



EBRI News

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EBRI Policy Forum:

Speakers Say “Automatic” 401(k) Provisions Are Having Desired Effect

WASHINGTON—Nearly two years after the Pension Protection Act (PPA) of 2006 became law, the legislation’s “automatic” provisions—automatically enrolling new workers in their employers’ 401(k) plans, automatically putting their contributions into age-appropriate “default” investments, and automatically increasing their annual contributions—are beginning to have the desired effect, according to speakers at the nonpartisan Employee Benefit Research Institute’s (EBRI) semi-annual policy forum.

Research has showed that when 401(k) enrollment is voluntary and workers must actively decide to participate, a significant number do not participate, or, if they do, do not save and invest appropriately. Enactment of the PPA was designed to overcome workers’ indecisiveness and inaction by automating their participation and savings in their employer’s retirement plan.

A summary of the policy forum discussion appears in the July 2008 *EBRI Notes*. Speakers at the policy forum, held in May in Washington, made the following points:

- Automatic enrollment can nearly double participation in defined contribution plans, such as 401(k)s.
- An increasing number of employers, especially large employers, are adopting automatic enrollment.
- The “auto” features of the PPA are likely to have a very significant positive impact in generating additional retirement savings for many workers, especially for low-income workers.
- Eliminating the company match in a 401(k) plan seems to have only a modest impact on automatic enrollment.
- Workers appear to be much more willing to accept automatic enrollment today than they were in the 1990s.

EBRI President Dallas Salisbury, who moderated the policy forum, noted that automatic enrollment was “readily possible and available” before the enactment of PPA, but that employers had been held back by conservative lawyers concerned about potential legal liability.

Eleven speakers made presentations at the policy forum, addressing a wide range of topics on the impact of the PPA. Among the other points they made:

- Assets in defined contribution plans are expected to nearly double in less than a decade.
- Defined contribution plans are becoming popular in countries worldwide.

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Note: The July 2008 EBRI Notes will be posted early July 15 on the EBRI Web site, www.ebri.org. Embargoed copies are available in advance upon request.