

# DCIIA plan sponsor survey on automatic plan features

Responses to selected webcast Q&A



## Retirement Research Center | *Contributors*

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**Defined Contribution**  
*Institutional Investment*  
Association

## INTRODUCTION

On June 19, 2015, DCIIA's Retirement Research Board conducted a [webcast](#) to share the results of a [research study](#) on plan sponsor attitudes and behaviors regarding automatic plan features. The below working group members participated in the webinar:

Lori Lucas, *Callan Associates*

Joshua Dietch, *Chatham Partners*

Cathy Peterson, *J.P. Morgan Asset Management*

Josh Cohen, *Russell Investments*

Catherine Collinson, *Transamerica Center for Retirement Studies*

As a supplement to the presentation material used for the discussion, our speakers have answered select questions submitted by the conference call attendees. Please see [DCIIA's publication directory](#) for the detailed study, as well as for other work on automatic plan features.

**Re-enrollment: First, do you recommend re-enrollment for the whole plan, meaning employees and non-employees, even if you have a high number of non-employee participants? Second, wrap providers /stable value products generally are a challenge with regard to re-enrollment. What is your experience with that?**

Re-enrollment, as defined in our survey, refers to a plan sponsor informing 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. A participant is defined as anyone in the plan with an account balance. The plan sponsor should evaluate the plan participant data when they are considering conducting a re-enrollment. A plan sponsor may decide to do a re-enrollment even if they have a large number of non-employees based on the asset allocation of their accounts.

It is important that plan sponsors ensure they have a strategy to effectively reach the non-employee population to communicate what actions they will need to take.

Note, however, that plan sponsors may need to take special care when the re-enrollment affects certain investment options, such as stable value, company stock, managed accounts, and/or brokerage accounts. Such plans need to consider how to effectively handle assets based on potential restrictions. For example, plans with stable

value may choose to exclude the fund from the re-enrollment and freeze the option. After the one or two year exclusion is over, the plan sponsor may choose to do another re-enrollment for those assets.

**If a plan sponsor has both a DB plan (for example, where employees contribute 3-6% with 3% match) and a DC plan, would you still set the [defined contribution plan's] initial deferral percentage at 6%?**

DCIIA offers a general recommendation of setting the defined contribution plan initial deferral percentage rate for automatic enrollment at 6%, with a longer-term goal of a total savings rate of 15%. More information is available in the recently published [DCIIA Defined Contribution Plan Success Factors](#) [whitepaper](#). This goal of 15% can be achieved through the use of both automatic enrollment and automatic contribution escalation. However, this recommendation is intended as a rule of thumb. DCIIA also recommends that plan sponsors take into consideration plan characteristics and other available benefits when modeling the appropriate deferral rate for the plan.

**Are potential administrative errors a concern among companies when implementing these auto features?**

In short, yes, there has been plan sponsor concern regarding errors, which many assert have prevented some plans from employing automatic features in their retirement plans. However, the Department of Treasury has recently addressed this concern. Please see the press release with links to detailed analysis of this recent legislative relief [here](#).

**How many plans with automatic enrollment have a company match?**

The majority of plans that took part in our survey responded affirmatively, with 94% of all respondents offering employer-matching contributions. Of those that have automatic enrollment, that number is higher, with 98% offering employer-matching contributions. Please note that many plans offer multiple contribution types, which is reflected in the following responses from all survey participants:

Fixed match: 58% of plan respondents

Discretionary match: 25% of plan respondents

Discretionary profit sharing: 26% of plan respondents

Fixed employer contribution: 20% of plan respondents

### **How often does re-enrollment occur as a standalone event rather than as a part of a recordkeeper search?**

We didn't address this question in our survey. However, based on the experience of the DCIIA working group, we have observed that most plan sponsors decide to conduct a re-enrollment when there is a catalyst, such as a record-keeper change or a major investment menu change. However, there is a growing number of plan sponsors that are considering re-enrollment as a way to improve asset allocation without a catalyst.

### **Is there any data on automatic contribution escalation opt out rates?**

Yes, we received some interesting results on this topic. 70% of respondents who offer automatic contribution escalation reported that their annual percentage opt out rate is less than 5%. This finding is fairly consistent over plan size; there is a slightly higher opt out rate for the smallest group of plans (87% of plans that are smaller than \$5 mm). An additional ten percent of these plans reported a 10% opt out rate, while another 10% reported 20%+ rates.

### **Can you suggest some ways to educate participants on the value of re-enrollment?**

Members of the working group reported that they consistently hear from plan sponsors that while they may have been concerned about employee pushback, they have actually not seen this happen. A robust communications plan is critical to the success of the re-enrollment and participant satisfaction. Each participant should receive multiple notifications that clearly explain what is happening and what action they need to take. They always have the right to opt out and retain their current allocation or make a new investment election.

### **Do you have thoughts on whether the US would ever implement soft compulsion like the UK or mandatory contribution like Australia, Singapore, and many other countries? We see some new programs at the State level; is there also discussion at the Federal level?**

The members of the working group report that they have observed little appetite at the Federal level for mandates when it comes to retirement programs, even when they are "soft compulsions" such as automatic enrollment. Furthermore, the advancement of any alternative system needs to be weighed relative to its propensity to crowd-out the existing 401(k) system.

### **Given the finding that attitudes differ between small and large plans regarding default levels for both automatic enrollment and automatic contribution escalation, please comment on whether this might reflect differences in the purpose of the DC plan... retirement readiness vs. competitiveness of the benefits package (i.e., talent attraction).**

DCIIA's survey did not directly address this question. However, the [Transamerica Center for Retirement Studies](#) recently conducted [research about employers' attitudes](#) about sponsoring retirement plans in general. In some key ways, both small (10 to 499 employees) and large (500+ employees) plans had similar views. For example,

- Both small and large employers feel similarly about their responsibility to help their employees to achieve a secure retirement, 70% and 77% respectively.
- Additionally, both small and large employers feel that offering an employee-funded retirement plan is an important component to attracting and retaining employees, 88% and 95% respectively.

However there are also some notable differences, including:

- Large companies are more likely to indicate 401(k) or similar plans are important to their employees compared to small companies, 96% versus 83% respectively.
- Similarly, large companies are more likely to think matching contributions are important to their employees, 96% versus 88% respectively.

What one may infer from these results is that small employers think their employees place greater importance on near term needs such as health insurance. Further, when forced to make choices between funding benefits that are mandated and those that are not, small employers focus on what is required. This is a choice that larger organizations are often not forced to make. Thus, the attitudinal differences between small and large employers are not entirely surprising.

## 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.

For more information, visit: [www.dciia.org](http://www.dciia.org).