



Automatic Enrollment is Catching on

Scores of plan sponsors today are choosing automatic enrollment because it minimizes the anxiety associated with enrollment, as well as the confusing process of choosing among numerous investment options.

In 2006, the number of retirement plans using automatic enrollment doubled: more than 1,100 plans chose to automatically enroll employees. According to the Profit Sharing Council of America, 17.5 percent of all 401(k) plans have automatic enrollment, and the feature is most common within large plans.²

Although plans that automatically enroll participants have lower average account balances than plans that do not automatically enroll participants, it is important to note that the concept is relatively new in the industry. Those participants that were automatically enrolled in recent years have not had a large amount of time to build up the account balance.

Salary Deferral Rates

The standard average salary deferral rate for individuals automatically enrolled in retirement plans was lower than the average deferral rate for self-elected enrollees. The average deferral rate for participants that were automatically enrolled remained unchanged from 2005 at 3.3 percent in plans with services provided by The Principal. The most common deferral percentage used in the industry of 3 percent.² **Participation rates were higher for those plans that automatically enroll participants.**

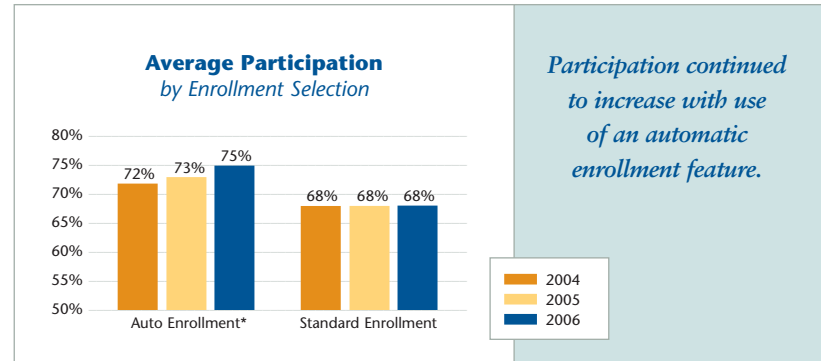
A majority of plans have elected to only automatically enroll **new** employees and are not enrolling **existing** employees that have opted to not participate in the retirement plan.

Offering automatic enrollment can help increase the number of employees participating in a retirement plan. However, participating employees often enroll at lower salary deferral percentages. Therefore, while they are contributing, it is generally not at rates that may be necessary for a more comfortable retirement. Automatic enrollment combined with automatic step up deferral features allows employees to be enrolled in the retirement plan at a more comfortable initial deferral rate. The automatic step-up deferral feature allows participants' deferral rates to slowly increase over time to reach a more reasonable rate.

Fast Fact

Lifestyle, lifecycle, and asset allocation style investment options were the most common default investment for automatic enrollment, followed by Stable Value funds.³

²Profit Sharing Council of America 49th Annual Survey
³2006 PLANSPONSOR Magazine DC Survey



*Have adopted auto enrollment for newly hired employees.

