News From The Employee Benefit Research Institute

New Research Study Finds Auto-Enrollment, Auto-Escalation, Auto-Portability Can Substantially Reduce Likelihood That Today's Workers Will Run Short of Money in Retirement

- Impact of Auto Features Is Largest with Younger Adults, as Retirement Savings Shortfall Could Decrease by 60% -

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(Washington, D.C.) – The Employee Benefit Research Institute (EBRI) published a new research study today, "ERISA and Auto Features: An RSPM Analysis of the Impact of Automatic Features on Retirement Security," which found when automatic enrollment, automatic escalation and automatic portability are used together, the impact can be substantial in reducing the likelihood that today's workers will run short of money in retirement. This is particularly true for younger workers, who could have many years of eligibility for participation in a defined contribution (DC) plan before they retire.

The Employee Retirement Income Security Act of 1974 (ERISA) governs the provision of employee benefit plans in the private sector, including pension benefits from both defined benefit (DB) and DC plans. ERISA preempts state laws from regulating employee benefit plans, which allows employers to be creative in their provision of the benefits and offers opportunities to enhance them. A prime example of this is automatic enrollment, where DC plan participants are automatically enrolled in the plan once they're eligible and must opt out if they do not want to participate, which has led to increased participation rates. Automatic enrollment is now required for new plans but not for those established before December 30, 2022. Other automatic features have also been adopted by plans, showing the importance of plan design in improving participants' outcomes.

This study examines the impact of each of these automatic features using EBRI's Retirement Security Projection Model® (RSPM), which has been used to evaluate various retirement policy proposals and legislation since its use for the first national evaluation of the retirement system in 2003. Building on this prior work, the impact of these automatic features is shown for each individual provision as well as for measures used collectively in helping to increase the likelihood of individuals not running short of money in retirement.

Key findings in the new research report include:
- When automatic enrollment with a 6% default contribution is adopted by all DC plans, the retirement savings shortfall among those who have access to a DC plan in the future decreases by 7%. This increases to over 10% for those ages 35–39.
- When automatic escalation of 1 percentage point annually until reaching 12% is added to the automatic enrollment plans with a 6% default contribution rate, the reduction in the retirement savings shortfall increases to 9%.
- When automatic portability alone is used by all plans, the reduction in the retirement savings shortfall reaches over 11% for those ages 35–39.
- When automatic enrollment with a default contribution rate of 6%, automatic escalation and automatic portability are adopted by all, the likelihood of not running short of money for those with future access to a DC plan increases by nearly 5 percentage points, and the reduction in the retirement savings shortfall is 16%. For those ages 35–39, the likelihood of not running short of money increases by almost 9 percentage points and the retirement savings shortfall is reduced by 26%.
- The impact of automatic features is the largest among those who will have more years exposed to them — those younger and with more future years of eligibility in a DC plan. In fact, for those with 27–30 years of future eligibility in a DC plan, the retirement savings shortfall decreases by 60%.

"The impact of future years of retirement plan eligibility highlights a key issue for retirement security — worker access to employment-based retirement plans. Automatic features can only help workers if they have access to a DC plan," said Craig Copeland, director, Wealth Benefits Research, EBRI. "Plan sponsors and policymakers need to understand the significant impact that plan design can have on participation, contribution rates and asset preservation through the adoption of automatic features. Furthermore, these features are particularly important for individuals who have lower incomes and have been traditionally less likely to participate in a plan. While the most common automatic features can greatly improve retirement security, the framework of ERISA allows for a continued evolution of plan design in DC retirement plans that could lead to further enhancement of retirement security."

To view a summary of the research report, “ERISA and Auto Features: An RSPM Analysis of the Impact of Automatic Features on Retirement Security,” visit https://www.ebri.org/publications/research-publications/issue-briefs/content/erisa-and-auto-features--an-rspm--analysis-of-the-impact-of-automatic-features-on-retirement-security.

The Employee Benefit Research Institute is a non-profit, independent and unbiased research organization that provides the most authoritative and objective information about critical issues relating to employee benefit programs in the United States. The organization also coordinates activities for the Center for Research on Health Benefits Innovation, Financial Wellbeing Research Center and Retirement Security Research Center and produces a variety of leading industry surveys during the year. For more information, visit www.ebri.org.

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(Media Note: To receive the complete research report, email Ron Dresner at dresner@ebri.org)