The University Senate of Michigan Technological University

Proposal 3-16 (Revised 11-05-15)

(Voting Units: Full Senate)

"Proposal on Automatic Enrollment in Michigan Tech's Defined Contribution Retirement Plan"

I. Introduction

As Michigan Tech's defined contribution retirement plan is currently structured, the University will match plan contributions for eligible employees for up to 7.5% of the employee's annual base salary only if employees specify that they want to opt in to this plan.

During the spring of 2015, an analysis by the Senate's Fringe Benefits Committee found that some Michigan Tech employees either (a) neglect or (b) choose not to participate (or to participate fully) in this plan, potentially leaving some employees either unprepared or underprepared for retirement. (For data on current participation rates, see Addendum C.)

This proposal attempts to improve Michigan Tech's defined contribution retirement plan by taking advantage of Public Act 242 of 2014, according to which, "A public employer may provide for automatic enrollment of an employee in a plan described in this subsection."

There are numerous reasons why automatic enrollment is beneficial to both employers and employees (see Addendum A), including tax advantages (for both employers and employees) and increased satisfaction with employee benefits packages, which ultimately improve morale, retention rates, and recruitment. Automatic enrollment helps to make investing less intimidating by overcoming investment inertia, especially among younger and lower-paid employees. Ultimately, this increases retirement savings and, hence, employee security and job satisfaction by encouraging employees to actively consider their retirement savings options and the importance of not losing valuable time in initiating long-term, retirement-savings strategies.

This proposal does not call for any new benefits, nor does it call for the allocation of new resources beyond those already agreed to in principal by the University. To the extent that the proposal succeeds in increasing participation in Michigan Tech's existing, defined contribution retirement plan, it should be expected to increase the University's contributions to employee retirement savings.

II. Benefits of Automatic Enrollment in Defined Contribution Retirement Plans

Research has shown that automatic enrollment in defined contribution retirement plans increases participation. (An archive of related research is available at http://www.401khelpcenter.com/cw/cw_auto_enroll.html#.Vf8xArS6w5c)

On May 8, 2014, the Michigan Senate Fiscal Agency's analysis of House Bill 4964 (which was passed as Public Act 242 of 2014) reported that,

> "In Michigan, automatic enrollment was authorized for the Michigan Public School Employees' Retirement System in 2010 and for defined contribution members of the State Employees' Retirement System (SERS) in 2012. The Office of Retirement Services reports that participation by defined contribution members of SERS increased from 70% to 82% over a short time period."

These 2010 and 2012 laws did not apply to defined contribution plans at public universities. However, this situation changed when House Bill 4964 was signed into law on June 21, 2014, by Michigan Governor Rick Snyder as Public Act 242 of 2014, which amended the Public Employee Retirement System Investment Act of 1965.

According to Act 242, "A public employer may provide for automatic enrollment of an employee in a plan described in this subsection." Act 242 defines a public employer as "this state or an agency of this state, a city, county, village, township, school district, or intermediate school district, **or an institution of higher education**" (emphasis added).

III. Proposed Change in Michigan Tech's Defined Contribution Retirement Plan

The University Senate proposes that—unless an employee chooses to opt out of the plan or to select a smaller percentage—the University automatically invest 7.5% of each employee's annual salary in Michigan Tech's defined contribution plan and supplement that with a 7.5%, University-funded match. Employees will be able to modify their plan at their discretion at any time.

Compliant with Public Act 242 of 2014, Michigan Tech "shall give written notice to a participating employee of any automatic enrollment at least 14 days before the initial deduction is made."

The intention of this proposal is to encourage employees to begin saving for retirement early in their careers in order to accrue funds to augment retirement income from other sources, such as Social Security and other personal savings plans, which, by themselves, might prove inadequate to meet the employees' retirement expenses.

Addenda

A. Benefits of Retirement Plans to Both Employers and Employees

Both employers and employees benefit from well designed retirement plans. For example, the IRS lists the following benefits:

Business benefits

- Employer contributions are tax-deductible.

- Assets in the plan grow tax-free.
- Flexible plan options are available.
- Tax credits and other incentives for starting a plan may reduce costs.
- A retirement plan can attract and retain better employees, reducing new employee training costs.

Employee benefits

- Employee contributions can reduce current taxable income.
- Contributions and investment gains are not taxed until distributed.
- Contributions are easy to make through payroll deductions.
- Compounding interest over time allows small regular contributions to grow to significant retirement savings.
- Retirement assets can be carried from one employer to another.
- Saver's Credit is available.
- Employee has an opportunity to improve financial security in retirement.

B. How Much Should People Save?

Most retirement professionals recommend that to secure their retirement, most people should invest approximately 15% of their income in retirement plans, beginning from a relatively early age (e.g., mid 20s). For example, "How Much Should People Save?" a study published in July of 2014 by the Center for Retirement Research at Boston College, concluded:

> "To supplement Social Security, depending on their income level, households should plan to get between one-quarter to one-half of their retirement income from retirement savings plans, such as 401(k)s. To produce this income, the typical household needs to save about 15 percent of earnings, well above today's actual saving rates." (p. 5)

(See also "Retirement readiness: 15% salary deferrals are the new 10% for 401(k)s." *InvestmentNews,* Jan. 5, 2015.)

C. Current Rates of Participation

The following data were provided by Manager of Benefits Ginger Sleeman on November 4, 2015:

A total of 1,220 employees are eligible for Michigan Tech's 7.5% matching, defined contribution retirement benefit.

Of this number, 46 employees (3.8%) take no advantage of this benefit (0% contribution).

An additional 166 employees (13.6%) take only partial advantage of this benefit (0.5% - 7.0% contribution).

Hence, of the 1,220 employees who are eligible for this benefit, a total of 212 (17.4%) either take no advantage or take only partial advantage of this benefit, and approximately 82.6% contribute the full 7.5% and, thereby, qualify for the full 7.5% match.

In addition, there is a correlation between salary and contribution, perhaps suggesting that lower-paid employees are less able to afford the 7.5% contribution:

> 4.3% of eligible employees (9 of 211) making over $100,000 fail to take full advantage of the 7.5% match.
>
> 11.7% of employees (63 of 540) making between $50,000 and $100,000 fail to take full advantage of the 7.5% match.
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> 29.9% of eligible employees (140 of 469) making under $50,000 fail to take full advantage of the 7.5% match.

D. Improving Employee Education on DC Retirement Plans

The Senate encourages the Administration—perhaps in conjunction with representatives of TIAA-CREF and/or Fidelity—to enhance employee education efforts with respect to the risks and benefits—including the tax implications—of defined contribution plans. One example might be the "Maximizing Your Defined Contribution Plan" presentation presented by Colleen Kuehnel and Michael Trackett at the 2013 annual meeting of Michigan's Municipal Employee's Retirement System.

For example, one area in need of additional employee education is with respect to a potential downside of automatic enrollment. A study published in July 2015 by the Center for Retirement Research at Boston College found—as previous studies had—that "automatic enrollment is associated with a higher proportion of workers included in DC [defined contribution] plans." However, the study also found that once participation becomes automatic (hence, "out-of-sight, out-of-mind"), some people who might otherwise have been inclined to contribute more than the bare minimum (in Michigan Tech's case, more than 7.5%) fail to do so. (See "The Relationship Between Automatic Enrollment and DC Plan Contributions: Evidence From a National Survey of Older Workers.")

The Center for Retirement Research study also reported the results of other studies. For example,

> "Although participation has been demonstrated to increase with automatic enrollment, studies have also shown that automatically enrolled employees tend to remain with the default options in their plan. Madrian and Shea (2001) show that, at least in the short term, only a small fraction of automatically enrolled 401(k) participants elect a contribution rate or asset allocation that differs from the company-specified default….A Vanguard study finds that automatic enrollment leads to lower plan contribution rates, as participants who would have voluntarily saved at a higher rate remain at the lower default contribution rates (Nessmith, Utkus, and Young 2007)." (p.3)

For information on maximum allowable contributions to retirement plans, see, for example, the following documents:

"IRS Announces 2015 Pension Plan Limitations; Taxpayers May Contribute up to $18,000 to their 401(k) plans in 2015"
https://www.irs.gov/uac/Newsroom/IRS-Announces-2015-Pension-Plan-Limitations-1

"Retirement Topics – 401(k) and Profit-Sharing Plan Contribution Limits"
https://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-401k-and-Profit-Sharing-Plan-Contribution-Limits

"Contribution limits for retirement accounts"
https://401k.fidelity.com/public/content/401k/home/vpcontributionlimits

This suggests the need to remind employees of the option of (and the wisdom of) investing more in their retirement plans than the 7.5% minimum, especially if they began investing in their plans later in life than in their late 20s or early 30s.

E. Senate Proposals and Unionized Staff

According to Article III.F.4.b.i of the Constitution of the University Senate, "[t]he Senate has the responsibility to review, make recommendations, initiate, and participate in the formulation of policy and procedures" on fringe benefits.

Generally speaking, however, the Senate has this responsibility only for its constituents: faculty and professional staff. Hence, for example, the Senate does not represent members of the American Federation of State, County, and Municipal Employees (AFSCME); members of the United Auto Workers (UAW); or members of the Police Officers Association (POA).