

The Quest to Expand the Use—and Value—of Defined Contribution Plans

By Randy Myers

For employers worried about enrolling employees in their defined contribution retirement plans automatically at contribution levels that are too high, here's a counterintuitive finding: they should probably be worried about setting them too low.

Automatic enrollment effectively forces workers to save for retirement unless they make a conscious choice to opt out of their plan. It is widely credited with improving plan participation rates. Fidelity Investments has reported that among the more than 21,000 plans for which it provides recordkeeping services, auto-enroll plans enjoy participation rates of 84.3 percent of eligible workers, versus 68 percent for all of its plans. What's more, sponsors that automatically enroll participants at higher contribution rates tend to keep more participants in their plans than those with low contribution rates. Speaking at the SVIA's 2014 Spring Seminar, Elizabeth Heffernan, a vice president in the Fidelity Employer Services Center, said plans that set the automatic participant contribution rate at 3 percent of salary have average participation rates of 85.8 percent. Those that set the rate at 5 percent have average participation rates of 90.3 percent. Even at an automatic 6 percent deferral rate, 88.7 percent of eligible employees participate. "People are more committed at those higher savings rates," Heffernan observed.

Despite these telling figures, only a minority of plan sponsors have embraced automatic enrollment, and many continue to set deferral rates low. Among Fidelity plans, just 26 percent use auto enrollment. Those plans represent 59.6 percent of Fidelity's total participant base, however, indicating that auto enrollment is more popular among larger plans. Still, nearly 75 percent of all plans offering automatic enrollment set the base deferral rate at 3 percent of salary or less.

"Our default path is much too low," Heffernan said. "We need to get more plan sponsors comfortable with auto enrollment at 6 percent, at 7 percent, of salary."

Beyond boosting automatic deferral rates, Heffernan said plan sponsors could take several other measures to help employees achieve better results from their defined contribution plans, including adopting a policy of automatically boosting deferral rates on an annual basis. While 77.1 percent of Fidelity plans give participants the option to increase their deferral rates annually, only 12 percent increase them automatically.

In addition, Heffernan said, plan sponsors could boost plan participation by automatically enrolling not just new employees but also existing employees who aren't in the plan, a process known as reenrollment. "That's an area where we have a huge opportunity to do better as an industry," she said.

Some sponsors, Heffernan conceded, have embraced reenrollment not just to boost participation rates but also to automatically steer participants into more diversified investment portfolios. About 15 percent of participants in Fidelity-run plans have 100 percent of their assets in either stocks—generally considered the riskiest asset class available—or in the most conservative investment option, such as a stable value or money market fund. "There are not many situations where that is appropriate," she said.

Finally, Heffernan said, plan sponsors could help plan participants by offering products or services that assist them in converting retirement savings to income once they stop working. While most sponsors seem to have little appetite for offering guaranteed-income products, she said, they have shown interest in programs that would allow participants to take regular withdrawals from their accounts, and in guidance programs designed to help participants better understand their retirement-income options. [SVIA](#)

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largest target-date funds aimed at 65-year-olds and calculated the actual value at risk over a 12-month time horizon was closer to 20 percent. By contrast, a comparable fund that included an allocation to stable value put only about 10 percent of the participant's account value at risk.

Beyond expanding into target-date funds, Schaus said the stable value industry can help to solidify its future by convincing plan sponsors to educate plan participants to keep their money in their DC plans after retirement. Right now, she said, only a small minority of sponsors actively seek to retain those assets.

For retirees who do stay in their employers' retirement plans, Schaus said, the most important post-retirement need relating to that plan will be retirement income modeling and education, including one-on-one retirement counseling. The stable value industry can play a role in that, she said, by ensuring that the people and organizations creating retirement income models understand stable value and account for it properly in their models. [SVIA](#)