

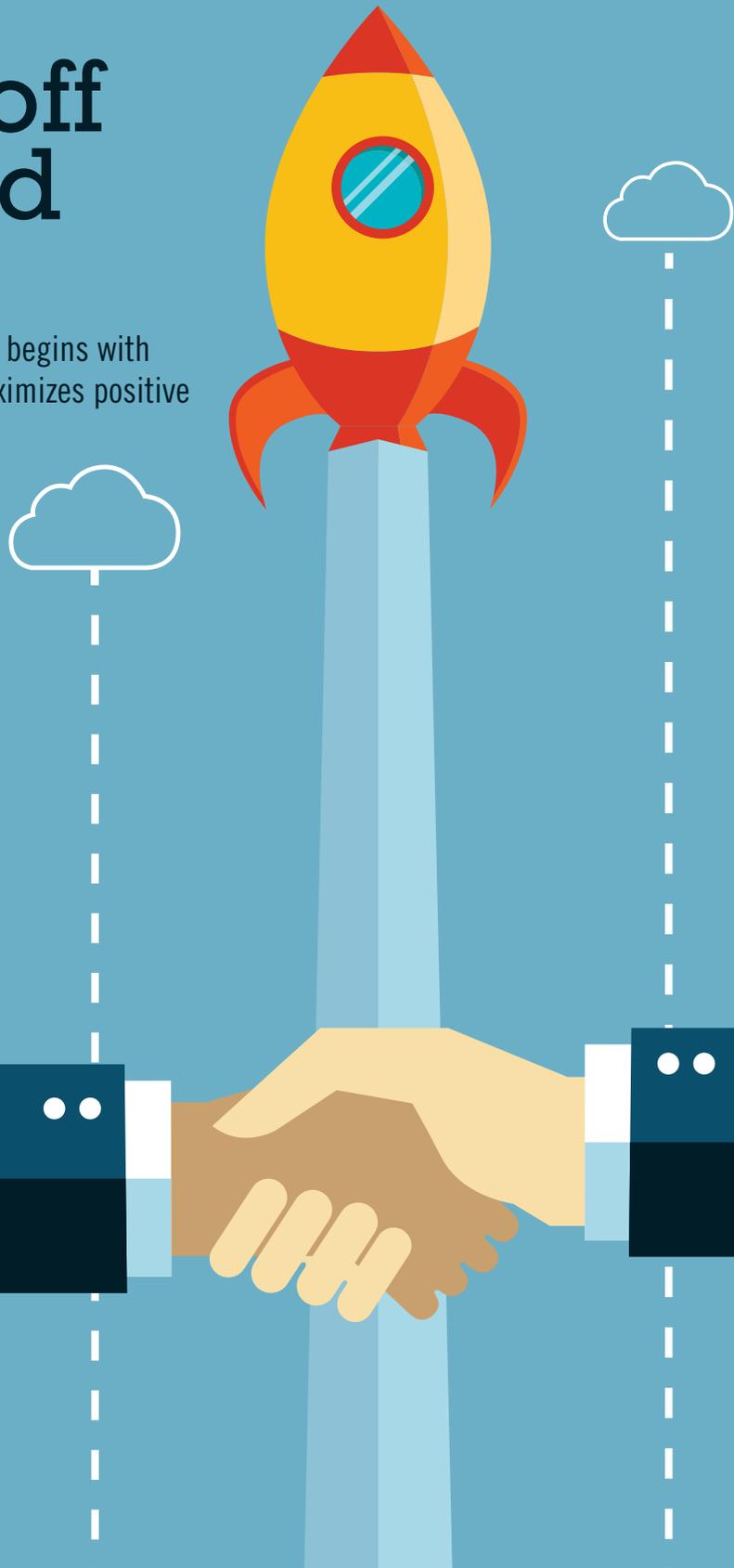


Getting off to a Good Start

Successful participant outcomes begins with progressive plan design that maximizes positive participant behaviors.



BY RICHARD W. RAUSSER



As with most things in life, there is nothing more important than knowledge. And when it comes to influencing participant behavior regarding their retirement, that knowledge comes in the form of personal education. This is not to say that every plan participant needs to become an expert on the ins and outs of retirement planning. However, with a relatively simple approach taken by employers, participants should be able to understand their options in a relatively simple and coherent manner.

The need for education is underscored by a survey we conducted with Harris Interactive, which revealed that while 75% of U.S. employees currently enrolled in a 401(k) think that such plans are the most important source of one's retirement income, 65% do not believe, or are not sure, that their 401(k) plan will provide enough money for them to be able to retire when they want/plan to.

But the retirement planning industry has learned that education alone does not drive participant behavior; real plan effectiveness needs to be measured in terms of whether participants are on track to succeed. Therefore, ensuring successful participant outcomes begins with progressive plan design that maximizes positive participant behaviors.

Plans with automatic features that better meet the needs of plan participants and plan sponsors help drive successful outcomes by helping participants hit the all-important 10% savings rate that we believe is crucial. Participants benefit as they experience higher levels of retirement success and retirement readiness; plan sponsors benefit as participants become more engaged with their plan and are better prepared for the long term prospect of saving for retirement. Improved defined contribution plan outcomes also serve to ease the loss of the traditional defined benefit pension plan, which may have been closed, frozen or cut back.

Automatic 401(k) plan features include automatic enrollment, automatic escalation of salary deferrals, auto rebalancing and utilization of qualified default investment vehicles. These features help plan participants set

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a reasonable level of salary savings, increase their contributions over time, achieve proper investment diversification, and make better use of a plan's investment alternatives. Placing participants in an appropriate investment option at a preselected contribution rate that increases annually essentially replaces some of the most important features of a defined benefit plan, such as automatic coverage and professional investment management.

Strong participation rates start with eligibility features that make it easy for participants to take advantage of a 401(k) plan from the start. Getting employees enrolled in the plan right away, and giving them an “ownership” stake in their investments, makes it easy to start payroll deductions and get employees into the habit of saving through the plan. Allowing new hires to make rollover contributions to the plan and providing them with an easy way to keep from spending lump sum distributions from a prior plan is also advisable.

Online enrollment is a more efficient interface operationally, and provides administrative ease. It can also be used as a mechanism that will make participants more likely to use online financial planning and guidance tools to map out a strategy from day one. Today, 47% of employers have a 401(k) plan auto-enrollment feature that is coordinated with online enrollment.

The primary advantage of auto-enrollment has been to get at least 90% of workers into a retirement savings plan. Research shows that automated solutions positively impact participant behavior and savings rates.

Auto-enrollment can be improved upon. Typically, automatic enrollment sets participants' initial contributions at a minimum of 3% of their pay, increasing their contribu-

tions by 1% a year (up to 6%). While the 3% deferral rate is good, a 6% deferral rate is an even better starting point and what we recommend as a best practice. Using 6% of pay for automatic enrollment goes a long way toward increasing savings rates overall — in particular, if one's matching contribution is tied to a higher deferral rate. Doing so also enables senior executives and highly paid employees to save more by improving 401(k) non-discrimination test performance.

While some may question whether automatic enrollment is worth the cost of additional employer matching contributions, the rise in cost will often be modest; most higher paid employees sign up for a 401(k) plan on their own. But employers are increasingly finding that the benefits outweigh the incremental additional cost. Automatic enrollment can make employees feel more secure, thereby improving morale and a company's ability to attract and retain talent.

Encouraging participants to save more by using an auto-escalation feature is another integral best practice. Auto-escalation of at least 1% per year, but preferably 2%, is ideal. By adding such a feature to the initial auto-enrollment at 6% of pay, many employees will hit the all-important 10% of pay savings rate that we believe is crucial within a few years.

A word of caution: Do not rely upon automatic features in perpetuity. Periodic re-enrollment and employee education meetings help participants map out a strategy and stick to that strategy to attain their long-term goals. Re-enrollment of existing plan participants helps participants take a fresh look at how they are investing their contributions, and may include new or updated tools to help them make their decisions.

An educated plan participant is always a plus ... but that's not the only and/or final requirement for a successful retirement outcome. By employing automatic features and staging periodic re-enrollment and education meetings, you will be doing your plan participants — and yourselves — a great service. 🌐

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