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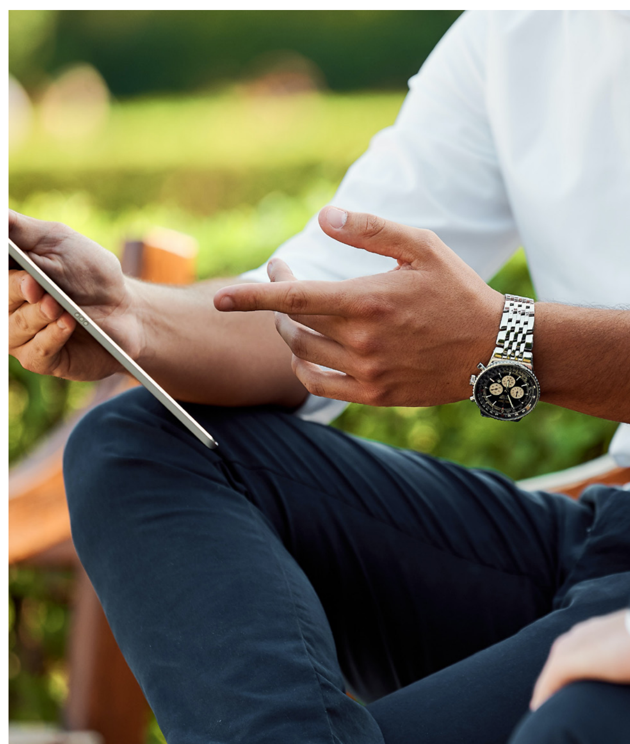
AUTOMATIC ENROLLMENT

A closer look at the different options in retirement plans

Including an automatic enrollment feature in a retirement plan can be a great way to increase participation and help employees start saving sooner. Participants can always choose to opt out, but if they don't take any action, they will be enrolled into the plan at a set rate. Not only does this option encourage participation in the plan, but a tax credit is available for the first three years a small plan offers auto enrollment. There are three different types of automatic enrollment arrangements.

Automatic Contribution Arrangement (ACA)

The most basic option is an ACA. In this arrangement, the employer can set the automatic enrollment rate without any minimums or maximums, 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)

Outside of the basic ACA option, there are two other types of auto enrollment. The first is an eligible automatic contribution arrangement (EACA). An EACA has additional benefits, including allowing employees to withdraw automatic contributions, along with the earnings, within 90 days of the date the first contribution was made. Employers will also have additional time to distribute refunds due to an ADP or ACP testing failure. EACAs can only be added as of the start of a plan year and qualify the employer for a tax credit (covered below).

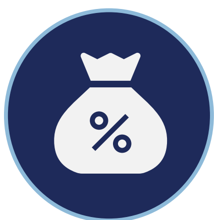
Qualified Automatic Contribution Arrangement (QACA)

A qualified automatic contribution arrangement (QACA) is an IRS safe harbor, meaning certain required compliance tests are deemed to pass. Participants must be auto-enrolled at a minimum of 3% and deferrals must automatically increase by 1% each year, up to a minimum of 6% and a maximum of 15%. Plan sponsors then must make a safe harbor contribution of either:

- a 100% matching contribution on the employee's first 1% deferred, followed by a 50% matching contribution on the employee's deferrals over 1%, but not exceeding 6% (The employer matching contribution is capped at 3.5% vs. 4% in a traditional safe harbor plan.)
- a nonelective contribution of 3% of compensation to all participants

The QACA safe harbor allows a two-year vesting schedule for the match and nonelective, specified above, instead of the immediate vesting requirement for traditional safe harbor plans. If a QACA meets the requirements of an EACA (which is typically the case), it will be eligible for the tax credit discussed below.

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	Auto enroll at a minimum of 3%; increase by at least one percent-age a year, to at least 6%
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
Permissable 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



TAX CREDIT FOR EACA

Implemented by the SECURE Act, employers with no more than 100 employees earning $5,000 or more annually are eligible for a $500 tax credit each of the first three years a plan offers an EACA (including a QACA). This credit is available regardless of the plan's expenses.