AUTOMATIC ENROLLMENT REQUIREMENTS

An overview of automatic enrollment changes under SECURE 2.0

Thanks to SECURE 2.0, many 401(k) plans will now be required to include automatic enrollment beginning on January 1, 2025. Therefore, it is important to know the requirements and exceptions to this new rule.

Who is exempt?

If the company is a new business in its first three years of existence, established the plan prior to the passing of SECURE 2.0 (December 29, 2022), or normally employs less than 11 employees, the plan is exempt from the automatic enrollment requirement. SIMPLE IRA plans, church plans and governmental plans are exempt, as well.

What are the requirements?

Plans that are not exempt will need to have an eligible automatic contribution arrangement (EACA) in place no later than January 1, 2025. The plan will also need to have a QDIA in place for any employees that do not select investment options. The EACA is required to begin at a minimum 3% contribution rate. It must also include an annual increase up to at least 10%, but not exceed 15%. The plan will be required to notify participants of this provision every year. Participants must be given at least 30 days to make an election before the automatic contribution rate takes effect. The plan is also required to allow for permissible withdrawals.

What are the benefits?

There are numerous incentives that employers may be able take advantage of by implementing an EACA. Employers with less than 100 employees would be eligible for an annual tax credit of $500 for the first three years this provision is in place. Also, any employer that automatically enrolls every current and future employee would be granted an extended period for processing testing refunds. Qualifying employers starting plans in 2024 should strongly consider implementing an EACA at the inception of their plan to take advantage of these incentives and avoid any amendment fees for January 1, 2025.