Employer Responsibilities and Plan Design

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Employer Responsibility to Be Limited

• 100012(a)(3) “With simplicity, *ease of administration* for participating employers, and portability of benefits.”

• 100034 (b) “An employer shall not bear responsibility for the *administration*, investment, or investment performance of the program. An employer shall not be liable with regard to investment returns, program design, and benefits paid to program participants.”
But can’t be avoided

• Employer responsibilities:
  – Distribute enrollment materials
  – Initial opt-out (or “active choice”) / change of withholding elections
  – Open enrollment / re-enrollment windows
  – Withholding (and forwarding) employee contributions
    • Auto-escalation
  – Withdrawal forms – provide or advise employees / former employees who to contact
Automatic Enrollment

• Increases % saving for retirement*
  – Vanguard found participation rates for new hires making less than $30,000 were 87% with auto-enrollment and only 22% for voluntary enrollment.
  – For $30,000-$49,999 the rates were 90% and 41% respectively.

• Opt-outs increased from 11% to 19% for workers earning less than $30,000 per year when initial rate increased from 3% to 6%.

• Without automatic escalation, a substantial portion of workers will not increase their contribution rate.

*Clark, Utkus, and Young, 2015. “Automatic enrollment: The power of the default” Vanguard Research.
Simple Design

• Automatically enroll new employees at 6% of pay
  – Opportunity to opt-out or contribute a different % or dollar amount
• For those contributing less than 6%, auto-enroll at 6% in even-numbered years
• No auto-escalation

Note: 6% is an example, not a recommendation
Simple Design

• Pros:
  – Minimizes opportunity for employer error
    • Most contributing at the same rate, and once correct rate is in the system, low maintenance
  – Easy to remind employers and employees of re-enrollment period.
  – Employees moving from one covered employer to another will have no disruption in contribution rate

• Concerns:
  – Initial contribution rate becomes more critical than if there was auto-escalation
Auto-escalation Design 1

• Automatically enroll new employees at 3% of pay
  – Opportunity to opt-out or contribute __% or $____

• Default auto-escalation (with opt-out)
  – Contribution rate increases 1% per year on anniversary of employment

• If a new employee contributed to the plan through a previous employer, auto-enroll at the greater of their last contribution rate or 3%.

• For those contributing less than 3%, periodically auto-enroll at 3%
Auto-escalation Design 1

• Pros:
  – Employees can start contributing at a modest rate, but most will end up with a more substantial rate of savings

• Concerns:
  – More time consuming for the employer
  – More to track means more opportunities for error
    • Easy to forget to increase contributions on anniversary date, or increase for someone who opted out
    • Easy to forget to check on past covered employment/contribution rates
    • Variety of contribution rates so harder to spot errors
Auto-escalation Design 2

• Automatically enroll new employees at 3% of pay
  – Opportunity to opt-out or contribute ___%
• Default auto-escalation (with opt-out)
  – Contribution rate increases 1% per year on anniversary of employment January 1 if employed on the previous July 1.
• If a new employee contributed to the plan through a previous employer, auto-enroll at the greater of their last contribution rate or 3%.
• For those contributing less than 3%, periodically auto-enroll at 3%
Auto-escalation Design 2

• Pros:
  – Employees can start contributing at a modest rate, but most will end up with a more substantial rate of savings
• Concerns:
  – More time consuming for the employer, but increases limited to once per year.
  – More to track means more opportunities for error
    • Easy to forget to increase contributions on anniversary date, or increase for someone who opted out.
    • Easy to forget to check on past covered employment/contribution rates
  • Variety of contribution rates so harder to spot errors
  – Employees who switch jobs likely to have reduced contribution rate
Auto-escalation Design 3

• Initial auto-escalation *for program as a whole*
  – For example, program opens in 2017. Auto-enroll at 3% with 1% increases to begin January 1, 2019.
  – January 1, 2019, rate goes to 4% for new and existing auto-enrollees,
  – January 1, 2020 rate goes to 5% for new and existing auto-enrollees,
  – and so on until the ultimate rate is reached for the plan as a whole.
Auto-escalation Design 3

• Pros:
  – Less initial contribution withholding shock for the thousands of employees initially enrolled in the program
  – Upcoming increases can be easily communicated to employers and employees
  – Employees moving from one employer to another will continue on the upward contribution path

• Cons:
  – Too high an initial rate after phase-in could affect take-up.
Balancing Act?

• Contribution goals:
  – What is your rate of contribution target?
  – After the plan has been in effect for x years, would it be reasonable/effective to enroll newly cover employees at that rate?
  – How will you get there?
    • Fixed auto-enroll/ active enroll rate?
    • With auto-escalation?
      – Individual level
      – Plan level
Balancing Act?

• Employer’s involvement:
  – The more frequently an employer has to review contribution rates, increase contribution rates, or re-enroll opt-out employees, the more opportunity there is to miss something or someone.

• Simpler is better:
  – Less opportunity for error means more satisfaction for employers and employees.