



University of Washington
FACULTY SENATE
Box 351271

Class C Bulletin No. 458: Resolutions (2) on Automatic Enrollment in UW Retirement Plans

Class C Resolutions adopted at the May 24, 2007, Faculty Senate Meeting

1. Resolution concerning automatic enrollment system for retirement contributions of new faculty, librarians and professional staff.

WHEREAS, automatic enrollment in retirement is not a new benefit. However, by failing to contribute to retirement in their first two years of employment, new faculty, librarians and professional staff lose the University's matching contributions, and thus forgo an immediate 100% return on their investment. The cumulative future value of these lost contributions at retirement can be substantial.¹ In our experience, many new faculty, librarians and professional staff fail to 'opt-in' to the retirement system not because of a conscious decision but rather because they are overwhelmed by all of the competing demands of starting a new job. Further, many new faculty, librarians and professional staff are unaware of the compounded monetary effect of failing to begin retirement contributions from the first day of employment. We predict that very few informed individuals would consciously opt-out of an opportunity to earn a 100% return on their investment; and

WHEREAS, the Federal Pension Protection Act signed into law in August 2006, endorses automatic enrollment into defined contribution plans (such as UWRP). As part of the congressional effort to encourage more individual retirement savings and less reliance on government benefits like Social Security, companies may automatically enroll employees in the employer 401(k) plan. Employers must make a matching contribution. Employees get a 90-day window to opt out by withdrawing contributions and earnings. They will owe income tax on the contributions and any earnings but will not be subject to the premature distribution penalty of 10%; and

WHEREAS, "Behavioral research has repeatedly demonstrated many workers' tendency to follow whatever retirement planning path provides the least resistance. Benefit plan architects and administrators effectively direct and pave that path when they design retirement plans, especially when establishing plan default provisions, the "rules" governing what happens when workers fail to make active decisions." Source: The Employee Benefits Research Institute Issue Brief #301, January 2007.

WHEREAS, a system based on automatic enrollment (with an opt-out option) will require less effort and be more effective than a communication campaign aimed at new faculty, librarians and professional staff; therefore,

BE IT RESOLVED, that the Faculty Council on Benefits and Retirement urges the University administration to move as quickly as reasonable to an automatic enrollment ('opt-out') system for the retirement contributions of new faculty, librarians and professional staff who are subject to the University of Washington Retirement Plan (UWRP).

*Approved by:
University of Washington Faculty Senate
May 24, 2007*

¹ For example, a new colleague starting at age 30 (35) at a salary of \$50,000 would lose over \$140,000 (\$145,000) at age 65 (assuming their retirement assets earn an average of 8% per year). Source: calculation by Robert Bowen, FCBR chair, available on request.

Summary Rationale: In summary, our view is that automatic enrollment is an ethical issue that should be addressed now. Some colleagues are unknowingly losing 5% to 7.5% of their salary annually (the University's promised match depending on their age) because they fail to opt-in from the beginning of their employment.

2. Resolution concerning an automatic enrollment system for increasing the retirement contributions of faculty, librarians and professional staff turning 50.

WHEREAS, in our experience, some faculty, librarians and professional staff also inadvertently fail to immediately 'opt-in' to increase their contribution to 10% at age 50. While all of the arguments above apply, additional arguments include:

1. Given that the increase in contribution to 7.5% (from 5%) at age 35 is automatic and required, some may overlook or be confused by the need to actively opt-in to increase their contribution to 10% at age 50.
2. Failure to opt-in to an increased contribution of 10% at age 50 will affect negatively not only the employee's basic retirement benefits, but also the protection inherent in the "supplemental benefit" as outlined in section III of the UW Retirement Plan; therefore²

BE IT RESOLVED, that the Faculty Council on Benefits and Retirement urges the administration to move as quickly as reasonable to an automatic enrollment ('opt-out') system for increasing (to 10%) the retirement contributions of faculty, librarians and professional staff turning 50 who are subject to the University Retirement Plan (UWRP).

*Submitted by:
Faculty Council on Benefits and Retirement
May 7, 2007*

Summary Rationale:

In summary, the failure to immediately enroll at age 50 is highly likely to be an oversight rather than a conscious decision to maintain the old level of contribution (7.5%). We predict that very few informed faculty, librarians and professional staff would consciously opt-out of an opportunity to earn a 100% return on their investment and maximize the protection available in the UW Retirement Plan (because of the supplemental benefit).

² The supplemental benefit represents a guaranteed minimum retirement benefit – a floor in that protects plan members from the risk inherent in having retirement contributions invested in a portfolio of marketable securities. The formula in the UW Retirement Plan (UWRP) that determines whether an employee receives a supplemental benefit differs depending on the employee's contribution rate. The formula is based on the average of the highest two consecutive years of salary, multiplied by years of service, and a service factor. This service factor is 1.5% instead of 2% for any years of creditable service earned after July 1, 1974 in which your contribution rate *is less than the 10%*. Thus failure to contribute 10% can negatively affect one's income in retirement. (See UWRP Section III.)