



## Benchmark Retirement Plan Services, Inc.

Fredericksburg, VA 22407  
www.benchmarkrps.com

Daytona Beach, FL 32124

ph: (833) 765-401K  
fx: (833) 766-401K

September 10, 2018

# Auto Enrollment and Roth Trending Upward

By Paul G. Masser, QKA

Around this time each year advisers ask us for information regarding the trends we are seeing within the industry. The team at Benchmark Retirement Plan Services, Inc. has analyzed our client data and reviewed several surveys to provide a condensed overview of the information in this one short article. The two primary trends we have been witnessing in the industry, automatic enrollment and Roth contributions, are described below with supporting statistics from multiple sources.

### Automatic Enrollment Popularity Continues to Climb

Since the Pension Protection Act of 2006 went into effect, the percentage of 401(k) plans utilizing the automatic enrollment feature has steadily climbed. There has also been a steady increase in automatic deferral escalation in plans with automatic enrollment. Not coincidentally, the participation rates in plans utilizing these features is significantly higher than plans without automatic enrollment. The chart below shows the percentages from four separate sources:

	PSCA <sup>1</sup>	T. Rowe <sup>2</sup>	Callan <sup>3</sup>	Vanguard <sup>4</sup>
Percent of Plans with Auto Enrollment:	60.0% vs. 32.0% in 2007	56.7% vs. 39.8% in 2011	71.4% vs. 70.6% in 2014	46.0% vs. 15.0% in 2007
Percent of Auto Enrollment Plans with Auto Escalation:	73.4% vs. 52.2% in 2011	75.7% vs. 63.3% in 2011	70.8% vs. 52.8% in 2014	67.0% - prior years not noted
Participation Rates vs. Non-Auto Enrollment Plans:	Not Noted	87% vs. 45.4% for plans without	Not Noted	92% vs. 57% for plans without

While each survey had different results and were comparing different time periods, the trend is clear – progressively more 401(k) plan sponsors are seeing the benefit of utilizing automatic enrollment and automatic escalation. There is not only a positive impact on the retirement readiness of those being automatically enrolled, the increased participation rate benefits the entire plan population. More employees participating leads to higher average account balances and higher total asset balances, which can lead to reduced fees plan-wide.

So why aren't all plan sponsors including automatic enrollment and automatic escalation in their retirement plans? The feedback we receive from clients and prospects is probably the same heard by anyone recommending these provisions to a skeptical employer: "Our employees will revolt", or "It sounds like an administrative hassle".

Regarding an employee revolt, there will always be employees that resist any type of change and nothing can prevent it. However, proper plan design, education, and enrollment meetings can easily combat this. An optional "permissible withdrawal" period can be instituted to allow an automatically enrolled employee to retroactively opt-out and withdraw the money that has been deposited into the plan. Offering to conduct enrollment meetings to educate employees about the plan, the significant benefits of participating, and how to opt-out if they do not want to participate can be used as a selling point. We are continuously surprised by the number of prospective clients that tell us they can't remember the last time they had someone conduct an educational meeting.

Administration of a retirement plan that includes automatic enrollment and automatic increases has never been easier. All the major recordkeeping platforms have tools in place to assist employers with this process. Nothing is foolproof and human error may lead to mistakes, but if these tools are utilized properly it automates much of the task of tracking automatic enrollment and escalation and minimizes the likelihood of errors.

# Retirement Plan Trends

September 7, 2018

Page 2

## Roth Contribution Availability Increases

The popularity of Roth provisions continues a slow but steady climb in the 401(k) plan marketplace. When first introduced in 2006 there was little interest primarily due to inertia. Most employees considered the tax-deferral of traditional 401(k) contributions as a primary benefit of participation. With continued education about Roth and the benefits of the tax-free withdrawals, we are seeing an increase in the number of plans offering Roth provisions and the percentage of participants taking advantage of those provisions. The chart below provides some statistics on Roth usage:

	PSCA <sup>1</sup>	T. Rowe <sup>2</sup>	Callan <sup>3</sup>	Vanguard <sup>4</sup>
% of Plan offering Roth:	63.1% up from 30.0% in 2007	67.4% up from 60.3% in 2016	71.3% up from 49.3% in 2010	68% - prior years not noted
% of Participants using Roth:	18.1%	6.9%	Not Noted	12.0%

As we can see from the percentage of participants using Roth, the traditional pre-tax salary deferral is still much more popular. However, as the workforce continues to get younger and more educated about Roth, we anticipate a continued growth in Roth assets in 401(k) and 403(b) plans.

## Our Crystal Ball

There have been a few minor legislative changes within the past year and you can read about their impact on retirement plans on our website at <https://www.benchmarkrps.com/update2018april>. You have probably read articles or heard the news about an Executive Order (EO) signed by President Trump on August 30, 2018, directing the Treasury Department and Department of Labor to consider some rule changes that could impact the retirement plan marketplace. It is still very early to predict any outcome from this order, but there were three general areas for examination – regulations on open multiple-employer plans (MEPs), changing life expectancy tables to reduce Required Minimum Distributions (RMDs), and reducing paperwork by expanding the use of electronic disclosures. Information released by the Treasury Department and Department of Labor will be monitored closely by the staff at Benchmark RPS but we don't expect anything noteworthy or actionable until we are well into 2019.

We all know that past results are no guarantee of future success. Yet, our opinion is that automatic enrollment, automatic escalation, and Roth availability will continue with their upward trajectory and be beneficial factors in retirement readiness. The key to the success of these retirement tools is the education of not just the employees, but the employers as well. Once the employers are educated on the ease of adopting and administering these provisions, we believe many will see the benefits to their company and employees and will appreciate the recommendations.

Should you have any questions about the content of this article, please contact your Benchmark RPS representative and we will be glad to discuss these, or any other topics, with you and your clients.

<sup>1</sup> Plan Sponsor Council of America 60<sup>th</sup> Annual Survey of Profit Sharing and 401(k) Plans; [www.pasca.org](http://www.pasca.org)

<sup>2</sup> T. Rowe Price 10<sup>th</sup> Annual Reference Point Report; [https://www3.troweprice.com/usrps/content/dam/troweplan/pdfs/ReferencePoint\\_Report.pdf](https://www3.troweprice.com/usrps/content/dam/troweplan/pdfs/ReferencePoint_Report.pdf)

<sup>3</sup> Vanguard 5<sup>th</sup> Annual How America Saves Report; [https://pressroom.vanguard.com/nonindexed/HAS18\\_062018.pdf](https://pressroom.vanguard.com/nonindexed/HAS18_062018.pdf)

<sup>4</sup> Callan Institute 11<sup>th</sup> Annual Defined Contribution Trends Survey; <https://www.callan.com/wp-content/uploads/2018/01/Callan-2018-DC-Survey.pdf>

## Benchmark Retirement Plan Services, Inc.

*Setting the standard for service, expertise, and cost-effective retirement plan solutions in the TPA industry.*