DCIIA Fourth Biennial Plan Sponsor Survey

Auto Features Continue to Grow in Popularity

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EXECUTIVE SUMMARY

The Defined Contribution Institutional Investment Association (DCIIA) is pleased to share the results of its fourth biennial survey of plan sponsors' use-of and attitudes-toward automatic plan features, or "auto features," including automatic enrollment, automatic escalation and re-enrollment in default investment funds known as Qualified Default Investment Alternatives (QDIAs). The survey represents the views of 194 defined contribution (DC) plan sponsors. Sixty-two percent of respondents are larger plan sponsors, defined as plans with assets over $200 million, and the remaining 38% are smaller plan sponsors, defined as plans with $200 million in assets or less.

The findings of this most recent survey provide insight into the current state of adoption of auto features, including: to what degree plan sponsors have made these design features priorities; sponsors' opinions on current and ideal savings rates; and perceived barriers to further implementation. DCIIA also compares 2016 data to results from prior surveys to establish trends and offer historical perspective. The results illustrate how far plan sponsors have come in embracing, and retirement service providers have come in encouraging, the adoption of automatic plan design features that could improve retirement security for millions of Americans. They also indicate, however, that much work is still to be done.

To that end, DCIIA has tapped the know-how and expertise of its members, asking them to identify future steps that both plan sponsors and retirement service providers can take to ensure that DC plans will reach their full potential for providing meaningful retirement security that all Americans deserve.

Key Terms

Below are DCIIA's consensus definitions of certain auto features[1], which are referenced throughout the paper:

Auto* Feature	Definition
Auto Enrollment	Automatically enrolling new hires into a QDIA within the DC plan, at a fixed contribution rate.
Auto Escalation	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.

**Please note that the terms "auto" and "automatic" may be used interchangeably.*

[1]DCIIA, "*Building a Common Language to Promote Adoption of Auto Features in DC Plans*," October 2016.

KEY FINDINGS

Adoption and Implementation of Automatic Features

- **Over 60% of all plans have implemented auto enrollment, but the majority of those are larger plans.** Two-thirds of larger plans (over $200 million) have already implemented the feature, compared to only 51% of smaller plans (under $200 million). Future growth in the adoption of auto enrollment will therefore likely come from smaller plans.
- **Once auto enrollment has been implemented, it is overwhelmingly used as a default.** Ninety-three percent of plan sponsors surveyed who have implemented auto enrollment do so with all new hires. Periodic auto enrollment sweeps, though used, are seen by most plan sponsors as a tactical remedy rather than as a strategic tool to improve plan performance.
- **In what is clearly good news, default savings rates for auto enrollment are increasing.** In 2010, 55% of the plan sponsors surveyed had set 3% as the default contribution rate. In 2016, the percentage who reported that they set the default rate at 3% has fallen to 32%. The percentage who set the default rate higher—at 6%—has risen from 9% to 28% over that same period.
- **Though less common, the use of auto escalation is also growing.** Half of the plan sponsors surveyed have implemented auto escalation. Furthermore, half of those plans have adopted it as a default, rather than as a participant-elected feature. Again, larger plans have proven more likely to adopt the auto feature than smaller plans (58% versus 40%, respectively). Only 8% of plan sponsors who do not offer auto escalation say they intend to do so within the coming 12 months; however a weighted comparison of the 2014 and 2016 survey results suggests that adoption of auto escalation by both larger and smaller plans is growing steadily (12% and 11% growth, respectively) period over period.
- **The default annual contribution escalation rate remains steady, at 1%.** Plan sponsors state that their choice of 1% is rooted in their belief that it is a percentage that "appears palatable to participants." They do not select it to achieve a specific strategic objective over a defined period.
- **The adoption of auto enrollment and auto escalation, combined with recordkeeper turnover, may have contributed to the low use and perhaps appeal of QDIA re-enrollments.** Less than 20% of plan sponsors stated that they have conducted a QDIA re-enrollment, and very few intend to do so. Furthermore, when listing their priorities for improving their plans' performance, improving asset allocation is a very distant one, compared to more strategic priorities, such as increasing savings and participation rates. This may suggest that the combined effects of increased adoption of auto enrollment, employee turnover, and recordkeeper changes under which mapping conversions often occur may obviate the need, perceived and actual, for QDIA re-enrollments over time.

Impact of Auto Features Implementation

- **Without question, auto enrollment improves plan participation.** Prior to the implementation of auto enrollment, only 11% of plans had participation rates over 90%. Post-implementation, the percentage of plans whose participation exceeded 90% increased more than fourfold to 46%.
- **Auto enrollment improves savings rates, and adding auto escalation clearly creates the most impact.** When plan sponsors have implemented neither auto enrollment nor auto escalation, only 44% of their plans have savings rates above 10%, inclusive of both employee deferrals and employer match. However, the percentage with savings rates above 10% rises to 67% when sponsors have implemented auto enrollment only. The percentage rises even further—to 70%—for those plans whose sponsors have implemented both auto enrollment and auto escalation. Moreover, the percentage may reasonably be expected to increase over time as more plans adopt these auto features and, since by their very nature the features become more impactful over time.
- **Plan sponsors' fears of plan participant complaints about the use of default elections have proven unwarranted.** In fact, the opt-out rates for both auto enrollment and auto escalation are de minimus. This suggests that even if employees are initially concerned about the implementation of these plan design features, they generally do not act (i.e., opt-out).

Barriers to Further Adoption of Auto Features

- **Some sponsors are not convinced that their plans have a problem auto features can fix.** Accepting that there is a problem is the first step to finding a solution. Though smaller plan sponsors represent the group with the greatest potential for growth of adoption of auto enrollment, slightly more than half do not think it is necessary, despite having lower savings rates than larger plans that have adopted auto enrollment.
- **Cost concerns are common to all plans that have not implemented auto enrollment and/or auto escalation.** Though plan sponsor concern is greater regarding auto enrollment than auto escalation (45% versus 26%, respectively), the thought of the increasing expense associated with auto enrollment, in the form of company-matching contributions, likely tempers enthusiasm.
- **Poor optics, philosophical beliefs and, very likely, a lack of awareness also may contribute to plan sponsors' reluctance to adopt these features.** Beyond not believing there is a problem, or having cost concerns, there are a variety of other reasons plan sponsors cite for not adopting automatic features. This range of objections suggests that, instead of focusing on one plan sponsor concern to be overcome, arguments for adoption are likely to be more effective if they directly address a specific concern.

In conclusion, DCIIA's 2016 Plan Sponsor Survey illustrates the progress that both plan sponsors and retirement services providers have made in driving greater adoption of impactful automatic plan design features. Moreover, the adoption of auto features is clearly aligned with plan sponsors' top priorities of increasing both employee participation and savings rates. However, the data also suggests that future adoption of automatic features may depend on identifying and overcoming the barriers to action. To that end, DCIIA expects that the findings of this most recent survey can provide insights for service providers, helping them to further educate plan sponsors and inform policymakers (who could implement regulation that clears a path for more plan sponsors to implement auto features). Only then will the full potential of DC plans be met, and will plan participants achieve the retirement security they deserve.

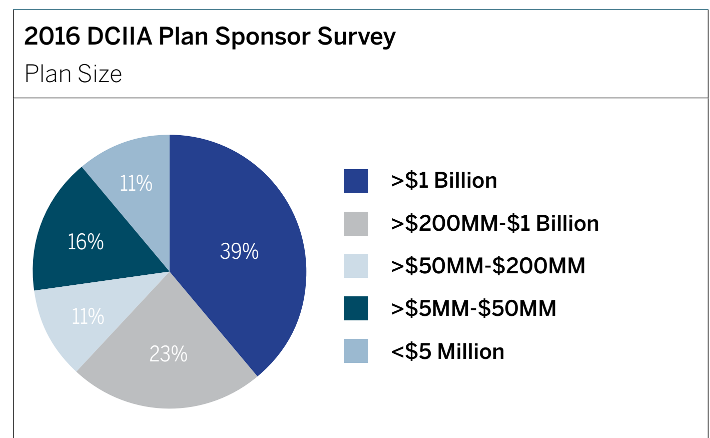
ABOUT THE SURVEY

This survey was fielded in the late Fall of 2016 through early 2017, and the plan sponsors solicited were identified using commercially available lists, as well as through partnerships with select recordkeepers and advisory firms. In all, 194 plan sponsors responded.

This survey is representative of a broad array of industries, with no single industry representing more than 20% of the respondents. In addition, 40% of the plan sponsors surveyed work in a finance or treasury function, and another 44% work in a human resources or benefits function within their respective organizations. The survey predominantly looks at 401(k) plans but also includes some 457, 403(b) and 401(a) plans. The breakdown of the plan size of the respondents is shown in **Exhibit 1**. Because this is a two-year study, the number of responses tend to fluctuate period over period. Accordingly, when period over period comparisons are made, the data is weighted. When the data is solely representative of 2016 results, the data is not weighted.

Exhibit 1

2016 DCIIA Plan Sponsor Survey
Plan Size



ADDITIONAL FINDINGS

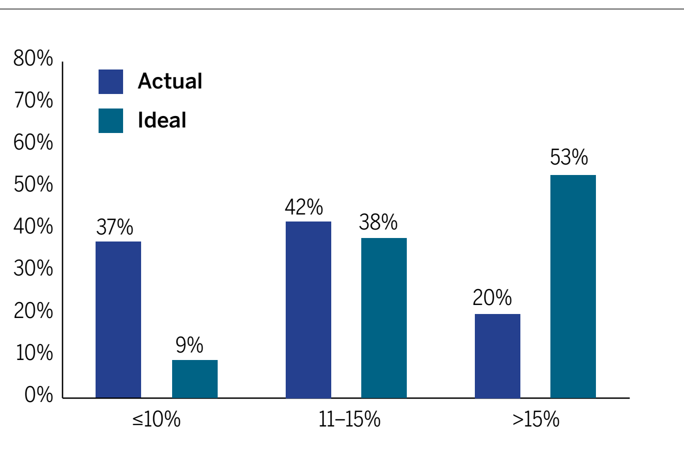
The Savings Gap

Mind the gap?

How much savings is enough to ensure retirement security? While plan sponsors may be loath to cite a dollar figure, they are perfectly comfortable identifying a savings goal as a percentage of an employee's compensation figure. In fact, when asked, the clear majority of plan sponsors surveyed target savings higher than 10% of an employee's compensation as the optimal savings rate for their plan participants. Furthermore, over half of the sponsors surveyed chose a savings rate greater than 15%. (See **Exhibit 2**.) Unfortunately, reality falls far short of this aspiration as almost four in ten plans achieve a savings rate less than 10%. The gap in actual versus ideal savings rates offers the DC industry the opportunity to provide a more consultative role.

Exhibit 2

Ideal Savings Rate vs. Actual—Employee and Employer Contributions

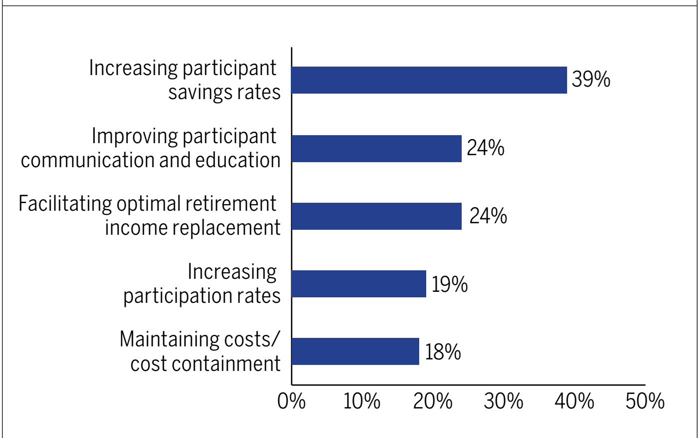


When looking at the shortfall, it is clear that plan sponsors are aware of the problem and of the means to achieve the desired results. In fact, savings, retirement security and plan participation rise to the top of any list of plan sponsor priorities. (See **Exhibit 3**.) However, there are obstacles that are preventing them from taking action, which are discussed throughout this paper.

Not surprisingly the availability of auto features, as prescribed by the Pension Protection Act of 2006 (PPA), can play a significant role in enabling plan sponsors to achieve their aspirations. The following analysis undertakes the task of documenting where and how plan sponsors are succeeding, where and how they are falling short, and what opportunities exist to help both them and their plans' participants put the latter on track to achieve retirement security.

Exhibit 3

Most Frequently Cited Plan Priorities



Auto Enrollment

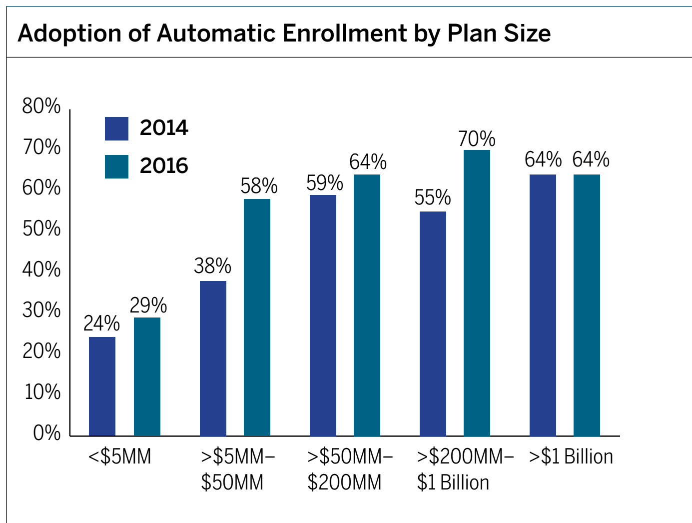
Progress is being made

Overall, the number of plans that have adopted auto enrollment has increased slightly compared to the number in the 2014 study (from 45% to 52%). However, it should be noted that the increase is weighted toward smaller plans. In fact, the largest plans (over $1 billion) showed no percentage increase in adoption; in both 2014 and 2016, 64% of them reported having adopted auto enrollment. Plans with over $50 million in assets (but under $1 billion) were the most likely to have implemented auto enrollment within the past 24 months, as adoption in this group surged from 38% to 58%. In contrast, plan sponsors with less than $5 million in assets showed only modest increased adoption. (See **Exhibit 4**.)

The data further suggest that adoption of auto enrollment may have reached its natural limit for the largest plans (over $1 billion). When plan sponsors in this group who have not yet implemented auto enrollment were asked if they would do so in the next 12 months, 69% said they were "very unlikely" to do so. This is up from 44% who gave a similar response in 2014. In contrast, among smaller plans (less than $200 million), the "very unlikely" response stayed the same year-over-year: 58% in 2014, and 57% in 2016. From the data, it can be inferred that the opportunity to increase adoption now exists mainly with smaller plans. This is not surprising, given a historic pattern of best practices being adopted by the largest, most sophisticated plan sponsors first, and then propagating down-market.

Exhibit 4

Adoption of Automatic Enrollment by Plan Size



Smaller plan sponsors have thought about the savings gap

In the 2014 survey, DCIIA asked plan sponsors what they thought they could do to increase their plans' savings rates to which a third of small-plan sponsors chose "don't know." This year, fewer than 10% answered the same way. Perhaps even more encouraging, when sponsors of small plans were asked for a top strategy for closing the savings gap, 33% chose "to implement auto enrollment," making it the most frequently chosen response.

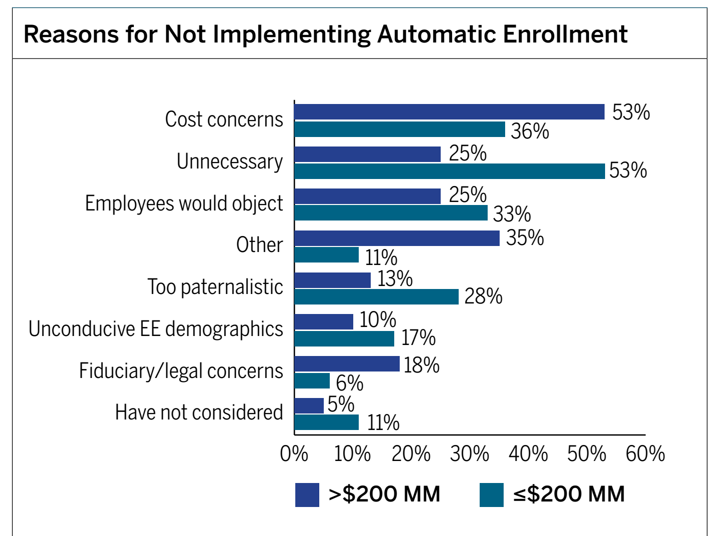
For larger plans, there was also some uptick in the choice of auto enrollment as a tool to increase participant savings (approximately a 6% increase). The top priority among large plans, however, was "to implement auto escalation," which is often a next step after auto enrollment.

Focusing on the problem hasn't translated to fixing it

Plan sponsors gave various reasons for not adopting auto features. (See **Exhibit 5**.) Unfortunately, even though smaller plan sponsors are spending more time focusing on how to increase plan savings rates, they don't seem to think that the issues warrant action at this time. When asked why they have not implemented auto enrollment, 53% responded that it was "unnecessary." The biggest issue for larger plans was "cost." A significant percentage of larger plans also selected the "other" response. Many of these were Government plans and cited the "need for changes in legislation."

Exhibit 5

Reasons for Not Implementing Automatic Enrollment

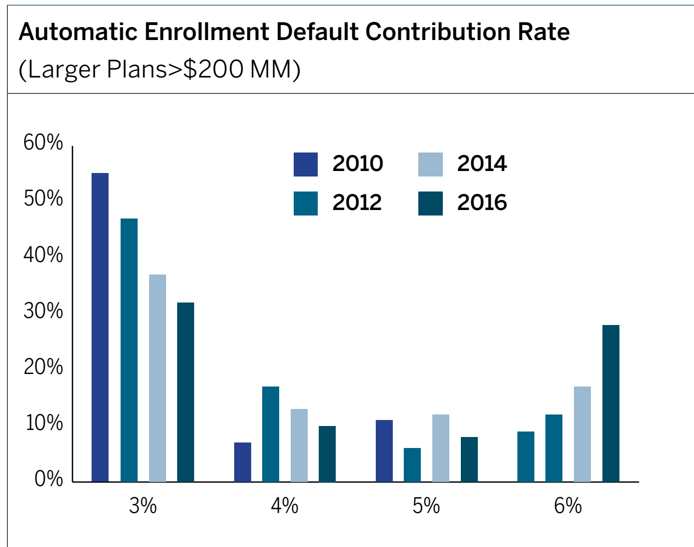


A Look at Default Rates: More is, in fact, more!

There is a growing body of industry and academic research suggesting that the historic 3% default auto enrollment savings contribution rate is too low to successfully achieve desired retirement security outcomes. Consistent with this, DCIIA's 2016 research suggests that this message is not only resonating with plan sponsors but, more importantly, is spurring them to act.

Exhibit 6

Automatic Enrollment Default Contribution Rate
(Larger Plans>$200 MM)



Notably, in this most recent survey, among plan sponsors who stated that they want to make changes to the structure of their auto enrollment program, a significant majority (63%) indicated that they would do so by "increasing the default contribution rate." In 2014, only 40% stated that they intended to do so.

More importantly, plan sponsors are increasingly backing up their intent with action. In 2010, 3% was the default contribution rate for 55% of larger plans (over $200 million); in the 2016 survey, 3% had fallen to be the default rate choice of just 32% of large plans; over the same period, the usage of a 6% default rate increased from 9% to 28% for large plans. (See **Exhibit 6**.)

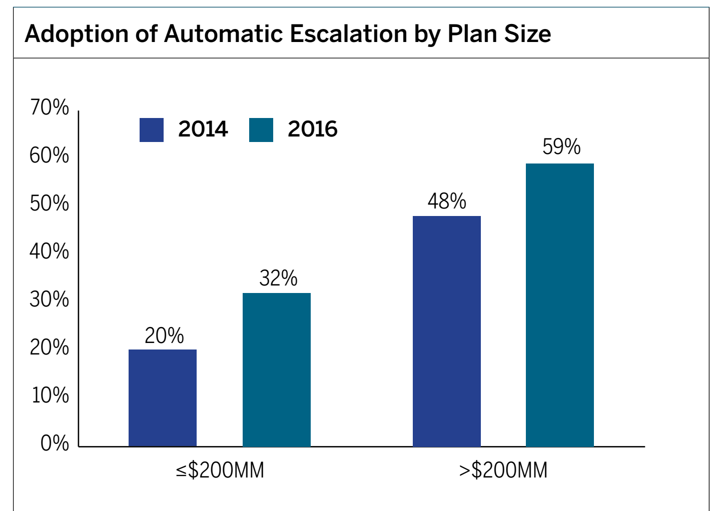
Auto Escalation

A slow, but steady, rise—and a catalyst for further adoption may be needed

As with the adoption of auto enrollment, there has been a modest increase in the number of plans offering auto escalation, when comparing the 2016 results (42% of plans) to the 2014 results (31% of plans). Moreover, the rate of growth appears to be similar among both larger and smaller plans, although the absolute number for smaller plans is decidedly lower: Adoption among larger plans rose from 48% adoption in 2014 to 59% in 2016; with smaller plans, the figure increased from 20% adoption in 2014 to 32% in 2016. (See **Exhibit 7**.)

Exhibit 7

Adoption of Automatic Escalation by Plan Size



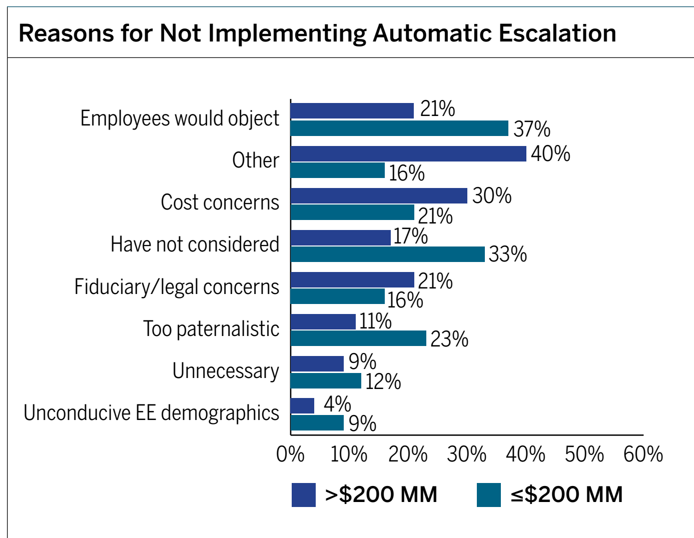
Looking at the actual pace of contribution rate escalation, there has been no meaningful change in plan sponsor behavior since DCIIA last looked at this in 2014. Seven out of every ten plan sponsors continue to default their plans' annual contribution rate increase to 1% annually. When asked why, plan sponsors are most likely to respond that an increase of 1% seems to be the rate increase most palatable to participants (43%). Other common reasons include: reasonableness from a fiduciary standpoint (28%); prevalence among peers (26%); and recommendation from a consultant (22%). Moreover, there is little likelihood of change soon, as 93% of plans say they will not make any changes to their auto escalation program within the next 12 months. However, at the same time, 66% of plan sponsors with auto escalation say they have no cap on the annual percentage a participant can choose for their auto escalation amount.

Which plans will get to "Yes"?

Despite the seemingly apparent benefits of implementing auto escalation, an increase in plan sponsors who adopt it in the future is expected to be modest. When asked the likelihood of adding auto escalation within the next 12 months, 79% of smaller plan sponsors said they are unlikely to do so, and 64% of larger plan sponsors replied in kind. Moreover, the barriers to adoption remain consistent from year to year.

Exhibit 8

Reasons for Not Implementing Automatic Escalation



The barriers to adoption cited by sponsors vary, largely correlating to the size of the plan. Larger plan sponsors are more likely to cite concerns specific to their plan ("other") or cost concerns. Smaller plan sponsors are more concerned about pushback from their employees, or are concerned that the company may be overstepping its role as an employer and being too paternalistic. Perhaps most worrisome is that a third of smaller plan sponsors have not even considered implementing auto escalation. (See **Exhibit 8**.)

There are, however, positive indicators to be found. For example, the implementation of auto enrollment appears to serve as a harbinger for the willingness to implement auto escalation. Only 22% of plan sponsors who have implemented auto enrollment said that they would not consider implementing auto escalation under any circumstances. Not surprisingly, this figure (sponsors who would not consider adopting auto escalation) rises if auto enrollment has not yet been implemented by the respondent's plan. From this, one can infer that the adoption of auto enrollment can smooth the path towards the adoption of auto escalation. The challenge is that fewer smaller plans have implemented auto enrollment, therefore putting potential auto escalation on a much slower track.

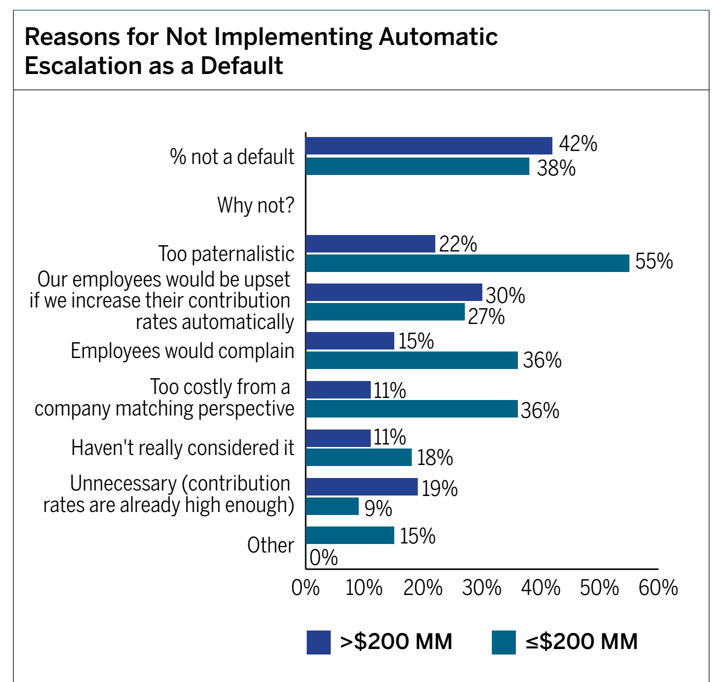
Auto escalation as a default: Is there is a silver lining?

Of the plans that have implemented auto escalation, roughly 60% have done so as a default, which is a positive finding. Those that have not have clearly identified what they perceive as barriers to doing so.

Among smaller plan sponsors, 55% say it's too paternalistic, a reason given by only 22% of larger plans. Larger plans may be less concerned about cost as they are more likely to view the cost of matching contributions in the context of total compensation expense. Smaller plans cite the belief that employees would complain as another key reason for not implementing auto escalation as a default. Similarly, larger plans cite the fact that their employees would be upset as a key reason. (See **Exhibit 9.**)

Exhibit 9

Reasons for Not Implementing Automatic Escalation as a Default

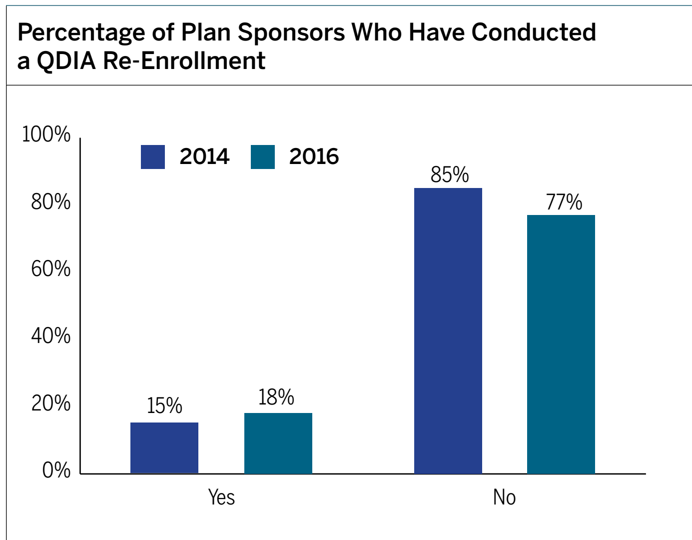


QDIA Re-enrollment

Has the opportunity passed?

Compared to automatic enrollment, QDIA re-enrollment is a far less common strategy to improve plan performance. In fact, less than 20% of the plan sponsors DCIIA surveyed have done so. (See **Exhibit 10**.) Moreover, very few plan sponsors intend to do so in the future. The modest uptake and limited interest in future action begs the question, why?

Exhibit 10



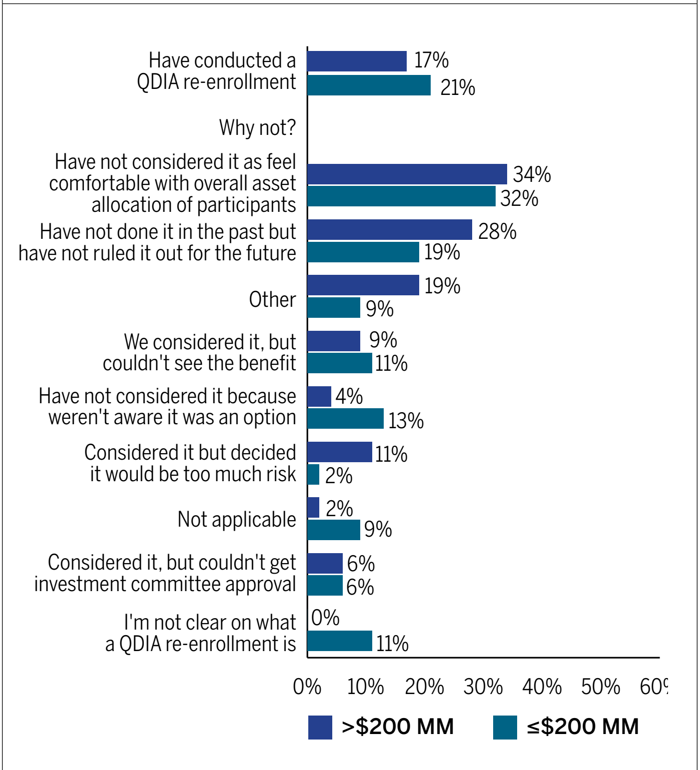
When asked, plan sponsors are most likely to cite comfort with their plan's current asset allocation as a reason for not doing so. (See **Exhibit 11**.) Moreover, plan sponsors tend to prioritize both increasing participation and savings rates over asset allocation as tools for improving plan performance.

However, there may be other factors at play, as well. For example, smaller plan sponsors may not even be aware of what a QDIA re-enrollment is, and hence that it is available to them as a strategy to pursue. Recordkeepers and intermediaries, such as consultants and advisors, may be able to impact this by focusing on awareness and education with these plan sponsors.

It may also be that reasons to execute a QDIA re-enrollment are becoming less relevant. For one thing, plan sponsor use of one-time or periodic automatic enrollment sweeps, and the implementation of automatic enrollment of new hires with a default to a QDIA, diminishes the need for QDIA re-enrollment going forward. Furthermore, when plan sponsors change recordkeepers, often assets from the prior recordkeeper are mapped to the plan's QDIA as a default. Collectively, these factors positively impact overall plan asset allocations, as increasingly the assets are concentrated in age- or risk-appropriate QDIA options.

Exhibit 11

Reasons for Not Having Conducted a One-Time QDIA Re-Enrollment



Be aware that a mapping transaction often does not qualify for the safe harbor.

A transaction that does not qualify would look like the following:

Redirecting existing account balances and/or participants' future elections to a QDIA-eligible fund, without providing participants the opportunity to opt out or make another election prior to the assets being moved, or otherwise not satisfying the safe harbor requirements. In this instance, the plan sponsor will not be provided with relief under ERISA Section 404(c).

Still, 25% of survey respondents state that they have not ruled out executing a QDIA re-enrollment, which suggests that the strategy retains its tactical appeal under the right circumstances.

Plan Sponsor Priorities

As in the past, the top plan objectives cited by all sponsors revolve around increasing participant savings rates. Other objectives lean towards facilitating optimal retirement income replacement. Larger plans have seen this objective as important for a while, and smaller plans are increasing their focus on this: income replacement was selected as an objective by 14% of smaller plans in 2016, versus 8% in 2014.

When looking at plan objectives for those sponsors that have implemented auto enrollment and auto escalation, increasing participant savings rates continues to be a top priority. In contrast, plan sponsors who have implemented neither auto feature express greater concern about plan participation rates, even though implementation of automatic enrollment would seemingly offer a way to remedy that concern. (See **Exhibit 12**.)

Still, a reluctance to implement auto features cannot be noted without giving it some context. Plan sponsors who have not implemented automatic features or who have only partially implemented them are twice as likely to prioritize cost containment as are sponsors who have implemented both automatic enrollment and automatic escalation. From this, it can be inferred that a better understanding of both the costs and benefits of implementing auto features—coupled with a greater understanding of plan design—might be helpful to sponsors who are currently reluctant to adopt one or more auto features. This is a conversation that service providers can effect. Perhaps the most persuasive argument for adopting auto features is illustrated by the benefits peers have achieved by implementing them. One such benefit is enhanced plan performance through improved participation and savings, which ultimately create the opportunity for better participant outcomes. (See **Exhibit 13**.)

Another benefit of auto features is higher savings rates. Expressed as percentages, a plurality of plans that have not implemented these features have savings rates less than 11%. In contrast, two-thirds of the plans that have

Exhibit 12

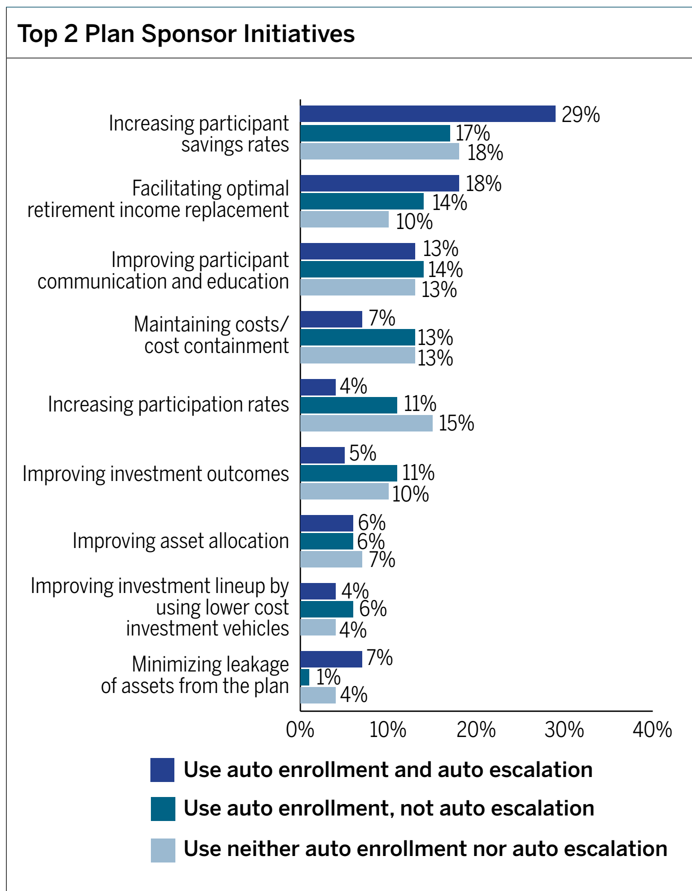
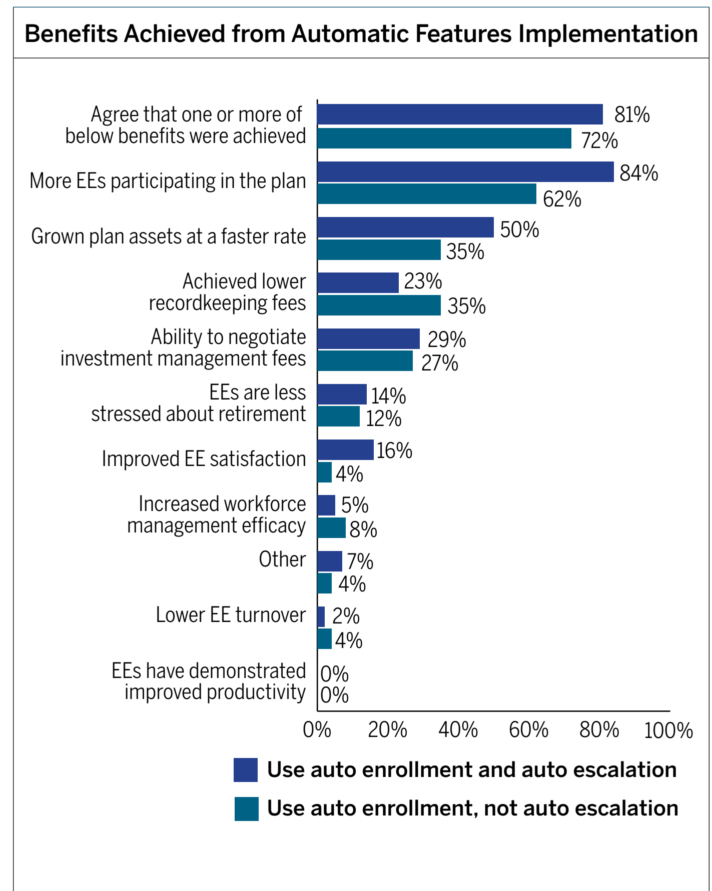
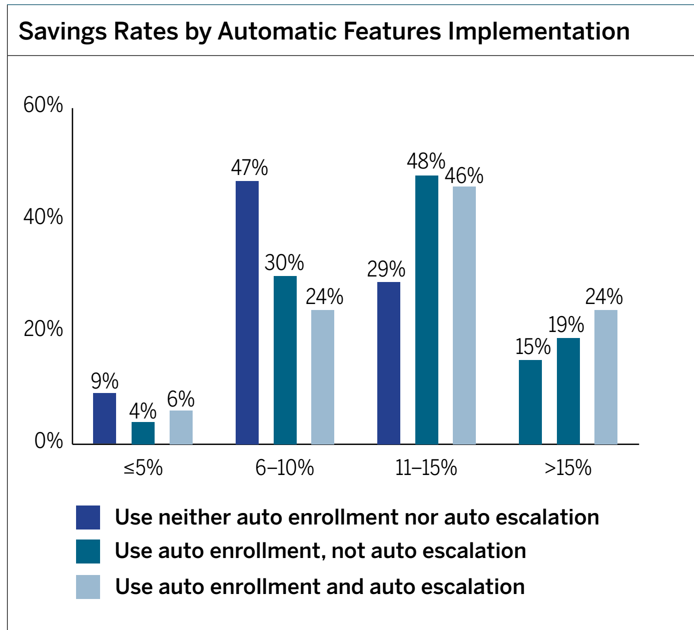


Exhibit 13



implemented auto features have savings rates greater than 11%, and an impressive 43% of them have savings rates greater than 15%. (See **Exhibit 14**.) Auto features work, and the service provider community is well-positioned to speak for their adoption.

Exhibit 14



Savings Rates by Automatic Features Implementation

What's next?

Finding a path forward

It has been two years since DCIIA last examined plan sponsors' adoption of auto features. Encouragingly, adoption rates for both automatic enrollment and automatic escalation as defaults continue to rise. Further, the results from implementation of these intelligent plan design features have continued to be positive. Still, is it enough? Nine in ten plan sponsors surveyed believe that employees should be saving more than 10%, but only six in ten reports that their plans are helping its participants achieve this aspiration.

There are signs that positive change is continuing to advance. Over time, the default rate for automatic enrollment has been increasing. When DCIIA first started this research survey in 2010, 55% of the plan sponsors who implemented automatic enrollment did so with a default savings rate of 3%. As noted earlier in this report, today, that figure is 32%, a decline of 41%. Over the same period, the percentage of sponsors who have set their plans' default rate at a far more robust 6% has climbed from 9% to 26%, a three-fold increase. However, barriers to increased retirement security still exist, as default rates for automatic escalation stubbornly remain at 1% annually—this, despite ample evidence that participants are unlikely to fight the inertia created by default enrollments.

In the past, DCIIA has identified four core best practices that plan sponsors could take to improve the performance of their plans and those practices still remain valid today. They are:

1. Automatically enrolling new hires, and periodically conducting auto enrollment sweeps of non-participating employees
2. Setting a higher default contribution rate appropriate for your plan
3. Changing plan-matching formulas to "stretch" the match benefit in order to "nudge" employees to adopt better savings behaviors
4. Implementing automatic contribution escalation as a default, and increasing savings until the ideal rate is achieved.

As the 2016 research demonstrates, there is evidence that auto features have become more attractive to plan sponsors. When implemented, auto features undeniably affect positive change. Still, there is more that the retirement services community can do. Specifically, the community needs to continue to address the barriers to auto features adoption that inhibit DC plans from reaching their full potential. These barriers to adoption are well known and have remained consistent over time. They include: concerns about the costs associated with auto features; concerns that employees will complain; philosophical opposition, or the belief held by some plan sponsors that they are already doing enough; and simple lack of awareness of the availability and benefits of auto features.

DCIIA and its members have been at the forefront of driving change. In 2016, DCIIA authored a whitepaper that not only articulated the benefits of auto features, but also provided examples of successful implementations (**"Automatic Plan Features in Defined Contribution Plans: What's in it for Plan Sponsors?"**). Actions that the service provider community can take to drive greater adoption of auto features include:

1. Continuing to educate the plan sponsor community about the availability, utility and benefits of the adoption of auto features
2. Developing tools that better help plan sponsors understand participant behaviors and the costs associated with plan design alternatives
3. Leveraging data and collective knowledge to advocate for public policy solutions to a shared societal need.

Maximizing the effectiveness of DC plans is within reach. However, it is critical for both employers and the retirement services community to consider following these best practices and implement auto features. Through our combined efforts we can help improve retirement security for American workers.

About DCIIA

The Defined Contribution Institutional Investment Association (DCIIA) is a nonprofit association dedicated to enhancing the retirement security of American workers. Toward this end, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA members include investment managers, consultants, law firms, record keepers, insurance companies, plan sponsors and others committed to the best interests of plan participants.

For more information, visit: **www.dciia.org**.

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