

Normalizing retirement savings habits

For far too long, reaching an adequate replacement retirement income has been the exception rather than the norm for America's workforce. Discover how auto features could transform your plan's effectiveness and help improve participant outcomes.



More than three-quarters of U.S. employees (77%) say they have been concerned about their financial well-being since the COVID-19 outbreak¹ and 82% will rely on their workplace retirement plan as a primary income source in their post-working years. That is, if they can get there — four in five employees expect to continue working for pay after “retiring.”²

In addition, many simply can't afford to retire; the median household retirement savings is just \$50,000.³ That's nowhere near the 60-80% replacement income financial experts say most people need to maintain their pre-retirement standard of living.

What does all this say about retirement readiness in America? More importantly, what does it indicate about the effectiveness of workplace retirement plans?

The data above demonstrates that for too long and for many Americans, reaching a successful replacement retirement income has been the exception, not the norm. So, it stands to reason that employers must reimagine the function of their company's retirement plan to help “normalize” saving for the future.

Employers should evaluate their plan's value through the lens of helping more employees retire on time and with

dignity. That means getting employees to recognize that saving for retirement isn't “optional” if they want to stop working someday. It also means providing them with the right tools to help them save enough to replace their income throughout retirement.

The case for automatic features

How can employers more effectively help employees build adequate retirement savings? It isn't complicated.

Employers have a ready-made tool that vastly simplifies retirement savings: automatic plan design features. These include auto enrollment, auto escalation and auto-diversification through qualified default investments, such as target date funds.

Auto features have become a best practice in retirement plan design to help improve employee participation and savings rates.

In fact, two-thirds (67%) of employers who have adopted auto features have experienced a direct benefit to plan outcomes.⁴

Is it better for employers to use auto features to help employees make sound financial decisions for the future? The short answer is yes. Let us show you how.

Help Your Employees Start

With automatic enrollment, employees are enrolled into the plan without needing to take any action — unless they opt out. One benefit of automatic enrollment is it drives higher participation rates; in fact, plans with this feature have an average participation rate of 87%.⁵

In most cases, employees are enrolled at a default deferral rate of between 3-6%⁶, and their contributions are directed to a diversified qualified default investment alternative, such as a target date fund.

Help them save more

Employers can also use auto escalation to help improve employees' savings rates over time. While automatic enrollment improves savings rates, adding auto escalation boosts the impact.

In plans with neither automatic enrollment nor auto escalation, only 44% have savings rates above 10% (including both employee deferrals and employer matching contributions). In plans that implement automatic enrollment only, the percentage of participants with savings rates above 10% increases to 67%. However, where plan sponsors implemented both automatic enrollment and auto escalation, that percentage rises to 70%.⁷

Help them diversify

Finally, auto-diversification rounds out the auto feature trifecta. Often, this looks like automatically investing participant contributions into a Qualified Default Investment Alternative (QDIA) like a Target Date Fund (TDF) or managed account.

This typically occurs when a participant has not made an investment election on their own. Automatically directing contributions to a target date fund or similar investment

that is diversified for a participants' age and stage of life enables them to invest for retirement, even though they haven't actively selected their own investments.

Most TDFs also have an automatic rebalancing feature, so the participant's portfolio remains properly invested based on their anticipated retirement date.

Plan effectiveness is measured by outcomes

Automatic features are a helpful plan design tool for plan sponsors. However, it's important for employers to evaluate their plan's effectiveness based on retirement readiness because outcomes are what truly matter.

Once auto features are in place, employers should also pay careful attention to plan health metrics, such as projected monthly income (PMI), an illustration of a participant's estimated monthly income stream in retirement based on their current savings. Participants with low PMIs may be at greater risk of not adequately replacing their income in retirement.

The income replacement ratio (IRR), provides a glimpse of retirement readiness based on a specific income replacement percentage using current and projected savings. Participants with low IRRs may be at greater risk of running out of money in retirement.

Understanding these metrics and the positive impact of auto features can help you intelligently architect your plan to "normalize" retirement savings and help your employees work towards achieving their retirement goals.

¹ [National Endowment for Financial Education \(NEFE\)/Harris Poll Survey](#). April 2020

² Employee Benefit Research Institute (EBRI). "[2019 Retirement Confidence Survey](#)." April 2019

³ Transamerica Center for Retirement Studies. "[19th Annual Transamerica Retirement Survey: A Compendium of Findings About U.S. Workers](#)." December 2019

⁴ [DCIIA. Plan Sponsor Survey, 5th edition](#). April 2020

⁵ [Alight. 2020 Universe Benchmarks Report](#). June 2020

⁶ Correia, Margarida. "[PSCA: 401\(k\) participants hike deferral rates again](#)." Pensions & Investments. Dec. 18, 2019

⁷ "[DCIIA Fourth Biennial Plan Sponsor Survey "Auto Features Continue to Grow in Popularity"](#)." December 2017

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