Four Ways to Increase Employee Retirement Contributions

As a retirement plan sponsor, you want your employees to save the most they can in order to reach their maximum retirement potential. A significant amount of research says that you can improve both employee participation and their saving rates. Here are four ways you can help your employees start building a confident retirement:

1. Boost employee participation with automatic enrollment. Choosing to automatically enroll all new employees in your retirement plan can dramatically improve your participation rates. According to the Center for Retirement Research (CRR) at Boston College, in one study of automatic enrollment, participation increased by 50 percent, with the largest gains among younger and lower-paid employees.[1] While auto enrolled employees are allowed to opt out of the retirement plan, most generally stay enrolled.
2. Set the initial default contribution rate higher. Many companies who use auto enrollment set their default contribution rate relatively low at 3 percent, according to the CRR, which is lower than the typical employer match rate of 6 percent. Workers who might have contributed more to their savings passively accept the lower default rate, which means they're sacrificing employer matching funds along with saving less of their own pay.
3. Adopt auto escalation. Plans that use auto escalation automatically increase their participants' contribution rate every year, typically by 1 percent. Over time, that can significantly improve savings rates among workers. The CRR cites a 2013 study of Danish workers where the majority of workers who experienced automatic increases simply accepted them, and savings rates dramatically increased.
4. Automate investment decisions with target date investment products. Investing is complicated, and many employees don't want to take the time to learn how to manage their portfolios. Target date strategies automatically adjust an employee's investment allocations over time, shifting them to a more conservative asset mix as the target date (typically retirement) approaches. The ease of use of target date funds means their popularity is increasing.

[1] *http://crr.bc.edu/wp-content/uploads/2016/08/IB_16-15.pdf*