



# Employer Awareness and Attitudes About Automatic 401(k) Plans

A Survey of Companies with 500 to 5,000 Employees

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## EXECUTIVE SUMMARY

Many employers provide the opportunity for their employees to save for retirement through a 401(k) plan. These employers know that workers have become increasingly responsible for ensuring their own financial security in retirement. However, in 2006, almost a quarter of private industry workers who had access to a defined contribution plan at establishments with 100 or more workers did not participate.<sup>1</sup> Also, research shows that many people do not save enough to meet their retirement needs. For example, “more than half of workers saving for retirement report savings and investments (not including the value of their primary residence or any defined benefit plans) of less than \$50,000 (52 percent)”.<sup>2</sup> The opportunity exists to increase 401(k) participation and savings rates nationwide.

In the past few years, an increasing number of employers have introduced automatic features to their 401(k) plans. In traditional 401(k) plans, workers must make numerous choices, including whether to sign up, how much to contribute, how to allocate investment funds, how often to rebalance their portfolios, and what to do with the available funds upon job change. With an automatic 401(k)—sometimes called an opt-out plan—the situation is reversed. Workers are automatically enrolled in the plan unless they actively choose not to participate. They are assigned a reasonable contribution level, which companies may elect to increase over time, and placed into a prudent investment fund such as a lifecycle or balanced fund. Employees can choose to change these at any time.

This growing trend of automating 401(k) plan features led AARP to conduct a survey in the winter of 2006-2007 to examine mid-size employers’ awareness, understanding, and attitudes about automatic 401(k)s. The national telephone survey was conducted by Harris Interactive, Inc. Mid-size employers are defined as companies with 500 to 5,000 employees. Interviews were conducted with a total of 800 employers that offer a 401(k) plan, nearly a quarter of whom automatically enroll employees in their plan. The margin of sampling error for total respondents is +/- 3.5 percent, the margin of sampling error for respondents that have automatic 401(k) enrollment is +/- 6.6%, and the margin of sampling error for respondents that do not have automatic 401(k) enrollment is +/- 4.1%.

The following are key findings from the report:

- Most mid-size employers are familiar with automatic 401(k) features. Nine in ten employers are very or somewhat familiar with automatic enrollment and seven in ten employers are very or somewhat familiar with automatic escalation. Larger companies (i.e., those with 1,000 to 5,000 employees) are more likely to be familiar with automatic enrollment and automatic escalation than smaller companies (i.e., those with 500 to 999 employees).
- Nearly four in ten employers that do not have automatic enrollment are likely (very or somewhat) to add it in the next year.

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<sup>1</sup> United States Department of Labor (2006). National Compensation Survey: Employee Benefits in Private Industry in the United States.

<sup>2</sup> Employee Benefit Research Institute (2006). Issue Brief No. 292.

- Among major reasons for adopting automatic 401(k) plan features, over eight in ten employers that have automatic enrollment cite “employees save more for retirement.” Almost five in ten employers cite “it demonstrates that we are a socially responsible organization” and over four in ten cite “it is easier to pass nondiscrimination testing.”
- The most commonly cited reason for choosing not to have automatic enrollment is a lack of information or awareness about automatic enrollment (mentioned by 23% of employers that do not have automatic enrollment). Nearly two in ten employers cite concerns about cost as well as a belief that their employees would not like automatic enrollment. Less than one in ten employers cite administrative hurdles or challenges related to implementation.
- Primary responsibility for making the decision to add automatic 401(k) features most often rests with human resources (HR) personnel. Over four in ten employers report HR staff having primary responsibility, compared with fewer than two in ten employers that report staff at the level of president, vice president, chief operating officer or owner. Primary responsibility for making the decision is more likely to reside with human resources department personnel and with a committee at companies with 1,000 to 5,000 employees than at companies with 500 to 900 employees. In contrast, primary responsibility is more likely to reside with personnel at the president, vice-president, or chief operating officer level at companies with 500 to 999 employees than at companies with 1,000 to 5,000 employees.
- Four in ten employers cite plan providers and related individuals as the type of outside organization or individual that would be or has been most influential in their company’s decision about whether or not to automate their 401(k).
- The majority of employers feel that information about the following topics either was or would be helpful when deciding whether or not to automate their 401(k) plans: legal issues, cost implications, basic information about automatic enrollment, questions to ask one’s provider, guidance assessing existing information, peer group experiences and investment default options. Employers that do not have automatic enrollment are more likely than employers that do have automatic enrollment to cite legal issues, cost implications, and peer group experiences as helpful information.
- Over eight in ten employers would find websites, publications, individual meetings, and training to be useful sources of information about automatic 401(k)s.
- Over six in ten employers offer financial education to their employees related to their 401(k) plan. Most employers (80%) believe that “financial education is equally important whether automatic 401(k) features are in place or not.”
- Of the companies that are very or somewhat likely to use free, unbiased financial education for their employees from an outside organization, nearly all would find in-person seminars or group meetings very or somewhat useful. Over seven in ten employers would find a web site maintained by a third party, content integrated into their

company's web site, and content integrated into their company's newsletter very or somewhat useful.

The findings suggest that while the concept of automatic 401(k) enrollment and escalation are not new to mid-size employers, employers need more information about both. The study finds that many companies are considering adopting automatic features and some are likely to do so in the next year. However, it also reveals that the majority of companies without automatic enrollment would find "basic information about automatic enrollment" helpful when deciding whether or not to automate their 401(k) plan feature. In addition, some employers cite a lack of information as a reason for not having automatic enrollment in their 401(k) plan.

Outreach to mid-size employers should recognize the key role that human resources department personnel play in the decision making process about 401(k)s at most companies. Human resources staff have either primary responsibility for making decisions about adding automatic features to their company's 401(k) plan or they are involved in the decision making process at seven in ten companies. Plan providers are also a key audience since many employers that do not have automatic enrollment identify providers as likely to be influential in their company's decision about whether or not to automate their 401(k).

Material designed for employers should address legal issues and cost implications related to automating 401(k) plan features, the two types of information most commonly cited as useful by companies that do not have automatic enrollment. Material for employers would also benefit from addressing questions for employers to ask providers, basic information about automatic enrollment, and the experiences of peer mid-size employers, the three next most frequently cited information needs.

In addition, material should take into account employers' motivations for automating their 401(k) plan features. Most companies automate their 401(k) plan features (or believe others do) to help employees save more for retirement. Many employers are also motivated (or believe others are motivated) by passing nondiscrimination tests more easily, being perceived as a socially responsible company, and improving staff recruitment or retention.

Employers appear open to a variety of sources of information about automatic 401(k)s and formats for financial education related to 401(k)s. Therefore, any organizations seeking to educate employers should take additional considerations into account, such as cost and ease of distribution as well as the ability to update content.

In 2004, there were over 19.6 million paid employees in firms with 500 to 5,000 employees in the United States.<sup>3</sup> It is important to understand mid-size employers' awareness, understanding, and attitudes about automatic 401(k)s since these employers are a potential gateway to increased 401(k) participation and retirement savings for so many people.

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<sup>3</sup> United States Census Bureau (2006). [www.census.gov](http://www.census.gov). Printed April 3, 2007.

## INTRODUCTION

Many employers provide the opportunity for their employees to save for retirement through a 401(k) plan. These employers know that workers have become increasingly responsible for ensuring their own financial security in retirement. However, in 2006, almost a quarter of private industry workers who had access to a defined contribution plan at establishments with 100 or more workers did not participate<sup>1</sup>. Also, research shows that many people do not save enough to meet their retirement needs. For example, “more than half of workers saving for retirement report savings and investments (not including the value of their primary residence or any defined benefit plans) of less than \$50,000 (52 percent)”<sup>2</sup>. The opportunity exists to increase 401(k) participation and savings rates nationwide.

In the past few years, an increasing number of employers have introduced automatic features to their 401(k) plans. In traditional 401(k) plans, workers must make numerous choices, including whether to sign up, how much to contribute, how to allocate investment funds, how often to rebalance their portfolios, and what to do with the available funds upon job change. With an automatic 401(k)—sometimes called an opt-out plan—the situation is reversed. Workers are automatically enrolled in the plan unless they actively choose not to participate. They are assigned a reasonable contribution level, which companies may elect to increase over time, and placed into a prudent investment fund such as a lifecycle or balanced fund. Employees can choose to change these at any time.

This growing trend of automating 401(k) plan features led AARP to conduct a survey in the winter of 2006-2007 to examine mid-size employers’ awareness, understanding, and attitudes about automatic 401(k)s.

## METHODOLOGY

This national telephone survey was conducted by Harris Interactive, Inc. for AARP from December 2006 to February 2007. From within a sample of companies with 500 to 5,000 employees obtained from Dun and Bradstreet, respondents were randomly selected to ensure each company within the sample had an equal opportunity to respond to the survey. Qualified respondents consisted of those who have primary or shared responsibility for making decisions regarding their organization’s employee benefits and work in private sector (for-profit or non-profit) companies that have a 401(k) plan. Government organizations (federal, state, and local) as well as public school systems and public universities were excluded. As a result of the desire to segment the companies based on the number of employees, the sample was drawn to complete half of the interviews among employers with 500 to 999 employees and half among employers with 1,000 to 5,000 employees. Two weight factors have been applied to this study to reflect the population of companies with 500 to 5,000 employees that offer a 401(k) plan. The margin of sampling error for total respondents is +/- 3.5 percent, the margin of sampling error for respondents that have automatic 401(k) enrollment is +/- 6.6%, and the margin of sampling error

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<sup>1</sup> United States Department of Labor (2006). National Compensation Survey: Employee Benefits in Private Industry in the United States.

<sup>2</sup> Employee Benefit Research Institute (2006). Issue Brief No. 292.

for respondents that do not have automatic 401(k) enrollment is +/- 4.1%. Interviews were completed with 800 U.S. employers.

## DETAILED FINDINGS

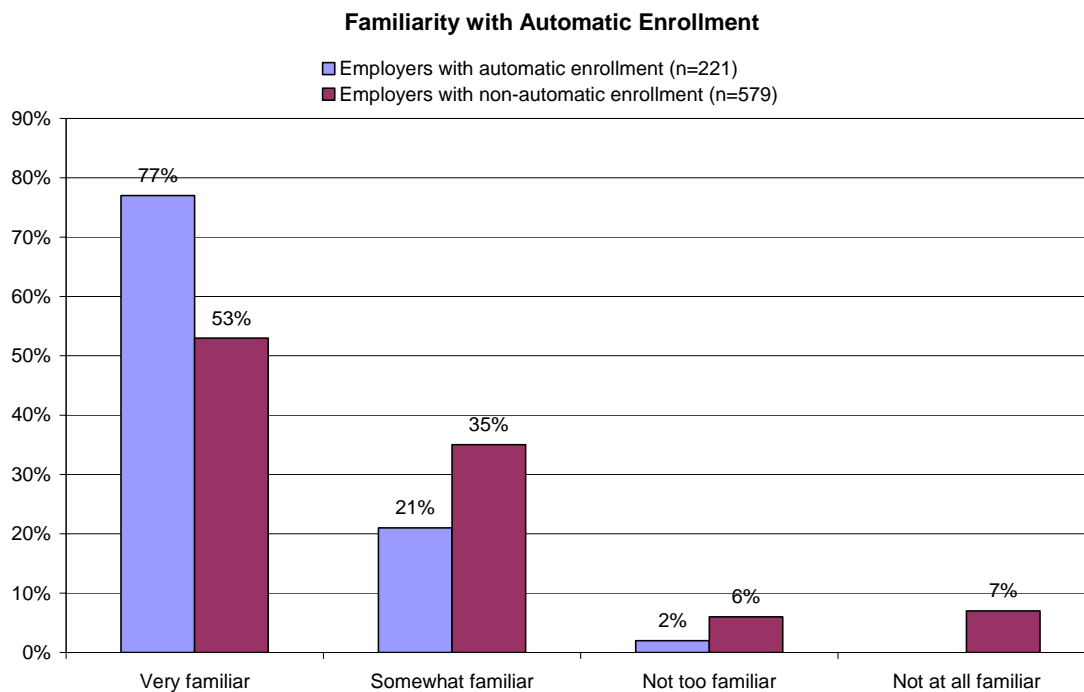
### Prevalence and understanding of automatic 401(k) plan features

#### *Automatic Enrollment*

Overall, nine out of ten employers (90%) are familiar with automatic enrollment in 401(k) plans. In fact, six out of ten (60%) report being “very” familiar while three out of ten (31%) report being “somewhat” familiar. Only one in ten employers (10%) report being “not too” or “not at all” familiar with automatic enrollment.

Employers with 1,000 to 5,000 employees are more likely to be familiar (very or somewhat) with automatic enrollment than employers with 500-999 employees (94% versus 88%).

Not surprisingly, employers that have automatic enrollment are more likely to be familiar (very or somewhat) with automatic enrollment than employers that do not have it (98% versus 87%). More specifically, employers that have automatic enrollment are more likely to be “very familiar” with automatic enrollment than employers that do not have it (77% versus 53%). Similarly, companies that do not have automatic enrollment are more likely to be “somewhat familiar,” “not too familiar,” and “not at all familiar” with automatic enrollment than companies that do have it (35% versus 21%, 6% versus 2%, and 7% versus 0%, respectively).



Q510. “Would you say you are very, somewhat, not too, or not at all familiar with automatic enrollment in 401(k) plans?” Base: All respondents (n=800).

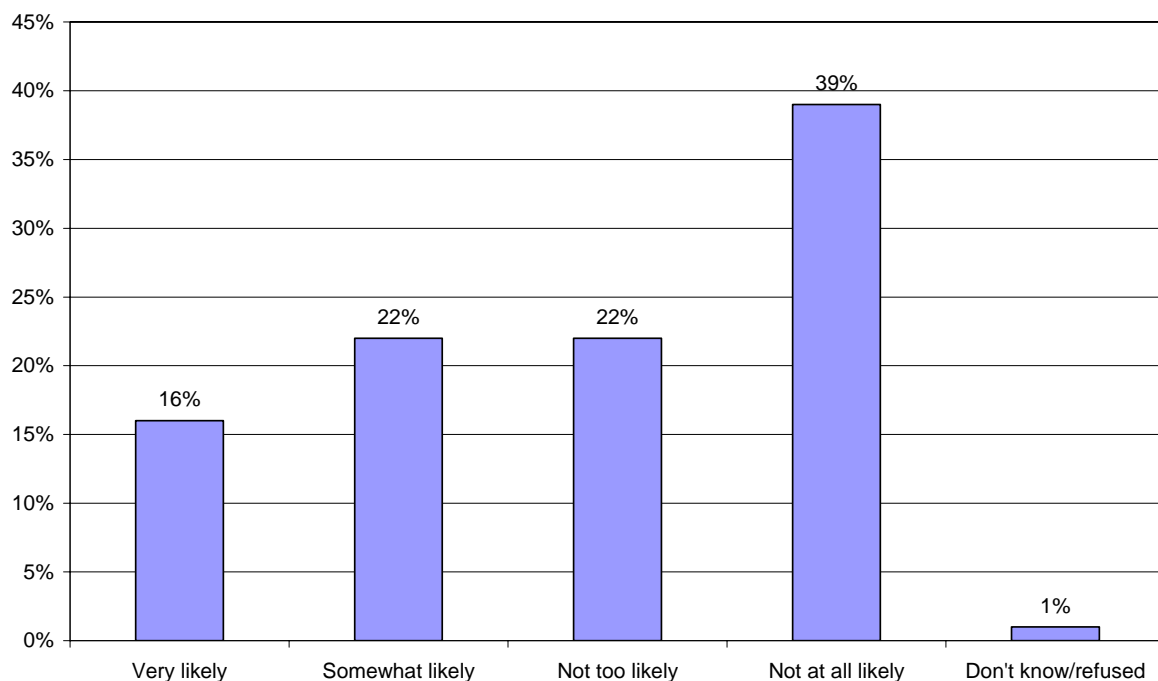


Among all respondents, 28% automatically enroll participants in their company's 401(k) plan. There is no statistically significant difference between the percent of companies with 500 to 999 employees (29%) and the percent of companies with 1,000 to 5,000 employees (26%) that automatically enroll participants.

Companies in the manufacturing sector are more likely to have automatic enrollment than not have it (39% versus 25%). The low number of respondents in other industries makes it difficult to determine whether or not companies in those industries are more likely to have automatic enrollment or not.

When asked how likely they are to add automatic enrollment to their 401(k) plan in the next year, almost four in ten employers without automatic enrollment (38%) report they are likely (very or somewhat) to do so. However, only slightly more than one in ten employers (16%) is "very likely." More than two in ten employers (22%) are "not too likely" to add automatic enrollment in the next year while nearly four in ten (39%) are "not at all likely" to do so. Responses do not vary by company size.

**Likelihood of Adding Automatic Enrollment in the Next Year  
Among Companies Without Automatic Enrollment (n=579)**



Q810 "How likely are you to add automatic enrollment to your 401(k) plan in the next year? Would you say you are very likely, somewhat likely, not too likely, or not at all likely? Base: Respondents that do not have automatic enrollment (n=579).

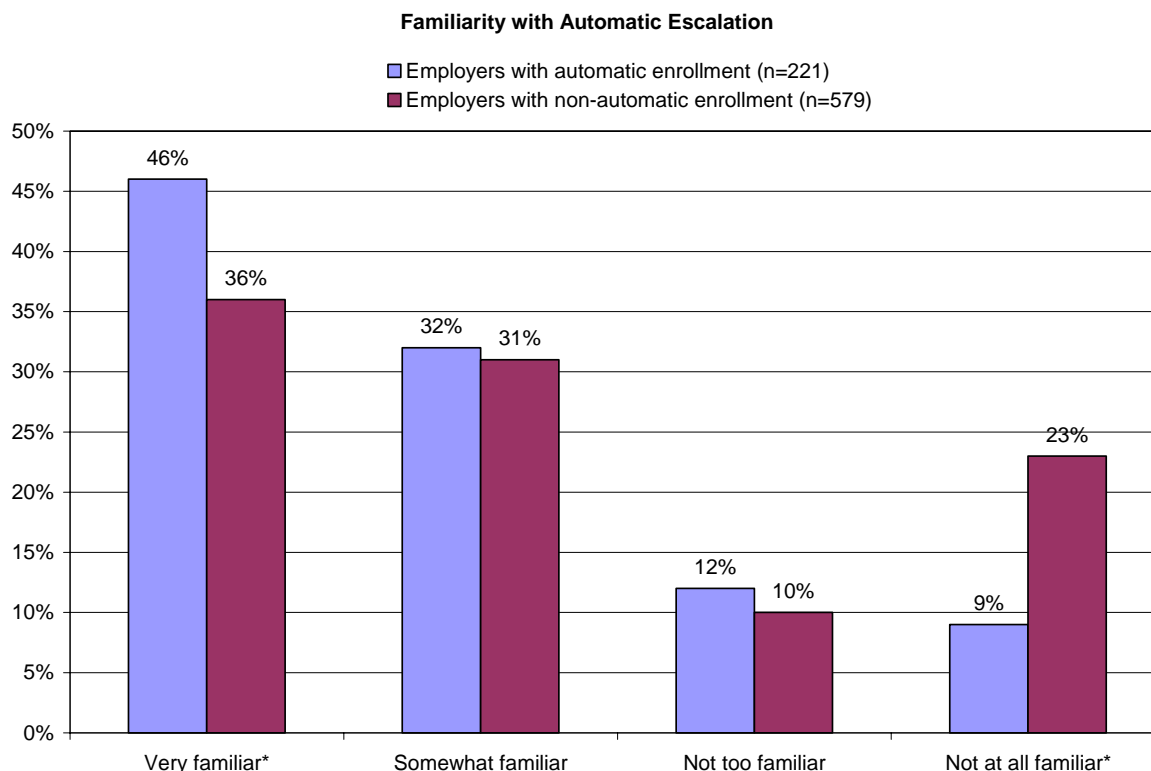
Some differences exist between employers without automatic enrollment that are likely (very or somewhat) to add automatic enrollment in the next year and employers that are unlikely (i.e., not too or not at all likely) to add it. Employers with the following characteristics are more likely to add automatic enrollment in the next year:

- Employers who are familiar (very or somewhat) with automatic enrollment (96% versus 82%),
- Employers that are “very likely” to use financial education from an outside organization (19% versus 10%),
- Employers that cite “it is easier to pass nondiscrimination testing” as a major reason for a company to adopt automatic 401(k) plan features (60% versus 41%),
- Employers that cite “employees save more for retirement” as a major reason for a company to adopt automatic 401(k) plan features (90% versus 59%),
- Employers that cite “it helps recruit staff” as a major reason (26% versus 16%) or a minor reason (47% versus 37%) for a company to adopt automatic 401(k) plan features,
- Employers that cite “it helps retain employees” as a major reason (28% versus 17%) or a minor reason (49% versus 37%) for a company to adopt automatic 401(k) plan features,
- Employers that cite “it demonstrates that we are a socially responsible company” as a major reason (37% versus 19%) for a company to adopt automatic 401(k) plan features,
- Employers that are familiar (very or somewhat) with automatic escalation (73% versus 62%), and
- Employers whose decisions about whether to add automatic 401(k) features to their organization’s 401(k) plan is primarily made by human resources personnel (49% versus 39%).

### ***Automatic Escalation***

The majority of all employers are familiar with automatic escalation (70%). Almost four out of ten employers (39%) are “very familiar” with automatic escalation and three out of ten (31%) are “somewhat familiar” with it. Three in ten employers (30%) are “not too familiar” or “not at all familiar” with automatic escalation. In fact, nearly a fifth of employers (19%) are “not at all familiar” with it.

Employers with automatic enrollment are more likely to be familiar (very or somewhat) with automatic escalation than employers that do not have automatic enrollment (79% versus 67%). More specifically, employers with automatic enrollment are more likely to be “very familiar” with automatic escalation than employers that do not have automatic enrollment (46% versus 36%). Over a fifth (23%) of employers that do not have automatic enrollment are “not at all familiar” with automatic escalation.



Q530. "Would you say you are very, somewhat, not too, or not at all familiar with automatic escalation?" Base: All respondents (n=800).

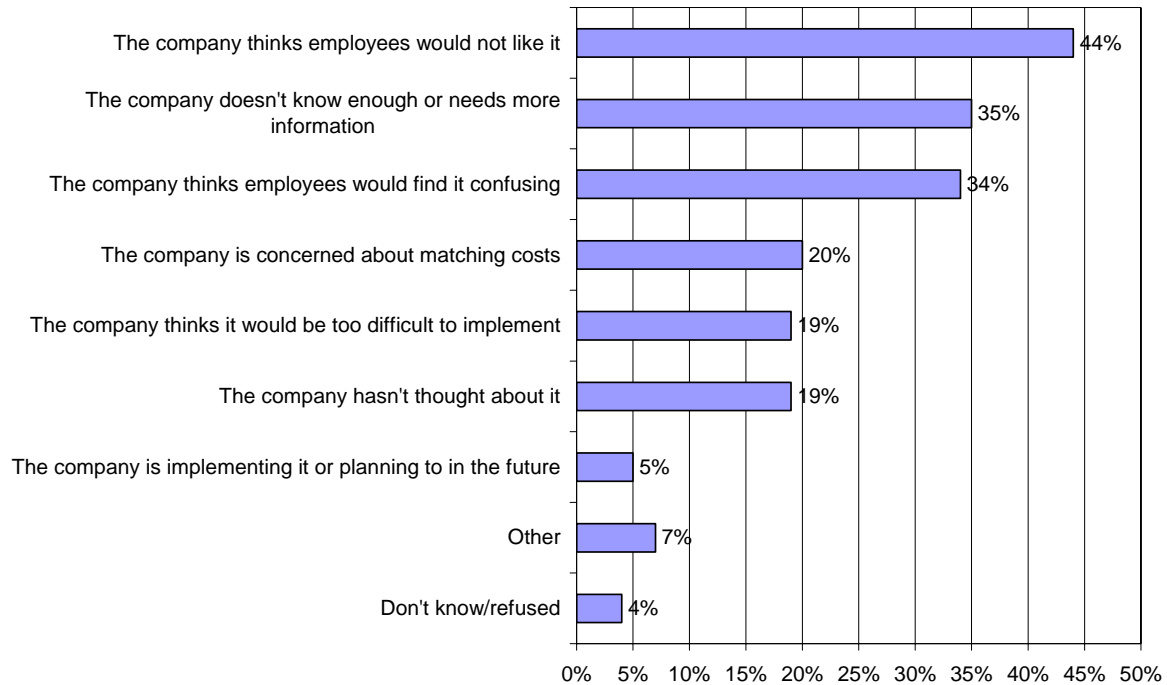
\*Statistically significant at 0.05 level.

Employers with 1,000 to 5,000 employees are more likely to be familiar (very or somewhat) with automatic escalation than employers with 500-999 employees (77% versus 64%).

Few employers have 401(k) plans with an automatic escalation feature. In fact, just over one in ten (14%) companies have automatic escalation, compared with nearly one in three (28%) that have automatic enrollment. The likelihood of having automatic escalation does not vary by company size. Companies that have automatic enrollment are more likely than companies that do not have automatic enrollment to have automatic escalation (28% versus 8%).

When employers that have automatic enrollment but not automatic escalation (n=153) were asked why their company does not automatically increase contributions, the most common reason (cited by 44% of employers) is the company's perception that employees would not like automatic escalation. Approximately a third of employers (34%) believe their employees would find it confusing while one-third (35%) of the employers feel they do not know enough about automatic escalation or need more information about it. Other reasons almost one in five employers cite include concerns about their company's matching costs (20%), concerns about implementation (19%), and having not thought about it (19%).

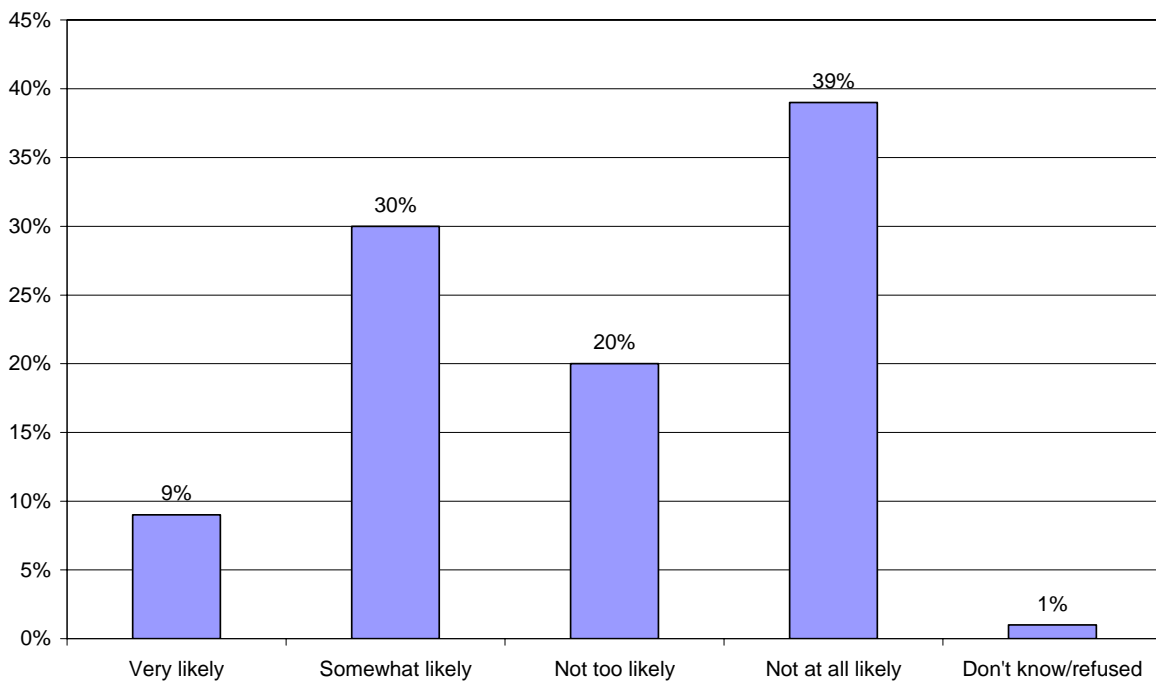
**Reasons Companies Do Not Have Automatic Escalation**  
**Cited by Companies with Automatic Enrollment but not Automatic Escalation (n=153)**



Q535. "Which of the following are reasons why your company does not automatically increase contributions?" Base: Respondents that have automatic enrollment but not automatic escalation (n=153). Multiple responses allowed.

Employers that have automatic enrollment but not automatic escalation were asked how likely they are to add a feature that automatically increases contributions in the next year. Almost four in ten (39%) say they are likely (very or somewhat) to do so. However, fewer than one in ten (9%) is "very likely." Two in ten employers (20%) are "not too likely" to add a feature that automatically increase contributions in the next year and nearly four in ten (39%) are "not at all likely" to do so. Responses do not vary by company size.

**Likelihood of Adding Automatic Escalation in the Next Year Among Companies With Automatic Enrollment but Not Automatic Escalation (n=153)**



Q810 “Your 401(k) plan has automatic enrollment but it does not automatically increase contributions. How likely are you to add a feature that automatically increases contributions next year? Would you say you are...[READ LIST]”. Base: Respondents who have automatic enrollment but not automatic escalation (n=153).

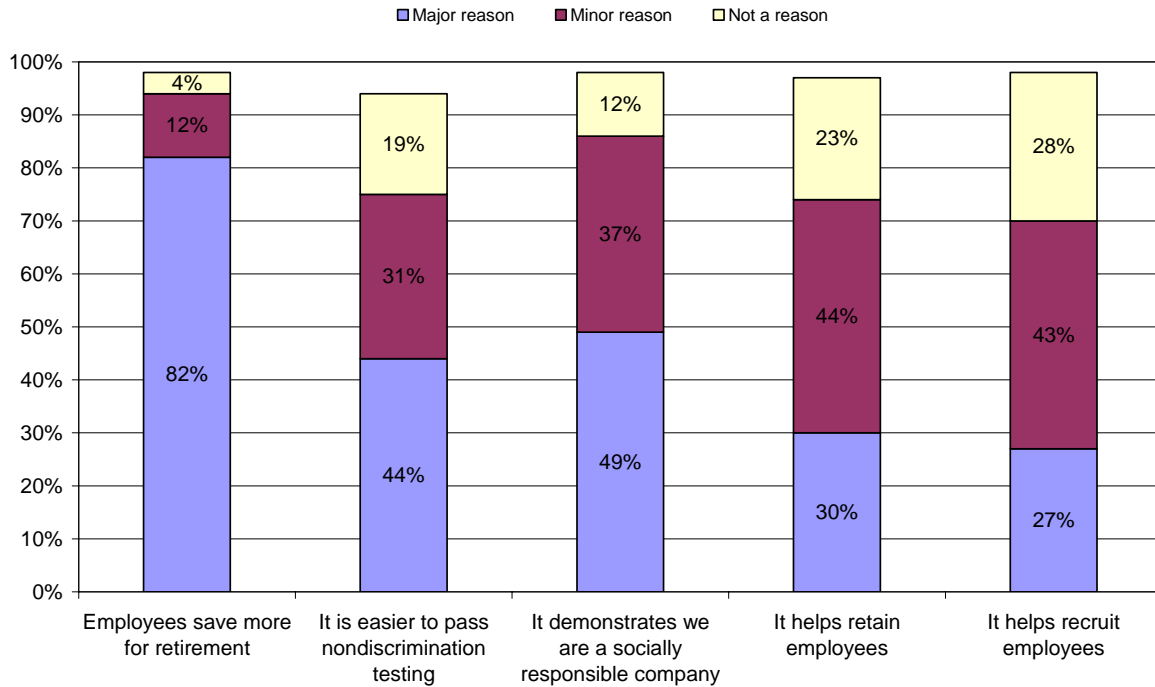
## **Reasons for having or not having automatic enrollment**

### ***Reasons for having automatic enrollment***

Employers were presented with several reasons why some companies offer automatic 401(k) plan features. For each one, employers were asked whether they consider it to be a major or minor reason or not a reason why their company adopted automatic 401(k) plan features.

Among companies that have automatic enrollment (n=221), over eight in ten employers (82%) cite “Employees save more for retirement” as a major reason why their company adopted automatic 401(k) plan features. Almost half of these employers (49%) cite “It demonstrates that we are a socially responsible organization” as a major reason. Nearly as many (44%) cite “It is easier to pass nondiscrimination testing” as a major reason. Three in ten cite “It helps retain employees” (30%) and slightly fewer report “It helps recruit employees” (27%) as a major reason for adopting automatic 401(k) plan features.

**Reasons for Offering Automatic 401(k) Plan Features  
Cited by Companies with Automatic Enrollment (n=221)**

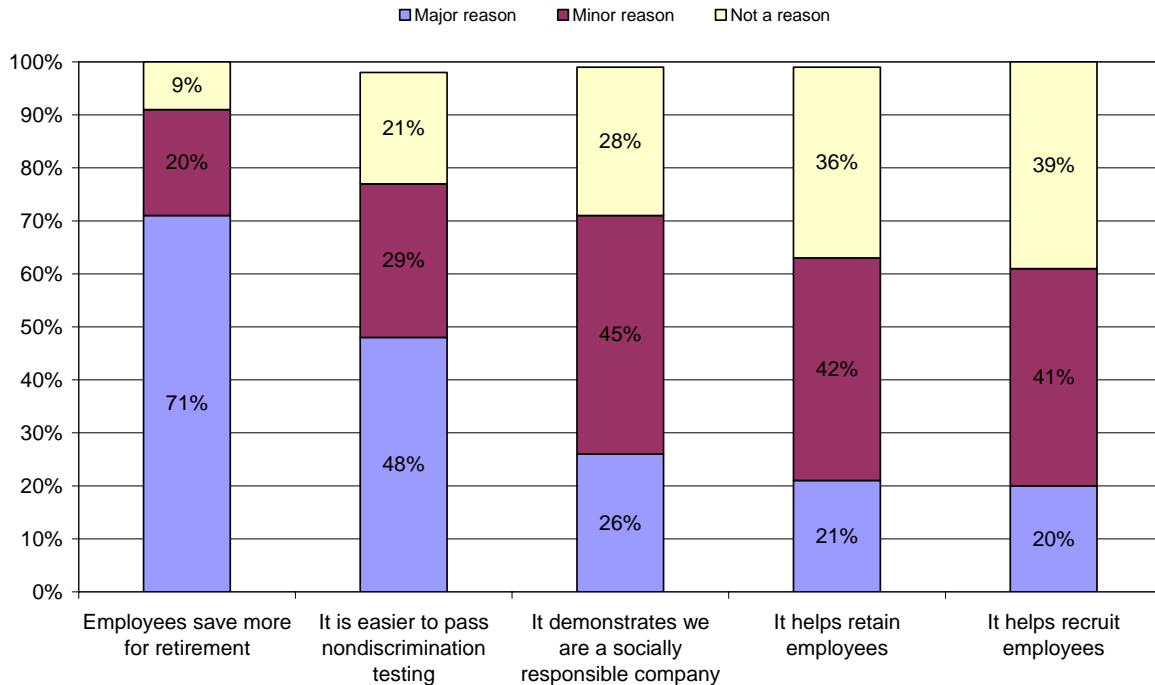


Q800 “Next I’m going to read you some reasons why companies offer automatic 401(k) plan features. For each one, tell me if you consider it to be a major, minor, or not a reason why your company adopted automatic 401(k) plan features.” Base: Companies that have automatic enrollment (n=221). Totals do not equal 100% due to responses of “don’t know/refused.”

Companies with automatic enrollment that have 500 to 999 employees are more likely than companies with 1,000 to 5,000 employees to cite “It demonstrates that we are a socially responsible company” as a major reason (55% versus 41%). In contrast, companies that have 1,000 to 5,000 employees are more likely than companies with 500 to 999 employees to cite “It is easier to pass nondiscrimination testing” as a major reason (53% versus 38%).

Interestingly, while a majority (71%) of employers that do not have automatic enrollment consider “Employees save more for retirement” to be a major reason for a company to adopt automatic 401(k) plan features, they were less likely than companies with automatic enrollment to cite this as a reason (71% versus 82%). Companies without automatic enrollment are also less likely than companies with automatic enrollment to cite “It demonstrates that we are a socially responsible company” (26% versus 49%), “It helps retain employees” (21% versus 30%), and “It helps recruit employees” (20% versus 27%).

**Reasons for Offering Automatic 401(k) Plan Features  
Cited by Companies Without Automatic Enrollment (n=579)**



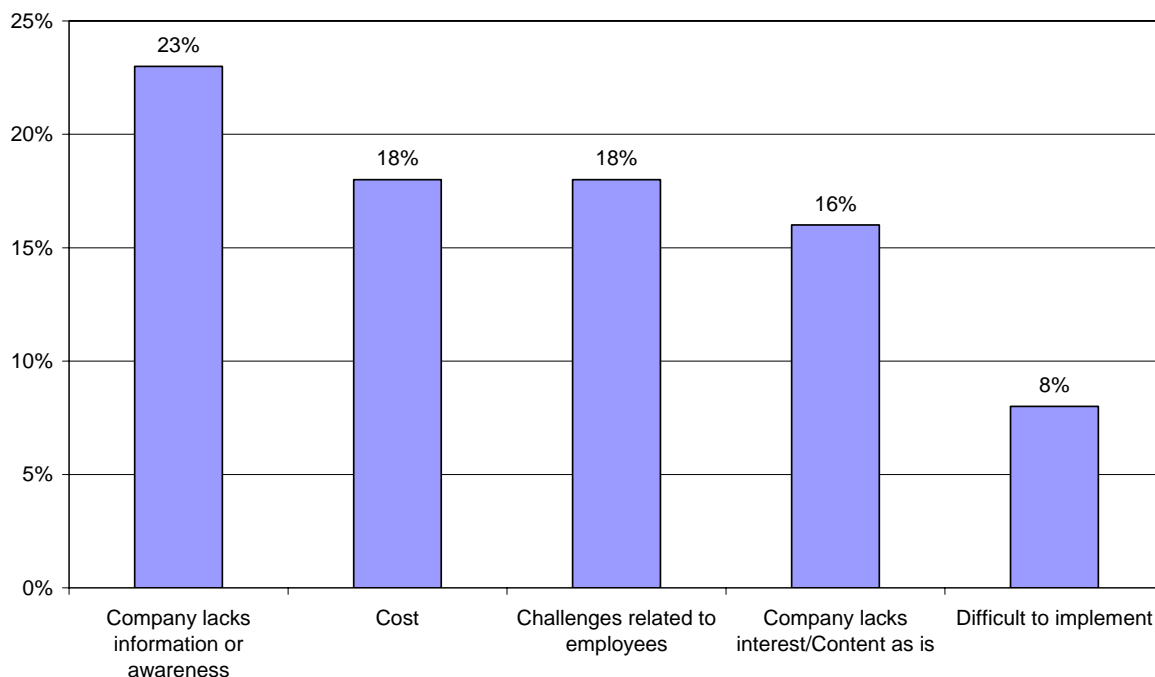
Q800 “Next I’m going to read you some reasons why companies offer automatic 401(k) plan features. For each one, tell me if you would consider it to be a major, minor, or not a reason for a company to adopt automatic 401(k) plan features.” Base: Companies that do not have automatic enrollment (n=579). Totals do not equal 100% due to responses of “don’t know/refused.”

Companies without automatic enrollment that have 1,000 to 5,000 employees are more likely than companies with 500 to 999 employees to cite “It is easier to pass nondiscrimination testing” as a major reason (53% versus 44%).

***Reasons for not having automatic enrollment***

Companies have different reasons for choosing not to have automatic enrollment in their 401(k) plan. When asked why their plan does not have automatic enrollment, roughly a fifth (23%) of employers that do not have automatic enrollment cite a lack of information or awareness about automatic enrollment. Another reason mentioned by some employers (18%) is cost, such as costs related to matching contributions, orphaned accounts, and refund requests as well as unspecified costs. Some employers (18%) also believe their employees would not like automatic enrollment or that they would face other labor-related challenges. Few employers (8%) cite administrative hurdles or challenges related to implementation. In addition, some employers (16%) are simply not interested in automatic enrollment for reasons that include being content with their current participation rate, having a board that is not interested in it, and having a defined benefit plan, among other reasons. There are no statistically significant variations across company sizes.

**Reasons for Not Having Automatic Enrollment  
Cited by Companies Without Automatic Enrollment (n=579)**



Q750. “Companies have different reasons for choosing not to have automatic enrollment in their 401(k) plan. Why does your 401(k) plan not have automatic enrollment?” Open-end. Multiple answers allowed. Base: Companies that do not have automatic enrollment (n=579).

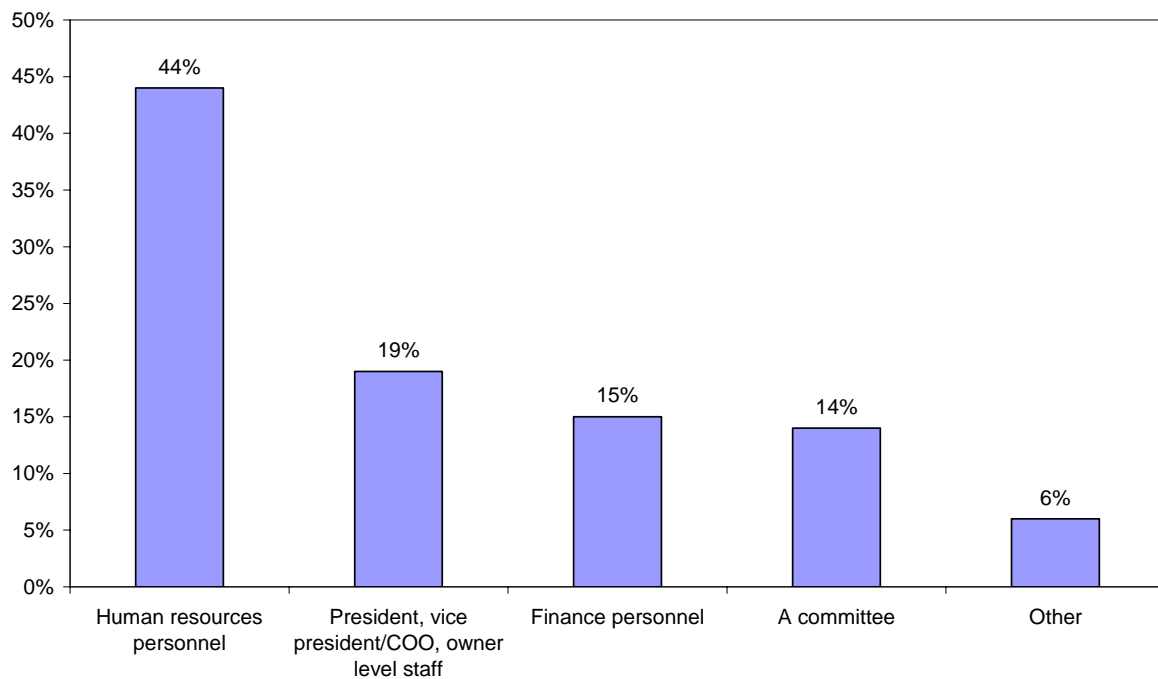
## **Decision-making**

### ***Process***

When asked who, by job title, is primarily responsible for making the decision to add automatic 401(k) features to their company’s 401(k) plan, more than four in ten employers (44%) cite a human resources department staff member. Almost two in ten employers (19%) cite personnel at the president, vice-president, or chief operating officer level while over one in ten cite a staff member who deals with the organization’s finances (such as the chief financial officer, the vice president of finance, or a treasurer) (15%), or a committee such as a retirement committee or a benefits committee (14%).



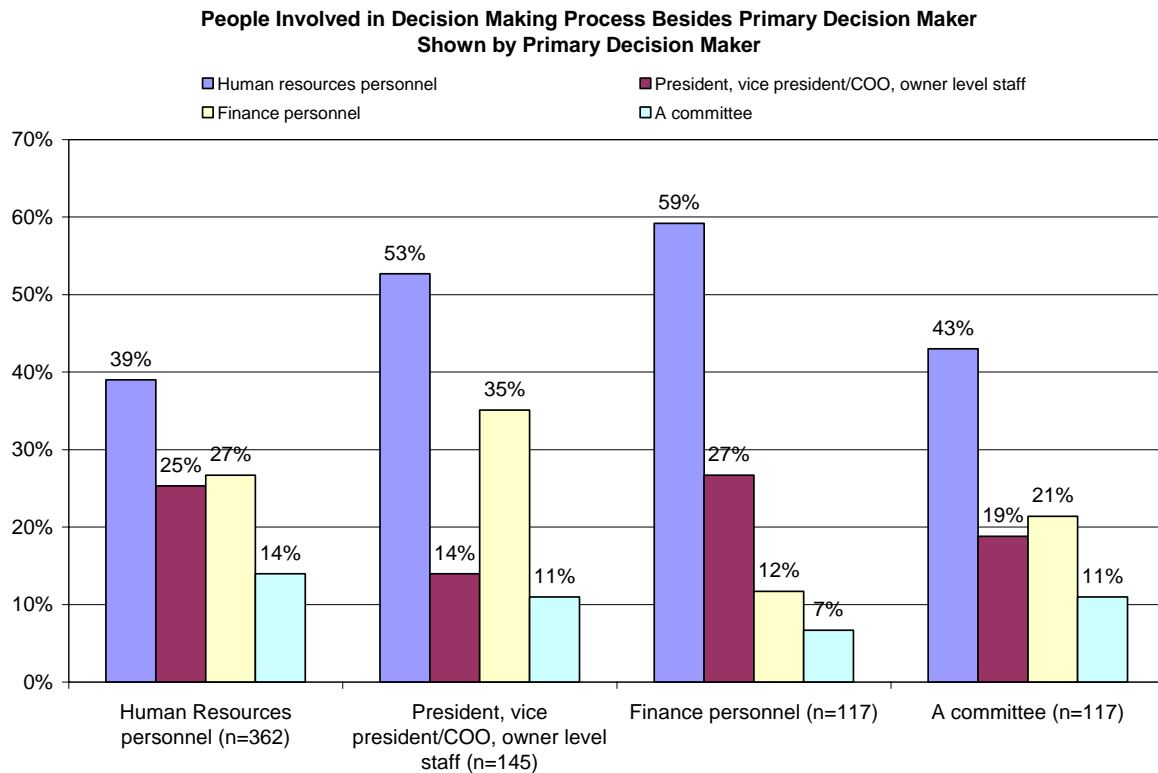
**Primary Responsibility for Decisions About Adding Automatic 401(k) Features  
Among All Respondents (n=800)**



Q600. "By job title, who in your organization would be/has been primarily responsible for making the decision to add automatic 401(k) features to your organization's 401(k) plan? Base: All respondents (n=800).

Primary responsibility for making the decision to add automatic 401(k) features to a company's 401(k) plan is more likely to reside with human resources department personnel at companies with 1,000 to 5,000 employees than at companies with 500 to 999 employees (48% versus 41%). Similarly, the primary responsibility is more likely to reside with a committee at companies with 1,000 to 5,000 employees than at companies with 500 to 999 employees (17% versus 11%). In contrast, primary responsibility is more likely to reside with personnel at the president, vice-president, or chief operating officer level at companies with 500 to 999 employees than at companies with 1,000 to 5,000 employees (22% versus 15%).

Employers were also asked who else would be involved in discussing benefits-related issues such as adding automatic 401(k) features to their organization's 401(k) plan. Regardless of who is the primary decision maker, human resources department staff are the most commonly cited additional discussant. Specifically, Human Resources personnel are involved in the discussion at almost four in ten employers (39%) whose primary decision maker is a member of the human resources department and almost six in ten (58%) whose primary decision maker is an individual that deals with the company's finances.



Q610. “Who else would be involved in discussing benefit related issues such as adding automatic 401(k) features to your organization’s 401(k) plan with your [insert primary decision maker]?”  
Multiple responses allowed. Base: Respondents that cited each primary decision-maker shown.

### ***Influential organizations and people***

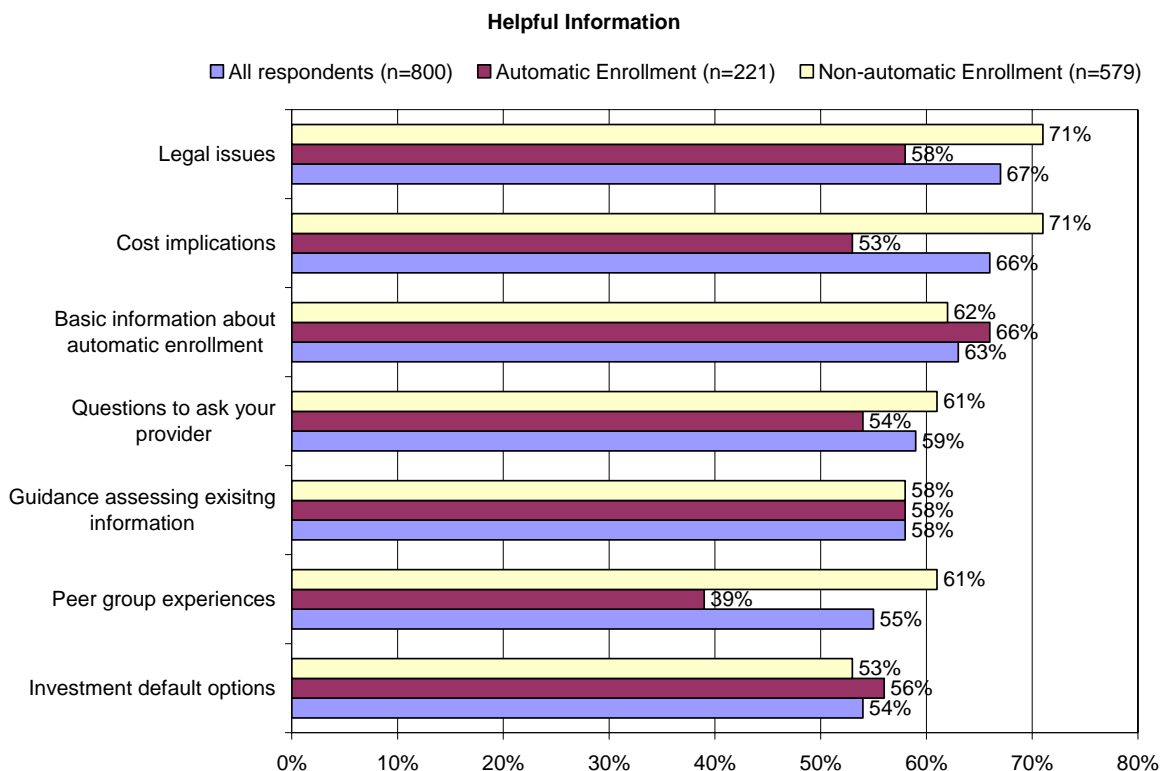
Employers were asked what types of outside organizations or individuals either would be or have been most influential in their company’s decision about whether or not to automate their 401(k). Four in ten employers (40%) cite plan providers and related individuals as most influential, followed by nearly three in ten (27%) citing consultants, such as benefits consultants, business consultants, and financial advisors. In addition, almost two in ten (18%) employers cite internal staff members. Only one in ten (10%) cite others as being most influential, such as government agencies, trade associations, unions, and competitors.

Interestingly, there is no statistically significant difference between companies with automatic enrollment and those without automatic enrollment with regard to who is cited as most influential. In addition, the most influential types of organizations or individuals does not vary by company size.

## Information needs and preferred sources

### Needs

The majority of employers identify several types of information their organization either found helpful when deciding whether or not to automate their 401(k) plan or would find helpful. Over six in ten employers cite information related to legal issues (67%), cost implications (66%), and basic information about automatic enrollment (63%). Over half of the employers also cite information related to questions to ask one's provider (59%), guidance assessing existing information (58%), peer group experiences (55%), and investment default options (54%).



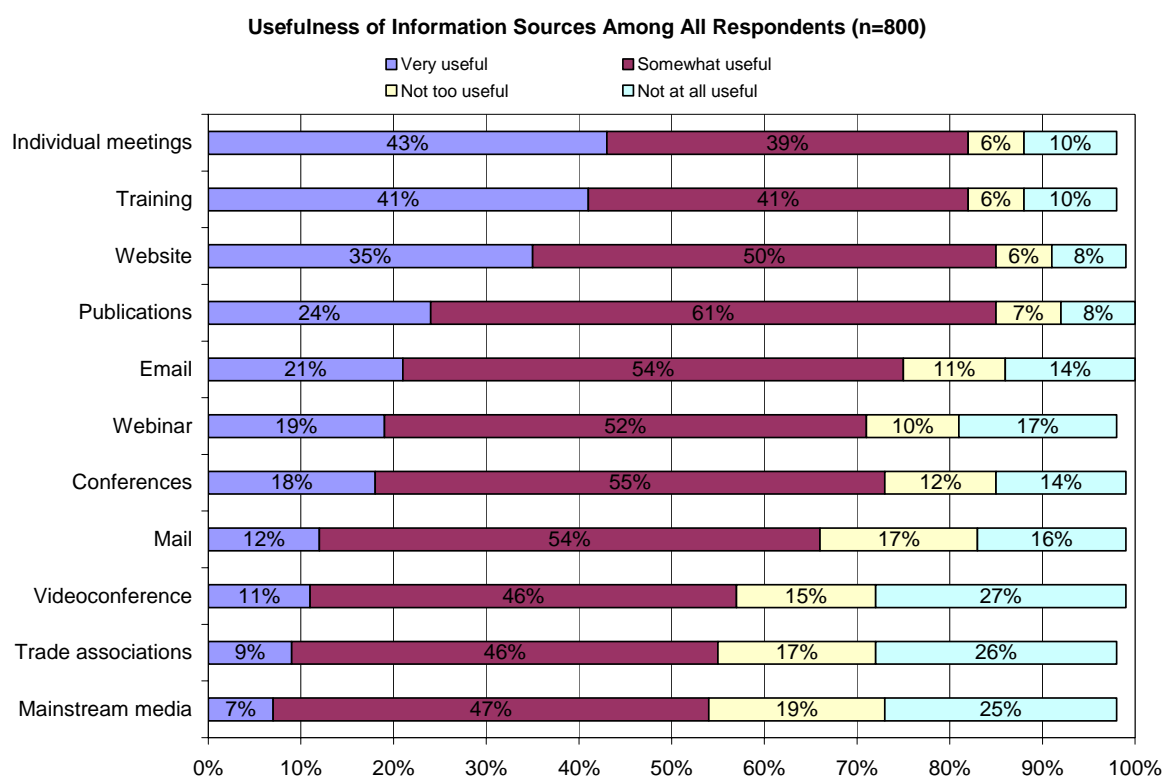
Q630. "Which, if any, of the following information would/did your organization find helpful when deciding whether or not to automatic your 401(k) plan?" Multiple responses allowed. Base: All respondents (n=800).

While information needs do not vary by company size, some information needs are more likely to be mentioned by employers that do not have automatic enrollment. Specifically, employers that do not have automatic enrollment are more likely to cite legal issues (71% versus 58%), cost implications (71% versus 53%), and peer group experiences (61% versus 39%) than employers that have automatic enrollment.

### Sources

Overall, more than eight in ten employers would find the following sources of information about automatic 401(k)s either very or somewhat useful: websites (85%), publications (85%),

individual meetings (82%), and training (82%). More than seven in ten employers would find email, conferences, and webinars useful (74%, 73%, and 71% respectively). More than six in ten employers (66%) would find mail a useful source of information about automatic 401(k)s while over half of employers would find videoconferences, trade associations, and mainstream media useful (57%, 55%, and 55% respectively).



Q635. "Would you find the following sources of information about automatic 401(k)s very, somewhat, not too, or not at all useful?" Base: All respondents (n=800). Totals do not equal 100% due to responses of "don't know/refused."

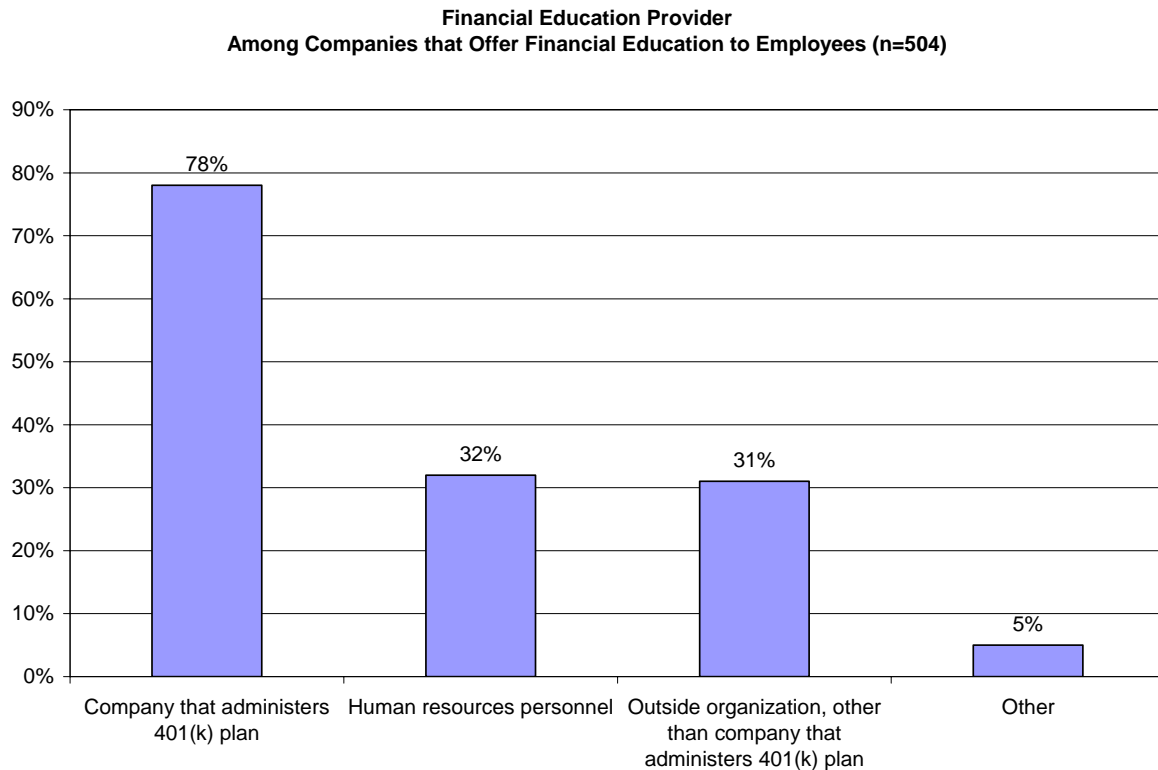
There are only two statistically significant differences regarding perceived usefulness of various sources of information. First, employers with 500 to 999 employees are more likely to find mainstream media useful than employers with 1,000 to 5,000 employees (58% versus 50%). Second, companies with automatic enrollment are more likely to find publications useful than companies without automatic enrollment (90% versus 82%).

## Financial education

### *Prevalence, source, and importance*

Over six in ten employers (63%) offer financial education to their employees related to their 401(k) plan. This offering does not vary by company size or whether 401(k) plan enrollment is automatic. Sixty-one percent of employers with automatic enrollment offer financial education to their employees while sixty-four percent of employers without automatic enrollment do so.

Of the companies that offer financial education (n=504), almost eight in ten employers (78%) report that the company that administers the 401(k) plan provides the education. Nearly a third of employers report the education being provided by their human resources department (32%) or by an outside organization other than the company that administers the plan (31%). The provider of financial education does not vary by company size or whether 401(k) plan enrollment is automatic.



Q705. “Who provides this financial education? Is it...[READ LIST].” Multiple responses allowed. Base: Respondents that currently offer financial education to employees related to their 401(k) plans (n=504).

Most employers (80%) believe that “financial education is equally important whether automatic 401(k) features are in place or not.” Some (17%) believe that “financial education is more important if automatic 401(k) features are in place.” Few (2%) believe that “financial education is less important if automatic 401(k) features are in place.”

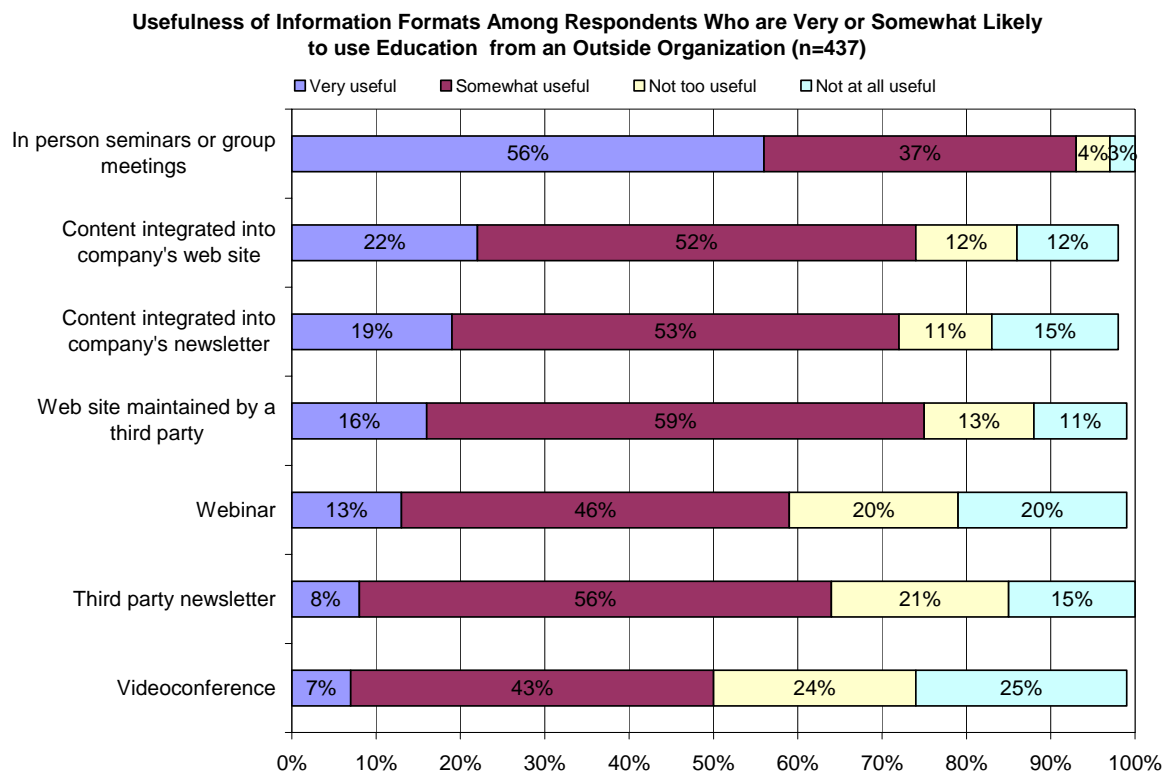
Companies without automatic enrollment are more likely to believe that “financial education is more important if automatic features are in place” than companies with automatic enrollment (19% versus 12%). Responses do not vary by company size.

### ***Source and preferred format***

Just over half (55%) of the employers would be likely (very or somewhat) to use free, unbiased financial education for their employees from an outside organization. However, only slightly

more than 1 in 10 (13%) would be “very likely” to do so. These figures do not vary by company size or whether enrollment in 401(k) plans is automatic.

Of the companies that are likely (very or somewhat) to use free, unbiased financial education for their employees from an outside organization (n=437), over nine out of ten employers (93%) would find “in person seminars or group meetings” useful (very or somewhat). More than seven out of ten employers would find a “web site maintained by a third party,” “content integrated on their company’s web site,” and “content integrated into their company’s newsletter” useful (76%, 74%, and 72% respectively). In addition, a majority of employers would find “a third party newsletter,” a “webinar,” and a “videoconference” useful (64%, 59%, and 51% respectively). ”



Q735. “How useful would you find the following formats for this financial education? [READ AND ROTATE LIST]”. Base: Respondents who are very or somewhat likely to use free, unbiased financial education from an outside organization (n=437). Totals do not equal 100% due to responses of “don’t know/refused.”

An examination of the formats employers would find “very useful” reveals the following:

- Slightly more than half (56%) of employers would find in person seminars or group meetings very useful.
- Just over two in ten employers (22%) would find content integrated into their company’s web site very useful.
- Almost two in ten employers (19%) would find content integrated into their company’s newsletter very useful.
- More than one in ten employers would find a web site maintained by a third party (16%) or a webinar (13%) very useful.

- Fewer than one in ten employers would find a third party newsletter (8%) or a videoconference (7%) very useful.

Perceived usefulness does not vary by whether or not a company has automatic enrollment.

## CONCLUSIONS AND IMPLICATIONS

The findings suggest that while the concept of automatic 401(k) enrollment and escalation are not new to mid-size employers, employers need more information about both. The study finds that many companies are considering adopting automatic features and some are likely to do so in the next year. However, it also reveals that the majority of companies without automatic enrollment would find “basic information about automatic enrollment” helpful when deciding whether or not to automate their 401(k) plan feature. In addition, some employers cite a lack of information as a reason for not having automatic enrollment in their 401(k) plan.

Outreach to mid-size employers should recognize the key role that human resources department personnel play in the decision making process about 401(k)s at most companies. Human resources staff have either primary responsibility for making decisions about adding automatic features to their company’s 401(k) plan or they are involved in the decision making process at seven in ten companies. Plan providers are also a key audience since many employers that do not have automatic enrollment identify providers as likely to be influential in their company’s decision about whether or not to automate their 401(k).

Material designed for employers should address legal issues and cost implications related to automating 401(k) plan features, the two types of information most commonly cited as useful by companies that do not have automatic enrollment. Material for employers would also benefit from addressing questions for employers to ask providers, basic information about automatic enrollment, and the experiences of peer mid-size employers, the three next most frequently cited information needs.

In addition, material should take into account employers’ motivations for automating their 401(k) plan features. Most companies automate their 401(k) plan features (or believe others do) to help employees save more for retirement. Many employers are also motivated (or believe others are motivated) by passing nondiscrimination tests more easily, being perceived as a socially responsible company, and improving staff recruitment or retention.

Employers appear open to a variety of sources of information about automatic 401(k)s and formats for financial education related to 401(k)s. Therefore, any organizations seeking to educate employers should take additional considerations into account, such as cost and ease of distribution as well as the ability to update content.

In 2004, there were over 19.6 million paid employees in firms with 500 to 5,000 employees in the United States.<sup>3</sup> It is important to understand mid-size employers’ awareness, understanding, and attitudes about automatic 401(k)s since these employers are a potential gateway to increased 401(k) participation and retirement savings for so many people.

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<sup>3</sup> United States Census Bureau (2006). [www.census.gov](http://www.census.gov). Printed April 3, 2007.

## APPENDIX

### Automatic 401(k) Employer Survey Annotated Questionnaire

**NOTE: The base for each question is 800, unless otherwise noted. The N's shown are unweighted while the percentages shown are weighted by company size and 401(k) prevalence.**

**Q400** Hello, I'm \_\_\_\_\_ from The Harris Poll. We're speaking with business people nationwide about important employee benefit issues facing American businesses. I am not selling anything and will not be asking for a donation of any kind. Your opinions will be used only on a confidential basis. IF NECESSARY READ: and will take about 15 minutes of your time. Please know that all your responses to this survey are completely confidential. Is this a convenient time for you? If not, we'd be glad to call you back at another time.]

Excluding nonpermanent employees, such as contract or temporary workers, approximately how many employees does your company have in TOTAL, in all locations in the United States? [IF NECESSARY, READ "Your best estimate is fine"]

Less than 500 Employees	Interview terminated
500-999 Employees	55%
1,000-5,000 Employees	45%
More than 5,000 Employees	Interview terminated

**Q405** And what is your level of involvement in making decisions about your organization's employee benefits? Are you the ...[READ LIST]

1. Primary decision maker	16%
2. Do you share responsibility with others	84%
3. Or is it someone else's responsibility	Interview terminated
4. Don't know/refused [DO NOT READ]	Interview terminated

**Q410** Thinking about your company's employee benefits, does your company offer a 401(k) plan to employees? By 401(k), I mean specifically a 401(k) and not an equivalent benefit such as a 403(b) plan or a defined benefit plan such as a traditional pension.

Yes, my company offers a 401(k) [Include companies that offer a 401(k) plan to either some or all employees]	100%
No, my company does NOT offer a 401(k)	Interview terminated
Don't know/Refused	Interview terminated

**Q415** From the following list, which best describes your organization? [READ LIST]

1. Federal, state, or local government	Interview terminated
2. Public school system or public university	Interview terminated
3. Private school system or private university	1%
4. Non-profit organization	12%
5. For-profit company	88%
6. Don't know/Refused [DO NOT READ]	Interview terminated



**Q500** Does your company 401(k) plan include automatic enrollment? Automatic enrollment is a process that automatically enrolls eligible employees in your organization's 401(k) plan unless they specifically opt out.

Yes	28%
No	72%
Not sure	Interview terminated
Don't know/Refused	Interview terminated

**Q510** And would you say you are very, somewhat, not too, or not at all familiar with automatic enrollment in 401(k) plans?

Very familiar	60%
Somewhat familiar	31%
Not too familiar	5%
Not at all familiar	5%

Total exceeds 100% due to rounding

**Q520** Which of the following best describes automatic enrollment at your company? [READ LIST]

**BASE:** Respondents are "very" or "somewhat" familiar with automatic enrollment and do not have automatic enrollment (n=511)

1. We never had it but are considering it	48%
2. We never had it and are not currently considering it	50%
3. We had it but discontinued it	1%
4. Don't know/Refused [DO NOT READ]	1%

**Q525** In addition to automatic enrollment, there is also something known as Automatic Escalation. This is when the percentage of an employee's pay contributed to a 401(k) account automatically increases by a certain amount, unless the employee opts out. Does your company's 401(k) plan contain an automatic escalation feature?

Yes	14%
No	84%
Don't know/Refused	2%

**Q530** Would you say you are very, somewhat, not too, or not at all familiar with automatic escalation?

Very familiar	39%
Somewhat familiar	31%
Not too familiar	11%
Not at all familiar	19%

**Q535** Which of the following are reasons why your company does not automatically increase contributions? [RANDOMIZE AND READ LIST] [MULTIPLE RESPONSE]

**BASE:** Have automatic enrollment and do not have automatic escalation (n = 153)

1. Your company thinks employees would not like it	44%
2. Your company thinks employees would find it confusing	34%
3. Your company is concerned about your organization's matching costs	20%
4. Your company doesn't know enough about it	19%
5. Your company thinks it would be too difficult to implement administratively	19%
6. Your company hasn't thought about it	19%
7. Your company need more information	17%
8. Your company is implementing/planning to implement it in the future	5%
9. Other	7%
10. Don't know/Refused [DO NOT READ]	4%

Total exceeds 100% because multiple responses were allowed.

**Q600** By job title, who in your organization [If does not have automatic enrollment "would be"] [If has automatic enrollment "has been"] primarily responsible for making the decision to add automatic 401(k) features to your organization's 401(k) plan? [PROBE FOR TITLE, NOT NAMES] [DO NOT READ LIST] [SINGLE RESPONSE]

Human resources individual (Includes vice president of HR; HR director, manager, staff member)	44%
President or vice president individual (Includes CEO, COO, vice president, owner)	19%
Finance individual (Includes CFO, vice president of finance, treasurer)	15%
Committee (Includes 401k committee, benefits committee, retirement committee, plan administration committee, unspecified committees)	14%
Other	6%
Don't know/Refused	2%

**Q610** Who else would be involved in discussing benefit related issues such as adding automatic 401(k) features to your organization's 401(k) plan with your [Insert response from Q600]? [DO NOT READ LIST] [MULTIPLE RESPONSE] [PROBE FOR TITLE, NOT NAMES]

**BASE:** Identified title of individual primarily responsible for making the decision to add automatic 401(k) features to their organization's 401(k) plan (n=788)

Human resources individual (Includes vice president of HR; HR director, manager, staff member)	44%
Finance individual (Includes CFO, vice president of finance/accounting, comptroller, manger of accounting)	25%
President or vice president individual (Includes CEO, COO, vice president, owner)	22%
Committee (Includes 401k committee, benefits committee, retirement/pension committee, executive, unspecified committees)	12%
Other (Includes legal counsel, director, broker, unspecified)	11%
Don't know/Refused	10%

**Q620** What types of outside organizations or individuals [If do not have automatic enrollment: “would be”] [If have automatic enrollment: “have been”] most influential in your company’s decision about whether or not to automate your 401(k)? [DO NOT READ LIST] [MULTIPLE RESPONSE]

Plan provider and related organizations (Includes plan provider, broker, record keeper, administrator)	40%
Consultants (Includes benefits consultants, business consultants, legal counsel, financial/investment advisor, unspecified advisors and consultants)	27%
Internal staff	18%
Board members	1%
Other (Includes government agencies, competitors, trade associations, unions, and unspecified others)	10%
Don't know/Refused	17%

**Q630** [If have automatic enrollment: “Which, if any, of the following information did your organization find helpful when deciding whether or not to automate your 401(k) plan?”] [If do not have automatic enrollment: “Which, if any, of the following information would your organization find helpful when deciding about whether or not to automate your 401(k) plan features?”] [READ AND RANDOMIZE LIST] [ALLOW MULTIPLE RESPONSES]

1. Legal issues	67%
2. Cost implications	66%
3. Basic information about automatic enrollment	63%
4. Questions to ask your provider	59%
5. Guidance assessing existing information	58%
6. Peer group experiences	55%
7. Investment default options	54%
8. None of these	8%
9. Don't know/Refused [DO NOT READ]	3%

Total exceeds 100% because multiple answers were allowed

**Q635** Would you find the following sources of information about automatic 401(k)s very, somewhat, not too, or not at all useful? [READ AND RANDOMIZE LIST]

	Very Useful	Somewhat Useful	Not Too Useful	Not At All Useful	DK/REF [DO NOT READ]
1. Individual meetings	43%	39%	6%	10%	1%
2. Training	41%	41%	6%	10%	1%
3. Group meetings	39%	43%	7%	10%	1%
4. Website	35%	50%	6%	8%	1%
5. Publications	24%	61%	7%	8%	1%
6. Email	21%	54%	11%	14%	1%
7. Webinar	19%	52%	10%	17%	2%
8. Conferences	18%	55%	12%	14%	1%
9. Mail	12%	54%	17%	16%	1%
10. Videoconference	11%	46%	15%	27%	1%
11. Trade associations	9%	46%	17%	26%	3%
12. Mainstream media	7%	47%	19%	25%	1%

**Q700** Does your company currently offer financial education to employees related to their 401(k) plan?

Yes	63%
No	36%
Don't know/Refused	1%

**Q705** Who provides this financial education? Is it...[READ LIST] [MULTIPLE RESPONSE]

**BASE:** Offers 401(k) financial education (n=504)

1. The company that administers your 401(k).	78%
2. Your Human Resources department.	32%
3. An outside organization, other than the company that administers your 401(k) plan.	31%
4. Other (Includes financial advisor/consultant, broker, done internally, someone else)	5%
5. Don't know/Refused [DO NOT READ]	*

\* Less than 1%

Total exceeds 100% because multiple responses were allowed.

**Q725** From the following three statements, which one best describes your opinion about the relationship between automatic 401(k) plan features and financial education [READ AND ROTATE RESPONSES 1 and 2]

1. Financial education is more important if automatic 401(k) features are in place	17%
2. Financial education is less important if automatic 401(k) features are in place	2%
3. Financial education is equally important whether automatic 401(k) features are in place or not	80%
4. Don't know/Refused [DO NOT READ]	1%

**Q730** How likely would your company be to use free, unbiased financial education for your employees from an outside organization? [READ LIST]

1. Very likely	13%
2. Somewhat likely	41%
3. Not too likely	26%
4. Not at all likely	18%
5. Don't know/Refused [DO NOT READ]	2%

**Q735** How useful would you find the following formats for this financial education? [READ AND ROTATE LIST]

**BASE:** Very likely or somewhat likely to use free, unbiased financial education from outside organization (n=437)

	Very Useful	Somewhat Useful	Not Too Useful	Not At All Useful	DK/REF [DO NOT READ]
1. In person seminars or group meetings	56%	37%	4%	3%	--
2. Content integrated to your company's Web site	22%	52%	12%	12%	1%
3. Content integrated into company newsletter	19%	53%	11%	15%	2%
4. Web site maintained by a third party	16%	59%	13%	11%	*
5. Webinar	13%	46%	20%	20%	1%
6. Third party newsletter	8%	56%	21%	15%	*
7. Videoconference	7%	43%	24%	25%	1%

\*Less than 1%

**Q750** Companies have different reasons for choosing not to have automatic enrollment in their 401(k) plan. Why does your 401(k) plan not have automatic enrollment? [DO NOT READ] [ALLOW MULTIPLE RESPONSES]

**BASE:** Does not have automatic enrollment (n=579)

Lack information (Includes need more information, not aware of it, haven't thought about it)	23%
Cost (Includes costs related to "orphaned accounts," matching contributions, refund requests, unspecified)	18%
Labor/employee related challenges (Includes employees would not be interested, difficulty with union)	18%
Lack of company interest/Content as is (Includes current high employee participation rate, not interested in it, board not interested in it, have Safe Harbor plan, have defined benefit plan)	16%
Administrative/implementation challenges (Includes difficult to implement, administrative restrictions)	8%
Other (Includes employees would decide, risk of fiduciary liability (4%), concern about violating state laws (3%), other)	19%
Don't know	9%
In the process of implementing or considering automatic enrollment	6%

Total exceeds 100% because multiple answers were allowed.

**Q800** Next, I'm going to read you some reasons why companies offer automatic 401(k) plan features. [If have automatic enrollment: "For each one, tell me if you consider it to be a major, minor, or not a reason why your company adopted automatic 401(k) plan features.] [If do not have automatic enrollment: "For each one, tell me if you would consider it a major, minor, or not a reason for a company to adopt automatic 401(k) plan features."] [READ AND RANDOMIZE LIST]

	Major reason	Minor reason	Not a reason	DK/REF [DO NOT READ]
1. Employees save more for retirement	74%	18%	8%	1%
2. It is easier to pass nondiscrimination testing	47%	29%	20%	3%
3. It demonstrates that we are a socially responsible company	32%	43%	23%	1%
4. It helps retain employees	24%	42%	33%	1%
5. It helps recruit employees	22%	42%	35%	1%

**Q810** How likely are you to add automatic enrollment to your 401(k) plan in the next year? Would you say you are...[READ LIST]

**BASE:** Does not have automatic enrollment (n=579)

1. Very likely	16%
2. Somewhat likely	22%
3. Not too likely	22%
4. Not at all likely	39%
5. Don't know/Refused [DO NOT READ]	1%

**Q815** Your 401(k) plan has automatic enrollment but it does not automatically increase contributions. How likely are you to add a feature that automatically increases contributions next year? Would you say you are...[READ LIST]

**BASE:** Has automatic enrollment and does not have automatic escalation (n=153)

1. Very likely	9%
2. Somewhat likely	30%
3. Not too likely	20%
4. Not at all likely	39%
5. Don't know/Refused [DO NOT READ]	1%

**Q900** Which of the following benefits does your company provide? [READ LIST] [MULTIPLE RESPONSE]

1. Medical insurance	100%
2. Dental insurance	98%
3. Paid vacation leave	98%
4. Paid sick leave	88%
5. Vision insurance	79%
6. A defined benefit plan, including a traditional pension plan or a cash-balance plan	34%

Total exceeds 100% because multiple answers were allowed.

**Q905** Does your 401(k) plan offer employer matching contributions?

Yes	87%
No	13%
Don't know/Refused	*

\*less than 1%

**Q910** Which of the following best describes the industry or type of business your organization is primarily involved in? [READ LIST]

1. Manufacturing	29%
2. Services (Includes professional and business; technology, information and information services; education and educational services; social service/nonprofit organization)	16%
3. Healthcare/health services	14%
4. Retail trade	10%
5. Finance/insurance/real estate	10%
6. Hospitality, food services and entertainment (Includes hospitality and food services; entertainment)	8%
7. Construction	4%
8. Transportation and utility (transportation; utility)	3%
9. Other (Includes mining; oil and gas; government contractor; agriculture; security, other)	5%

**Q925** What percentage of your total workforce in all your locations in the United States is age 50 years or older? [IF RESPONDENT IS NOT SURE, READ: If you are not sure, your best estimate is fine.]

0-25 percent	46%
26-50 percent	37%
51+ percent	4%
Don't know/refused	13%

**Q930** What is the annual gross sales volume or revenue for your organization? Is it...[READ LIST]

1. Less than \$5 million	4%
2. \$5 million to less than \$25 million	12%
3. \$25 million to less than \$100 million	17%
4. \$100 million to less than \$500 million	21%
5. \$500 million or more	15%
6. Don't know/Refused [DO NOT READ]	31%

**Q935** What is your current job title? [DO NOT READ LIST]

Senior HR staff (Includes HR vice president, director, manager; Benefits vice president, director)	50%
Non-Senior HR Staff (Includes HR Specialist, generalist, administrator, professional; benefits administrator, analyst, coordinator)	25%
Senior Non-HR Staff (Includes other manager, director, officer)	20%
Other (Includes president, vice president, comptroller, other)	4%

**Q940** Which state does your business operate? [ALLOW MULTIPLE RESPONSES]

Northeast (ME, VT, NH, MA, NY, CT, RI, PA, NJ, DE)	35%
Southeast (MD, DC, WV, VA, NC, SC, GA, AL, FL)	35%
Midwest (ND, SD, NE, MN, IA, WI, IL, MI, IN, OH, KY)	41%
Southwest (CO, NM, KS, MO, OK, TX, AR, LA, TN, MS)	40%
West (WA, OR, CA, ID, NV, MT, WY, UT, AZ, AK, HI)	38%

**Q945** Gender [RECORD FROM OBSERVATION. IF NECESSARY, READ, "For classification purposes, can you please state your gender?"]

Male	29%
Female	71%





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