Independent Directors Council
Promoting Excellence in Fund Governance

Letter to the Editor, Wall Street Journal: Numbers Show the Success of Automatic Enrollment

Numbers Show the Success of Automatic Enrollment

Paul Schott Stevens, president and CEO of the Investment Company Institute, submitted the following letter to the editor of the *Wall Street Journal*:

A July 7 story in the *Wall Street Journal* makes the assertion that a recently-enacted 401(k) law “suppresses” retirement savings. The assertion rests on faulty data interpretation. Look at the proper numbers, and the truth becomes clear—the 401(k) system, thanks in part to reforms brought about by the law, known as the Pension Protection Act of 2006, in fact promotes and increases retirement saving.

The article falls into a mathematical trap. Seizing on the fact that 401(k) plans with voluntary enrollment have higher average participant savings rates than plans with automatic enrollment, the story makes the case that “average savings rates have fallen in recent years.” The problem is that the comparison underlying the assertion looks only at contribution rates among plan participants, as opposed to all employees. Thus, an amazing success—getting people who previously saved nothing for their retirement to start putting away 3 percent of their earnings toward that goal—is twisted into the failure of “falling” savings rates.

The correct approach is to assess automatic enrollment plans in light of the overall savings rate among all eligible employees, including workers who do not participate. Vanguard has done this in its “How America Saves 2011” report; when employees who did not participate (i.e., had a contribution rate of 0 percent) are included in Vanguard’s calculations, automatic enrollment plans have an average employee savings rate of 5.2 percent, a full percentage point higher than plans with voluntary enrollment.

Pair this fact with the likelihood that those new 401(k) participants who come in at a 3 percent savings rate may increase their contributions on their own, or as a result of auto-escalation provisions included in the 2006 law. That doesn't look like suppression to us.

Finally, let's step back and look at the overall growth of America's defined contribution retirement plans. At the end of the first quarter of 2011, Americans had accumulated $4.7 trillion in 401(k) and other defined contribution plans, up from $3 trillion in 2000. In addition, IRAs hold $4.9 trillion, fueled in large part by rollovers from both defined contribution and defined benefit plans. Saving under 401(k) and other defined contribution plans is a great success story allowing Americans to prepare for their retirements.

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