U.S. Department of Labor
Office of Inspector General
Office of Audit

BRIEFLY…

Highlights of Report Number **09-11-002-12-121**, to the Assistant Secretary for Employee Benefits Security.

WHY READ THE REPORT

Approximately one-third of eligible workers do not participate in their employers' 401(k)-type plans. The Pension Protection Act (PPA), signed into law in 2006, removed impediments to employers adopting automatic enrollment, including employer fears about legal liability for market fluctuations and the applicability of state wage withholding laws. These impediments had prevented many employers from adopting automatic enrollment, or had led them to invest workers' contributions in low-risk, low-return "default" investments.

The PPA directed the Department of Labor to issue a regulation to assist employers in selecting optimal default investments. The Department issued a proposed regulation on October 24, 2007.

The Department estimated the regulation would increase retirement savings from about $70 billion to $134 billion by 2034. The Department stated this increase would be accomplished through increased employee participation and increased average investment returns.

WHY OIG CONDUCTED THE AUDIT

We conducted an audit to determine what EBSA is doing to assess employee participation in retirement plans and average investment returns are increasing.

The audit covered EBSA's monitoring process for assessing, on a continuing basis, the impact of QDIA regulation. The audit period covered December 2007 through March 2011.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:
http://www.oig.dol.gov/public/reports/oa/2011/09-11-002-12-121.pdf

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EBSA NEEDS TO MONITOR THE PROJECTED IMPACT OF THE QUALIFIED DEFAULT INVESTMENT ALTERNATIVE REGULATION

WHAT OIG FOUND

The OIG found EBSA needs to develop a process to determine whether the QDIA regulation is helping to increase employee participation and average investment returns in retirement plans through automatic enrollments.

EBSA estimated the regulation would increase retirement savings from about $70 billion to $134 billion by 2034. However, EBSA did not develop plans to determine whether automatic enrollments resulted in greater employee participation or increased retirement savings subsequent to issuing the regulation.

Since increased participation and investment returns are critical to the retirement savings of American workers, it is important to monitor these indicators. Without a monitoring process in place, increasing the retirement savings of employees is at risk because EBSA cannot know if the QDIA regulation is having its intended effects.

WHAT OIG RECOMMENDED

The OIG recommended the Assistant Secretary for Employee Benefits Security develop and implement a process to monitor if employee participation and average investment returns in retirement plans increase over time and take appropriate action if needed to determine if any modifications to the regulation is warranted.

In response to our draft report, the Assistant Secretary for Employee Benefits Security stated that EBSA does not plan to monitor the separate effect of the QDIA regulation, because its existing processes for monitoring retirement plan trends and assessing whether and when regulations should be amended are effective. We continue to believe that in order to make appropriate recommendations to policy makers, EBSA should evaluate whether the QDIA regulation is having its intended impact.