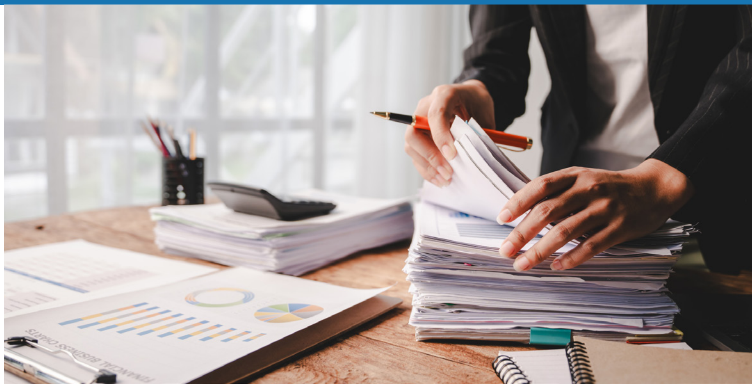
AUTOMATIC ENROLLMENT

Options & requirements

Including an automatic enrollment feature in a retirement plan can be an effective way to boost participation and help employees start saving for retirement earlier. Automatic enrollment can be implemented in several ways, depending on plan design and employer goals. SECURE 2.0 requires newly established 401(k) and 403(b) plans to include automatic enrollment. Learn more below.



THE 3 DIFFERENT TYPES OF AUTOMATIC ENROLLMENT

Automatic Contribution Arrangement (ACA)

The most basic option is an ACA. In this arrangement, the employer can set the automatic enrollment rate without minimum or maximum requirements, and no employer contributions are required. An ACA can be added to a 401(k) plan at any time. Participant notices are required before auto-enrolling anyone.

Eligible Automatic Contribution Arrangement (EACA)

An Eligible Automatic Contribution Arrangement (EACA) is an automatic enrollment feature that may be used to satisfy the SECURE 2.0 requirement for plans subject to mandatory automatic enrollment. It also includes extra provisions to protect participants and offer administrative benefits for employers. Under an EACA, participants can withdraw automatic contributions (and related earnings) within 90 days of the date the first automatic contribution was made. This allows employees who were unintentionally automatically enrolled to cancel without penalty. Employers sponsoring an EACA also get additional time to distribute refunds needed due to ADP or ACP testing failures. EACAs must be implemented at the start of a plan year. Small employers may qualify for a $500 tax credit.

Qualified Automatic Contribution Arrangement (QACA)

A Qualified Automatic Contribution Arrangement (QACA) is a type of safe harbor plan design that automatically meets certain nondiscrimination testing requirements. Under a QACA, participants are automatically enrolled with a minimum deferral rate of 3%. Participant contributions must automatically increase by at least 1% each year until they reach at least 6% of compensation, but not more than 15%. Plan sponsors must also make one of the following safe harbor contributions:

- A matching contribution of 100% on the employee's first 1% deferred, followed by a 50% match on deferrals between 1% and 6%. The employer matching contribution is capped at 3.5%, compared to 4% in a traditional safe harbor plan. The plan may instead provide an enhanced matching formula that is at least as favorable as this basic match.
- A nonelective contribution of 3% of compensation to all eligible participants.

The QACA safe harbor permits employer contributions to vest over a two-year period, instead of vesting immediately as required by traditional safe harbor plans. If a QACA also meets the requirements of an EACA (which is often the case), the plan might qualify for the tax credit available to small employers.

MANDATORY AUTOMATIC ENROLLMENT FOR NEWLY ESTABLISHED PLANS

Beginning in 2025, deferral plans adopted after SECURE 2.0 was enacted are generally required to include automatic enrollment. These plans must adopt an EACA, which may also be structured as a QACA, unless an exemption applies. Under this requirement, plans must:

- Automatically enroll eligible employees at a minimum contribution rate of 3% of compensation.
- Automatically increase participant contributions by 1% each year until they reach at least 10% of compensation.
- Allow permissible withdrawals in accordance with the rules governing automatic contribution arrangements.

Exemptions from mandatory automatic enrollment

Certain employers are exempt from the SECURE 2.0 mandatory automatic enrollment requirement, including:

- Businesses that have been in operation for less than three years.
- Businesses that established their retirement plan prior to December 29, 2022.
- Businesses that normally employ 10 or fewer employees.

New plans that are established as a spin-off with assets from a plan that was adopted before SECURE 2.0 will also be exempt from the mandatory automatic enrollment feature.

TAX CREDIT FOR EACA

Implemented by the SECURE Act, employers with no more than 100 employees earning at least $5,000 annually may be eligible for a $500 tax credit for each of the first three years that the plan offers an EACA, including a QACA that satisfies EACA requirements. This credit is available regardless of the plan's expenses and is intended to encourage small employers to adopt automatic enrollment features.

OTHER AUTOMATIC ENROLLMENT BENEFITS

Higher participation and improved retirement readiness: Automatic enrollment significantly increases employee participation rates. By defaulting employees into the plan, employers help workers begin saving earlier and build long-term retirement security.

Improved testing results: Because participation rates tend to be higher and more consistent, plans with automatic enrollment may experience fewer testing failures. If there is a failed test, using an EACA provides for additional time to handle refunds.

Special correction guidance: Administration of an automatic contribution arrangement with increases is not without its challenges, but special correction options apply for plans that use automatic enrollment features to provide for more time and less cost for correcting errors.

PLAN PROVISIONS COMPARISON OVERVIEW

Plan Provisions	Automatic Contribution Arrangement (ACA)	Eligible Automatic Contribution Arrangement (EACA)*	Qualified Automatic Contribution Arrangement (QACA)
Timing Requirement for Set-up	Any time throughout the plan year	Beginning of the plan year	Beginning of the plan year
Initial Notice Requirements	Within a "reasonable" period - at least 30 days, but no more than 90 days of eligibility	Within a "reasonable" period - at least 30 days, but no more than 90 days of eligibility	Within a "reasonable" period - at least 30 days, but no more than 90 days of eligibility
Automatic Contribution	No minimum or maximum; increases are optional	No minimum or maximum; increases are optional**	Minimum 3% automatic enrollment with annual increases of at least 1% until contributions reach at least 6% (QACA safe harbor rule)**
Annual Notice Requirements	At least 30 days but no more than 90 days prior to the beginning of the plan year	At least 30 days but no more than 90 days prior to the beginning of the plan year	At least 30 days but no more than 90 days prior to the beginning of the plan year
Employer Contributions	Not required	Not required	Required safe harbor match or NEC
Permissible Withdrawals	N/A	Allowed within 90 days of the first automatic deferral**	Allowed within 90 days of the first automatic deferral**
Tax Credit	Not available	Available for small employers	Available for small employers

*Type of automatic enrollment that satisfies the SECURE 2.0 requirement.

**For plans subject to mandatory automatic enrollment under SECURE 2.0, different minimum contribution requirements (generally starting at 3% with annual increases to at least 10%) and required 90-day permissible withdrawal provisions apply.

WE CAN HELP!

For questions regarding automatic enrollment requirements or retirement plan design options, please contact EGPS for guidance. Our team can help ensure your plan meets applicable compliance standards, timelines, and notice requirements. We work with plan sponsors to evaluate automatic enrollment strategies, identify arrangements that align with plan objectives, and support implementation. EGPS also assists with plan design, required participant notices, ongoing compliance monitoring, and coordination with recordkeepers and advisors to facilitate a smooth implementation process.