
JULY 27, 2020

AGENDA ITEM 6, ATTACHMENT 3

Analysis of Second Automatic Enrollment Feature

Issue

Until the passage of Assembly Bill (AB) 102 on June 29, 2020, statute¹ required the CalSavers Retirement Savings Board (the Board) to establish a process whereby every employee that previously opted out shall be re-notified about the Program and enrolled automatically unless they choose to opt out again within 30 days. AB 102 altered the statute to *allow* the Board to implement this provision rather than *require* it. However, without a change to current regulations, the Board will be required to implement this feature beginning in November 2020. This memorandum outlines key considerations and provides a recommendation about whether to retain the second automatic enrollment provision.

Statute

Statute allows the Board to establish an a period during which every employee who previously opted out will be enrolled automatically unless they opt out again². Statute stipulates that, if the Board chooses to implement it, the second automatic enrollment would occur at least once every two years.

Regulations

Current regulations establish the second automatic enrollment as occurring once every two years for a participating employer. The second automatic enrollment period begins the second November after an employer registers with the Program and runs November 1 through November 30. Before the period begins, eligible employees who previously opted out will be provided the employee information packet and shall be automatically enrolled in the Program if they do not opt out again before the end of the period. Eligible employees who previously opted out will only be subject to the second automatic enrollment if they opted out at least one year prior to a second automatic enrollment period.

Analysis

Automatic features have become common in retirement plans, with several commonly used across the industry including automatic enrollment, automatic re-enrollment into specific funds, and automatic escalation. However, even with the rise in usage among automatic features, a follow-up automatic enrollment appears to be rare, as described below. While a feature like this could be effective in increasing employee participation, there are other factors to consider that could complicate its effectiveness.

¹ [Ca. Gov Code § 100032\(f\)\(2\)](#)

² Statute and regulations refer to this feature as “open enrollment.” Because that term typically refers to periods during which enrollees can change their benefit coverage and causes confusion, the feature will instead be referred to as the second automatic enrollment provision.

How common is a second or follow-up automatic enrollment feature?

There is little available data on follow-up automatic enrollment features, which implies the feature is rare; the only sources of data available on this topic are survey results from retirement plan providers. A Fidelity survey of its retirement plan sponsors found that, out of the 33% of Fidelity plans that offered an automatic enrollment feature with their retirement plans³, 13% also include a second automatic enrollment feature.⁴

Vanguard reported that out of the 48% of its sponsors who offer an auto-enrollment retirement plans⁵, only 2% include a second automatic enrollment feature.⁶

In 2018, the Plan Sponsor Council of America reported nearly 8 percent of all 401(k) plans annually re-solicited employees who had previously opted out.⁷

None of CalSavers' peer state-sponsored retirement savings programs include the feature.

What are the potential advantages of the feature?

- Some research on 401(k) plans shows the feature is effective in increasing employee enrollment, based on a limited sample size. Fidelity reported that their plans that included the feature had an average participation rate of 95%, while its automatic enrollment plans in general had an 87% average participation rate.⁸
- The feature would allow employees whose circumstances changed from the initial automatic enrollment to be enrolled automatically without having to seek out enrollment themselves, e.g. employees who had a pay increase or change in family status.

What are the potential disadvantages of the feature?

- The repeated notifications could lead to frustration among non-participants who do not want to have to re-decline every two years.
- If employees express frustration about the feature to their employer, employers could in turn develop less positive impressions of the Program.
- Outdated employee contact information could lead to issues like employees or former employees being re-notified and enrolled without their knowledge.
- Additional employer duties may be necessary to operate the feature. An effective implementation of this feature would hinge upon the quality of employee contact information provided by employers. To ensure employee contact information is current, it may be necessary to require employers to update employee contact information before a follow-up automatic enrollment period.
- The effectiveness of the feature observed in the 401(k) space may not apply as strongly with CalSavers, given the financial incentives often offered as part of 401(k) plans (e.g. matching contributions).

³ Barney, Lee (2018) [Plan Sponsors Stepping Up Their Auto Enrollment Game](#), PlanSponsor

⁴ Nova, Annie (2019) [Don't want to save for retirement? Too bad, some companies say](#), CNBC

⁵ (2020) [How America Saves 2019 Report](#), Vanguard

⁶ Supra Note 4

⁷ *Ibid.*

⁸ *Ibid.*

- The feature would add to Program mailing and staff costs, and could require an additional category for employer enforcement.

Conclusion

In conclusion, the second automatic enrollment feature could lead to an unknown degree of increased participation in the Program, but could also be difficult and costly to administer and could lead to frustration for eligible employees and, consequently, employers. An in-depth study would focus on the impact of the additional administrative duties for participating employers, the costs to the Program necessary to implement the feature, and an assessment of data quality issues, balanced with a better informed estimate of the potential increase in enrollment.

Recommendation

Staff recommend (1) the regulations be amended to remove the feature and (2) the Board reassess the potential advantages and disadvantages in the future.