Automatic Enrollment Is Now Part of the Retirement Plan Landscape

Automatic enrollment is now standard in many retirement plans. Plan sponsors now need to decide how it fits into the overall plan design. Used thoughtfully, automatic enrollment boosts participation and keeps the plan simple for employers to manage and employees to understand.

Helping employees get started

Many employees want to save for retirement but delay getting started. Paperwork, uncertainty about contribution amounts, or procrastination often cause this delay. Automatic enrollment gives employees a starting point at a set rate, unless they choose another amount or opt out. They can change contributions at any time, easing pressure while maintaining flexibility.

For many employers, automatic enrollment helps employees enroll sooner and participate earlier.

Why participation matters

Plans with higher participation run more smoothly over time. Higher participation also improves annual nondiscrimination test results. Getting more non-highly compensated employees to participate helps balance Average Deferral Percentage results. This often prevents highly compensated employees from receiving refunds due to testing limits. This creates a more predictable experience for plan sponsors and employees.

A default investment path when no selection is made

If employees do not select investments, their contributions are directed to the plan's Qualified Default Investment Alternative, the target date funds. These funds adjust investments as employees age. Employees who are unsure how to start have their money invested right away, without making quick decisions.

Design choices still matter

Even as many new plans require automatic enrollment, sponsors keep flexibility. They set contribution rates, select escalation features, and choose how to communicate based on their organization and employees. The process includes administrative tasks and required notices, reducing extra work usually caused by plan changes.

The SECURE Act 2.0, passed on December 29, 2022, requires many new 401(k) plans to include automatic enrollment starting in 2025. As a result, plan sponsors are spending more time setting up and explaining enrollment features.

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Moving forward with clarity

Automatic enrollment simplifies workplace retirement plans. Good planning helps employees enroll and makes sponsor tasks easier. Reviewing your plan design helps you find options that fit your goals and your employees' needs.

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