
Dealing with Auto-Enrollment's Dilution Effect

By Kerry Pechter *Thu, Oct 10, 2013*

By increasing enrollment, auto-enrollment inevitably increases the number of employees eligible for a matching contribution, if any, and in such cases can drive up employer costs. Something's got to give in such a situation, writes Barbara Butrica of the Urban Institute

It's widely acknowledged that the policy of automatically enrolling employees in 401(k) plans by a default process can have a negative feedback effect.

By increasing enrollment, auto-enrollment inevitably increases the number of employees eligible for a matching contribution, if any, and in such cases can drive up employer costs.

Something's got to give in such a situation, and a new research [brief](#), written by Barbara Butrica and Nadia Karamcheva of the Urban Institute and published by the Center for Retirement Research at Boston College, explores what that something might be.

First, the authors describe the problem: While automatic enrollment increases savings for employees who would not have participated without it, those who would have participated even without auto-enrollment may end up saving less because auto-enrollment is associated with low default contribution rates and low employer match rates.

Plan sponsors who fear rising costs but still want to adopt an automatic enrollment strategy have four options, Butrica says:

- Lower the match rate per dollar of employee contribution and/or lower the ceiling on the percent of contributions the company will match. These changes would reduce the per-participant match, allowing the company to address an increase in participation without raising total 401(k) costs.
- Indirectly reduce its matching contributions by setting a default employee contribution rate below the level needed to obtain the maximum employer match. Participants could override the default and choose a higher saving rate; in practice, participants tend to stay where they are placed.
- Offset higher match costs by reducing wages or other non-401(k) benefits.
- Keep its compensation policies the same and simply allow total compensation costs to rise.

Auto-enrollment policies are still quite new and changes in design – such as more use of auto-escalation – could help solve the problems, the brief said.

© 2013 RIJ Publishing LLC. All rights reserved.