



Advisor Connect | Automatic Enrollment and Automatic Escalation

MAKING IT ACTIONABLE

As a retirement plan advisor, you know that saving for retirement requires starting early in life and saving at a high enough rate to generate sufficient income to experience retirement on your terms.

Workplace retirement plans often serve as an individual's primary savings vehicle and greatly benefit those who participate. But that's also part of the problem: only those most committed to saving for their retirement voluntarily join. A meaningful percentage of employees with access to company-sponsored plans don't enroll.

We recommend introducing clients to automatic enrollment and automatic escalation, key plan features in driving positive retirement outcomes for plan participants. However, clients may not know much about these options or how to effectively implement them. That's where you come in.

Here are five actions to take to help your clients evolve their retirement plans to include automatic enrollment and automatic escalation:

- 1 | Make the case**
Participation rates reach 91% for plans offering auto-enrollment vs. just 42% for those that don't. Also, a higher percentage of auto-enrolled participants remain in the plan long term.* Citing research studies is often the quickest way to get a client's eyes to glaze over. But this research is too overwhelming to ignore. Your clients will likely appreciate the value to their employees, but take it a step farther and explain how higher participation rates will make it easier for them to pass plan discrimination tests.
- 2 | Optimize automatic features for long term success**
Automatic enrollment is a great start, but it's only a start. The typical starting contribution rate is just 3%. While this will help participants get in the habit of saving for their retirement, it's not high enough for most to reach their retirement goals. Encourage clients to set default savings



Advisor Connect | Automatic Enrollment and Automatic Escalation

rates as high as 6%, a number high enough to result in real savings without negatively affecting plan participation. **Suggesting an automatic escalation feature that increases the deferral rate by 1% annually will be nearly imperceptible to most workers but has the potential to generate significantly more in retirement savings.**

3 | Sweep up those left behind
New employees who auto-enroll will immediately reap the benefits of saving for their retirement. But what about those who opted out of enrollment when they first joined the company or started employment after automatic enrollment was implemented? **Creating an annual sweep that auto-enrolls existing employees who may have previously opted out will ensure that plan participation grows while fewer employees get left behind on their path to retirement.**

4 | Evaluate and segment clients
Based on what you know about your clients and prospects, segment them into three groups: prime candidates to offer automatic enrollment and automatic escalation; possible candidates who should be made aware of these options; and others who should consider a different path. While automatic features have a definitive benefit for plan participants, the features won't be right for all plans. For example, a client whose business has high employee turnover (retail, restaurant, etc.) may experience more cost than benefit from automatic features. Payroll realities and employee stability are important considerations.

5 | Don't be complacent
Once an initial decision has been made on offering automatic enrollment and automatic escalation, the discussion shouldn't end. Continue to evaluate their plan and suggest changes as their business changes. In the end, everyone wins.

Showcasing the benefits of automatic enrollment and automatic escalation features can highlight your commitment to being a real partner to your clients. Give us a call to talk about how we can help.

*https://pressroom.vanguard.com/content/nonindexed/Automatic_enrollment_power_of_default_1.15.2015.pdf