Key Attribute #2:
PLAN DESIGN

When it comes to the retirement plan, organizations should be making decisions that put their employees in the best position to gather as much money as possible for retirement.

Employees need to be not only saving in the retirement plan but saving at an adequate level for their personal goals. **So, how's that going?**

Each year, Vanguard publishes their *How America Saves* report, which is a data-driven look at their recordkeeping clients. This year, they reported the average account balance of their participants was $112,572 with the median at $27,376. Not great right? Broken down further, it gets a bit bleaker – those age 45-54 – have an average of $142,069 with a median of $48,301. It doesn't matter how you slice it; many Americans are behind.

What do we do? We need to set a goal of **90%** of participants saving in the retirement plan and we need them saving **10%** of their pay at a minimum (as experts and data show that we all need about 12-15% going into our retirement plans as most of us didn't save enough early enough).

How do we get them there? **Automatic Enrollment and Automatic Increases** (you were expecting that weren't you?)

The adoption of automatic enrollment has more than tripled since the Pension Protection Act (PPA) of 2006 took effect (which brought it to the mainstream of retirement plans). Since then, there's been enough data to show us it works.

That same Vanguard report showed that participation rate in plans with automatic enrollment was 93% vs. only 70% in plans without automatic enrollment. More importantly, it impacted the younger and lower income individuals the most. 88% for those younger than 25 (in AE plans) vs. 33% in non-AE plans. 90% for those making between $30,000 and $50,000 (in AE plans) vs. 60% in non-AE plans.

So now that we know it works, how do we know what % to automatically enroll them at? It depends on the design of employer contribution (if you have one). Research has shown that one can expect 10-12% of employees deciding to opt out of automatic enrollment and this rate doesn't change much no matter that % used. Some ideas:

- If you don't have any type of employer contribution (you should), go with at least 5%.
- If you have a match, go with the number that gives them the match or a little higher. For instance, if you have a safe harbor match where they get 4% for contributing 5%, automatically enroll them at 6% so they can have 10% of their pay going into their plan.
- If you have a non-elective contribution, like safe harbor, where you give everyone 3% of their pay, match up your automatic enrollment % with a goal of 10% total savings. In this case, you'd automatically enroll them at 7%.

One thing to not forget: **Automatic Increases.** Not only should you be automatically enrolling your employees but increasing them by 1-2% a year is a good idea. For many employees, their income will increase as they get older and spend more time at a company. They'll need to save a bigger percentage of their income as their pay increases, due to social security replacing a smaller percentage. 5% may be good at 24 years old, but it may not be 8 years later when you're 32 and making almost twice as much money.

One last thought. Don't fear being too aggressive with plan design. The opt-out rates don't change much whether you're at 6%, 7%, or 10%. **<u>At a minimum, you're getting your employees to engage with their retirement plan and that's a good first step for many.</u>**

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