

WHAT MIGHT MAKE MORE WORKERS SAVE?

Matching contributions and automatic enrollment can help turn more workers into savers, while lifestyle and lifecycle funds can help workers already saving for retirement.

Turning Nonparticipants into Participants

- Of six plan features listed in the Retirement Confidence Survey (RCS), a generous employer match of up to 5 percent of salary is most often indicated as likely to encourage participation, according to workers who do not participate in their employer’s 401(k)-type plan. Three in 10 say they would be *much more* likely to contribute to their employer’s plan if this option were available, and 4 in 10 would be *somewhat more* likely to do so.
- A lower match is less likely to be successful in persuading current nonparticipants to contribute. Fewer than 2 in 10 say they would be *much more* likely to contribute if there were a matching contribution of up to 3 percent of salary, and about one-third say they would be *somewhat more* likely.
- However, an employer match would not persuade all nonparticipants to contribute to their 401(k). Thirteen percent of nonparticipants admit their employer already offers a matching contribution of up to 5 percent of salary, while 14 percent say their employer matches up to 3 percent of salary.

Figure 1
**Change in Likelihood of Participating in Savings Plan if Feature Were Offered,
 Among Workers Offered Employer-Sponsored Plan But Not Participating**

	Much More Likely	Somewhat More Likely	No More Likely	Already Offered
A matching contribution of up to 5% of your salary	31%	41%	14%	13%
A fund option that is designed for people of your age and income level and automatically becomes more conservative as your retirement date nears	21	44	29	5
An option that automatically raises your contribution by a certain percentage or amount whenever you receive a pay raise	19	37	37	7
A matching contribution of up to 3% of your salary	16	35	35	14
An option where a professional financial manager makes investment decisions for you based on your responses to a questionnaire	15	20	49	14
A fund option that maintains a pre-set level of risk and generally has a mix of conservative, moderate, and aggressive investments	13	36	32	19

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

- A majority of nonparticipants also say they would be more likely to participate in their employer’s retirement savings plan if the plan included a lifecycle fund option (designed for individuals in specific age and income groups which automatically becomes more conservative as retirement nears) or a feature that automatically raises their contribution rate when they receive a pay raise.

Automatic Enrollment

- Automatically enrolling workers in a workplace retirement savings plan is a way of assigning workers, by default, into the saving option.

- Two-thirds of workers who do not currently contribute to their employer’s retirement plan nonetheless say they would be likely to stay in the plan if their employer automatically enrolled them.

Figure 2
**Likelihood of Staying in a Workplace Savings Plan if Automatically Enrolled,
 Among Workers Offered Employer-Sponsored Plan But Not Participating**

Very likely	40%
Somewhat likely	26
Not too likely	11
Not at all likely	22

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

- Asked how they feel about automatic enrollment in a workplace retirement plan, half describe their feelings as positive (49 percent) and one-quarter say they are indifferent (26 percent). Only one-quarter say they have negative feelings about automatic enrollment.

Encouraging Diversification

- Employers wishing to add funds to their retirement plan to simplify investment decisions for their employees may find that lifecycle and lifestyle funds are more popular than managed accounts.¹
- More than 2 in 10 participants not currently offered a lifecycle fund as part of their plan report they would be *very* likely and 45 percent would be *somewhat* likely to invest in it if it were made available.
- Among retirement plan participants who do not already have available a lifestyle fund (which maintains a pre-set level of risk and offers participants a mix of aggressive, moderate, and conservative investments), 2 in 10 say they would be *very* likely and nearly half say they would be *somewhat* likely to invest in this type of fund if it were made available.
- Only 15 percent not offered a managed account indicate they would be *very* likely to use this feature, and 36 percent would be *somewhat* likely to use it.

Figure 3
**Likelihood of Using Savings Plan Feature if Offered, Among Workers
 Participating in an Employer-Sponsored Retirement Savings Plan and Not Offered Each Feature**

	Very Likely	Some- what Likely	Not Too Likely	Not At All Likely
An option that automatically raises your contribution by a certain percentage or amount whenever you receive a pay raise	27%	33%	17%	19%
A fund option that is designed for people of your age and income level and automatically becomes more conservative as your retirement date nears	23	45	14	11
A fund option that maintains a pre-set level of risk and generally has a mix of conservative, moderate, and aggressive investments	21	46	11	14
An option where a professional financial manager makes investment decisions for you based on your responses to a questionnaire	15	36	21	22

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

- Retirement plan participants are also receptive to features that automatically raise their contribution rates when they receive a pay raise. More than one-quarter say they would be *very* likely to use this plan feature, and one-third think they would be *somewhat* likely to use it.

¹ Respondents were not informed of the relative cost differences between the options.

Saving Outside of Work

- More than 8 in 10 workers who know they are offered a retirement savings plan by their employer report they participate in the plan (82 percent of eligible workers). In contrast, while almost all workers are eligible to participate in an individual retirement account (IRA), just 31 percent report they own one opened with money saved outside of an employer's retirement plan (rather than rollover money).
- Only 15 percent of workers save for retirement through private automatic savings arrangements that mimic the automatic deduction and investment features of a workplace retirement savings plan.
- The large majority of those who do not use this type of automatic savings arrangement are nevertheless aware that they have this option (68 percent).
- Few believe they are likely to begin using such an automatic savings arrangement. Among those not currently participating in this type of arrangement, only 1 in 10 say they would be *very* likely to save for retirement through automatic bank withdrawals and fewer than 3 in 10 say they would be *somewhat* likely.

Figure 4
**Likelihood of Saving for Retirement Through Automatic Bank Withdrawals,
Among Workers Not Currently Using This Method**

Very likely	9%
Somewhat likely	28
Not too likely	27
Not at all likely	35

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

- While those not likely to participate provide various reasons for not doing so, most cite financial problems, not having enough money, needing money for other things, and not wanting others to have access to their bank account.

Source: 2005 Retirement Confidence Survey—Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc. On the Internet at www.ebri.org/rcs, and www.greenwaldresearch.com