

Disparities in Automatic Enrollment Plan Availability

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Savings and thrift plans have become a popular retirement savings alternative to traditional pension plans; the inclusion of an automatic enrollment feature is gaining traction and is especially prevalent in certain worker and establishment groups.

Introduction

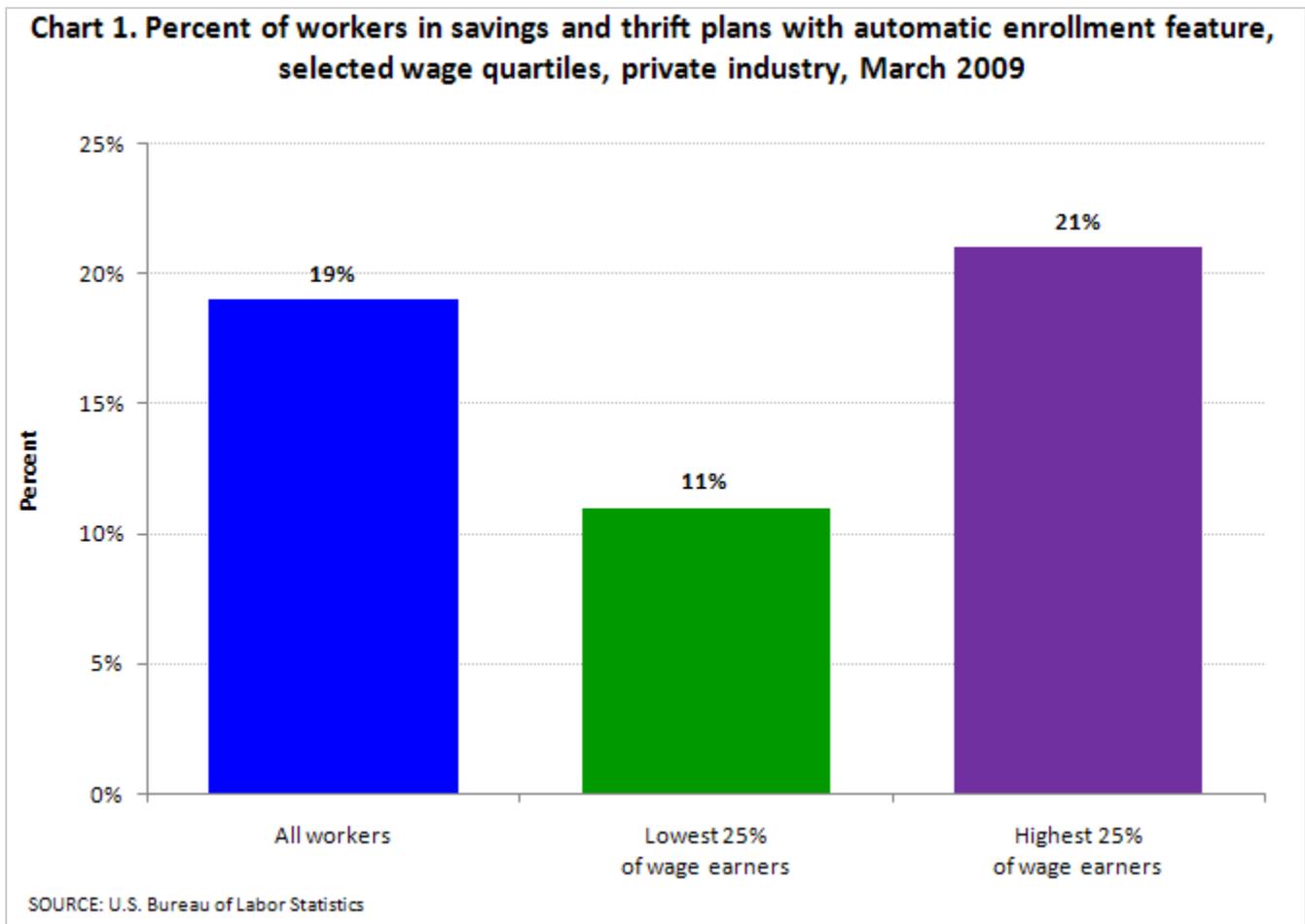
Most defined contribution retirement plans offered in the private sector are savings and thrift plans. Forty-three percent of all private industry workers participated in a defined contribution retirement plan in 2009,¹ and 64 percent of those workers were enrolled in a savings and thrift plan.² Savings and thrift plans usually allow for a worker to make pretax contributions to an individual retirement savings account. These contributions may be matched to various degrees by the employer to induce participation and increase levels of employee savings.

The automatic enrollment feature, previously known as “negative election,” has been utilized for several years in retirement savings plans; however, only recently were employers provided relief from fiduciary liability. Through the Pension Protection Act of 2006,³ Congress sought to encourage employers to make automatic enrollment available to their employees. Upon hire, employers have the statutory authority to simultaneously enroll an employee in the companys savings and thrift retirement plan with a default contribution rate. The default contribution is usually a pretax deduction, as a percent of earnings, and is deposited into an employees retirement account. Although a worker may opt out, these plan provisions have been hailed as an effective method to encourage proactive retirement saving behavior.⁴

The [Bureau of Labor Statistics](#) recently published data from the [National Compensation Survey \(NCS\)](#) on the prevalence and provisions of automatic enrollment and default contribution features in savings and thrift plans. The NCS March 2009 data⁵ show that availability of these plan provisions differs by wage level and by establishment size.

Wage Group Disparity

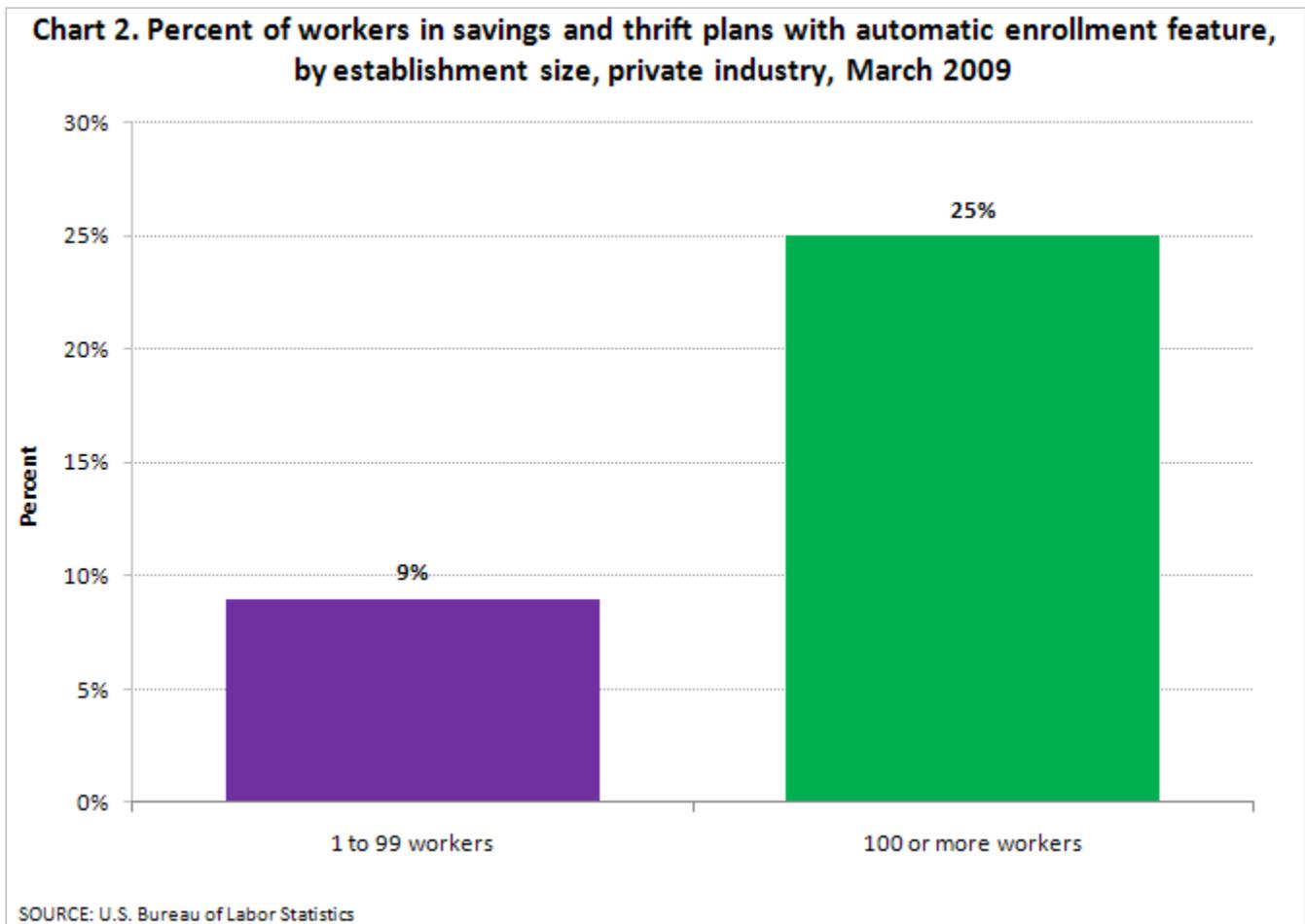
Chart 1 shows the percentage of three groups of workers--private industry workers, those in the lowest earnings quartile, and those in the highest quartile--whose employers automatically enroll new employees in their savings and thrift plan.⁶



Among all private industry workers who participated in savings and thrift plans, 19 percent also had this automatic enrollment feature. However, when the data are disaggregated based on average wage percentiles, there is variation in availability. While 21 percent of private industry workers in the highest wage quartile had employers that automatically enrolled employees in their company's savings and thrift plan, only 11 percent of workers in the lowest quartile had this provision available. Compounding this disparity, 95 percent of workers in the lowest tenth wage category were not offered automatically enrolled savings and thrift plans.⁷ According to a 2008 report by the [Employee Benefits Research Institute \(EBRI\)](#), the inclusion of such plan provisions, or in this case the lack thereof, can have significant ramifications for workers building a retirement nest egg, especially for the lowest of wage earners.⁸ The disparity in defined contribution plan participation varies greatly between the highest and lowest wage categories. Whereas 62 percent of workers in the highest wage quartile participated in a defined contribution plan, only 19 percent of workers in the lowest wage quartile participated in such a plan.⁹ It appears that increases in the availability of automatic enrollment provisions would provide substantial benefits for lower wage earners.

Establishment Size Disparity

In 2009, another EBRI study found a positive relationship between employee participation in retirement plans and firm size.¹⁰ This suggests that increased availability of automatic enrollment provisions would increase employee participation across all establishment sizes, including smaller firms. As can be seen in chart 2, NCS data from 2009 reveal similar disparities in the availability of automatic enrollment plans by establishment size.



Workers in larger establishments were almost 3 times more likely than their counterparts in smaller firms to work for a company that includes an automatic enrollment provision in its savings and thrift retirement plan, 25 percent compared with 9 percent. There is also variation in participation in defined contribution plans among these establishment categories. Fifty-five percent of workers in larger establishments participated in a defined contribution plan, while only 32 percent of workers in smaller establishments participated in such a plan.¹¹ Workers from smaller firms are likely to benefit from efforts to make automatic enrollment more prevalent.

Default Contribution As A Percent Of Employee Earnings

According to NCS data, the median default contribution in private industry ranges from 2 percent of employee earnings at the 10th percentile to 4 percent at the 90th percentile, with a median default contribution of 3 percent of earnings for all workers. These estimates are consistent with a survey conducted by the industry group Mercer that found that, among the employers that use automatic enrollment, 62 percent use a default contribution of 3 percent of employee earnings, 20 percent use a contribution greater than 3 percent, and 11 percent use 2 percent as their default contribution.¹²

A deduction of 3 percent of earnings has various consequences for workers of different wage categories. Although lower income workers would appear to have the most to gain from widespread automatic enrollment implementation, a contribution rate of 3 percent of earnings places a higher strain on their disposable income. This may be one underlying cause in the low take-up rate for lower wage earners.¹³ The take-up rate for the lowest wage quartile was 49 percent, while workers in the highest wage quartile had a take-up rate of 81 percent.¹⁴ It is possible that lower participation rates among low-wage workers has less to do with willingness and is more attributable to financial ability.

Conclusion

The retirement savings literature includes much analysis of the need for workers to forego some consumption today in favor of a more secure tomorrow. Studies show that employer-initiated savings and thrift plans can provide substantial incentives to induce this savings behavior. In the words of Congressional Budget Office Director Peter Orszag, “Inertia, it turns out, is a powerful force in decisionmaking, so people tend to stick with a default, even when they can, at low cost, pick another option.”¹⁵ Efforts on behalf of employers to increase the availability of automatically enrolled savings and thrift plans could lead to increased participation. But the powerful inertia described by Orszag has been the subject of a number of critiques as well. *U.S. News & World Report* retirement analyst Emily Brandon, for example, has argued that the automatic enrollment provision “makes people less responsible for their own retirement decisions” and at its essence, is a “very paternalistic system.”¹⁶ Thus, for many lower income workers, any default contribution may feel more like a wage garnishment than a benefit. Although the ramifications of automatic enrollment and default contribution provisions are likely to continue to be contentious, available data show substantial variation in the availability of these benefits among workers.

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Notes

1 *National Compensation Survey: Employee Benefits in the United States, March 2009*, Bulletin 2731 (Bureau of Labor Statistics, September 2009), table 2, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_coverage.

2 *National Compensation Survey: Health and Retirement Plan Provisions in Private Industry in the United States, 2009*, Bulletin 2749 (Bureau of Labor Statistics, July 2010), table 20, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_details.

3 *Pension Protection Act of 2006*, U.S. Department of Labor, Employee Benefits Security Administration, on the Internet at <http://www.dol.gov/EBSA/pensionreform.html>.

4 Ariel Education Initiative and Hewitt Associates, *401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups*, on the Internet at <http://www.hewittassociates.com/Intl/nA/en-US/Knowledgecenter/ArticlesReports/ArticleDetail.aspx?cid=6992>.

5 *National Compensation Survey: Health and Retirement Plan Provisions in Private Industry in the United States, 2009*, Bulletin 2749 (Bureau of Labor Statistics, July 2010), table 23, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_details.

6 The quartile groupings are based on the lowest 25 percent (average hourly earnings of \$10.50 or less) and highest 25 percent (average hourly earnings of \$24.22 or more) of average wages for all private industry workers, which may include workers both above and below the threshold. The quartile values are based on the estimates published in *National Compensation Survey: Occupational Earnings in the United States, 2008*, Bulletin 2720 (Bureau of Labor Statistics, August 2009), on the Internet at <http://www.bls.gov/ncs/ncswage2008.htm>.

7 *National Compensation Survey: Health and Retirement Plan Provisions in Private Industry in the United States, 2009*, Bulletin 2749 (Bureau of Labor Statistics, July 2010), table 23, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_details.

8 Jack VanDerhei and Craig Copeland, *The Impact of PPA on Retirement Savings for 401(k) Participants*, Issue Brief No. 318 (Employee Benefit Research Institute, June 2008), on the Internet at http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3948.

9 *National Compensation Survey: Incidence and Provision of Employee Benefits in the United States, March 2009*, Bureau of Labor Statistics, Bulletin 2731, September 2009, table 2, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_coverage.

10 John MacDonald, *Retirement Plan Participation: Firm Size Differences—An Update*, Fast Facts No. 147 (Employee Benefits Research Institute, December 8, 2009), on the Internet at <http://www.ebri.org/pdf/FFE147.08Dec09.Final.pdf>.

11 *National Compensation Survey: Incidence and Provision of Employee Benefits in the United States, March 2009*, Bureau of Labor Statistics, Bulletin 2731, September 2009, table 2, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_coverage.

12 *Mercer Survey Finds Majority of Defined Contribution Retirement Plans Feature Automatic Enrollment*, Mercer (www.mercer.com), November 10, 2008, on the Internet at <http://www.mercer.com/print.htm?indContentType=100&idContent=1327690&indBodyType=D&reference&wwparam=1277826368>.

13 The take-up rate is an estimate of the percentage of workers with access to a plan who participate in the plan.

14 *National Compensation Survey: Incidence and Provision of Employee Benefits in the United States, March 2009*, Bureau of Labor Statistics, Bulletin 2731, September 2009, table 2, on the Internet at http://www.bls.gov/ncs/ebs/#bulletin_coverage.

15 Peter Orszag, “Behavioral Economics: Lessons from Retirement Research for Health Care and Beyond.” A Presentation to the Retirement Research Consortium (Congressional Budget Office, August 7, 2008), on the Internet at http://www.cbo.gov/ftpdocs/96xx/doc9673/08-07-Presentation_RRC.pdf.

16 Emily Brandon, “Planning to Retire: The Case Against 401(k) Automatic Enrollment,” *U.S. News & World Report*, June 30, 2009, on the Internet at <http://www.usnews.com/money/blogs/planning-to-retire/2009/06/30/the-case-against-401k-automatic-enrollment>.

Chart 1. Percent of workers in savings and thrift plans with automatic enrollment feature, selected wage quartiles, private industry, March 2009

Avg Wage	All workers	Lowest 25% of wage earners	Highest 25% of wage earners
Automatic enrollment available	19%	11%	21%

Data for Chart 2. Percent of workers in savings and thrift plans with automatic enrollment feature, private industry, March 2009

Establishment Size	1 to 99 workers	100 or more workers
Auto Enroll Available	9%	25%

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