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.

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.