

THE MASTERS

WEALTH MANAGEMENT GROUP

AUTO-ENROLL 401(K)s

More companies are offering them. Will they fix our retirement savings blues?

Presented by Gary Mastrodonato, CEA

The trend could become the norm. Human resources firm Aon Hewitt surveyed 120 large U.S. companies in 2010 and found that 60% of them automatically enrolled workers in defined contribution retirement plans such as 401(k)s. In Aon Hewitt's 2006 survey, only 24% of companies had bothered to do so.¹

Does automatic enrollment lead to plan participation? It seems to greatly encourage it. The Aon Hewitt study found that 85.3% of auto-enrolled workers were participating in the retirement plans, bringing overall defined contribution retirement plan participation to 75.8% of the workforce.¹

It may encourage growth investing. When you auto-enroll in a 401(k), you are often presented with a suggested asset allocation including target-date funds. Younger plan participants seem to be embracing this choice and ramping up their ownership of equities. A new Vanguard study shows that equity allocations for the typical 20-year old plan participant went from 40.7% to 84.7% between 2003 and 2010, and there was also a notable increase in equity ownership for plan participants aged 20-30 in that period. Last year, 61% of Vanguard plans offered workers default investment choices; 89% of these plan sponsors picked target-date funds as the default choice.²

Are the set contribution rates too low? Aon Hewitt found that 76% of auto-enroll plans had set contribution rates of 4% or less. This automation might be a hindrance: while employees in the auto-enroll plans deferred an average of 6.8% of their pay, workers who had actively enrolled in their company retirement plans put 7.8% of their salaries away.²

Will we see auto-IRAs? In 2010, President Obama proposed requiring any employer in business for more than two years with 10 or more employees to sponsor direct-deposit Roth IRAs, with 3% of employee salaries going into the accounts. The National Small Business Association (NSBA) called the idea "unfair" to small businesses and "very problematic". No momentum seems to be building for its revival.³

Is automatic enrollment "the answer"? Workers need to save more for retirement, and auto-enroll 401(k)s at least force them to be acquainted with the awesome potential of these retirement savings vehicles. The Aon Hewitt study seems to show a path from enrollment to interest to investment.



Gary C. Mastrodonato, CEA
The Masters, LLC
Wealth Management Group
Keeping Families & Generations Together

“Where Everyday, You Get Our Best!”

Gary C. Mastrodonato is a Representative with Capital Investment Companies and may be reached at:
807 Broad Street Suite C PO Box 306, Oriental, North Carolina 28571
Phone: (252)249-0100 Fax: (252)249-0105

Securities offered through Capital Investment Group, Inc., Member FINRA/SIPC and advisory services offered through Capital Investment Advisory Services, LLC. Gary Mastrodonato, CEA, Investment Advisor Representative. The Masters, LLC WealthManagement Group is not owned by or an affiliate of Capital Investment Group Inc. Capital Investment Group, 17 Glenwood Avenue, Raleigh, NC 27603 (919)831-2370

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty.

Citations.

- 1 - ir.aon.com/phoenix.zhtml?c=105697&p=irol-newsArticle_print&ID=1567166&highlight= [5/24/11]
- 2 - blogs.smartmoney.com/encore/2011/05/26/a-retirement-savings-cure-all [5/26/11]
- 3 - shrm.org/hrdisciplines/benefits/Articles/Pages/AutoIRAs.aspx [2/3/10]
- 4 - montoyaregistry.com/Financial-Market.aspx?financial-market=401k-companies&category=2 [5/30/11]