Auto-enrollees save less, Aon Hewitt study shows

By Editor Test *Wed, May 25, 2011*

A survey suggests that not all is rosy in 401(k) land. At 120 large plans, the median account balance is under $25,000, 30% of participants have loans, and 3-year annualized returns are under 2%.

Auto-enrollment increases overall participation in employer-sponsored retirement plans, but auto-enrolled workers don't contribute as much, on average, as active enrollees, mainly because employer set default contribution rates conservatively.

That was one finding of an analysis by Aon Hewitt, the human resources and consulting firm, of the saving and investing habits of three million participants in 120 large employer-sponsored defined contribution retirement plans.

Participants who were subject to automatic enrollment contributed one percentage point less on average (6.8%, compared to 7.8%) than their actively enrolled counterparts. More than three quarters of plans (76%) set default contribution rates at only 4% or less.

In addition, 41% of participants who were automatically enrolled are not saving enough to receive the full match from their employers, compared to only 25% of participants who proactively enrolled.

The study showed record levels of participation, with 75.8% of eligible employees participated in their company's defined contribution plan in 2010, up from 73.7% percent in 2009 and 67.2% in 2005.

Before-tax contributions to DC plans were unchanged from 2009, Aon Hewitt found. But, at 7.3% of pay, they still lag pre-recession levels (7.7% in 2007).

Automatic enrollment is believed to be the reason for the increase in participation levels. Three in five employers (60%) auto-enrolled employees into their DC plans in 2010, up from 24% in 2006. But 85% of those who use auto-enrollment only apply it to new hires, so the participation levels are rising gradually. Where employees were subject to auto-enrollment, 85.3% percent participated in their DC plan, 18 percentage points higher than in plans where employees were not.

Many employees are clearly not using the plan to build sufficient retirement savings. Cumulatively, workers are saving over 10% of pay (including almost 4% in employer contributions. But almost 30% of participants don’t contribute enough to receive the employer match, half of all account balances are under $25,000 and, over the past three years, median annualized returns have been just 1.7%. More than one in four participants had a loan outstanding against their accounts at the end of 2010.

Most employees were not actively involved in managing their accounts. Despite strong market returns in 2009, only 14.2% of employees made any sort of fund transfer in 2010, down from 16.2% in 2009.

Those figures pertain to participants; they do not include the non-participants or the 50% of U.S. workers with no access to a workplace plan.

The study did not mention the possible impact of investment fees on employee accumulation levels, or whether plans with lower fees had higher participation rates or higher account balances. Fees and plan fee transparency are the subjects of ongoing Department of Labor rule-making efforts. The study didn’t assess the potential impact of rising health care costs or slow compensation growth on participants’ abilities to contribute to their plans.

Aon Hewitt analysts suggested that, to boost participation and contribution rates, companies combine automatic enrollment with automatic contribution escalation and target-date portfolios, and that they periodically auto-enroll non-participating employees, not just new hires.