



OUTCOMES ORIENTED PLAN DESIGNS


It's Good to be Better

Companies that offer automatic enrollment also tend to offer or seriously consider more features associated with plans that take a more hands-on approach.



BY RICHARD DAVIES





What's the real point of having a defined contribution plan in the first place? That's the big question plan sponsors need to ask themselves. If the answer is helping employees achieve better retirement outcomes, then the DC plan can't just be good; it's got to be better.

More than any other success metric, DC plan sponsors want to have employees feel confident about their prospects for a comfortable retirement. That's what more than 1,000 plan sponsors told us in our most recent survey (a balanced representation from across the full universe of DC plan sizes) fielded in 2014.

But how can you make that happen? That nagging problem has not been resolved by participant education, more investment options or even better investment choices. All of those may be good to have, but too many employees aren't well diversified, aren't contributing enough or aren't in the plan at all.

The answer frequently lies with implementing automatic features: automatic enrollment in the plan and automatic escalation of participants' contribution rates.

And many plan sponsors have arrived at that conclusion already. Overall, 55% of our respondents use automatic enrollment. This is similar to an AonHewitt's survey that found the percentage of plans offering automatic enrollment has risen from 34% in 2007 to 59% now ("2013 Trends & Experience in Defined Contribution Plans," AonHewitt, 2013).

Automatic enrollment boosts participation — plain and simple. But it's interesting to see how much of a difference it makes: two-thirds of plans that use automatic enrollment have participation rates above 70%, while just under half of plans that don't use it have that level of enrollment.


Plan sponsors who offer automatic enrollment see it as something participants want. They're also more likely to think participants would prefer to have plan participation and saving rate decisions made for them. Companies that offer automatic enrollment also tend to offer or seriously consider more features associated with plans that take a more hands-on approach.

Two-thirds of plans that use automatic enrollment have participation rates above 70%, while just under half of plans that don't use it have that level of enrollment."

They're more likely than their peers to offer a target-date fund, consider automatic escalation and show interest in adding a guaranteed income target-date fund.

Interestingly, survey respondents whose plans don't offer automatic enrollment are more likely to say they don't have a default option in the plan and are more likely to believe a key measure of plan success is offering investment options that consistently outperform their benchmarks — a seemingly straightforward, but dubious, goal.

While automatic enrollment has certainly caught on, automatic escalation may still feel like a step too far for many DC plan sponsors. About one-third of our respondents use it, while the two-thirds who don't may feel it's too hands-on and overly paternalistic. But other studies have noted that plan sponsors often recommend a contribution rate of 10% for the average participant. That's a lofty goal, and probably unreachable without that hands-on help from plan sponsors.

It may be time for DC plan sponsors to reopen the philosophical dialogue about retirement outcomes with their company leaders and advisors. 

» Richard Davies is Senior Managing Director—Defined Contribution and Co-Head North America of AB Institutional Investments.

The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams.