Retirement Income
JOURNAL

The short goodbye… it's linked to retirement readiness

By Editorial Staff *Thu, Jul 14, 2016*

With mandatory retirement ages largely a relic of the past, a new whitepaper claims that a robust defined contribution plan, with auto-enrollment and auto-escalation features, can accomplish the same HR goal via retirement readiness.

Historically, corporations used pensions for "workforce management." A pension paid for itself, in theory, by incentivizing the departure of "dead wood" to make room for "fresh blood." In this fashion, firms molted, continuously shedding their superannuated personnel.

By now, most companies have switched from defined benefit pensions to defined contribution plans. But, while the DC model shifts the responsibility for saving for away from the employer, it doesn't solve the original problem: How to prepare older, venerable, long-tenured workers to retire on a timely, predictable schedule?

A new **whitepaper** from the Defined Contribution Institutional Investors Association (**DCIIA**), a trade group that advocates for the interests major retirement plan providers, urges more employers adopt auto-enrollment and auto-escalation procedures to help their employees save.

Even though it might take 20 to 40 years for a new auto-enrolled employee to reach retirement age—and even though high turnover rates, few new hires are likely to actually retire from a firm—DCIIA asserts that workforce management will be among the benefits of default programs.

Employers who use defaults this will see more enrollment, better economies of scale, more productive employees—and, ultimately, more employees who can afford to retire when the company wants to replace them, DCIIA claims. DCIIA's members have a stake in this: they benefit from growth in plan participation and in assets under management.

The whitepaper does a good job of explaining how plan sponsors might benefit from auto-escalation and auto-enrollment. Indirectly, it also reveals why senior managers might resist those default programs. For instance:

- Auto-enrollment and auto-escalation plans typically aren't free. They cost money to implement and maintain. Ongoing financial education may also require significant expense.
- If the employer matches part of each employee's contribution, or all of the contribution up to a certain percentage, higher enrollment and higher savings rates will require bigger contributions to more employees.

- Auto-enrollment without auto-escalation can actually depress contribution rates, because auto-enrolled employees tend to get stuck at the default contribution rate (typically 3%) while employees who enroll on their own tend to contribute more.

But it's worth adopting default programs, DCIAA argues, because:

- Auto features can improve Millennial employee engagement and satisfaction and potentially their workplace productivity and loyalty to their employer.
- Higher plan participation and/or contribution rates among non-highly compensated employees reduce the probability of the employer having to make unexpected qualified non-elective contributions (QNEC).
- Implementation of automatic features can increase DC plan participation and/or contribution rates among non-highly compensated employees, potentially reducing the need for a non-discrimination testing safe harbor.
- Make employees want to extend themselves to the degree that corporations need today: to be more flexible, concerned, and willing to go out of their way to help out.
- Productivity may improve when employees believe they will have retirement security.

The biggest impact of a more robust retirement plan, the report asserts, stems from the likelihood that it will enable older employees to look forward to retiring rather than cling to their jobs because they can't afford to retire. For instance:

- Allowing for the planned retirement of employees can create advancement and career diversification opportunities for others, which can help a company retain and attract a talented workforce.
- Facilitating the timely retirement of employees not only allows for improved succession but also provides more flexibility to implement career development programs.
- By making it easier for those approaching retirement to retire according to plan, a company creates the opportunity for talent to be continuously deployed optimally across the organization.
- This is likely to result in a more efficient operation and superior execution, and may well also serve to increase satisfaction among high-value employees, which in turn may decrease the probability of employee turnover. Delayed retirements may also reduce the employer's ability to hire new employees, reducing the flow of new ideas and talent into the organization.