![GAO Highlights]

Highlights of GAO-10-31, a report to the Chairman, Special Committee on Aging, U.S. Senate

Why GAO Did This Study

Although employer-sponsored retirement plans can be an important component of income security after retirement, only about half of all workers participate in such plans. To foster greater participation among workers who have access to such plans, Congress included provisions that facilitate plan sponsors' adoption of automatic enrollment policies in the Pension Protection Act of 2006. To foster greater retirement savings among workers who do not have access to an employer-sponsored plan, proposals have been made at the federal level for an "automatic IRA" and at the state level for state-based programs.

Because of questions about the extent of retirement savings and prospects for a sound retirement for all Americans, GAO was asked to determine (1) what is known about the effect of automatic enrollment policies among the nation's 401(k) plans, and the extent of and future prospect for such policies; and (2) the potential benefits and limitations of automatic IRA proposals and state-assisted retirement savings proposals. To answer these questions, GAO reviewed available reports and data, and interviewed plan sponsors, industry groups, investment professionals, and relevant federal agencies.

What GAO Recommends

This report makes no recommendations.

View GAO-10-31 or key components.
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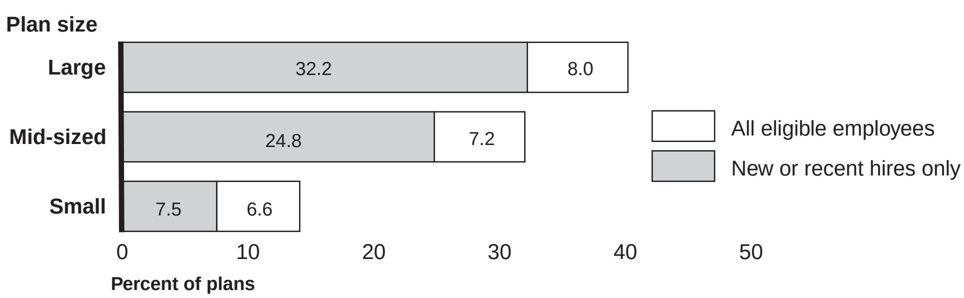
RETIREMENT SAVINGS

Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges

What GAO Found

Automatic enrollment appears to significantly increase participation in 401(k) plans according to existing studies, but may not be suitable for all plan sponsors. Some studies found that participation rates can reach as high as 95 percent under automatic enrollment. Available data indicate that the percentage of plans with automatic enrollment policies increased from about 1 percent in 2004 to more than 16 percent in 2009, with higher rates of adoption among larger plan sponsors. In most cases, these plans automatically enroll only new employees, rather than all employees. We also found that automatic enrollment may not be suitable for all plan sponsors, such as those with a high-turnover workforce. Further, some data show that while automatic escalation policies—which automatically increase saving rates over time—are increasingly common, they lag behind adoption of automatic enrollment. In combination with low initial contribution rates, this could depress savings for some workers. Also, the emergence of target-date funds—funds that allocate investments among various asset classes and shift to lower-risk investments as a "target" retirement date approaches—as the typical default investment raises questions in light of the substantial losses such funds experienced in the past year.

Adoption and Scope of Automatic Enrollment by Plan Size, March 2009



Source: GAO presentation of Fidelity Investments data.

Other proposals could expand the portion of the workforce saving for retirement, but these proposals could face challenges. Under a federally mandated automatic IRA, certain employers could be required to enroll eligible employees in payroll-deduction IRAs, unless the worker specifically opted out. Such a proposal could broaden the population that saves for retirement at minimal cost to employers. However, this proposal faces a number of challenges, including uncertainty about the extent to which it would help low-income workers accumulate significant retirement savings. Proposals for state-assisted retirement savings programs could raise coverage and, ultimately, savings by involving state governments in facilitating retirement savings for workers without access to an employer-sponsored plan. However, such programs face uncertainty about employer and worker participation levels, as well as legal and regulatory issues.