

Employer Awareness and Attitudes About Automatic 401(k) Plans

A survey of Companies with 500 to 5,000 Employees

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Background

- AARP Mission
 - AARP is dedicated to enhancing quality of life for all as we age. We lead positive social change and deliver value to members through information, advocacy and service.

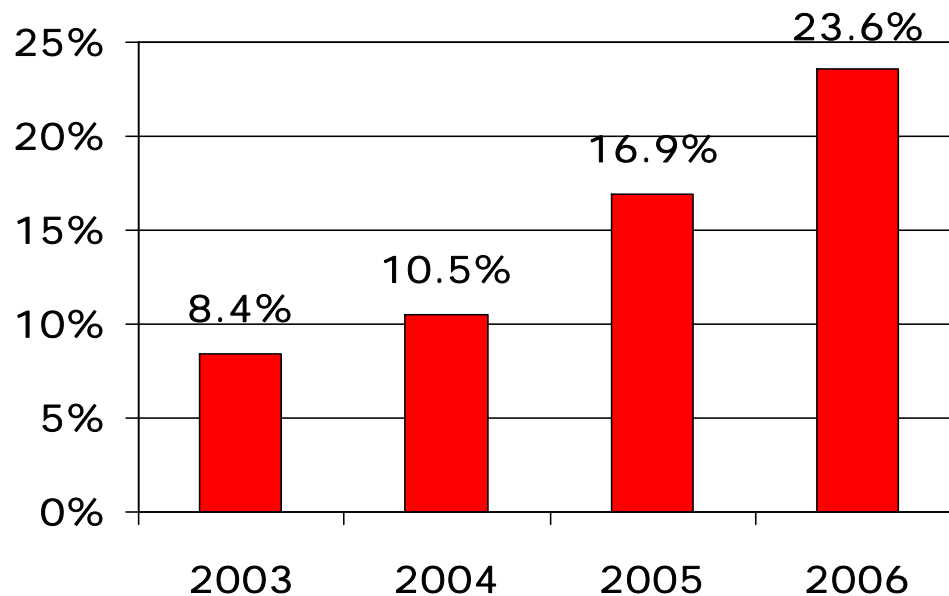
- 401(k) Enrollment Barriers
 - Inertia
 - Confusion

- Automatic Features
 - Enrollment
 - Investment
 - Escalation
 - Rollover

Prevalence of Automatic Enrollment

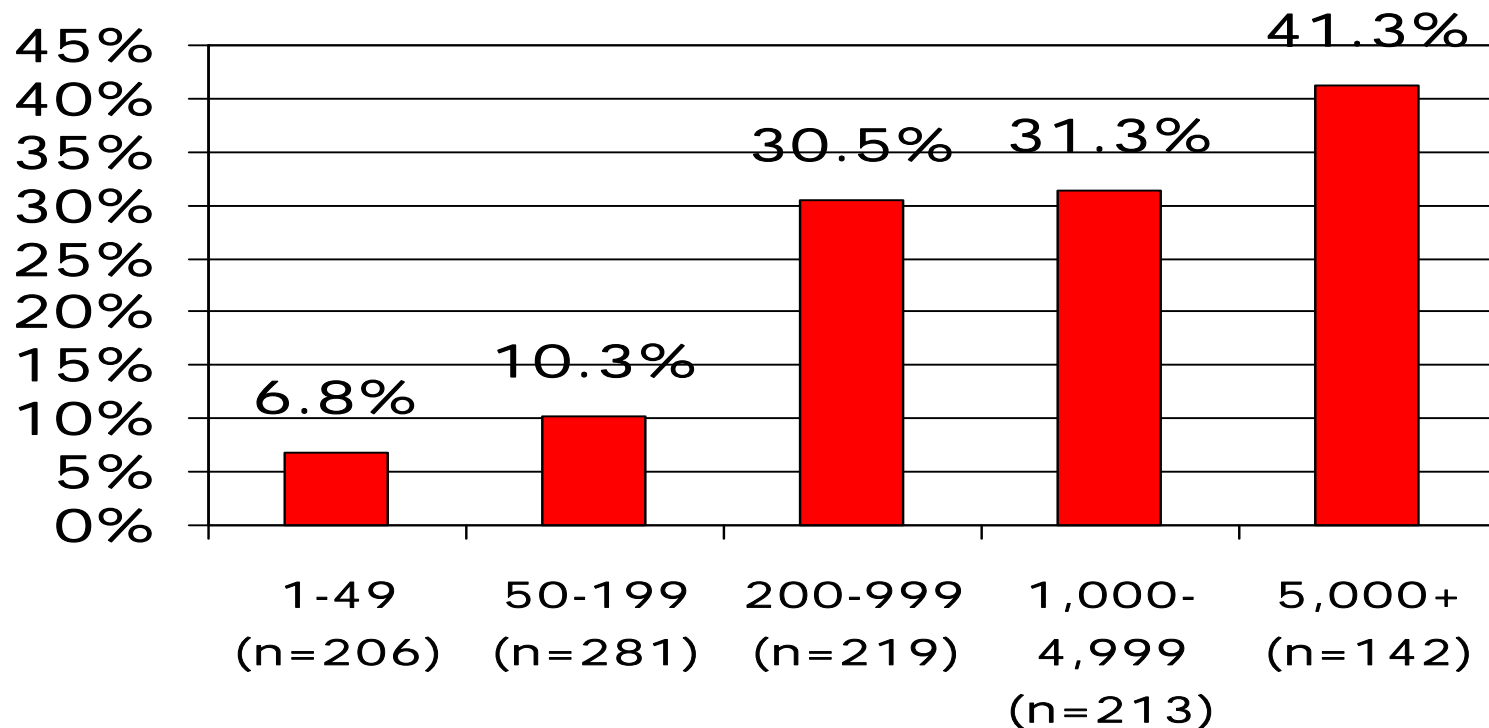
Profit Sharing Council of America

- Survey of approximately 1,000 plans: 401(k) plans & combined 401(k)/Profit-Sharing plans



Prevalence of Automatic Enrollment, cont.

- Profit Sharing Council of America, by size, in 2006



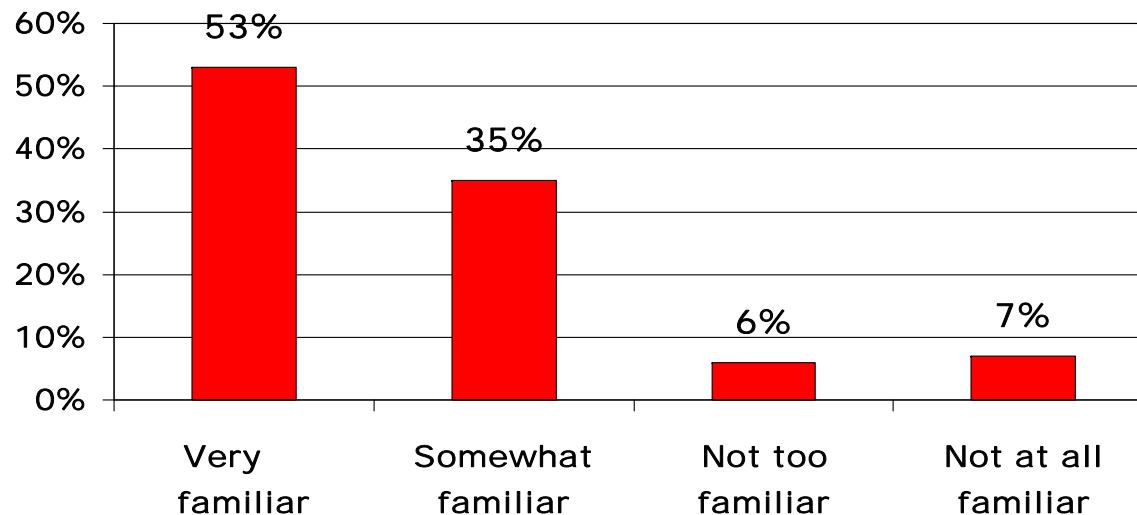
Methodology

- Purpose: To understand employer awareness about and attitudes toward automatic plan features, particularly automatic enrollment
- National telephone survey conducted by Harris Interactive
 - 800 private sector employers that offer a 401(k) plan
 - Roughly ½ have 500-999 employees and ½ have 1,000 to 5,000
 - Weighted to reflect the population of companies with 500 to 5,000 employees that offer a 401(k) plan
- Margin of sampling error
 - Overall: +/- 3.5%
 - Non-automatic Enrollment: +/- 4.1% (n=579)
 - Automatic Enrollment: +/- 6.6% (n=221)

Familiarity with Automatic Enrollment

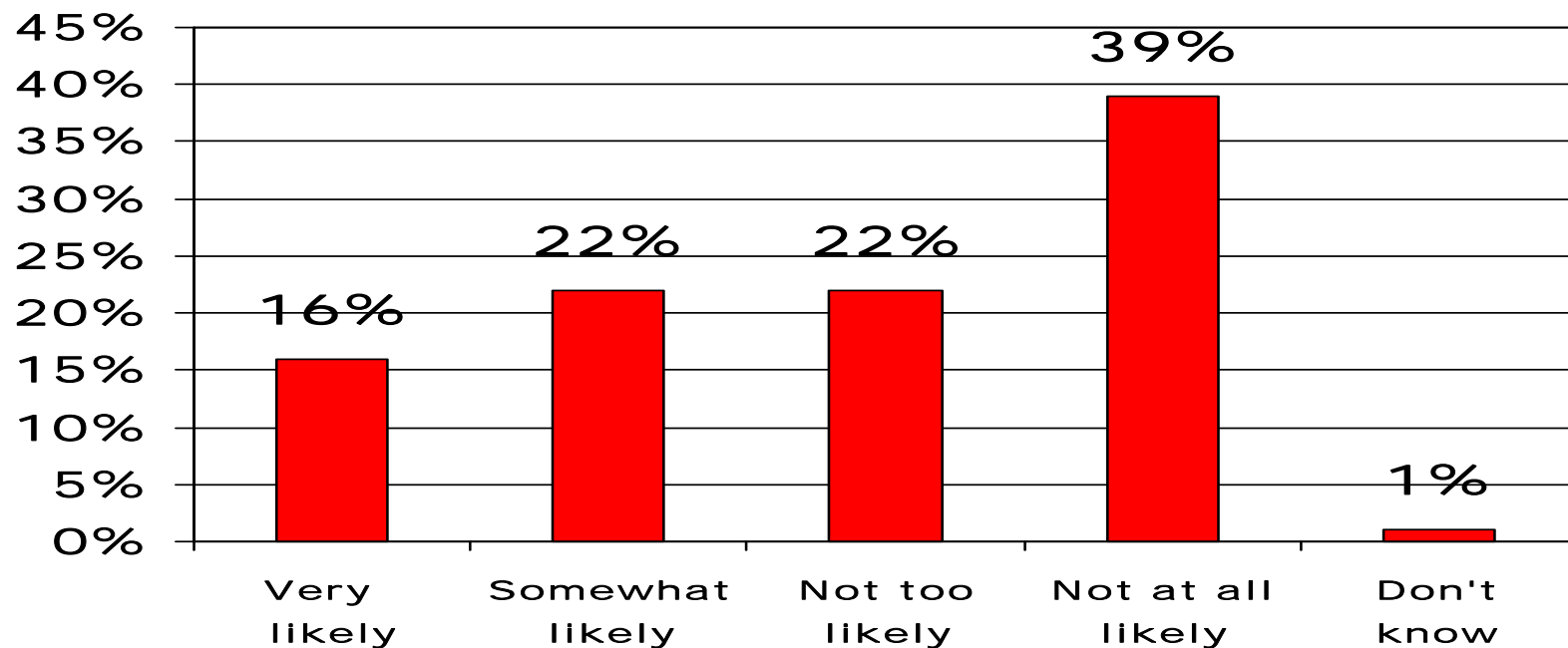
- 28% of respondents have automatic enrollment
- Among all employers: 90% are familiar (very or somewhat)
- Among employers without automatic enrollment: 88% are familiar (very or somewhat)

Familiarity among employers without automatic enrollment (n=579)



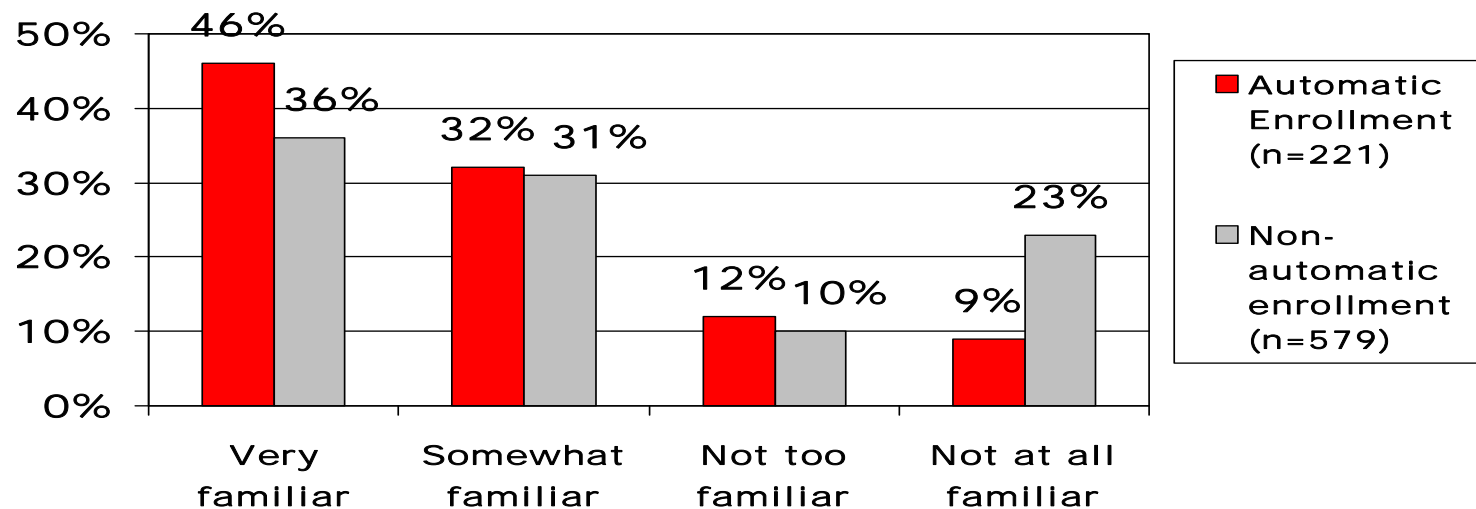
Intentions: Automatic Enrollment

- Likelihood of adding automatic enrollment in the next year (n=579)



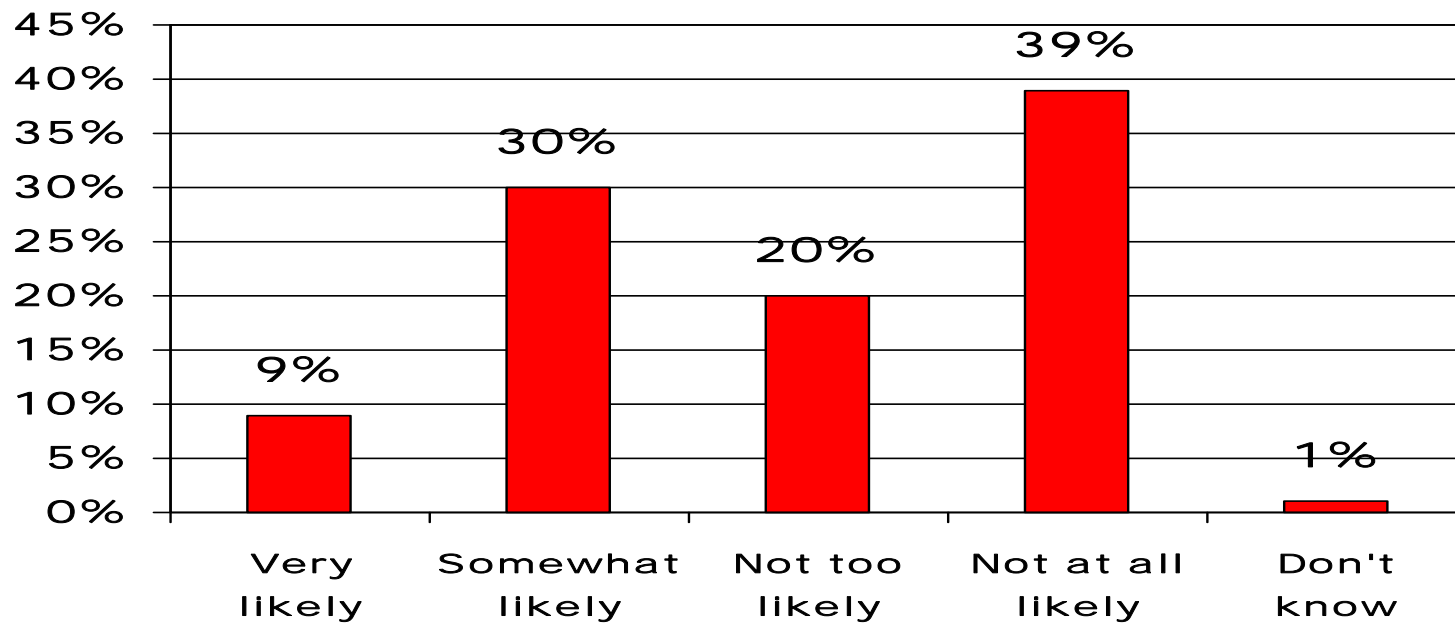
Familiarity with Automatic Escalation

- 14% of respondents have automatic escalation
 - 28% of companies with automatic enrollment
 - 8% of companies without automatic enrollment
- 70% of respondents are familiar (very or somewhat) with automatic escalation



Intentions: Automatic Escalation

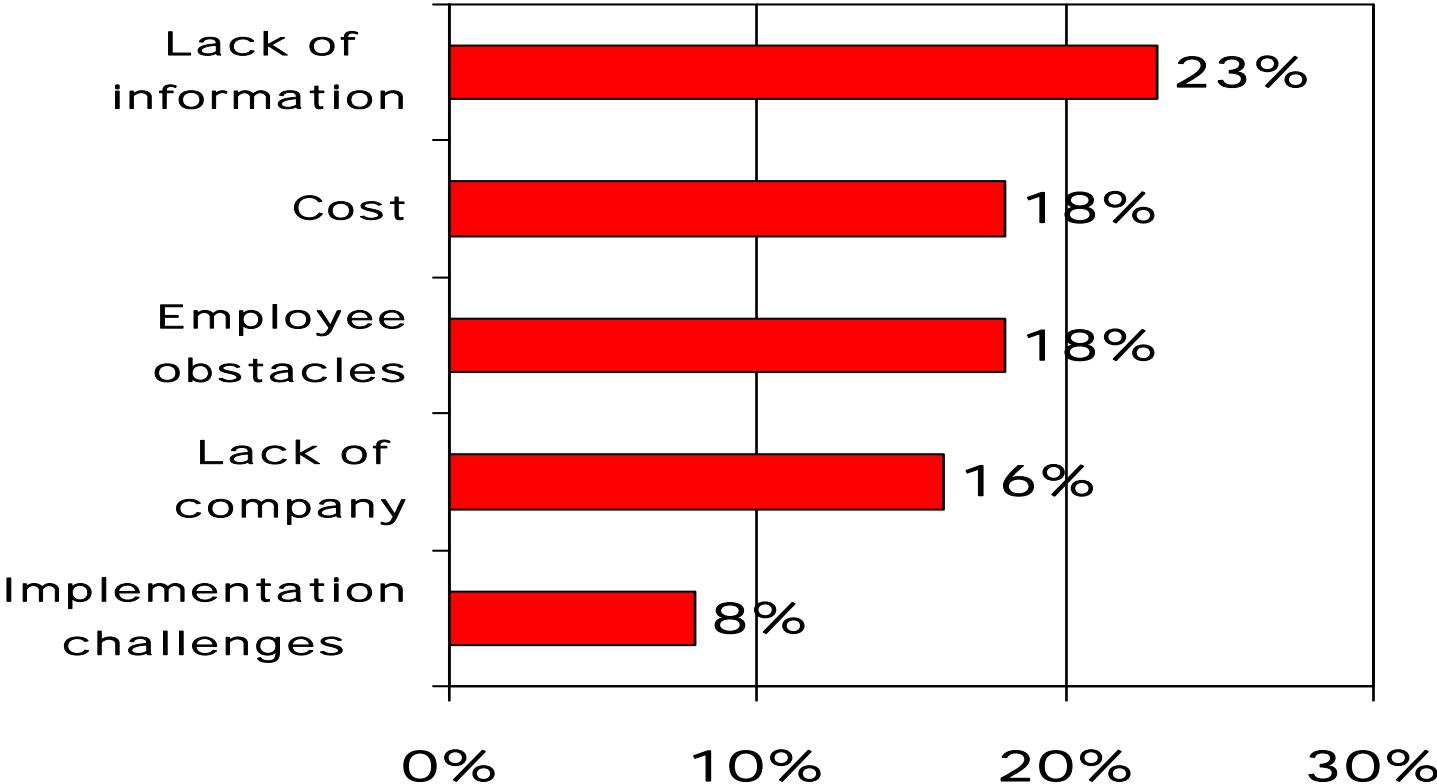
- Likelihood of adding automatic escalation in the next year among respondents who have automatic enrollment but not automatic escalation (n=153)



Major Reasons for Adopting Automatic Enrollment

- Companies with Automatic Enrollment (n=221)
 - Employees save more for retirement (82%)
 - It demonstrates that we are a socially responsible organization (49%)
 - It is easier to pass nondiscrimination testing (44%)
- Companies without Automatic Enrollment (n=579)
 - Employees save more for retirement (71%)
 - It demonstrates that we are a socially responsible organization (26%)
 - It is easier to pass nondiscrimination testing (48%)

Reasons for Not Having Automatic Enrollment from Companies Without It (n=579)



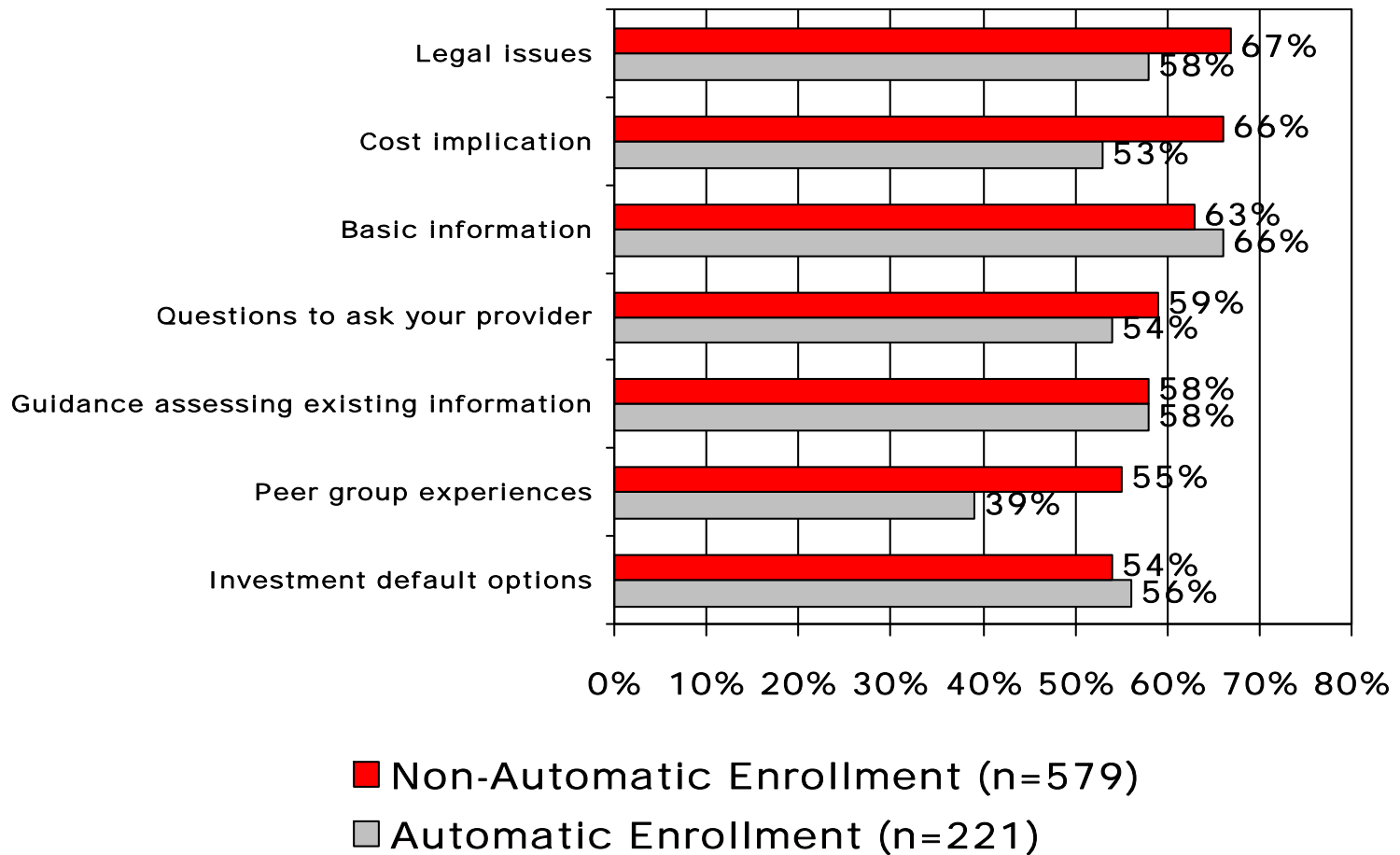
Decision-Making

- Primary responsibility for making the decision to add automatic 401(k) features

| | All | 500 to 999 employees (n=354) | 1,000 to 5,000 employees (n=446) |
|--------------------|-----|---------------------------------|-------------------------------------|
| Human Resources | 44% | 41% | 48% |
| President, VP, COO | 19% | 11% | 17% |
| Committee | 14% | 22% | 15% |

- Influential outside organizations and/or individuals:
 - Plan providers and related individuals (40%)
 - Consultants (e.g. benefits consultants, business consultants, financial advisors) (27%)

Information Needs



Employee Satisfaction Survey (n=696) Conducted by Harris Interactive for Retirement Made Simpler campaign

- How satisfied were you with the process of being automatically enrolled?
 - 97% satisfied (74% “very” and 23% “somewhat”)
- “Automatic enrollment has allowed you to start saving for retirement earlier than planned”
 - 85% agree (62% “strongly” and 23% “somewhat”)
- “Automatic Enrollment has made saving for retirement easy”
 - 95% agree (71% “strongly” and 24% “somewhat”)
- “You are glad your company offer automatic enrollment”
 - 98% agree (79% “strongly” and 19%” somewhat”)

www.retirementmadesimpler.org

Implications

- While automatic enrollment and automatic escalation concepts are not new to employers, they need more information about both.
- Outreach to employers should recognize the key roles played by Human Resources personnel and plan providers.
- Material designed for employers should address legal issues and cost implications, as well as questions for employers to ask providers, basic information about automatic enrollment, and the experiences of peers.
- Material should take into account employers' motivations for automating their 401(k) plan features – to help employees save, to pass nondiscrimination tests more easily, and to be perceived as a socially responsible company.