Financial Health Corner

Optional auto-escalation of your annual 401(k) contribution rate

Participants in the BJC 401(k) and 403(b) plans now have the option of setting an automatic annual increase in the contributions they make to their 401(k)/403(b) accounts. This added plan feature automatically raises the percentage of pay that plan participants elect to contribute each year. So if you’re currently saving 4% of your salary this year, and choose to set an annual auto-escalation rate of 1%, your annual contribution rate in 2020 will be 5%. In 2021 it will be 6%; in 2022 it will be 7%, and so on. Called “annual auto-escalation,” this savings feature is entirely voluntary; participants retain complete control over how much they want to contribute and can opt out of auto-escalation at any time. Following are answers to a few anticipated questions on auto-escalation.

1. Why is BJC offering annual auto-escalation to 401(k)/403(b) participants?
   Annual auto-escalation is a simple, convenient and effective way to help employees save enough for retirement. The majority of BJC 401(k)/401(b) participants take a hands-off approach to their accounts following enrollment. Many contribute just enough to their 401(k) to qualify for BJC’s matching contribution.* The annual auto-escalation feature is designed to help employees increase their savings so that they end up at retirement with a larger nest egg. See Q&A #7.

2. How will annual auto-escalation work? Do I need to sign up for it?
   Yes. You will need to make the initial election of how much you want to increase your annual contributions to your 401(k)/403(b) account. After that, your contributions will increase annually by the percentage rate you designate. To sign up, go to www.vanguard.com and do the following:
   o Click on “Retirement Plan Participant” and log in to your account
   o [Select “Employer Plans” if you have Vanguard accounts in addition to your BJC 401(k) or 403(b) account]
   o At the bottom of the next screen, click on “Make a Change,” and then select “Change my paycheck deduction”
   o Check “Continue” on the ensuing page. This will bring you to the page titled “Automatically increase your paycheck deduction annually”
   o Scroll down and choose an “Annual Increase” percentage between 1% and 3%. You can also select the month in which you want the increase to begin. For example, you know that you will receive a salary increase in June and want your annual contribution increase to coincide with that. You can also set a limit on the percent of your salary you want to contribute on an annual basis.
   o Questions on any of the above? Call Vanguard 800-523-1188.

3. If I currently contribute to both a pre-tax traditional 401(k) and after-tax Roth 401(k), will I be able to set an auto-escalation rate for each?
   No. You can only use auto-escalation on pre-tax contributions.
4. What is the least amount (percentage) of my annual salary that I can designate for annual auto-escalation?
   One percent (1%).

5. How will I know when I’ve reached an appropriate rate of contribution to my 401(k)?
   It’s different for everyone. You need to review your income and expenses, and remember, you can opt out of auto-escalation if it doesn’t fit your budget.

6. Is there a cap on how much I can contribute annually to my 401(k)/403(b), and does it include matching contributions from BJC?
   Yes. There is a cap and it does include the matching contributions BJC makes to your account.*
   The 2019 limit is $19,000 annually, with an additional $6,000 in “catch-up” contributions if you’re age 50 or older, for a maximum contribution of $25,000 in 2019.

7. What difference would an annual 1% auto-escalation rate make?
   Assume that two BJC employees, both 25 and earning $40,000, begin contributing 6% of their pay to the BJC 401(k) plan. Both also receive a 2% annual salary increase and get the same 6% rate of return on their investments. But only one of them chooses annual auto-escalation, with the employee’s contribution rate rising 1% each year (and maxing out at 15% of the employee’s annual salary). By age 65, the employee not using auto-escalation would have saved approximately $513,000, while the employee using annual auto-escalation would have saved more than $1.1 million.

8. Who should I contact if I have questions on auto-escalation?
   Contact Vanguard, BJC’s 401(k)/403(b) plan administrator at 800-523-1188, Monday-Friday, 7:00 a.m. to 9:00 p.m. (Central).

*Please note: not all BJC hospitals and health service organizations are eligible for employer matching contributions.