

Weighing Automatic Plan Features

SITUATION: We're thinking about adding automatic enrollment and contribution increase features to our 401(k) plan but have concerns about employee resistance, especially to contribution increases.

QUESTIONS: Do many plans use automatic plan features, and how receptive are plan participants to them?

ANSWERS: According to the Plan Sponsor Council of America, in 2012 47.2% of defined contribution plans surveyed offered automatic enrollment, up from 45.9% in 2011 and 23.6% in 2006. More than half of the plans (57.9%) had an automatic contribution escalation feature in 2012. Another study by Cogent Research found 49% of plan participants surveyed wanted access to automatic contribution increases.

DISCUSSION: With automatic enrollment, a set percentage of the employee's compensation is withheld and then deposited in a plan account for the employee — unless the employee chooses not to participate or wants to contribute a different amount. Employees *must* be given the opportunity to opt out of participating. You also have to provide employees with an option to change the election in the future.

An automatic escalation feature gradually increases a plan participant's deferral rate over time with no effort on the part of the employee. The increases must be according to a specified schedule. And you must notify employees of the amount of the deferral increases and when increases will occur. You also have to give employees the opportunity to opt out of increases.

For many employers, automatic enrollment is an effective way to increase participation. Plans surveyed by the Defined Contribution Institutional Investment Association in 2012 saw participation rates increase from an average of 69% to an average of 81% after adopting automatic enrollment.

As for employee resistance to contribution increases, the Employee Benefit Research Institute reports that 20% of surveyed employees said they would allow annual one percentage point contribution increases up to at least 15% of salary before discontinuing the increase. Another 20% would allow increases to between 10% and 14% of salary.

COMMENT: Before adding automatic features to your plan, look at what you expect the automatic features to accomplish, how much the features will cost, and how you can implement them to fit your work force.