MAKING IT ACTIONABLE

As a business owner and sponsor of a retirement plan, you know that saving for retirement requires starting early in life and saving at a high enough rate to generate sufficient income to experience retirement on your terms.

Your workplace retirement plan most often serves as your employees' primary–or sole– savings vehicle and greatly benefits those who choose to participate. But that's also part of the problem: only those most committed to saving for their retirement voluntarily join. A meaningful percentage of employees with access to a company-sponsored plan don't enroll.

An important way to can help your employees make real progress for themselves is to offer **auto-enrollment** and **auto-escalation** features in your 401(k) plan. Both can positively influence retirement outcomes. But even if your plan includes these features, there may be reason to review them to make sure they're optimized.

That's because auto-enrollment is often introduced only to your new employees. That misses a huge opportunity to include existing workers who could also be participating. And statistics tell us that even if they're offered the choice to opt-out, most don't and stay the course. That means even without much effort on their own, they are doing something important to contribute to their future financial success.

The other automatic feature is auto-escalation. It automatically raises employee contribution rates a little each year until each employee reaches their target savings rate. This is really important since auto-enrollment typically starts at a savings rate of 3%, which is a good start, but is too low for most people to accumulate what they need in retirement. Auto-escalation often increases contribution by 1% each year until the person is contributing 10%.

Here are three reasons to take a serious look at automatic enrollment and automatic escalation (even if your plan already includes these features):

1 | Make the case

Participation rates reach 91% for plans offering auto-enrollment vs. just 42% for those that don't. Also, a higher percentage of auto-enrolled participants remain in the plan long term.*

We know citing research studies is often the quickest way to get your eyes to glaze over. But this research is too overwhelming to ignore. Not only does this represent a real benefit to your employees, but higher participation rates will also make it easier for your plan to pass the nondiscrimination tests. And that could make the difference in your ability to contribute more for yourself.

2 | Optimize automatic features for long-term success

Automatic enrollment is a great start, but it's only a start. The typical starting contribution rate is just 3%. While this will help participants get in the habit of saving for their retirement, it's not high enough for most to reach their retirement goals. We encourage setting the default savings rate as high as 6%, a number high enough to result in real savings without negatively affecting plan participation. *Suggesting an automatic escalation feature that increases the deferral rate by 1% annually will be nearly imperceptible to most workers but has the potential to generate significantly more in retirement savings.*

3 | Sweep up those left behind

New employees who auto-enroll will immediately reap the benefits of saving for their retirement. But what about those who opted out of enrollment when they first joined the company or started employment after automatic enrollment was implemented? *Creating an annual sweep that auto-enrolls existing employees who may have previously opted out will ensure that plan participation grows while fewer employees get left behind on their path to retirement.*

Automatic enrollment and automatic escalation can be real difference makers for your employees and also provide direct benefits to you as well.

We encourage you to give us a call and schedule time to discuss these important features to determine how best to take advantage.

* *https://pressroom.vanguard.com/content/nonindexed/Automatic_enrollment_power_of_default_1.15.2015.pdf*