

Automatic 401(k)s Finding Favor

Lockheed, Nationwide Financial Report Higher Participation

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Lockheed Martin and Nationwide Financial Services, two of the companies that have used a 2006 pension law to encourage retirement savings, said more than 90 percent of employees were now enrolled in their 401(k) plans.

So-called automatic 401(k)s, permitted under the Pension Protection Act passed by Congress two years ago, are already having a dramatic effect, Nationwide's Chief Administrative Officer Terri Hill said at a conference in Washington last week. About 96 percent of employees are saving for their retirement, up from 74 percent two years ago, she said.

"We find that once people made that first choice, people rarely went back on it," Hill said. "It's something we know we should do, but we don't."

The findings come as Americans face a shortfall in funding their retirements. The average balance in a 401(k) account was \$61,346 at the end of 2006, according to the Washington-based Employee Benefit Research Institute. The savings will matter more in the future, as the number of companies offering traditional pension plans has declined by two-thirds over the past 20 years, according to the Retirement Security Project, a Washington-based group that advocates policies to help Americans become financially secure.

In automatic 401(k) plans, companies enroll their employees and notify them of the action. Workers get the chance to opt out. If they don't, a portion of their wages, typically 3 percent, is directed to the retirement account.

Congress may further act to encourage retirement savings. Sen. Jeff Bingaman (D-N.M.) told the conference that he was pushing a bill that would allow smaller companies that don't have 401(k) plans to offer automatic individual retirement accounts. About 75 million people work for companies without sponsored retirement savings plans, the Retirement Security Project said.

Businesses like the automatic IRA concept. More than 80 percent of firms surveyed by Prudential Financial last year said the policy would address their qualms, said Lee Haydon, the company's corporate vice president of global market research. The companies cited the low administrative costs as an inducement to offer the benefit.