APRIL 2020 | WWW.DCIIA.ORG

Defined Contribution Institutional Investment Association
RETIREMENT RESEARCH CENTER

Plan Sponsor Survey

Implementation of Auto Features Continues to Rise as Plans Recognize Benefits

Contributors

Warren Cormier, DCIIA Retirement Research Center

Catherine Collinson, Transamerica Institute

Josh Dietch, T. Rowe Price

DCIIA's 10th anniversary this year coincides with the fifth edition of this plan sponsor survey, which was first fielded in 2010 with 101 plan sponsors. The subject — plan sponsors' use of and attitudes toward automatic plan features — remains relevant today, even as the conversation has shifted over time. (All four of the previous surveys are available online in DCIIA's Resource Library.) These "auto" features include automatic enrollment, automatic escalation and re-enrollment in default investment funds known as qualified default investment alternatives (QDIAs).

The survey, conducted by DCIIA's Retirement Research Center (RRC), represents the views of 175 defined contribution (DC) plan sponsors and is based on year-end 2018 data. Fifty-seven percent of the respondents represent plans with assets greater than $200 million. The remaining 43% of respondents are plans with less than $200 million in assets. This year's report offers observations relative to prior survey findings, where applicable, and provides historical perspectives on how sponsor behaviors and attitudes towards auto features have developed over time.

Defined Contribution Institutional Investment Association (DCIIA)
2025 M Street, Suite 800, Washington DC 20036

EXECUTIVE SUMMARY

The findings of this survey provide insight into the continued development and current state of defined contribution (DC) plan sponsor adoption of automatic (auto) features, including to what degree plan sponsors have made these design features a priority for their plans and what they presently perceive as barriers to further implementation. The findings also identify the specific benefits that plan sponsors attribute to the adoption of auto features.

DCIIA's Retirement Research Center (RRC) has compared this 2019 data to the results of prior surveys to ascertain trends and offer historical perspective since the first was done in 2010. The most recent prior survey was conducted in 2016–2017 and published in December 2017.

The results of this year's survey illustrate how far plan sponsors have come in embracing, and retirement service providers have come in encouraging, the adoption of automatic plan design features, which have improved retirement security for millions of America's workers.

Key Terms Used In This Report[1]

Below are DCIIA's consensus definitions of certain auto features, which are referenced throughout this report.

Auto Enrollment: Automatically enrolling new hires into a qualified default investment alternative (QDIA) within the DC plan at a fixed contribution rate.

Auto Escalation: Automatically increasing participant contribution rates at regular intervals by a predetermined amount.

QDIA Re-Enrollment: Redirecting existing account balances and future participant contributions from existing investment allocations to a QDIA, unless participants opt out or make another election before assets are moved. Provided the plan sponsor has satisfied the safe harbor requirements, it will be provided relief under ERISA section 404(c) for investment outcomes related to the QDIA.

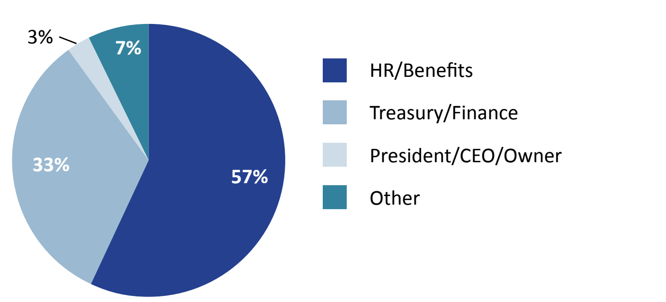
[1]These definitions can be found in the DCIIA publication, *Building a Common Language to Promote Adoption of Auto Features in DC Plans,* October 2016.

About the Survey

DCIIA's RRC fielded the survey in January 2019, soliciting plan sponsors who were identified using commercially available lists and DCIIA plan sponsor contact lists. A total of 175 plan sponsors responded to the survey. Across the entire sample, 57% of the respondents reported that they had human resources/benefits roles and approximately a third held treasury/finance roles. (See Exhibit 1.) The survey is representative of a broad array of industries, with no single industry dominating the results. The survey sample represents predominantly 401(k) plans (89%), with a small percentage being 403(b) and 457 plans.

Exhibit 1

Respondent Role



Of the 89% of respondents that provided their plan's asset level, two-thirds had more than $200 million in plan assets, while the other third had under $200 million. In this year's report, there are instances where results varied significantly (or are otherwise important) according to these asset size cohorts; in those cases, the two cohorts' data are reported separately.

KEY FINDINGS: ADOPTION OF AUTOMATIC FEATURES SURGES

Auto Enrollment

Auto enrollment saw growth in adoption, to 69% in 2019, up from 60% in 2016. Both asset-size cohorts' adoption rates increased. Almost three in four (73%) of plans with over $200 million in assets have now adopted the feature (up from 67% in 2016); and 63% of plans with less than $200 million in assets have now adopted it (up from 51% in 2016). The most common default (74%) is for all new hires to be enrolled. Periodic sweeps are only used by about 20% of plan sponsors, indicating it is a tactical remedy vs. a strategic tool.

Future adoption of auto enrollment may slow. Only 7% of plans currently not offering auto enrollment say they are "very likely" to do so in the next 12 months. Another 14% report that they're "somewhat likely" to add this feature.

There are several perceived barriers to offering auto enrollment. The most frequently cited barriers are a possible increase in record-keeping expenses; it appearing too paternalistic; it being deemed unnecessary, as participation is already high; costs being too great (due to the match required); and, lastly, concern over possible employee complaints.

Auto Escalation

Plans' adoption of auto escalation has also continued to grow rapidly and is approaching auto enrollment adoption levels. Presently, 69% of plans offer auto escalation, up from 50% from our prior survey. Larger plans (76% of them) are substantially more likely to offer auto escalation than smaller plans (55% of these do).

Six in ten plan sponsors offer auto escalation as a default option in conjunction with auto enrollment. The remaining third report that it is not a default option for their plans and must be elected by participants.

More than eight in ten plan sponsors have set a default deferral rate increase of 1%. This choice was reported to be driven by concerns related to: what participants will find palatable; a perceived reasonableness from a fiduciary standpoint; consultant recommendations; and it being the most common practice among plans.

Auto escalation may also be reaching its maximum adoption level. Only 7% of plans that don't offer it today say they are "very likely" to offer it in the next 12 months; furthermore, only 5% are "somewhat likely."

Reasons vary for not offering auto escalation. The two most often-cited reasons for not offering it are a concern that it's too paternalistic and not having considered/studied it carefully enough. Fear of participant backlash is also mentioned by plan sponsors, but this is not a leading barrier.

QDIA Re-enrollment

Adoption of QDIA re-enrollment remains limited. While this year's survey reports a modest increase, with 24% reporting having ever done a QDIA re-enrollment, up from 18% in the prior survey, periodic sweeps are only used by about 20% of plan sponsors, indicating it is viewed as a tactical remedy rather than as a strategic tool.

Plan sponsors cite a few reasons for not conducting a QDIA re-enrollment. The most common are: satisfaction with participants' current asset allocation; they are considering it in the future; and a perceived lack of benefits, combined with a perceived risk.

Closing Thoughts

Design matters. The majority of plans (two-thirds) offering auto features see a direct and attributable benefit to their plans' outcomes as a result. The most commonly cited benefit is having higher participation, followed by faster growth of assets in the plan, which can lead to reduced costs. Clearly, the use of auto features has had an impact on plans and plan participants' behavior. Plan sponsors' recognition of this has been the primary stimulus for the sustained practice and continued growth in adoption of these features.

The realized benefits of adopting auto features coincide with plan sponsors' primary plan objectives. In their survey responses, plan sponsors indicate that increasing savings rates and improving communications top their list of objectives for their plans. Implementing auto features is directly helping plan sponsors get the results they desire. In short, plan sponsors are adopting auto-feature practices because they recognize that they are working.

The extent to which plan design will improve outcomes can be enabled by well-designed safe harbors. The pattern of plan sponsor actions on auto features offers clear evidence of the role that a well- designed safe harbor and related sub-regulatory guidance can play in supporting constructive changes. These safe harbors have proven to provide the type of protection necessary to encourage plan sponsors to shoulder the burden of implementing change.

DETAILED FINDINGS

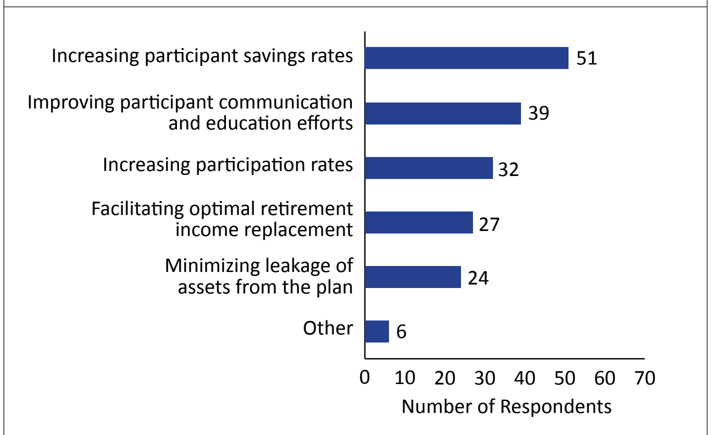
Plan Sponsor Priorities

In the 2019 survey, plan sponsors indicate that their top two objectives are to increase participant savings rates and improve participant communications and education. Additional top priorities are shown in Exhibit 2.

In 2016, the question was asked (and responses reported out) slightly differently, so direct numerical comparisons are not possible. However, at that time plan sponsors' top priorities were generally consistent, with increasing participant savings rates ranked highest, followed by improving participant communications and education and facilitating optimal retirement income replacement. Increasing participation rates was ranked fourth, respectively.

Exhibit 2

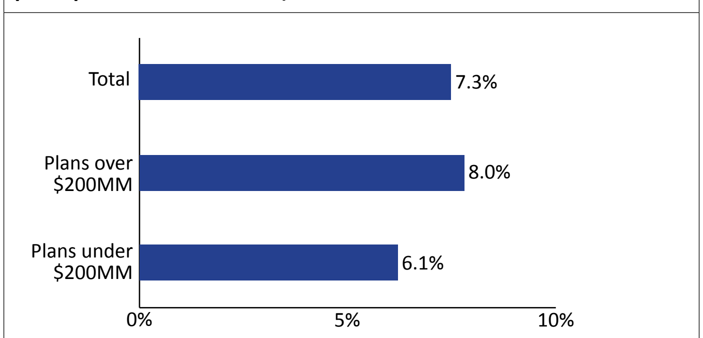
The two most important objectives of your plan right now



As seen in Exhibit 3, the average participant deferral rate is 7.3%, with larger plans having a higher average deferral rate than smaller plans.

Exhibit 3

Current average savings rate of plan participants (excluding any plan sponsor contributions)

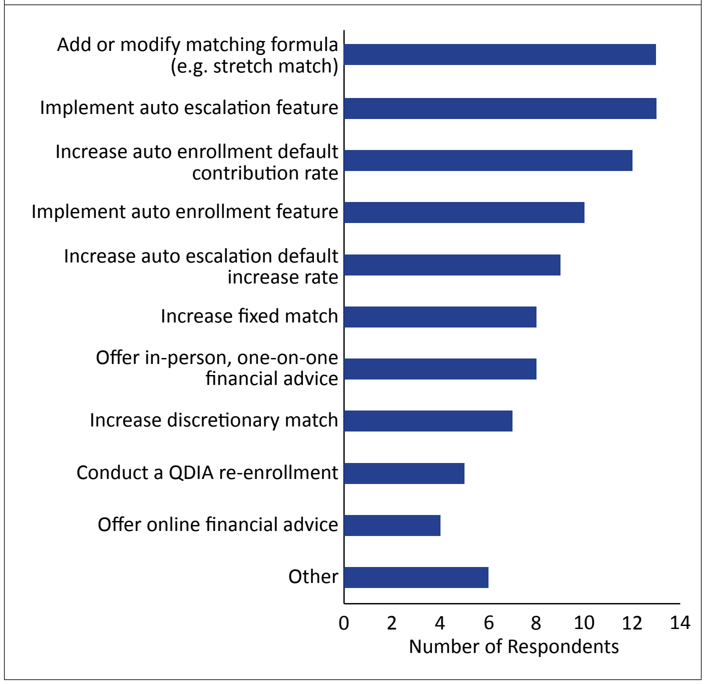


Possibly reflective of their plan's lower savings rates, plans under $200 million in assets are slightly more likely (52%) to believe they should take action to increase their plans' savings rate than plans with over $200 million in assets (at a somewhat lower 42%).

The most popular strategies reported for increasing savings rates include adding or modifying the matching formula and implementing auto escalation features. The broader set of strategies used most often by plan sponsors to increase savings rates are shown in Exhibit 4.

Exhibit 4

Which strategies are most often in the top two for increasing savings rates?



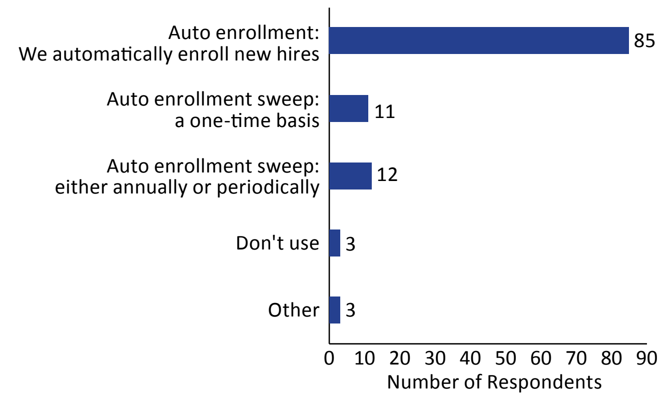
Four of the top five strategies relate to auto features with both auto enrollment and auto escalation cited, indicating that auto features are a key solution to success in improving savings rates.

Automatic Enrollment

Adoption of auto enrollment has continued to grow, with fully two-thirds of the plans included in this year's survey offering it (73% of large plans and 63% of smaller plans offer it). By far, the most common way of administering auto enrollment programs is standard auto enrollment. (See Exhibit 5.) Programs such as plan-wide QDIA re-enrollment, done either periodically or on a one-time basis, are less frequently used.

Exhibit 5

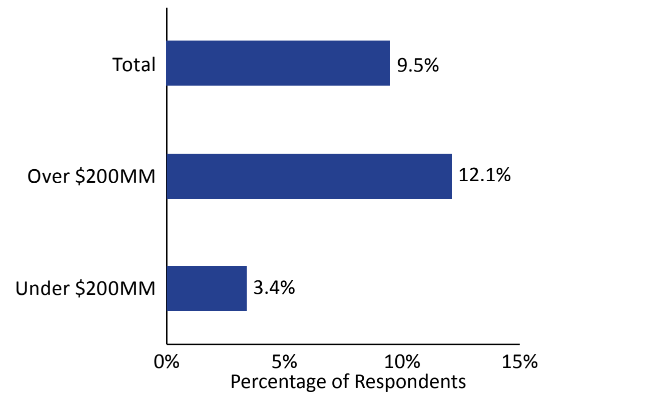
How do you administer auto enrollment?



With respect to possibly changing the structure of their auto enrollment feature, fewer than 10% of plan sponsors say they intend to do so. (See Exhibit 6.) Larger plans are much more likely (12.1%) than smaller plans (3.4%) to be contemplating such a change and the most frequently mentioned intended change is to increase the default contribution rate.

Exhibit 6

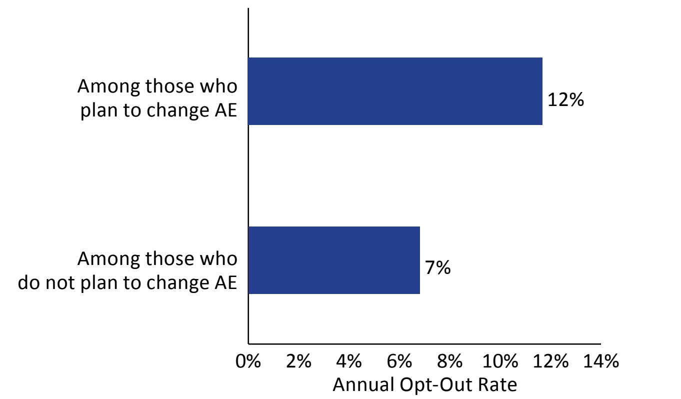
Plan to change structure of automatic enrollment program in the next 12 months



Currently the average annual opt-out rate for auto enrollment is approximately 7%. Clearly, as seen in Exhibit 7 those considering a change to their plans' auto enrollment have higher opt-out rates.

Exhibit 7

Average annual opt-out rate for auto enrollment (AE) under current arrangement



The growth of auto enrollment in the future may slow compared to the growth we have seen up to this point. Only 7% of plans that currently don't offer auto enrollment say they are "very likely" to do so in the next 12 months, while 14% say they're "somewhat likely" to add this feature. The perceived barriers to offering auto enrollment are numerous, with the most frequently cited ones being:

- increased recordkeeping expenses;
- too paternalistic;
- unnecessary, as participation is already high;
- too costly due to increased cost of employer match; and
- concern over possible employee complaints.

In the "Other" category, responses included: the plan is a union-negotiated benefit; prohibited by state law; and legislative mandate would be required. Eight of the 14 plans noting responses in this category were government plans.

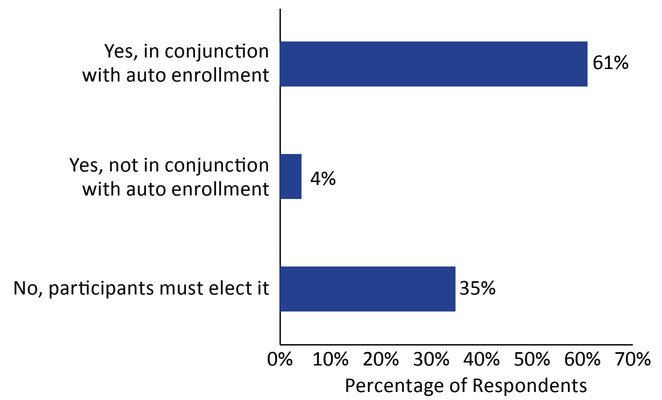
Automatic Escalation

Adoption of auto escalation continues to grow rapidly. Presently, 69% of plans offer auto escalation; this is up from 42% in 2016. Larger plans are substantially more likely to offer auto escalation than smaller plans.

There are two methods for offering auto escalation: as a default where participants must opt-out if they do not want to be escalated; and as an opt-in feature where participants must actively elect to be escalated. Today, six in ten plan sponsors offer auto escalation as an opt-out feature in conjunction with auto enrollment. (Exhibit 8.) However, another third say it is an opt-in feature for their plans and must be elected by participants.

Exhibit 8

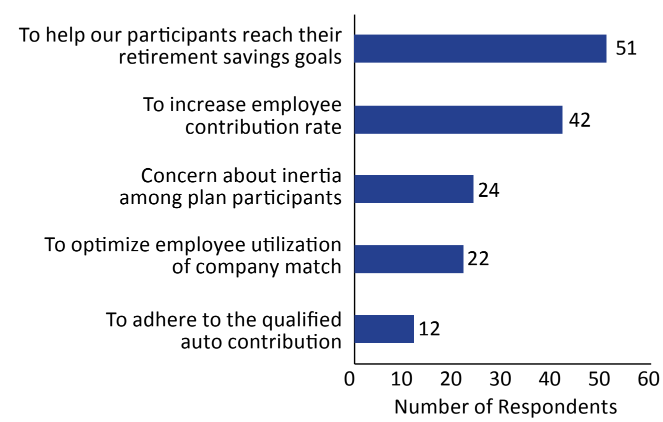
Offer auto escalation as a default option?



As seen in Exhibit 9, those plan sponsors whose plans have implemented auto escalation as an opt-out feature say they did so to help participants reach their retirement savings goals and to increase employee contribution rates. Less frequently cited reasons are concern about inertia among plan participants and optimizing employee utilization of the company match.

Exhibit 9

Reasons for implementing auto escalation as a default

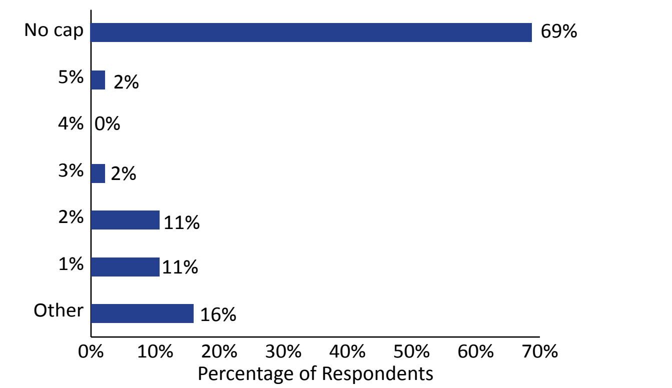


Looking at the amount of contribution rate escalation, eight in 10 plan sponsors that offer auto escalation as an opt-out feature do so at 1%. This has held steady over the last several DCIIA surveys. When asked why they chose their rate increase, plan sponsors are most likely to respond: that they deemed it to be palatable to participants (they will not opt out); reasonable from a fiduciary standpoint; comes with consultant recommendations; or it is the most common practice among plans.

Additionally, as shown in Exhibit 10, almost seven in ten plan sponsors offering auto escalation, regardless of how it is implemented, say there is no cap on how much participants can elect to escalate their contributions.

Exhibit 10

The maximum participants can elect to escalate their contributions on an annual basis



The triggers for auto escalation are pay raises, calendar year-end, and worker anniversaries.

Barriers cited to offering auto escalation as a default option include: concerns it is too paternalistic; potential employee complaints; being too costly; and being unnecessary, due to already sufficient deferral rates.

Among those that use opt-in auto escalation, when asked what they would need to implement auto escalation on an opt-out basis, plan sponsors' most common response was, "Nothing would induce implementation." Specific required changes mentioned would be their investment committee's buy-in and clear best practices for implementation. The likelihood of converting auto escalation from opt-in to opt-out in the next 12 months is very low, as none of the respondents said they were" very likely" to offer it and 75% said it was "very unlikely" they will offer it.

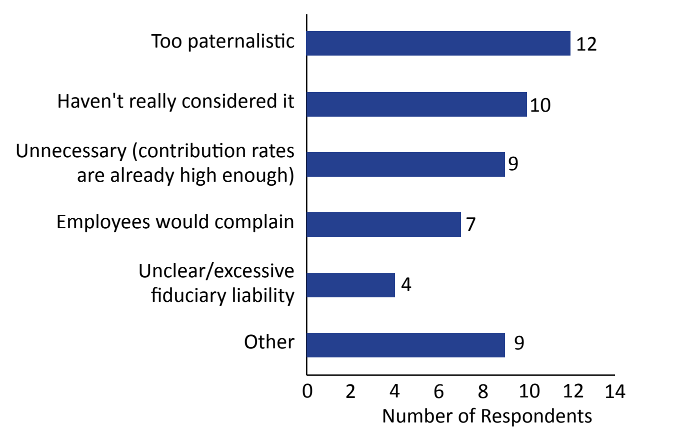
The structure of existing auto-escalation plans is highly stable. Few plans (6%) will implement changes to their auto escalation program in the next 12 months. The average annual opt-out rate for auto escalation has been 13%. Plans with under $200 million in assets report a higher opt-out rate than plans with over $200 million in assets.

The future growth of the adoption of auto escalation may lag behind the growth we have seen up to now: Of plans that do not offer it today, 51% are very unlikely to offer it in the next 12 months, only 7% of plans say they are "very likely" to offer it, and only 5% are "somewhat likely."

Among the 31% of plan sponsors that do not offer any kind of auto escalation, the two reasons plan sponsors most often cite for not offering it are: concern that it's too paternalistic; and, not having considered/studied it carefully (Exhibit 11). Some also say that it is unnecessary as contribution rates are already high enough. In addition, there is a fear of complaints from employees.

Exhibit 11

Reasons for not offering auto-escalation



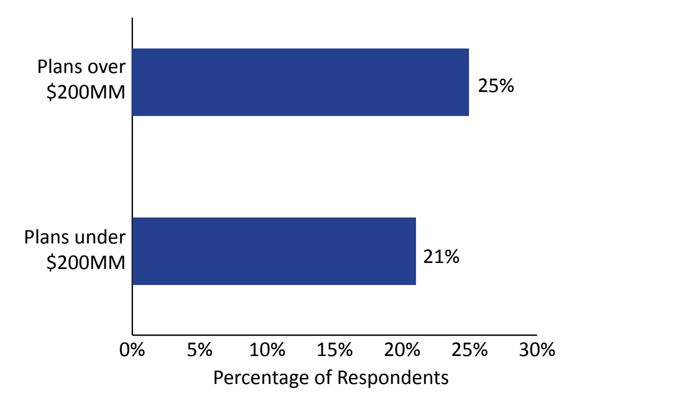
In order to induce plan sponsors to implement auto escalation, they will need a clear picture of its risks and unintended consequences, as well as examples of best implementation practices and the buy-in of the investment committee. However, for some plan sponsors, it appears that there is nothing that would induce them to implement this auto feature.

QDIA Re-Enrollment

Overall, 24% of the survey respondents reported ever having done a QDIA reenrollment. (Percentages broken out by plan size are illustrated in Exhibit 12.) While this is a modest increase from the prior survey, when just 18% of respondents had noted doing a QDIA re-enrollment, overall this is one area that has not experienced significant acceptance.

Exhibit 12

Plans that have ever done a QDIA re-enrollment



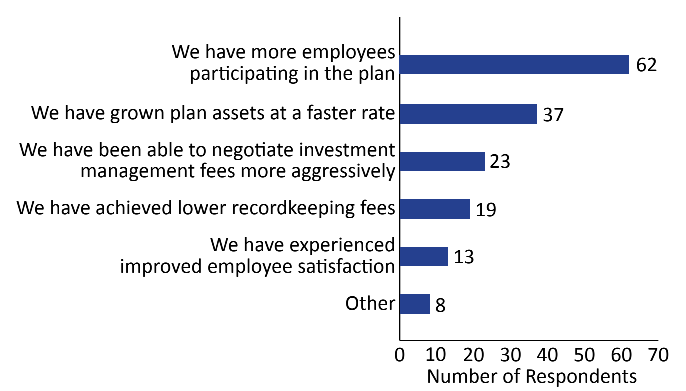
Plan sponsors report that their most common reasons for not conducting a QDIA re-enrollment are: satisfaction with participants' current asset allocation; never having completed a re-enrollment, although they are considering it for the future; and lack of perceived benefits and a perceived risk.

Perceived Benefits of Automatic Plan Features

Just greater than two-thirds (68%) of plans that offer auto features say they see a direct benefit to their firm from having done so – 77% of larger plans and only 49% of smaller plans see a benefit. The most commonly cited benefit of using auto features is higher plan participation. The second most-cited benefit is faster growth of assets in the plan, which has allowed plan sponsors to maintain or negotiate lower fees for investment management and recordkeeping fees (see Exhibit 13).

Exhibit 13

Results of using auto features in DC plans



When asked about the next big opportunity for development related to auto features, plan sponsors offered a wide variety of possibilities, including:

- Addressing longevity risk with auto features (buying annuities)
- Increasing escalation amount and/or removing the escalation cap
- Auto after-tax in-plan Roth conversions
- Increasing contribution percentage for auto enrollment
- Dynamic QDIA or defaulting into a retirement tier
- Re-enrolling opt-outs on a regular basis
- Automated payout options
- Auto-rebalancing – allowing participants to set their own investment options and automatically rebalance to those targets on a quarterly or annual period
- Retirement-income calculations
- Participants that have been auto enrolled tend to be less engaged with the plan and therefore may need more outreach and education about investments and the plan's features
- Auto rewards (such as extra company contribution or lower fees) for not dipping into accounts for loans or early distributions.

CONCLUSION

A significant percentage of plan sponsors have embraced the use of automatic plan design features. However, adoption may have plateaued to some degree, with only 7% of plans currently not offering automatic enrollment and/or auto escalation saying they are "very likely" to do so in the next 12 months. Benefits cited by plans with auto features include higher participation and faster growth of assets in the plan, which can lead to reduced costs.

The realized benefits of adopting auto features coincide with plan sponsors' primary plan objectives, including increasing savings rates and improving communications. In short, plan sponsors are adopting auto-feature practices because they recognize that they are working.

One area of potential future growth could be in the adoption of QDIA re-enrollment, which remains limited. While this year's survey reports a modest increase, with 24% reporting having ever done a QDIA re-enrollment, up from 18% in the prior survey, periodic sweeps are only used by about 20% of plan sponsors.

Industry organizations and service providers should work together with plan sponsors to continue to address perceived barriers to offering auto features, including:

- Concerns about an increase in record-keeping expenses;
- Concerns that costs would increase due to company match required;
- Perceptions that auto features are too paternalistic;
- Lack of considering/studying auto features carefully;
- Lack of perceived need as participation is already high;
- Concerns over possible employee complaints.

The pattern of plan sponsor actions on auto features offers clear evidence of the role that a well- designed safe harbor and related sub-regulatory guidance can play in supporting constructive changes. These safe harbors have proven to provide the type of protection necessary to encourage plan sponsors to shoulder the burden of implementing change.

For Further Reading

Visit the DCIIA Resource Library to access plan sponsor surveys, white papers on plan design and automatic features, and more. Go to **www.dciia.org/Resources/Resource Library**.

ABOUT THE DCIIA RRC

DCIIA's Retirement Research Center conducts rigorous, industry-informed research that is grounded in a practical approach focused on actionable insights. We adhere to a disciplined research methodology, governance and validation process. Our goal is to serve the industry as a reliable, unbiased, and authoritative research resource supporting improved retirement security—be it through plan design, institutional practices, investment solutions, or behavioral interventions.

ABOUT DCIIA

Founded in 2010, the Defined Contribution Institutional Investment Association (DCIIA) is a non-profit association dedicated to enhancing the retirement security of America's workers. To do this, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, record keepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: **www.dciia.org**.

Defined Contribution Institutional Investment Association
RETIREMENT RESEARCH CENTER

0009_2020_7