



qualified pension professionals, inc.

specializing in the administration of 401(k) plans

October 2013

HERE'S THE SCOOP ON AUTOMATIC ENROLLMENT

PLAN DESIGN CAN INFLUENCE PARTICIPANT BEHAVIOR

One design option that can help to increase participants' 401(k) deferral contribution rates is automatic enrollment. Under an automatic enrollment arrangement, the plan is written to designate a specific or escalating contribution rate that will apply to some or all participants. The automatic deferral rate will apply to the specified participants unless they make an election to contribute a different amount (higher, lower, or zero); this is often referred to as a negative election. Automatic enrollment helps participants contribute to their retirement savings by allowing them to do nothing while still getting enrolled in the plan – by not making an election, the participant is automatically enrolled to contribute. This is the opposite of the standard affirmative election plan where the participant must actively make an election to contribute.

AUTOMATIC ENROLLMENT MAY...

***Help your plan participants save more for retirement**

According to the DOL, experts estimate that we will need approximately 70% of our preretirement income to maintain our standard of living when we stop working. For lower earners, that percentage jumps to 90% or more. Overall, plan participants are not saving enough.

***Raise your plan's ADP limit allowing the Highly Compensated Employees (HCEs) to contribute more 401(k) deferrals or take less deferrals back as ADP refunds**

The average deferral rate of the Non-Highly Compensated Employees (NHCEs) determines how much the HCEs may contribute. If the NHCEs contribute more 401(k) deferrals, the HCEs may be able to save more in 401(k) deferrals.

***Allow your plan to automatically pass the ADP test**

The IRS provides for a safe harbor type of automatic enrollment that requires employer contributions and very specific enrollment rates, and in return the plan automatically passes the 401(k)/ADP testing.

AUTOMATIC ENROLLMENT CONSIDERATIONS

--Do you want the automatic deferral rate to apply to all participants or only new participants?

It may be easier to apply it only to new participants, but that may miss an opportunity to help existing participants save more.

--If your plan already has automatic enrollment, is the default rate high enough?

Although many plan sponsors agree participants need to save at least 10% of their income to have a comfortable level of replacement income in retirement, 54% start their automatic contribution rates at 3% or less. (DCIA Plan Sponsor Survey 2012 of large plan market)

This article is only intended to provide general information. It does not offer legal or tax advice, or profess to treat all of the issues surrounding any one topic.



qualified pension professionals, inc.

specializing in the administration of 401(k) plans

October 2013

AUTOMATIC ENROLLMENT CONSIDERATIONS

- Most plan participants will continue contributing at the default rate and won't make an individual election. On average less than 10% of participants opt out of the automatic rate. (DCIA 2012 Plan Sponsor Survey of large plan market)

- Do you want the default deferral rate to escalate or remain static?
Using an escalating/rising automatic rate is a good way to increase participant contribution rates, but it significantly increases the administrative workload on you, which could be burdensome for small employers.

- Do you want to make employer contributions in conjunction with the automatic enrollment?
An employer match may be more expensive with automatic enrollment than without due to the potential for increased participation.

- In order to maintain fiduciary protection for the investment of automatic enrollment contributions, plan sponsors must choose a default investment fund that satisfies the Qualified Default Investment Alternative (QDIA) rules; this includes handing out an annual notice telling participants about that investment fund.

- The employer is responsible for following the automatic enrollment provisions. Practices and procedures must be implemented to ensure the proper participants are enrolled at the right time and at the right contribution rate. Operational failures may result in the employer being required to make corrective contributions.

This is a brief summary of the many different benefits, responsibilities and features that automatic enrollment could bring to your plan. If you are interested in exploring whether it may be a good fit for your plan, please contact QPPI at 630-469-3581.

This article is only intended to provide general information. It does not offer legal or tax advice, or profess to treat all of the issues surrounding any one topic.