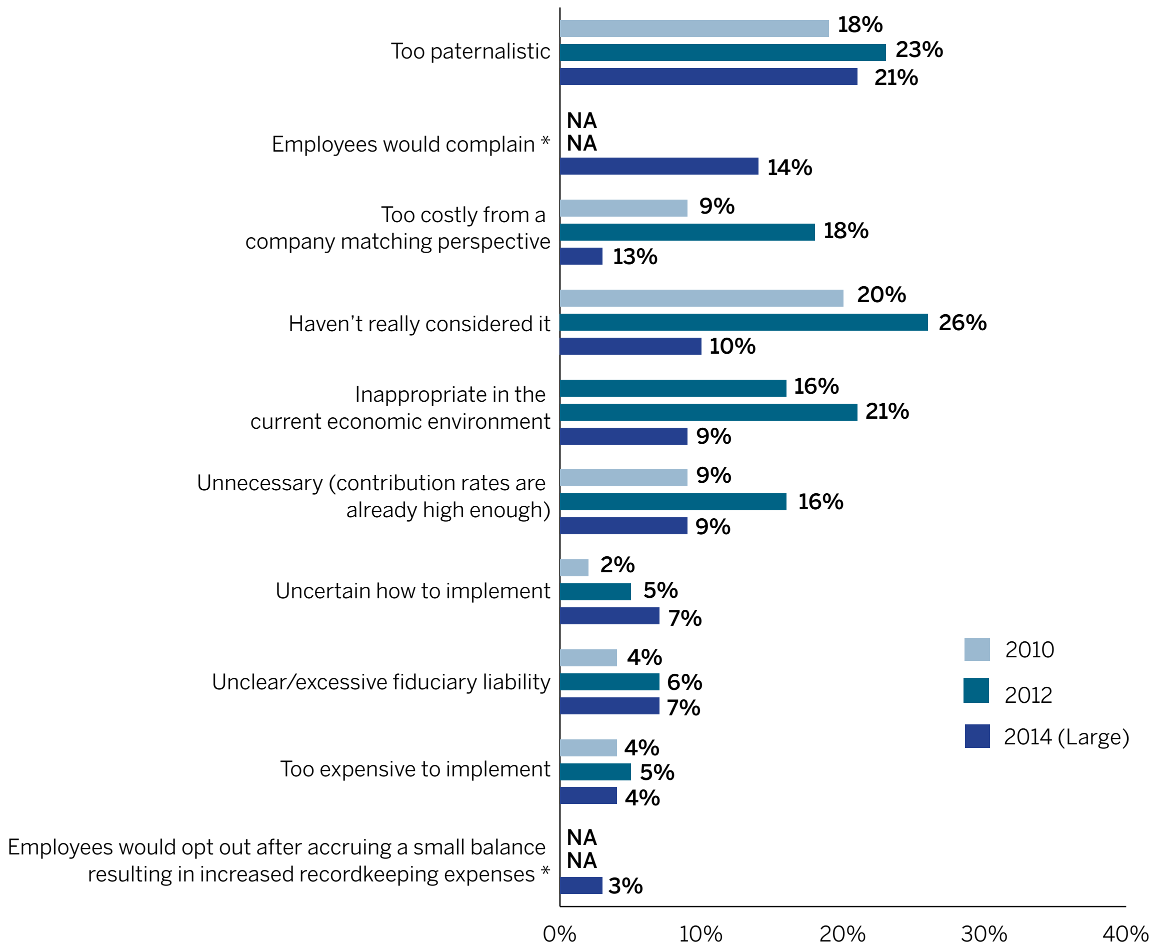
** Response added in 2014

Barriers To Automatic Contribution Escalation Have Not Changed

Among all respondents, plan sponsors provided several reasons for choosing not to offer automatic contribution escalation, including that doing so was too paternalistic (20%) or that employees would complain (23%), and many have not even considered it (24%). These concerns remain consistent across the period under study, as shown in **Figure 6** for large plan sponsors.

Figure 6

Large plan sponsor reasons for not offering automatic escalation



2010 n=55, 201 n=62, 2014 (Large) n=97

*New response option added in 2014

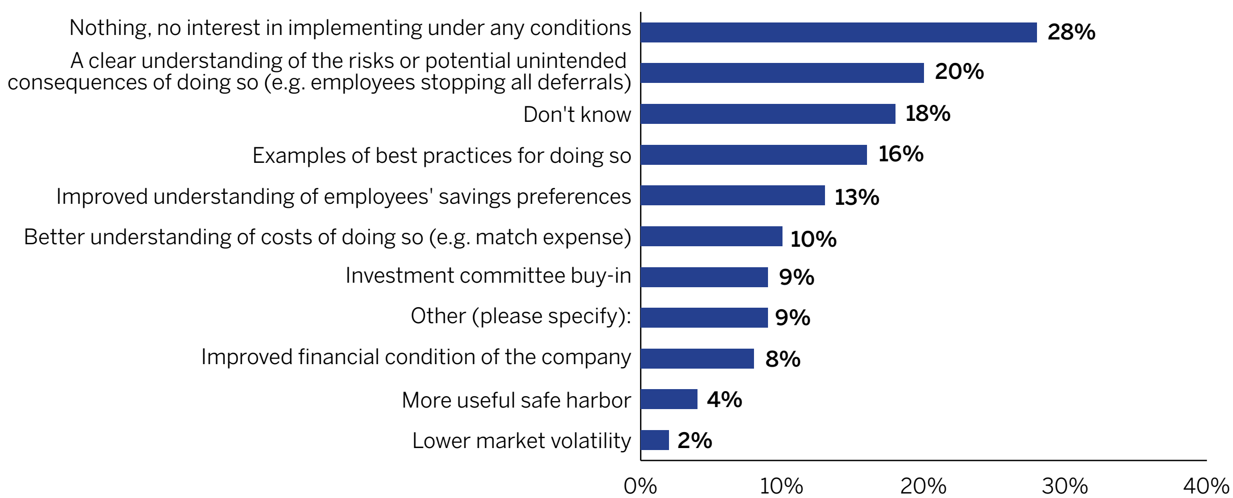
When sponsors were asked what would need to change in order for them to consider offering automatic escalation, the most common response was that they would not consider doing so under any circumstance (24%). This was particularly true for the smaller plans, with 34% of plans under $5 million stating they would not use this feature, versus only 8% of plan sponsors over $1 billion. Education could be a useful tactic to overcome some of this resistance, as 20% expressed that a clear understanding of the risks or potential unintended consequences of implementing automatic enrollment escalation would be beneficial. In addition, 16% also reported that examples of best practices, and 13% reported a better understanding of employees' savings preferences would be beneficial. (See **Figure 7**.)

Why Is Automatic Contribution Escalation Offered, But Not Used As A Default?

Many plans that offer automatic contribution escalation do not do so as a default (or, on an opt-out basis) and some respondents took the time to volunteer this information in their comments. This finding could suggest that while plan sponsors see automatic contribution escalation as a useful tool, they are not comfortable taking this escalation action on behalf of their plan's participants and, as a result, require them to opt in. While this seems to be a reasonable approach, the result is a much lower adoption rate from participants. T. Rowe Price (2012) found that when an automatic increase was offered on an opt-in basis, only 8% of participants chose to opt in, versus 65% who stayed in when automatic escalation was offered on an opt-out basis.[4]

Figure 7

What would need to change: Obstacles to automatic contribution escalation



Plan sponsor reasons for not offering automatic escalation as a default, 2014
n=54

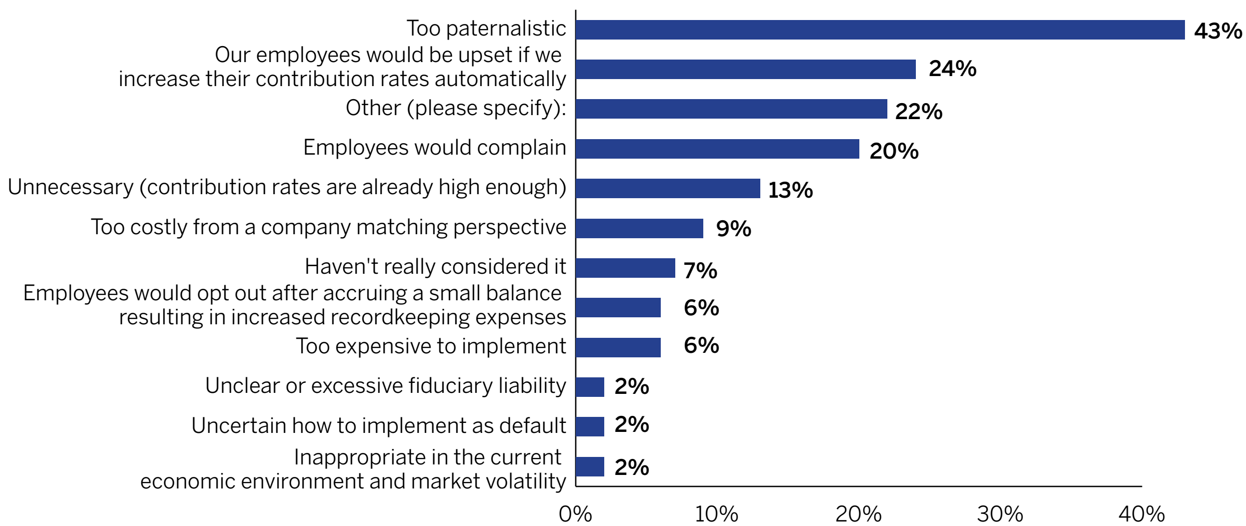
Only 15% of plan sponsors cited cost as a major factor in the decision not to use automatic escalation as a default option. The most common reason across all but the smallest plans tended to be that it is seen as too paternalistic. Relatively few (13%) reported that savings rates are high enough already. (See **Figure 8**).

There was very little consensus from survey respondents on what needs to change in order for plan sponsors to offer automatic contribution escalation as a default.

However, regardless of size, only 5% of all plan sponsors noted that improved financial condition of the company was a factor. Education might be needed. Some responses suggest that additional information would be helpful—that plan sponsors would benefit from a clearer understanding of the risks involved, some examples of best practices, and a better sense of the costs.

Figure 8

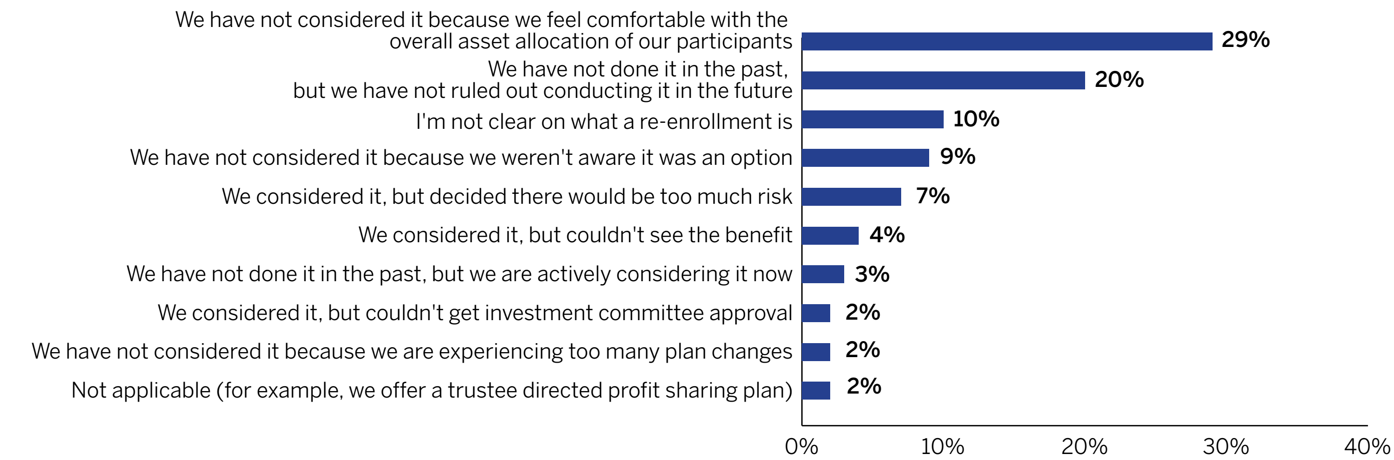
Plan sponsor reasons for not offering automatic escalation as a default, 2014



n=54

Figure 9

Experience with re-enrollment, 2014



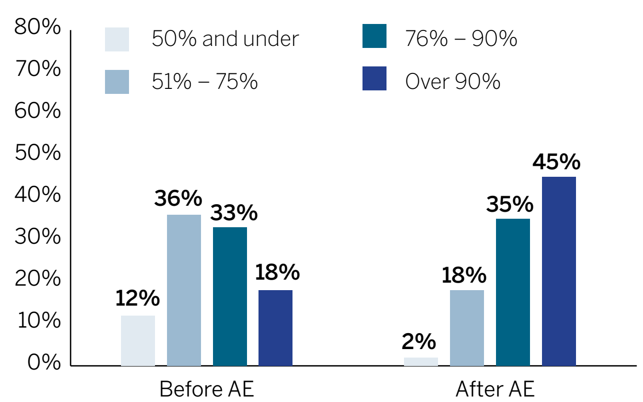
n=401

Re-Enrollment Rates Are Low But Perhaps An Opportunity Exists?

The most prevalent response reported for not conducting re-enrollment is that 29% of plans are already comfortable with participants' asset allocation. Twenty percent report that they have not ruled it out of consideration. In addition, 10% reported that they lack a clear understanding of how re-enrollment works, and another 9% noted that they were not aware it was an option, suggesting that there may be an opportunity to increase engagement through education. (See **Figure 9.**)

Figure 10

Plan partipation levels pre- and post- automatic enrollment (AE)



n=181

Positive Impact of Automatic Features

Automatic Enrollment Works To Increase Participation

Plan sponsors reported a significant increase in retirement plan participation levels after implementation of automatic enrollment, as shown in **Figure 10**. Before implementation of automatic enrollment, 51% of plan sponsors reported participation levels of over 75%. After automatic enrollment, 80% of plan sponsors reported participation rates of greater than 75%.

Plans that implemented automatic enrollment reported an increase in participation rates, with a 150% change in plans reporting participation rates of over 90% (18% pre-automatic enrollment versus 45% after automatic enrollment implementation). Research by Vanguard also finds a positive change in participation rates with automatic enrollment, noting, "Among new hires, participation rates more than double to 91% under automatic enrollment compared with 42% under voluntary enrollment."[5]

Automatic contribution escalation works, too

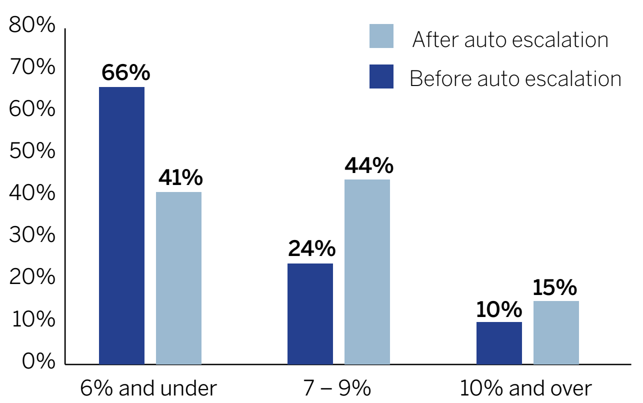
As presented in **Figure 11**, retirement savings levels increase after implementation of automatic contribution escalation. It should be noted that automatic contribution escalation is a tool for long-term results. With annual increases, actual deferral rates would approach the recommended salary deferral rates levels suggested by survey respondents such as over 10% of wages over time.

When a plan automatically enrolls, automatic escalation is likely to follow

Once automatic enrollment is employed, the likelihood of implementing automatic contribution escalation increases.

Figure 11

Contribution rates before and after automatic contribution escalation implementation



n=113

Respondents with automatic enrollment were more likely to report plans to implement automatic contribution escalation in the coming 12 months (11%) than those who do not automatically enroll (4%). In addition, when automatic contribution escalation is offered as a default, plans are more likely to offer it in tandem with automatic enrollment (72%) than not (22%).

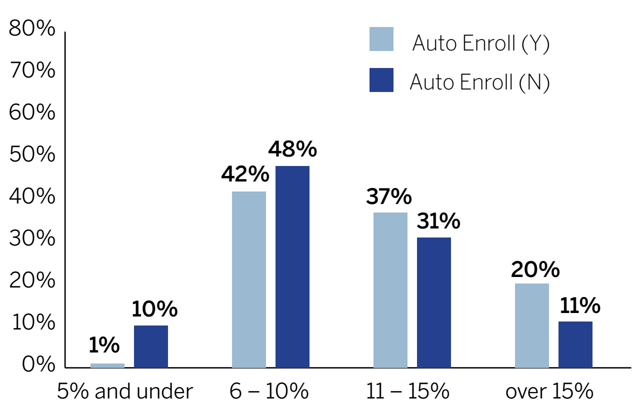
Actual savings rates

Plans that use automatic enrollment report higher savings rates than plans that do not, as shown in **Figure 12A**. For example, 57% of respondents who use automatic enrollment reported an actual savings rate of over 10% versus only 42% for plans that do not automatically enroll. These findings were interesting, as other research studies in this area found that plans with voluntary enrollment experience higher savings rates than those plans with automatic enrollment[6]. It is worthwhile to note that our study was based upon plan sponsor observation, where other studies in this area were based on empirical analysis.

In addition, our research found that plan sponsors that automatically escalate contributions also report higher savings rates, as shown in **Figure 12B,** with 61% of respondents reporting savings rates greater than 10%, versus 43% for those plans that do not. While this difference may not seem as pronounced as expected, it is also worth noting that an automatic contribution escalation program works to increase savings rates over time, as rates are typically defaulted to increase only one to two percentage points per annum. These findings suggest that it is important to measure the impact of automatic features on savings behavior.

Figure 12A

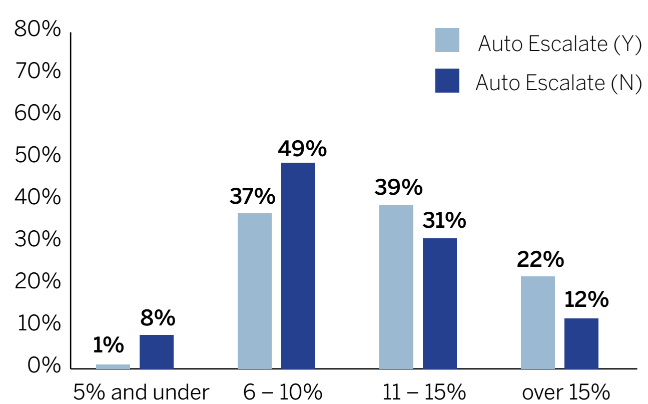
Actual savings rates for those that offer *automatic enrollment* vs. those that do not



auto enroll (Y)= 211, auto enroll (N)=260

Figure 12B

Actual savings rates for those that offer *automatic contribution escalation* vs. those that do not



auto escalate (Y)= 147, auto escalate (N)=324

Using both automatic enrollment and automatic contribution escalation, and removing some of the restrictions on employee savings, such as low maximum contribution limits, can produce improved savings results. A 2010 DCIIA and Employee Benefit Research Institute (EBRI) collaboration titled, "The Impact of Auto-enrollment and Automatic Contribution Escalation on Retirement Income Adequacy," shows that, while the greatest impact on participant savings rates is seen by enhancing plan design to allow for higher employee contributions, using multiple "auto" tools, including automatic escalation and an automatic contribution escalation rate of 2% versus the traditional 1%, can more than double the impact of raising the employee contribution limit alone.[7]

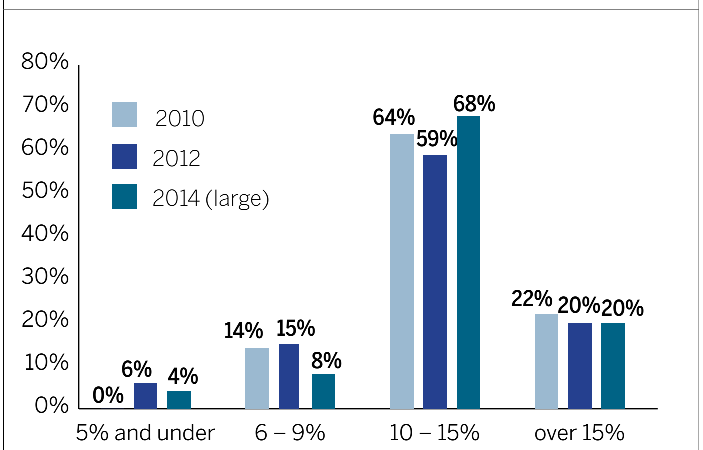
SECTION III – ARE WE DOING ENOUGH?

Retirement Savings Gap

A consistent message from each of DCIIA's three surveys is that the great majority of plan sponsors believe that their employees need to save from each paycheck over their working life in order to be financially prepared for retirement. In our current survey, 82% percent of sponsors reported the optimal total savings rate, which includes employee salary deferrals plus any potential employer contributions, should be 10% or more. This priority appears greater for the larger plan sponsors, with plans over $200 million in assets more likely to suggest the highest total savings rates. Over these three surveys, plan sponsors have reported that they recommend an optimal total savings rate of 10% to 15%; 89% of plan sponsors with over $200 million in assets recommend optimal savings rates at 10% or higher, as do 76% percent of plans with $5 million in assets or less. (See **Figure 13**.)

Figure 13

Recommended optimal savings rate



2010 n=101, 2012 n=118, 2014 Large n=185

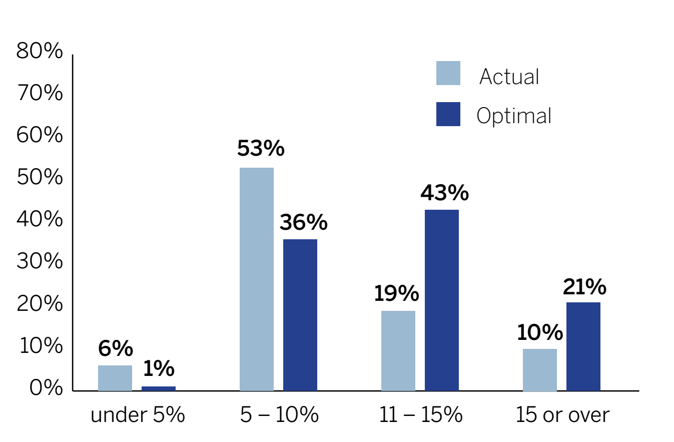
Actual participant savings rates, however, are reported to be less than those recommended by plan sponsors as optimal. Sixty-four percent of respondents note that their employees' combined savings rate is under 10%.

Actual Rates are Less Than Optimal

Despite the optimal savings levels recommended by this year's survey respondents, plans are more likely than not to report actual total savings rates (employer and employee contributions combined) of 5% to 10%. (See **Figure 14**.)

Figure 14

Optimal savings rate vs. actual



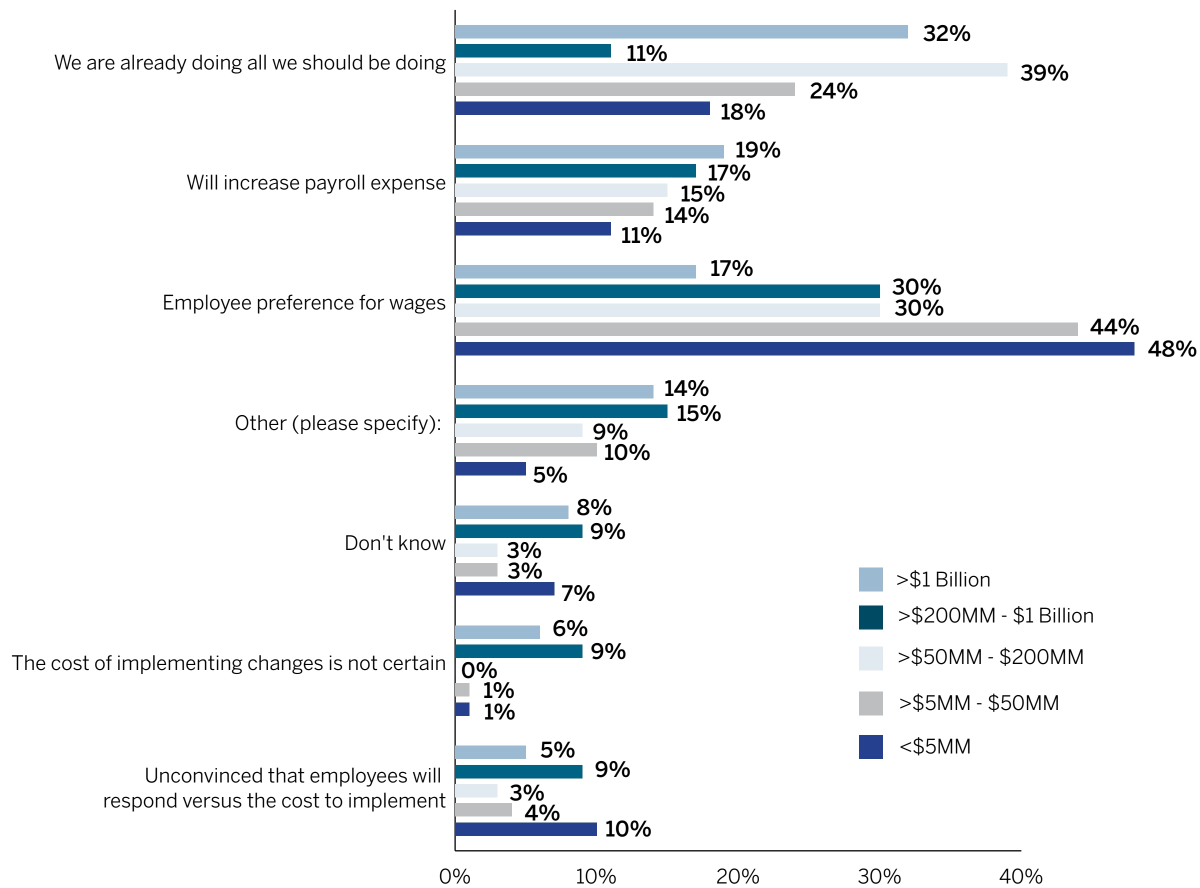
2014 n=471

Reasons For the Gap

The reasons for this gap are explained in **Figure 15**. The top reason cited for not closing that gap is the employees' preference for wages, followed by the perception that they (the sponsor) are already meeting their obligations, and making this kind of change would increase payroll costs. Some respondents offered in their comments that the employees also have DB plans, which impacts the savings behavior of employees. The mega plans (over $1 billion) were most likely to report that they already feel they are doing all they can. It is interesting to note that plans greater than $1 billion in assets had a higher percentage of respondents (32%) asserting that they are already doing all they should be doing, versus 18% of plans with $5 million in assets or less. In addition, while only 17% of mega plans' sponsors reported that they are concerned about their employees' preference for wages, a sizable 48% of sponsors of plans with less than $5 million voiced concern about this employee preference. These responses may reflect an opportunity to educate employers, particularly those with smaller plans, about the benefits of accruing retirement savings.

Figure 15

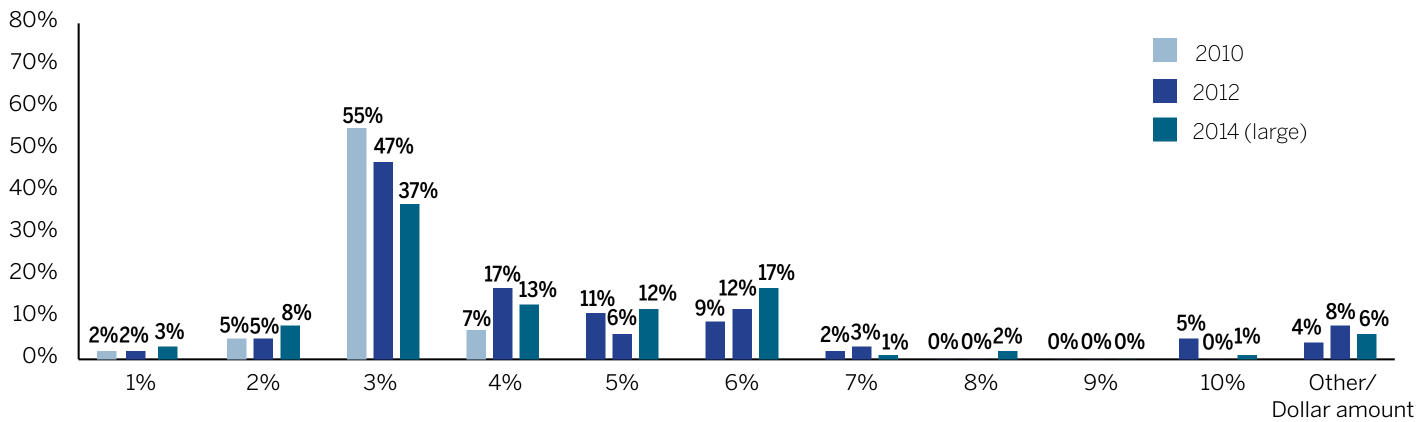
Reasons for not closing the savings gap



n=363

Figure 16

Automatic enrollment default contribution rate



2010 n=44, 2012 n=66, 2014 (large) n=115

Is Three Percent the Right Number?

As discussed earlier, automatic enrollment adoption has increased since our first survey in 2010, and we have also observed a modest increase in the standard default rates. However, the most commonly selected default rate remains 3% (38% overall) as shown in **Figure 16**. Sponsors reported in this 2014 survey that their top reason for selecting their current default rate was either that it was recommended by an industry consultant or other professional (26%), or that it was the amount with which they believed their participants would be comfortable (16%). Many respondents also offered, in the optional comments section, that they chose this default rate because it maximized the employer match benefit. One could also surmise that the cost of matching rates over 3% might be prohibitive to sponsors, serving to keep rates low. DCIIA recommends that default rates of 6% should be used as the minimum default contribution level; plan sponsors may want to consider using a stretch match as a tool to increase participant savings and to optimize their match.

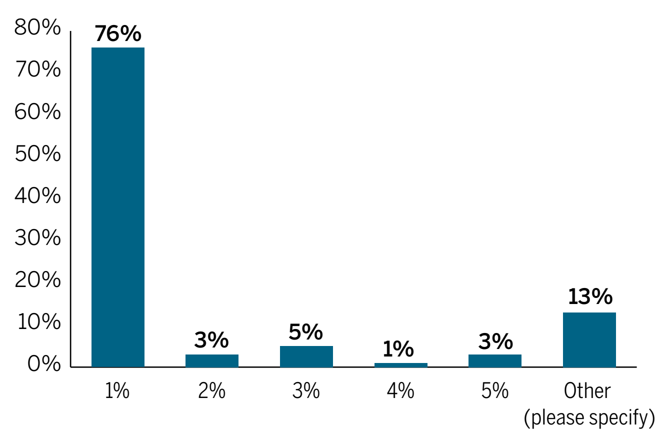
A conservative analysis of respondent data shows that plans that set their default rates at 3% or lower average a total participant savings rate of 8%, where those whose defaults are over 3% average at least 10% total savings.

What is the Proper Automatic Contribution Escalation Default Rate?

The majority of plans (76%) reported that they set the automatic contribution escalation default rate at 1% per annum, as shown in **Figure 17**, explaining variously that they thought this rate would appear reasonable to participants, that it seemed reasonable from a fiduciary standpoint, or that it was industry practice. Ninety-two percent of plans reported that they were very unlikely to change the default automatic contribution escalation percent. Given, however, that the plan sponsors recommended an optimal savings rate of 10% to 15%, plans should consider adjusting set their automatic contribution levels more aggressively in order to reach these levels, in keeping with plan goals. In a paper written in 2013, DCIIA concluded that default percentages should be considered in the context of the plan's overall objectives, and set at a robust level that is consistent with the goals of the plan.[8]

Figure 17

Automatic contribution escalation default rates, 2014



Some repsondents that selected "other" noted that they set the limit as a % of total salary, such as 80% of salary

n= 150

SECTION IV – A CALL TO ACTION

While automatic enrollment raises the floor in terms of increasing participation rates, the current practice of defaulting to a standard 3% of wages is insufficient for preparing participants for retirement, and results in the savings gap that we have identified in this paper. Setting higher default rates could be a tool to impact long-term retirement savings. Implementing automatic contribution escalation as a default, and at a higher-than-standard rate, would also result in meaningful retirement savings. We recognize that many employers are concerned that setting higher rates might cause employees to opt out. However, evidence to-date demonstrates that inertia is a powerful force, and higher default rates, coupled with clear, impactful communications, could work to meaningfully improve outcomes.[9]

DCIIA recommends consideration of the following best practices:

1) Automatically enroll all employees into the retirement savings plan. Sponsors should automatically enroll not only new hires, but also develop a plan to sweep in existing non-participating workers.

2) Set the initial deferral percentage for automatic enrollment at no less than 6%. Recent research shows that automatic enrollment at a 6% salary deferral rate can result in improved retirement outcomes, compared to a baseline enrollment rate of 3%.[10]

3) Consider employing a "stretch match" benefit, whereby the employer uses a lower match rate with a higher match threshold. For example, rather than matching the first 3% of employee contributions to their retirement savings, consider structuring the match as 50% of the employee's 6% contribution. This creative change in matching methodology is an effective way to encourage higher savings rates. [11] Utilizing a stretch match may also address concerns about costs.

4) Implement automatic contribution escalation as a default.

5) Optimize the automatic contribution escalation default rate. Employ an automatic contribution escalation increase of at least 1% or 2% per year, to a target contribution rate of 15%.

6) Consider regular automatic enrollment sweeps, moving participants into the plan's default investment, including non-participating employees.

7) Expand the selection of decision tools. Plan sponsors have expressed a desire for more information to help inform their decision-making. Use of dashboards or other monitoring and analysis tools could help clarify cost, opt-outs, and other considerations.

Endnotes:

[1] *Morningstar, "2014 Target-Date Series Research Paper", 2014.*

[2] *Alicia H. Munnell, Anthony Webb and Wenliang Hou, "How Much Should People Save?", Center for Retirement Research at Boston College, July 2014.*

[3] *DCIIA, Defined Contribution Plan Success Factors, May, 2015.*

[4] *T. Rowe Price, Reference Point, 2012. www2.troweprice.com/rms/rps/ElectronicPublishing/Reference_Point/html/Automatic_Increase.html.*

[5] *Vanguard, "The buck stops here: Vanguard money market," January 2015.*

[6] *Vanguard, "How America Saves, 2015", June, 2015.*

[7] *Jack VanDerhei and Lori Lucas, "The Impact of Auto-enrollment and Automatic Contribution Escalation on Retirement Income Adequacy," EBRI Issue Brief, No. 349, November 2010.*

[8] *DCIIA, "Best Practices When Implementing Auto Features," June 2013.*

[9] *Beshears, John; Choi, James J.; Laibson, David; Madrian, Brigitte C., "Simplification and Saving," NBER Working Paper, No. W12659. October 2006.*

[10] *DCIIA Auto Features Town Hall, Brigitte Madrian, Harvard Kennedy School, April 2, 2014.*

[11] *DCIIA, "Defined Contribution Plan Success Factors," May 2015.*

ABOUT DCIIA

The Defined Contribution Institutional Investment Association (DCIIA) is a nonprofit association dedicated to enhancing the retirement security of American workers. Toward this end, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA members include investment managers, consultants, law firms, record keepers, insurance companies, plan sponsors and others committed to the best interests of plan participants.

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