



Auto Features Significantly Impact DC Plans

July 25, 2007 (PLANSPONSOR.com) – Employees in plans utilizing auto features are showing significantly greater participation rates, increased savings and more diversified investment allocation, a new study has found.

Fidelity Investments said in a news release that its latest study of its defined contribution clients showed that just over 200,000 employees were automatically enrolled into plans as of year-end 2006 - twice that of 2005 levels.

Further, according to Fidelity, eligible employees in plans offering auto enrollment had participation rates that were 28% higher than eligible employees in plans without auto enrollment.

"Without a doubt, auto plan features are working precisely the way they were intended to work," said Jeffrey R. Carney, president of Retirement Services for Fidelity Employer Services Company (FESCO), in a Wednesday conference call with reporters. "Automatic solutions are already fulfilling their promise of getting people to save more for their future."

Employee contribution rates were higher in plans that automated annual increases, and lifecycle fund usage more than doubled when offered as the plan default.

Considering all Fidelity DC plans, the vast majority of which do not fully utilize auto programs, the average employee participation rate fell slightly to 63.1% in 2006, compared to 63.4% in 2005. Employee deferral rates remained unchanged at 7%, according to the announcement.

The Fidelity research also found that three out of four workers had investment allocations that were not properly diversified for their age, with 22% holding all equities, 13% holding no equities and 19% having their savings in a single non-diversified investment option. Additionally, the average 401(k) account balance increased just 6.5% to \$66,500, from \$62,500 in 2005.

"Although many employees are trying to improve their savings behaviors, these numbers prove that change can be slow and most workers urgently need the guardrails of auto programs to help ensure they will have sufficient savings to live on in retirement," said Carney, in the news release.

Fidelity found that corporate DC employees overall are on track to achieve 17% income replacement; it recommends a goal of 85%. Declared Carney in the media conference call: "That 17% is simply not enough."

Longevity Helps

Not surprisingly, employees who remained in their workplace savings plan for at least 12 months saw their 401(k) account balances increase significantly. Balances for those who stayed in plan from year-end 2005 to year-end 2006, grew an average 20% from \$65,300 to \$78,500.

Participants with balances from 2001 to 2006 did almost as well, Fidelity said. They had average account balances of \$111,000, up 18% from \$95,000 in 2005, and up 88% from \$59,000 in 2001.

Baby Boomers showed some progress with slight increases in both participation and deferral rates. But one in three Boomers still do not participate in their plans and of those who do participate, most do not contribute the maximum allowed, with the average Boomer contribution level at just 7.7%, slightly higher than the average participant level of 7%.

Fidelity's Building Futures VIII, analyzed the investing behaviors of 10 million participants in nearly 13,000 corporate defined contribution (DC) plans administered by Fidelity in 2006 and representing \$674 billion in assets. The full 2006 study is expected to be released this fall, Fidelity said.

In last year's version of the study, the giant Boston-based investment manager found that as of the end of 2005, its DC plans revealed a 1.1% decline to a 64.4% participation rate (See [Fidelity Finds Participation Rates Decline Slightly](#)).

More information is at www.fidelity.com.

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