

The value of automatic enrollment

A strategy for increasing employer-sponsored-plan participation

It's generally accepted that employees need to set money aside for retirement during their working years. If your company's plan participation rate is not meeting your objectives, consider introducing an automatic enrollment feature.

What is automatic enrollment?

With an automatic enrollment feature, as the name suggests, employees are automatically enrolled in the plan unless they elect otherwise. In addition, a specific percentage of the employee's wages is automatically deducted from each paycheck for contribution into the plan.

Once enrolled in the plan, employees can change their contribution rate and choose how to invest their contributions from the plan's investment menu. If they don't select their investments, their contributions are automatically directed to a qualified default investment alternative (QDIA). Employees whose contributions are invested in the QDIA can later switch into other plan investment alternatives, if desired.

Does it work?

In 2017, over one-third of participants who joined a plan, did so through automatic enrollment. The use of automatic enrollment has grown by 300% since 2007.¹ According to the Plan Sponsor Council of America (PSCA), automatic enrollment is being used in 59.7% of plans (up from 45.9% in 2011).²

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1. "Employee Benefits Survey 2016 Results" International Foundation of Employee Benefit Plans, 2016

2. "60th Annual Survey of the Profit Sharing and 401(k) Plans," Plan Sponsor Council of America (PSCA), 2018

A win-win

Automatic enrollment can benefit employees and the sponsoring business.

Many employees are confused about retirement planning and want guidance.

Automatic enrollment helps start them on the path toward their retirement goals.

Automatic enrollment may be just the enhancement you need to get more employees to participate in—and appreciate—the benefits of working for you. That's why having a robust retirement plan usually helps businesses attract and keep talented employees. In addition, by increasing participation in a traditional 401(k), the amount highly compensated employees (HCEs) defer through payroll deduction will generally rise and the plan will pass nondiscrimination tests. However, keep in mind that the biggest benefit of this provision is that it should help your employees along the path to retirement readiness.

There are several alternatives to consider when implementing automatic enrollment. For example, some employers are going a step further and building in automatic contribution increases as a way to help participants better work toward their retirement goals. Your Financial Advisor can discuss this and other potential enhancements with you.

Tax Credit

Beginning in 2020, small business owners who add automatic enrollment to their 401(k) plans can get a tax credit of \$500 for the first three years that automatic enrollment is added. This comes from a provision in the SECURE Act of 2019 and it applies to both new and existing 401(k) plans.

Auto Escalation

After you have set up automatic enrollment on your retirement plan you can continue to help your employees save by adding an automatic escalation plan design feature. The automatic escalation feature allows an employee to choose to automatically increase their contributions on a scheduled period, usually once annually. For example, a new employee has set up initial payroll deferrals at 6% of their salary through the retirement plans automatic enrollment. The employee also enrolls in the plan's automatic escalation feature that will automatically increase their contribution, 1% annually, with a maximum of up to 15% salary deferral. Automatic escalation is a plan design feature that can gradually boost retirement plan contributions, with little effort on the part of the plan participant. Adding automatic features such as automatic enrollment and automatic escalation are great ways to assist employees to ensuring a financially sound retirement.

How we can help

Your Financial Advisor can work with you to help determine whether automatic enrollment is right for your business's plan. In many cases, having this feature, along with a robust employee education program, can lead to a healthier retirement plan for you, your business, and your employees.