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SPECTRA INSIGHT



Who is Spectra Management?

Originally established in 1986, the company has a track record of providing local businesses with innovative health insurance, savings and retirement plans that make sense today—and for years to come. Unlike other employee benefits companies, Spectra Management does not provide clients with cookie-cutter packages. Rather, Spectra's highly experienced staff works hand in hand with its clients to develop tailor-made solutions designed to strengthen employee security and well-being. Whether you're a business owner, a human resource director, or a company employee, Spectra Management can help ensure confidence in the benefit selection and management of your benefits package.

401(k) Trends: Automatic or Negative Default Enrollment

As the U.S. economy remains under the microscope, financial advisors and behaviorists alike are postulating on how best to overcome the debt-buying culture that many Americans have become accustomed to. Cultural-change initiatives are being created to give Americans more confidence in their individual futures and retirement.

Among the solutions already underway are efforts to strengthen the incentives for savings and behavioral/default enrollment programs for those more complacent who are prone to saving little for their futures. Most people, by nature, take the path of least resistance. If, for example, an employee is required to complete a form to enroll in the company's 401(k), the employee will typically only do so if they are excited and motivated. Essentially, employers with retirement plan in place should dedicate more effort toward promoting employee interest and involvement in saving.

Negative default enrollment is a current 401(k) trend showing positive results. People in certain demographics who typically don't enroll in a retirement program are now doing so at much higher participation levels. Automatic enrollment is particularly successful among lower-income workers, because it turns a large number of zero-contribution-rate workers into 401(k) plan participants.

With automatic enrollment, workers are placed into a 401(k) plan and must alert the employer if they wish to opt out. Once in the program, they tend to stay. Moreover, they are generally pleased to have done so as they see their account balances grow. These individuals typically lack the motivation to enroll on their own.





The impact of automatic enrollment on higher-income participants is less dramatic as they are already accustomed to saving, and tend to contribute more than 3 percent of their salary more aggressively than is typically the case in the automatic-enrollment design.

Employers who previously held back from offering negative or automatic enrollment due to the exposure of picking the employees' plan should no longer have this concern due to a safe harbor provision called QDIA or Qualified Default Investment Allocation. This has changed the landscape for employer liability and holds employers harmless for appropriateness of investments if they follow QDIA guidelines.

Assessing 401(k) participant behavior is important as the nation shifts from defined-benefit retirement plans or pensions—which promise to pay a specific amount to a person retiring after a set number of years—to defined-contribution plans such as 401(k)s. While the automatic enrollment does benefit the investment industry, the key factor in supporting such an approach is that more people will build a meaningful retirement program.

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