

CASE STUDY

Strategies for Improving Plan Health

Situation

Cherry Central Cooperative, Inc. was concerned about the health of their EE's PS & Investment Plan.

On April 1, 2022, the Plan had low utilization and minimal contributions, resulting in a participation rate of only 30% and an average deferral rate of 2%. The client wanted more engagement!

Solution

Sentinel challenged this client to think differently and asked "What's next?" for the Plan. After working in collaboration with their outside advisor, Sentinel proposed significant changes to plan design and leveraging "defaults" in an effort to increase the overall health of the retirement plan.

The Plan was altered to include the use of automatic features and re-enrollment. Switching from a non-elective safe harbor to a safe harbor match created an incentive for employees to participate.

Effective May 1, 2022, the 3% non-elective safe harbor provision was replaced with a safe-harbor matching formula and paired with a qualified automatic enrollment provision (QACA). This provision featured a default rate of 3% and annual 1% escalations to 6%.

Outcome

Today, the Plan has a participation rate of 75% and an average deferral rate over 3%, which will continue to increase annually because of the escalation provision.

75% of employees are now saving for retirement as opposed to 30% earlier in the year. In addition, with a 33% annual turnover rate, adding the QACA has recouped thousands of dollars annually in forfeitures that weren't available with a Safe Harbor Non-Elective provision.

Why Automatic Enrollment Works

Automatic Enrollment uses defaults, a prescribed outcome that happens if a participant takes no specific action. Defaults are powerful because they operate on three behavioral principals:

The 3 E's.

1. **EASY:** They can move through the decision with reduced friction.
2. **Endowment:** Defaults endow users with a status quo they have to actively choose to exchange for another option, which we are reluctant to do.
3. **Endorsement:** Defaults provide an implicit endorsement. This is the Endorsement Effect.

Fast Facts

- ✓ **Client:** Fruit grower, exporter and producer of specialty foods
- ✓ **Plan Type:** 401(k)
- ✓ **Plan Assets:** \$16M
- ✓ **Plan Participants:** 275

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