
The Journal Plays Gotcha! with EBRI

By Editor Test *Tue, Jul 12, 2011*

In a July 7 article, the Wall Street Journal reported that auto-enrollment in 401(k) plans has backfired, sticking some people at a lower contribution rate than they might have elected. In its desire for a man-bites-dog story, the Journal overreached.

Jack van der Hei, director of research at the Employee Benefits Research Institute awoke at 4 a.m. Thursday to find this headline on page one of *The Wall Street Journal*: “401(k) Law Suppresses Saving for Retirement.”

Van der Hei was chagrined, to say the least. His EBRI research had been the basis for the story, but the *Journal* reporter cherry-picked the most ironic nugget from his data and sensationalized it. Van der Hei quickly typed out a [retort](#), which he posted online and summarized in a subsequent e-mail blast.

The Journal, as far as I can tell, overreached in its determination to publish a man-bites-dog story.

The lead sentence read, “A 2006 law designed to boost employees’ retirement-savings is having the opposite effect for some people.” It argued that the practice of auto-enrolling new employees into 401(k) plans with a default contribution rate of just 3%—a practice enabled by the Pension Protection Act of 2006—has driven down the average contribution rate among 401(k) participants.

Auto-enrollees apparently tend to get “stuck” at their initial default contribution rate of 3%, which is less than half the average contribution rate of people who enroll voluntarily.

Now, simple arithmetic would tell you that an influx of participants with low contribution rates would drive down the average contribution rate. But, in the *Journal*’s view, this dilution of the overall contribution rates was an undesired and unintended consequence of the PPA and therefore ironic enough to deserve page-one play on a publication that was, before its purchase by Rupert Murdoch, almost above reproach.

There was some substance at the heart of the *Journal*’s story, I suppose. Among people who are auto-enrolled, some—40%, according to the *Journal*, which cited the EBRI as a source—would probably have enrolled on their own and would have started contributing more than 3%. But to say that those people are “stuck” at 3% for any reason other than their own inertia would seem to be a stretch.

My takeaway: a law can’t do everything for everyone. Auto-enrollment at 3% was always considered the most moderate way—neither too aggressive or too timid—to address the problem of low enrollment and savings rates among new hires.

The Journal’s takeaway: yet another well-intended government initiative backfires. I’d call it “gotcha” journalism. Which is how Jack van der Hei felt when he saw the headline. Here’s a quote from the e-mail blast he sent last Thursday:

The WSJ article reported only the most pessimistic set of assumptions from EBRI research and did not

cite any of the other 15 combinations of assumptions in the study, notes EBRI Research Director Jack VanDerhei. The WSJ also chose not to report any of the positive impacts of auto-enrollment 401(k)-type plans in the simulations that were done by EBRI.

“The headline of the article reports that auto-enrollment is reducing savings for some people. What it failed to mention is that it’s *increasing* savings for many more—especially the lowest-income 401(k) participants, VanDerhei said.

I wonder: If the default contribution rate were 7% under PPA and auto-enrollees balked at that level of garnishment and opted out of their plans, would the *Journal* have written the opposite story with an equal amount of indignation? Undoubtedly.

Not that auto-enrollment isn’t fair game for criticism. On the one hand it’s probably true that factors like altruism, paternalism, the desire to achieve economies of scale within the plan, and an interest in giving older employees the confidence to retire in a timely manner (the original purpose of corporate pensions) all foster corporate interest in auto-enrollment.

But, as I understand it, auto-enrollment is also driven by the need (among plan sponsors) to satisfy ERISA’s non-discrimination requirements and the desire (among asset managers) to maximize the flow of money into mutual funds. Rank-and-file employees tend to be cynical, and some of them probably ignore or avoid their 401(k) plans because they sense these unspoken motives and mistrust them.

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