Automatic 401(k) TOOLKIT

Your complete guide to automating your company’s 401(k) plan.
Dear HR Manager:

Why do you sponsor a 401(k) plan? Maybe it’s part of your strategy to attract talent, or to encourage key employees to stay. If you are like most plan sponsors, you run the plan to help your employees save and invest for a financially secure retirement.

Yet sometimes it seems like your employees don’t get it. You see it in lagging participation levels, inadequate deferral rates, and poor investment decisions.

You’ve tried to get your employees to take action. But when your efforts don’t get results, the retirement readiness of your employees suffers. Plus, the plan can fail nondiscrimination testing, leaving you to deal with the headache of restricting or returning excess contributions to higher paid employees.

It doesn’t have to be this way. A highly effective solution—the “Automatic 401(k)”—is sweeping the defined contribution landscape. For employees offered such a plan, participation is automatic. Your employees are enrolled at a pre-set contribution rate defined by the plan, providing reliable methods for you to withhold employee contributions and offer investments for those contributions. Employees are in the plan unless they opt-out. Automatic enrollment promotes higher levels of participation without fighting employee inertia. Now, inertia works in your employees’ favor.

From 2006 to 2010, the percentage of 401(k) plan with automatic enrollment jumped from 24 percent to greater than 42 percent.1 After final guidance was published in February 2009, survey results in 2010 demonstrate nearly half (49 percent) of the survey respondents include an automatic plan design within their plan.2

The reason for the success of automatic 401(k) plans? They remove impediments that too often stand in the way of employee participation—from the “analysis paralysis” over investment decisions, to simply getting sidetracked and not taking action to sign up and start saving. Automatic plans also offer design options with different levels of administrative relief.

The time is right to join the march toward a simpler and better 401(k). You have the experiences of early automatic 401(k) adopters as well as the Pension Protection Act of 2006 and final regulations published by the Internal Revenue Service in February of 2009 to guide you. The following information will help prepare you to upgrade your plan to meet your needs and put your employees on a steady course to retirement security.

Retirement Made Simpler™ is a coalition formed by AARP, the Financial Industry Regulatory Authority (FINRA), and the Retirement Security Project (RSP) to encourage employers to help their employees save more effectively. For more information, or to download an electronic version of any of the following documents, please visit: www.RetirementMadeSimpler.org.

Sincerely,

Retirement Made Simpler

1 Profit Sharing/401(k) Council of America. 54th Annual Survey of Profit Sharing and 401(k) Plans. 2011.
# Table of Contents

## About Automatic 401(k)s
- Automatic 401(k) Basics: What You Need to Know ................................................ 1
- Don’t Lose Sleep over Automatic Investments: Federal Law Offers Fiduciary Relief to Automatic 401(k) Plan Sponsors ................................................................. 8
- Automatic 401(k) Plans: What Your Employees Need to Know .............................. 12
- What to Look For in an Automatic 401(k) Plan Service Provider ............................. 14
- Informed Participation: The Path to Retirement Security ........................................ 17
- Resources .................................................................................................................. 20

## Sample Documents
- Sample Employee Notice of Automatic Enrollment ................................................. 22
- Sample Voice-Mail Script: Automatic 401(k) Launch ............................................. 26
- Sample Email Script: Automatic 401(k) Launch .................................................... 27
- Sample Benefits Web Page Content: Automatic 401(k) Launch ............................ 28
- Sample Office Flyer A ............................................................................................. 29
- Sample Office Flyer B ............................................................................................. 30

## Case Study
- Automatic 401(k) Case Study .................................................................................. 32

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This document does not provide legal, tax or investment advice. You are encouraged to obtain such advice from legal counsel and from competent, professional tax and investment advisers.
Automatic 401(k) Basics

What You Need to Know

Elements of an Automatic 401(k) Plan

Automatic Enrollment
When it comes to savings behavior, employee inertia is well-documented. Too many employees don’t get around to signing up for the plan. With automatic enrollment, they don’t have to. The plan sponsor simply enrolls employees automatically at a pre-set deferral rate defined by the plan. Employees are enrolled in the plan unless they decided to opt-out.

This relatively simple solution results in remarkable participation gains and potential for administrative safe harbor relief. A study by Vanguard found that participation rates in plans that adopted automatic enrollment boosted participation rates for all racial and ethnic groups, with many plans experiencing rates of 90 percent or more.³


When plan sponsors first tested the waters of automatic enrollment back in the late 1990s, they focused their efforts on new hires. Since then, sponsors have learned the benefits of annual “reenrollment” to increase participation rates across all employees. Surveys and other evidence confirm that opt-out rates are low and employee response is positive. Three out of five plan sponsors automatically enrolled their employees into defined contribution plans in 2010.⁴

Lessons Learned

- Employee response to automatic enrollment is extremely positive.
- Applying automatic enrollment to existing employees as well as new hires results in higher participation gains.

Automatic Contribution Increases

Even though early adopters were pleased with participation gains, some of them discovered an unintended consequence. The same inertia that kept employees from enrolling in the plan was keeping them from changing future default deferral rates. Sponsors had set the rates low (typically three percent of pay). But average contribution rates were not as high as they could be because employees who would have signed up on their own at higher rates were staying at the lower default rate.

Lessons Learned

- Don’t fear a higher initial deferral rate. Consider setting it at the maximum percentage of employee contributions that you match.
- Set the deferral rate to increase automatically each year.

Automatic Investment

When adopting automatic enrollment, plan sponsors may select a default investment. This is an important feature with fiduciary protection. Many participants will simply remain in the default investment rather than make their own selection.

Many plan sponsors took a cautious approach, opting for principal preservation (money market or stable value funds, for example). They were concerned about fiduciary liability—participant lawsuits over investment losses if, for example, the employer selected a default investment that involved stocks, and if the stock market declined.

Today, many sponsors are concerned about encouraging employees to stay parked in a low-risk default fund for many years. The Department of Labor (DOL) expressed a similar theme when it released plan investment regulations. The DOL pointed out that, over long time horizons, diversified portfolios containing equities have historically generated higher returns than those

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The PPA overrides state laws that otherwise might be interpreted to preclude automatic enrollment. It also gives a green light to diversified equity-based default investments.

Lessons Learned

- A low-risk default investment fund can be high-risk for retirement income adequacy if employees stay in it for many years.
- Many sponsors now favor diversified equity-based default investments over principal preservation funds; the Department of Labor regulations encourage this.

Pension Law Clears Hurdles to Automatic Defaults

The PPA addressed several concerns that had left many 401(k) plan sponsors on the sidelines. For one, the PPA clarified that automatic enrollment meeting certain requirements is permitted even in states where wage laws generally require an employee’s written authorization for payroll deductions. Plans meeting certain conditions set by the PPA may give automatically enrolled employees the option to revoke automatic enrollment within 90 days and get their money back tax penalty-free. Final regulations further clarified the revocation period can be set at less than 90 days, but must be at least 30 days from the date the employee would have otherwise received their money.

The PPA cleared away one of the biggest barriers to automatic 401(k) plan adoption. The law directed the DOL to publish regulations on acceptable investment defaults that would help shield sponsors from increased fiduciary liability. Regulations confirm that plan sponsors can safely select default investments that include stocks, under certain conditions. Sponsors will not increase their risk of fiduciary liability for investment losses as long as they choose a Qualified Default Investment Alternative, or QDIA. QDIAs include common types of diversified default investments that include stocks; in particular, balanced funds, lifecycle funds or managed accounts.

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8 A QDIA is designed to protect the sponsor that uses certain default investments, so that it won’t face more risk than if it had a 401(k) plan that let participants choose among investment options without any default investment.
Employee Notification Requirements
The PPA and final regulations require upfront written notification to let employees know they will be automatically enrolled in the plan, at what percentage of pay and to which investment options the contributions will be directed. The notice needs to tell employees that they can override any of these defaults and choose their own contribution amount and investments, do nothing and stay at the defaults or opt-out altogether. Plans can provide the initial notice at least 30 days, but no more than 90 days, before the date employees first become eligible to participate and timing of the notice will be deemed to satisfy requirements as stated in the final regulations. The final regulations provide the timing requirement for notice is satisfied based on all relevant facts, practical circumstances and sufficiently early for an eligible employee to make an affirmative election prior to the default contribution. Sponsors need to repeat the written notice annually within “a reasonable period of time of at least 30 days (no more than 90 days)” before the start of the plan year.

New Nondiscrimination Testing Safe Harbor
The PPA offers, and final regulations confirmed, an automatic enrollment alternative to bypass nondiscrimination tests and the employer may not be required to make additional contributions to satisfy so-called “top-heavy” contribution requirements. Prior to the PPA, a plan sponsor had two ways to avoid testing and top-heavy contribution requirements: the matching safe harbor and the non-elective contribution safe harbor.

Under the pre-PPA matching safe harbor, plan sponsors have to match 100 percent of rank-and-file employee contributions on the first three percent of pay, and then 50 percent on the next two percent of pay. The non-elective contribution safe harbor requires plan sponsors to provide at least a three percent employer contribution for all eligible rank-and-file employees, regardless of whether the employee contributes. Vesting of the employer contribution is immediate under both approaches, and both approaches continue to be available after the PPA and publication of the final regulations.

After the PPA and further clarified by the final regulations, plan sponsors qualify for the new PPA 401(k) safe harbor option (and therefore bypass nondiscrimination testing and top-heavy contribution requirements) if their plans meet the following requirements:

- They use automatic enrollment and the automatic (default) contribution rate starts at no less than three percent of pay at the start of an employee’s participation, rising over the next few

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9 These are non-highly compensated employees. In very general terms, highly compensated employees are defined by the Internal Revenue Code as those earning $105,000 or more (the indexed figure for 2008) or owning more than five percent of the company.

10 The three percent minimum applies when the employee is first automatically enrolled and continues through the first full plan year that begins after initial automatic enrollment. After that initial period (usually a year and a fraction, sometimes two full plan years of participation if the employee started on the first day of the plan year), the required minimum rises to four, five and six percent in each of the next three plan years, with the minimum of six percent continuing into the future.
years to at least four percent five percent and finally six percent. The maximum permitted automatic contribution rate for a plan using the 401(k) safe harbor is 10 percent;

- An employer matches 100 percent of rank-and-file employee contributions on the first one percent of pay, and 50 percent from there up to a maximum of six percent of pay; or
- As an alternative, the employer can provide a three percent non-matching contribution to all rank-and-file employees.
- Employer contributions vest in two years or less.
- Employees receive required notices regarding the right to opt-out and to elect a different deferral rate or investment, and an explanation of the default investment.

The PPA established a safe harbor for 401(k) plans using automatic enrollment as an alternative to nondiscrimination testing and potential to satisfy the top-heavy contribution requirements.

The Time is Right

The PPA gave the plan sponsor community the green light it was waiting for to adopt automatic defaults. The law removes most of the legal and regulatory barriers that have held plan sponsors back from automatic 401(k) plan implementation.

The automatic 401(k) offers welcome relief to sponsors that have tried to convince their employees to participate in the plan and adequately save for retirement. Financial education no longer needs to shoulder the daunting task of changing behavior. It can now do what it is supposed to do—educate employees about smart strategies for achieving retirement security, delivered to them as they are building their nest eggs.

The PPA and final regulations officially cleared the way for automatic plan design. Early adopters have taught us what works and what to look out for. Today’s environment sets the stage for employers to confidently adopt automatic design features, knowing they are right by law.

The automatic 401(k) plans, called Automatic Contribution Arrangements (ACA); Eligible Automatic Contribution Arrangements (EACA); or Qualified Automatic Contribution Arrangements (QACA), newer and wiser versions of its earlier self, holds real promise for improving the retirement prospects of today’s workers. Combined with continued financial education, the 401(k) is coming into its own as a source of retirement income security for the 21st century.

Which Automatic Contribution Arrangement Design is the Right One?

Think about your plan goals. Do you want to increase participation, raise contribution rates and get employees to better appreciate the value of your plan? Do you want to improve nondiscrimination testing results, or do away with testing altogether? Do you want to satisfy the additional top-heavy contribution requirement without additional expense? Would allowing higher paid employees to
contribute more make your life easier? Most of all, do you want to help your employees save enough to secure a comfortable retirement? If so, adding automatic features to your 401(k) plan makes sense.

The following ACA, EACA, QACA comparison chart provides a snapshot of each type of automatic contribution arrangement. As you determine your plan goals, the chart may be a helpful tool in maximizing the benefits of your new automatic 401(k) plan.

### ACA, EACA, QACA Comparison Chart

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>AUTOMATIC CONTRIBUTION ARRANGEMENT (ACA)</th>
<th>ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (EACA)</th>
<th>QUALIFIED AUTOMATIC CONTRIBUTION ARRANGEMENT (QACA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant Notice Timing Requirement</td>
<td>Required</td>
<td>Required</td>
<td>Required</td>
</tr>
<tr>
<td>Safe Harbor Compensation</td>
<td>Not Required</td>
<td>Not Required</td>
<td>Required</td>
</tr>
<tr>
<td>Automatic Salary Deferral Percentage</td>
<td>Required – Defined in Adoption Agreement</td>
<td>Required – Defined in Adoption Agreement</td>
<td>Required – Defined in Adoption Agreement</td>
</tr>
<tr>
<td>Specified Automatic Salary Deferral Contribution Levels</td>
<td>None</td>
<td>None</td>
<td>Minimum of 3%; gradually tiered to 6%, not to exceed 10%</td>
</tr>
<tr>
<td>Automatic Annual Deferral Escalation That Satisfies Uniform Percentage Rule / Qualified Percentage</td>
<td>Optional</td>
<td>Optional</td>
<td>Minimum Escalation: Up to 2 years – 3% 3 years – 4% 4 years – 5% 5 years – 6% May begin deferral at 6% to avoid escalation. However, deferral escalation may not ultimately exceed 10% of compensation.</td>
</tr>
<tr>
<td>Required Employer Matching OR Non-Elective Contribution for Each Eligible NHCE Regardless of Affirmative or Default Salary Deferral Election</td>
<td>Not Required</td>
<td>Not Required</td>
<td>Required: Match – 100% of 1st 1% + 50% of deferral over 1% up to 6% OR Non-Elective – 3% of compensation</td>
</tr>
<tr>
<td>Required Vesting Schedule for Employer Contributions</td>
<td>Not Required</td>
<td>Not Required</td>
<td>Required: Fully vested after no more than 2 years</td>
</tr>
<tr>
<td>90 Day Withdrawal Option - Match Related to EACA Deferrals Opting 90 Day Withdrawal – Forfeited</td>
<td>Not Required</td>
<td>Required – However without the 10% tax penalty for early withdrawals</td>
<td>Not Required – However an EACA provision can be incorporated to allow</td>
</tr>
<tr>
<td>Qualified Default Investment Alternative – Fiduciary Protection</td>
<td>Optional – QDIA Highly Recommended</td>
<td>Optional – QDIA Highly Recommended</td>
<td>Optional – QDIA Highly Recommended</td>
</tr>
<tr>
<td>Nondiscrimination Tests &amp; Top Heavy Safe Harbor</td>
<td>No</td>
<td>No – However excise tax doesn’t apply for corrective distributions within 6 months after Plan Year End</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Don’t Lose Sleep over Automatic Investments

*Federal Law Offers Fiduciary Relief to Automatic 401(k) Plan Sponsors*

All investors face the risk of losing money. It’s enough to keep some people up at night. The risk is especially troubling to 401(k) plan sponsors, some of whom may be concerned that participants might sue them if their investments lose money. Sponsors can rest easier by following regulatory guidelines to reduce their exposure. But, until passage of the Pension Protection Act of 2006 (PPA), this “fiduciary liability” relief did not apply to sponsors of automatic 401(k) plans.

Pension law offers a measure of fiduciary relief from potential liability for investment losses if participants “have control” over their own investments. This relief is limited; plan sponsors and other fiduciaries still have a duty to prudently select and monitor each investment option. But some plan sponsors have been concerned that their fiduciary liability exposure may be greater if they established default investments. It hasn’t been clear whether participants exercise “control” over their investments in automatic 401(k) plans if they remain in the plan’s default investment.

The PPA removes this ambiguity. As long as the sponsor follows certain conditions, participants will be deemed to have exercised control over certain default investments. Sponsors that automatically enroll employees will qualify for the same kind of fiduciary relief they get when participants exercise control over their investments by making affirmative choices.

Now, under certain conditions, plan sponsors have the green light to include diversified equities in default investment funds (though plan fiduciaries still have a legal duty to prudently select and monitor default investments). A trend moving away from conservative default investments started before the PPA. It has accelerated, now that sponsors have greater confidence to select default funds that contain diversified equities. This is important, since automatically enrolled plan participants tend to stay in the default investment.

Consider how remaining in a principal-preservation fund over the long term could affect a saver’s outcomes.* Assume a 30-year-old employee with no retirement savings is automatically enrolled in a low-risk investment that earns three percent a year on average. If he contributes $2,000 a year (adjusted for inflation), he will have an estimated $200,256 when he turns 65. But if the same 30-year-old contributes $2,000 a year to a fund that earns an average of seven percent a year, his total savings by age 65 would be $426,107.**

*This estimate is based on historical average returns and is not a predictor of future returns.
**This example is based on retirement income estimates using a calculator at www.ipers.org.
The Specifics

Fiduciary relief is available to automatic 401(k) plan sponsors as long as they meet specific conditions defined by the Department of Labor (DOL) regulations. \(\text{(Note: This document does not attempt to describe all of the specific conditions; for a full listing, visit www.dol.gov.)}\) Sponsors need to offer participants the chance to direct their own investments. If participants fail to do so, and are defaulted into a “Qualified Default Investment Alternative” (QDIA), sponsors can qualify for fiduciary relief similar to the relief that applies when participants affirmatively elect their investments.

Qualified Default Investment Alternatives

QDIAs can be made up of funds or assets handled by an investment manager, a plan sponsor acting as a fiduciary or a plan trustee.\(^\text{11}\) Generally, the funds cannot include the employer’s securities (with limited exceptions), and they need to be diversified to minimize the risk of large losses.

Under the DOL regulations (effective December 24, 2007), three main types of investments qualify as QDIAs—lifecycle funds, balanced funds and managed accounts.

A lifecycle fund or model portfolio, also known as a target retirement date fund, is an investment mix that seeks both long-term appreciation (through diversified equity investments, such as stocks) and principal preservation (through fixed-income investments, such as bonds or stable value funds). A participant’s age, expected retirement date or life expectancy determine the investment mix. The mix becomes more conservative as the participant gets closer to retirement, usually by shifting assets from stocks to fixed-income investments.

A balanced fund or model portfolio is a similar mix of diversified equity and fixed-income investments. A target level of risk for plan participants as a whole determines the investment mix. The mix doesn’t vary with the age or other individual circumstances or preferences of particular participants.

With a managed account, an investment manager provides an investment management service under which it allocates the assets of a participant’s individual account. The goal is to achieve a diversified mix of equity and fixed-income investments that seeks both long-term appreciation and principal preservation. The manager uses investment alternatives available in the plan and adjusts the mix based on an individual’s age, target retirement date or life expectancy. The mix becomes more conservative with increasing age.

\(^{11}\) ERISA section 3(38) defines “investment manager.”
The DOL regulations also treat capital preservation (such as certain stable value) funds as QDIAs for up to 120 days after the participant’s first contribution or to the extent the plan invested in certain capital preservation funds before December 24, 2007 (a “grandfather” provision that is subject to certain conditions). The regulations also make clear that a lifecycle or balanced fund can still be a QDIA even if offered through a variable annuity or similar contract, through common or collective trust funds or pooled investment funds or with investment or death benefit guarantees.

**Regulations accommodate diversified default investment alternatives that seek both long-term appreciation and capital preservation.**

The DOL notes that not every default investment fund that satisfies the definition of QDIA will be deemed acceptable. But it also acknowledges that investment options other than those defined as QDIAs (such as ongoing investments in stable value funds) may be deemed to be acceptable. Regardless, fiduciaries still have a legal duty to prudently select and monitor QDIA funds, and could be liable for losses that result from a failure to do so.

**Additional Requirements**

Beyond selecting qualified default investments, plans must give participants written notice before the default investment kicks in and annually thereafter. The notice needs to be written in a manner that can be understood by the average plan participant.

The regulations require that sponsors give participants investment materials the plan receives regarding QDIAs. Participants invested in QDIAs need to have the same opportunities to direct their investments (including how often) that the plan gives to other participants. During the first 90 days after an employee’s first contribution, a transfer out of a QDIA or a withdrawal of all contributions by a participant opting out of the plan cannot be penalized through restrictions or expenses such as surrender charges or redemption fees. Also, the plan must offer a broad range of investment alternatives.

**Implications**

A goal of the PPA is to increase retirement savings by encouraging more sponsors to add automatic features to their 401(k) plans. Before the law’s enactment, automatic 401(k) sponsors were at a potential disadvantage with respect to fiduciary liability because they provided default investments. Now that relief is available, policymakers and benefits analysts expect an opening of
the floodgates to automatic plan adoption. The result will be more employees than ever building their capacity to support a comfortable standard of living in retirement.

When choosing a QDIA or any other investment alternative, plan sponsors are still responsible for prudently selecting and monitoring the specific investment fund, portfolio or service, including careful consideration of the associated fees and expenses. But you don’t need to lose sleep over putting participants into funds that are appropriate for long-term investing.

Like many plan sponsors, you may find little reason not to adopt automatic 401(k) plan features. Talk with your plan service provider about your options. If your provider does not offer automatic 401(k) plan support, you might want to look for one that does.

The PPA and the DOL regulations have encouraged more plan sponsors to include diversified equity investments in their default funds.\textsuperscript{12} This may give participants a better shot at financial security in retirement, while giving plan sponsors protection from additional fiduciary liability. This should help us all rest easier.

\textsuperscript{12} See preamble to the QDIA regulations: http://www.dol.gov/ebsa/regs/fedreg/final/07-5147.pdf.
Automatic 401(k) Plans

What Your Employees Need to Know

If you are getting ready to set up an automatic 401(k) plan, you have the Pension Protection Act of 2006 (PPA), the final regulations published by the Internal Revenue Service on February 24, 2009, and our resources to guide you. This specific resource covers the notification rules that the PPA established and the final regulations clarified for automatic 401(k) plans.

Employers Take Note

Employers must give each eligible employee written notice of their rights and obligations under the automatic 401(k) arrangement and explain their right to opt-out of the plan or change the default contribution amount. The notice has to identify how the default contributions will be invested if the employee doesn’t make an explicit choice. For a Qualified Automatic Contribution Arrangement (QACA) designs, the notice must also include information about the type of employer contribution non-elective or matching, and related vesting. For Eligible Automatic Contribution Arrangement (EACA) designs, the notice must describe the conditions for allowing the penalty free withdrawal within the first 90 days after the default contribution was withheld from the employee’s paycheck.

Employers generally need to provide initial notice to an employee at least 30 days before the employee first becomes eligible or at least 30 days before the first investment in a qualified default investment. Notice must also be given annually thereafter within a reasonable period of time of at least 30 days (and no more than 90 days) before the beginning of the plan year. For employees that become eligible on dates that prevent meeting the above timeframes, an employer is required to provide the notice prior to the pay date the employee is otherwise eligible to elect a deferral contribution and sufficiently early enough for the employee to affirmatively elect a deferral amount or change the percentage of deferral prior to the default contribution.

Under the regulations, participants must be given sufficient time to act affirmatively. Therefore, plan sponsors have to notify participants within a reasonable period before contributions go into the default investment, and again before the start of each plan year.

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13 Plan Sponsors can be liable for civil penalties for failure to provide the notice in a timely fashion. Refer to ERISA section 502(c)(4), 514(e)(3).
Automatic 401(k) plan sponsors have been afforded a measure of fiduciary relief related to their selection of default investments. Among the conditions the eligible employer must meet is a notice to employees related specifically to the default investment. It needs to explain or describe:

- The circumstances under which elective contributions will automatically be made, the percentage of pay and the participant’s right to opt-out or choose to contribute at a different percentage;
- the participant’s right to direct the investment of assets in his or her account;
- the circumstances under which a participant’s contributions will be invested in the default investment;
- the investment itself, including investment objectives, risk and return characteristics and fees and expenses;
- how a participant can move investments out of the default investment, including any applicable restrictions, fees or expenses that apply in connection with such a transfer; and,
- where participants can get investment information about the plan’s other investment options.

The notice must be a separate written communication—not simply part of or by reference to the plan’s Summary Plan Description or Summary of Material Modifications. It also needs to be easy to read and understand. For a sample notice that the IRS has provided, see page 22.

**Join the Trend**

The popularity of automatic features in 401(k) plans continues to grow. The PPA and final regulations gives plan sponsors plenty of reasons to move forward. The Department of Labor projects that automatic 401(k) plans may cover 50 to 65 percent of the 401(k)-eligible population in the future.\(^{14}\) These employees will be put on a better path to a financially secure retirement. Will your employees be among them?

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What to Look For in an Automatic 401(k) Plan Service Provider

You’ve read all about automatic 401(k) plans. You’ve considered the implications of adding automatic features, and have come to the decision that it’s the way to go. You’ve made a strong business case to management, and they’ve agreed that it’s time to move forward. So now what?

Your next step is finding the right service provider. Chances are your current 401(k) plan vendor supports automatic features. Alternatively, you may choose to, or need to, work with a separate vendor. For small- and mid-size employers it’s important to find a provider that will offer a turnkey approach. Like most employers of this size, you may have only a few people handling all human resources and benefits functions. Your provider needs to do the heavy lifting, and many of them are equipped to do just that. The challenge you have is finding the right one.

Take note that choosing a service provider for your 401(k) plan is a fiduciary action, so you need to undertake any provider-related decision with great care. This publication focuses mainly on assessing a provider’s ability to administer automatic plan features. The fiduciary decisions regarding selection, retention or replacement of plan service providers involve many other important considerations not covered in this publication—such as quality, accuracy and reliability of recordkeeping and other administrative services; ability to assist with participant communications and respond to participant questions; assistance with legal and regulatory compliance; level of fees and expenses and other considerations.15

Sizing It Up

Large plans have led the way in adopting automatic 401(k) plan features. Their plan service providers typically have ample staff and technological capability to manage the transition and ongoing administration. Plus, large employers often have dedicated in-house benefits professionals to manage the 401(k) plan.

This isn’t usually the case with small- and mid-size plans. The service teams may be smaller and the company’s investment in technology may be less than that of large providers. Plus, you may be a staff of one on your side of things.

Remember, choosing a service provider is a fiduciary act, so, put time and effort into finding a provider that can meet your needs with minimal input from you. “Kick the tires” while doing your due diligence. You will want to make sure the process is reasonably automated. Roles and responsibilities should be clearly defined, mutually agreed upon and in writing for future modifications. It will save you time and effort in the long run.

Checking Them Out

Here are some questions to ask when interviewing potential automatic 401(k) plan service providers, whether it’s your existing provider or one you haven’t yet worked with:

1. **Is your plan in the provider’s core market?**
   If the provider mostly works with smaller employers, make sure it has the experience and the staff to serve your plan’s needs. If the provider works mostly for very large companies and devotes most of its staff time and resources to the large plans, make sure you won’t be short-changed.

2. **What has the provider’s experience been with automatic 401(k) implementation?**
   Ask how many plans they have experience with in implementing automatic features, which features in particular and ask about outcomes to date. Look for things like participation rate increases and nondiscrimination testing outcomes. Find out if they have experience in enrolling existing employees, and their process for it. Ask if they can support automatic deferral increases.

3. **How does the provider handle specific administrative functions?**
   Look for technology capabilities to streamline the auto-enrollment process, to return contributions to employees who opt-out within the 90-day window allowed by the Pension Protection Act of 2006 (if you choose to give employees that option), and to automatically enroll existing employees who are not participating.

4. **What audit procedures exist to ensure accuracy of the automatic features?**
   Find out their process for ensuring they are automatically enrolling the right employee groups at the right levels.

5. **What specific procedures does the provider have in place to ensure compliance with the Pension Protection Act of 2006 and related regulations?**
   Ask about the provider’s approach to updating plan documents and receiving regulatory approvals. Find out if the provider manages the notification requirements related to automatic enrollment. Ask what process the provider will undertake to return contributions to employees who opt-out within the allowable timeframe.

6. **What assurances can the provider offer that its team will do most of the heavy lifting?**
   If your resources are limited (and whose aren’t?), you want to hear from the provider that the work that falls to you will not be overly burdensome.

7. **Can you talk to their existing clients?**
   Ask current automatic 401(k) clients of your size if they are satisfied with the provider. Find out if their workloads have increased. Ask if they feel they have a reliable point of contact with the provider.
8. **Does the provider offer service guarantees?**
   Ask about the provider’s approach when service levels are not met. Ask about their history and if guarantees have been honored with past clients. Nobody’s perfect: what you want to know is how the provider addresses the issue should it arise.

9. **Does the provider put it in writing?**
   Ask for a written administration manual with well-defined roles and responsibilities. Understand how the manual is maintained for process updates and new authorized signers. Having a single manual for the plan sponsor and the provider eliminates a lot of the potential for confusion, misunderstandings or mistakes.

**Summing It Up**

By their nature, automatic 401(k) plans are not difficult to administer. In fact, they can greatly reduce the administrative headaches that come with failing nondiscrimination tests, returning contributions to highly compensated employees and chasing down non-participants to focus them on enrolling in the plan. However, to make sure automatic features will be easy to administer, you need to find a service provider that is well-equipped to manage the changes and the ongoing administration with little involvement from you. By asking these questions, you’ll be well on your way to finding a provider that will meet your needs.
401(k) plan sponsors have long sought to educate their employees about retirement planning and saving. The goal of financial education in the workplace has largely been to change behavior, to make savers and investors out of often disinterested, unaware or overwhelmed employees. But alone, financial education hasn’t been highly successful in driving behavior change.

Automatic 401(k) plan design helps bridge the divide. A well-structured automatic 401(k) plan helps solve many long-standing participation challenges. By simply doing nothing, employees become plan participants. Their contributions begin when or shortly after they are hired, and accumulate automatically over time in a default investment with growth potential.

But an automatic plan design won’t solve every challenge. It gets people past the barriers of procrastination and inertia, but it doesn’t inform them. Financial education does. It may also help reduce your exposure to fiduciary liability, and addresses the staggering lack of financial literacy among American workers.

Automatic plan design sets a new paradigm for financial education in the workplace. Since the goal of getting employees into the plan can be met largely through automatic enrollment, sponsors can focus on what participants need to know about the value of the plan, and how to use it to achieve financial security in retirement.

A Look Back

The “do-it-yourself” nature of 401(k) plans gave rise to financial education in the workplace beginning in the mid 1990s. As employers started to recognize the need for financial education, the Department of Labor issued guidance on permissible education practices. Much of the early focus was on advising plan sponsors on how to avoid the fiduciary liability that can come with offering specific investment advice.

In recent years, sophisticated investment guidance has replaced generic financial education. Plan sponsors now make available a range of educational materials and resources, from personalized statements and asset allocation modeling tools to certain kinds of investment advice that permit the sponsor to limit its fiduciary exposure.

Best Practices Emerge

Successful financial education programs share common traits. First, they don’t rely on a one-size-fits-all approach. Programs geared to employees based on certain characteristics, such as participation status, income level, primary language and others are more effective than those that
rely on generic information. The more personalized the message and the materials, the more successful the program.

Second, successful programs are continuous. Simply offering a one-time seminar or sending out a single communication won’t accomplish much. Rather, the program should have an extended time horizon and make use of all available communication channels. Many plan sponsors use posters, voice messaging, e-mail, home mailings, seminars, asset allocation tools, company Intranet sites and other channels to educate, reinforce key concepts, and drive action.

One-on-one financial counseling appears to be the most highly regarded by employees, and the most useful. Surveys document the common refrain of, “Tell me what to do.” One-on-one counseling can range from providing basic information on types of investments and setting financial goals to offering specific investment advice. Until recently, however, plan sponsors have largely avoided offering investment advice because of fiduciary liability concerns. The Pension Protection Act of 2006 (PPA) may change that. Over 70 percent of surveyed plan sponsors make available or are considering adding individual financial counseling / investment advice to all participants in the next two years.16

**Pension Law Permits Investment Advice**

The protection hinges on several factors:

- The fiduciary adviser must be named a fiduciary of the plan because the adviser provides investment advice, and must be a registered investment adviser, a bank or similar financial institution, an insurance company or a registered broker dealer (or an affiliate or employee of these entities).
- The adviser must clearly disclose the following:
  - That the adviser is a fiduciary of the plan.
  - Fees or other compensation.
  - Past performance and rates of return of the investment options.
  - How participant information will be used or disclosed.
  - Other information specified in the law.

Fees and other forms of compensation the adviser receives cannot vary depending on which investment options participants select. The plan sponsor remains responsible for the prudent selection and periodic review of the adviser it selects. The protection also requires satisfaction of other conditions not summarized here.

Will the PPA encourage more plan sponsors to make specific investment advice available? It seems that way. The law recognizes the importance of informing employees about retirement planning and

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saving, and the Department of Labor has explicitly pointed to the important role employers can play in providing financial education to workers.

**The Bottom Line**

You may feel you simply lack the resources to launch and sustain a thoughtful financial education campaign. Fortunately, you don’t have to do it alone. You have a variety of helpful materials available at www.RetirementMadeSimpler.org. Also, various plan service providers offer robust communication campaigns. With good support from your plan provider and the materials available through the Retirement Made Simpler campaign, you can educate and inform your employees in a way that won’t significantly add to your workload.

The path to financial security in retirement is paved with informed decisions. Financial education helps your employees better understand the value of the 401(k) plan and engages them in planning their own financial future. When coupled with inertia-busting automatic plan designs, employees are put on a path to financial security. That’s a result everyone can appreciate.
Resources

Retirement Made Simpler.
www.RetirementMadeSimpler.org

Default Investment Alternatives under Participant Directed Individual Account Plans, Final Rule.


http://www.event.com/events/54th-annual-survey/event-summary-b54e57da73624d14a27e681d848eb068.aspx

http://www.ebri.org/pdf/briefspdf/EBRI_IB_011-2010_No349_EBRI_DCIIA.pdf


U.S. Department of Labor, Sample Automatic Enrollment and Default Investment Notice

Meeting Your Fiduciary Responsibilities.
The Pension Protection Act
Section 601.

401(k) Learning Center
http://apps.finra.org/investor_Information/Smart/401k/000100.asp
**Sample Employee Notice of Automatic Enrollment**

*Note:* The following is a sample automatic enrollment and default investment notice provided by the IRS and the Treasury Department (http://www.irs.gov/pub/irs-tege/sample_notice.pdf). Plan sponsors are not required to use the sample notice; it is simply available if they choose to use it to help them meet the notice requirements for a plan that uses automatic enrollment, including a plan that uses QDIAs (the Department of Labor-approved default investments), that wishes to comply with the notice requirements for preemption of state law, that chooses to use the nondiscrimination safe harbor or that gives employees 90 days to opt-out and get their contributions back penalty-free. As noted by the IRS, a plan sponsor that uses the sample notice will need to add to, subtract from or otherwise change the sample language insofar as the plan’s provisions and the way it operates differ from the hypothetical plan described in the sample notice.

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**[Plan Name]**

Automatic Enrollment Notice

Beginning [date] [Company] is making saving for retirement under our 401(k) Plan even easier. We are offering an automatic enrollment feature, and will make new Company matching contributions.

The new automatic enrollment feature won’t change your contribution level if you already turned in a form electing the level of your contributions to the Plan or electing not to contribute. Your earlier election will continue to be followed, and matching contributions will be made based on your contribution level. You can change your contribution level by turning in a new form at any time. Matching contributions will then be based on your new contribution level.

If you have not turned in a contribution election form, you will be automatically enrolled in the Plan starting with your first paycheck on [date]. This means that amounts will be taken from your pay and contributed to the Plan. For pay during [date], these automatic contributions will be [6 percent] of your eligible pay each pay period. But, you can choose a different amount. You can choose to contribute more, less or even nothing.

[Include company match information as appropriate. Remember that since many employees who are automatically enrolled will not change their contribution, a best practice is to set your default contribution at or higher than your company match. This will help ensure that employees make the most of the company match.]

This notice gives you important information about some Plan rules, including the Plan’s automatic enrollment feature and Company matching contributions. The notice covers these points:

- Whether the Plan’s automatic enrollment feature applies to you.
- What amounts will be automatically taken from your pay and contributed to the Plan.
- What other amounts the Company will contribute to your Plan account.
- How your Plan account will be invested.
• When your Plan account will be vested (that is, not lost when you leave your job), and when.
• You can get your Plan account.
• How you can change your contributions.

You can find out more about the Plan in the Plan’s Summary Plan Description (SPD).

1. Does the Plan’s automatic enrollment feature apply to me?
The Plan’s automatic enrollment feature will not apply to you if you already elected (by turning in a form to the Plan Administrator) to make contributions to the Plan or to not contribute. If you made an election, your contribution level will not automatically change. But, you can always change your contribution level by turning in a new contribution form.

If you have not elected a contribution level, you will be enrolled in the Plan starting with your first paycheck in [date]. This means money will be automatically taken from your pay and contributed to your Plan account. If you do not want to be enrolled, you need to turn in the enclosed contribution form to the Plan Administrator by [date].

2. If I do nothing, how much will be taken from my pay and contributed to the Plan?
If you do not turn in a completed contribution form by [date], [default percentage] of your eligible pay for each pay period will be taken from your pay and contributed to the Plan. This will start with your first paycheck in [date] and continue through the end of [date]. After [date], your contribution level will increase by one percent each year (unless you choose a different level), until it reaches 10 percent of your eligible pay. To learn more about the Plan’s definition of eligible pay, you can review the “[ ]” section of the Plan’s SPD.

Your contributions to the Plan are taken out of your pay and are not subject to federal income tax at that time. Instead, they are contributed to your Plan account and can grow over time with earnings. Your account will be subject to federal income tax only when withdrawn. This helpful tax rule is a reason to save for retirement through Plan contributions.

Contributions will be taken out of your pay if you do nothing. But you are in charge of the amount that you contribute. You may decide to do nothing and become automatically enrolled, or you may choose to contribute an amount that better meets your needs. For example, you may want to get the full amount of the Company’s matching contributions by contributing at [least six percent of your eligible pay.] You can change your contributions by turning in a new contribution form to the Plan Administrator at the address listed at the end of this notice.

If you want to contribute more to your account than would be provided automatically, there are limits on the maximum amount. These limits are described in the “[ ]” section of the Plan’s SPD.
3. How will my Plan account be invested?
The Plan lets you invest your account in a number of different investment funds. Unless you choose a different investment fund or funds, your Plan account will be invested in the [ ] Fund.  

You can change how your Plan account is invested, among the Plan's offered investment funds, by turning in the enclosed [ ] Form to the Plan Administrator at the address listed at the end of this notice.

To learn more about the Plan’s investment funds and procedures for changing how your Plan account is invested you can review the “[ ]” section of the Plan's SPD. Also, you can contact the Plan Administrator using the contact information at the end of this notice.

4. When will my Plan account be vested and available to me?
You will always be fully vested in your contributions to the Plan. You will also be fully vested in matching contributions when you complete [two years of service]. To be fully vested in Plan contributions means that the contributions (together with any investment gain or loss) will always belong to you, and you will not lose them when you leave your job. For more information about years of service, you can review the “[ ]” section of the Plan’s SPD.

Even if you are vested in your Plan account, there are limits on when you may withdraw your funds. These limits may be important to you in deciding how much, if any, to contribute to the Plan. Generally you may only withdraw vested money after you leave your job, reach age 59-1/2 or become disabled. Also, there is generally an extra 10 percent tax on distributions before age 59-1/2. Your beneficiary can get any vested amount remaining in your account when you die.

You also can borrow certain amounts from your vested Plan account, and may be able to take out certain vested money if you have a hardship. Hardship distributions are limited to the dollar amount of your contributions. They may not be taken from earnings or matching contributions. Hardship distributions must be for a specified reason—for qualifying medical expenses, costs of purchasing your principal residence (or preventing eviction from or foreclosure on your principal residence or repairing qualifying damages to your principal residence), qualifying post-secondary education expenses or qualifying burial or funeral expenses. Before you can take a hardship distribution, you must have taken other permitted withdrawals and loans from qualifying Company plans. If you take a hardship distribution, you may not contribute to the Plan or other qualifying Company plans for 6 months.

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17 Note to plan sponsors: In order for the Plan’s default investment to satisfy section 404(c)(5) of ERISA, the default investment fund must be a qualified default investment alternative (“QDIA”) under DOL Reg. § 2550.404c-5. You must describe the Plan’s QDIA, including its investment objectives, risk and return characteristics, and fees and expenses, and must describe other circumstances, if any, under which assets may be invested in the QDIA.

18 Note to plan sponsors: In order for the Plan’s default investment to satisfy section 404(c)(5) of ERISA, you must describe any restrictions, fees or expenses that apply when participants or beneficiaries transfer assets from the QDIA to other investment funds.
You can learn more about the Plan’s hardship withdrawal and loan rules in the “[ ]” and “[ ]” sections of the Plan’s SPD. You can also learn more about the extra 10 percent tax in IRS Publication 575, Pension and Annuity Income.

5. Can I change the amount of my contributions?
You can always change the amount you contribute to the Plan. If you know now that you do not want to contribute to the Plan (and you haven’t already elected not to contribute), you will want to turn in a contribution form electing zero contributions by [ ]. That way, you avoid any automatic contributions.

But, if you do not turn in the form in time to prevent automatic contributions, you can withdraw the automatic contributions for a short time, despite the general limits on Plan withdrawals. During the 90 days after automatic contributions are first taken from your pay, you can withdraw the prior automatic contributions by turning in a [ ] Form to the Plan Administrator. The amount you withdraw will be adjusted for any gain or loss. If you take out your automatic contributions, you lose Company contributions that matched the automatic contributions. Also, your withdrawal will be subject to federal income tax (but not the extra 10 percent tax that normally applies to early distributions). If you take out automatic contributions, the Company will treat you as having chosen to make no further contributions. However, you can always choose to continue or restart your contributions by turning in a contribution form.

If you have any questions about how the Plan works or your rights and obligations under the Plan, or if you would like a copy of the Plan’s SPD or other Plan documents, please contact the Plan Administrator at:

[Plan Administrator Name]
[Address]
[Telephone Number]
[E-mail Address]
Sample Voice-Mail Script: Automatic 401(k) launch

Time: One minute, 25 seconds

- If your organization is able to reach employees through voice mail, consider this sample message as one means to communicate about the addition of automatic features to your 401(k).
- It’s a good idea to follow-up with an e-mail message with additional detail. (See: “Email Script” for a sample message).
- Customize items in [red] to reflect your specific circumstances.

This is [CEO or Senior HR Executive] with some great news about your future retirement security.

Starting [date] each person we hire will automatically join our 401(k) plan. [To extend this “easy enrollment” benefit to our current people, once each year we will automatically enroll anyone who’s not already in the plan.] Anyone automatically enrolled is free to change their contribution amount or to opt-out.

You may ask why we’re doing this. We have two reasons. The first is that we care about the retirement security of all of our people, and we felt the barriers to signing up for the plan were keeping too many of you out. Our 401(k) is a valuable benefit, and we want everyone to take advantage of it.

Also, many other companies now automatically enroll their employees to help them save for retirement. We’ve studied their experiences, and found that so many more people participate as a result—and they’re glad they did!

Now, to the extent there are people who really don’t want to save through our 401(k), they have every right to opt-out. And each participant can change the amount they’re saving and their investments [at any time/applicable plan provision].

I’m so pleased to share this news with you. Keep an eye out for information that will explain this benefit in more detail.

We encourage you to make the most of your participation in our 401(k). We believe enrolling all of our people in the plan is a responsible step in the process. Thanks, everyone.
Sample Email: Automatic 401(k) launch
Send to all 401(k)-eligible employees following voice-mail from key leader

To: All personnel
From: CEO or senior HR executive
Subject: Retirement saving just got easier!

[By now, you’ve heard about the enhancement we have made to our 401(k) plan.] Starting [date], each person we hire will automatically join the plan. To extend this “easy enrollment” benefit to our current people, we will automatically enroll anyone who’s not already in the plan. In either case, anyone who is automatically enrolled is free to change their contribution amount or to opt-out.

We have added this feature because our 401(k) plan is a powerful way to build a secure retirement. It’s an important and valuable benefit, and we understand that it can be a challenge to enroll because you have so many other things going on.

This enhancement will not affect your 401(k) participation if you currently contribute to the plan. It will apply to you if you are not currently participating. Here’s how:

- You will receive a written notice roughly a month before we automatically enroll you.
  - We will indicate what percent of your pay will automatically go into the plan, as well as into which investment fund your money and our matching contributions will go.
  - You can choose a different amount of pay to contribute, change your investment, or decline participation.
- You have 90 days after we enroll you to decide not to participate.
  - Simply notify us [by sending an email to…/calling…/going online to…] and we will return your balance to you (adjusted for any gains or losses) through your paycheck. You will lose any employer matching contribution we made up to that point.

This is a great opportunity to jump-start your retirement saving. It is never too early to start. Plus, you’ll get the benefit of our matching contribution [which is X for every dollar you contribute up to Y percent of your pay].

It’s still important for you to pay attention to your 401(k) account. Educate yourself about saving and investing, and review your investments from time to time—especially when your circumstances change.

Use the tools and information we provide to help you make decisions about planning and saving for retirement. [Identify materials and location: newsletter, statements, Web site, seminars, etc.]

[We have more information about the new enrollment benefit and about the 401(k) plan in general (identify how and where to access details—SPD/SMM, Intranet, etc.).]

We encourage you to make the most of your participation in our 401(k) plan. We believe enrolling all of our people in the plan while allowing them to decline participation is a responsible step in the process.
Sample Benefits Web Page Content: Automatic 401(k) launch

Here’s how automatic enrollment works:

- We automatically enroll all of our full-time eligible new hires in the plan.
- Once a year, we automatically enroll full-time eligible employees who are not contributing, and tell them that if they opt-out, they’ll be automatically enrolled the next year.

This means our new people don’t have to worry about 401(k) paperwork. And, our existing people who haven’t gotten around to enrolling can cross it off their lists.

If you don’t want to save through our plan, you can decline automatic enrollment. But if you do nothing, here’s what will happen:

- [X percent] of your paycheck will go into the savings plan [fund name].
- We will match your contribution [formula].
- We will invest your contributions and the employer match in [fund name].
- You can set your contribution to go up one percentage point a year by [how to sign up]
- You can change your contribution amount or how your money is invested by calling [xxx-xxx-xxxx].

Saving for retirement is one of the biggest financial responsibilities you may ever have. By starting early and saving at least as much as the company matches, you’ll be off to a good start. But there’s more to retirement planning than just the saving part.

If you think about when you might want to retire and what you’ll want to do once you get there, that will help you set a savings goal.

A [retirement planning calculator] can help you come up with a dollar amount and a plan for how to reach your goal. In other words, how much should you save each month? What is a good investment strategy based on your goal?

With automatic enrollment, and help from the materials you can access through [site source], saving for retirement may be easier than you think!
At [COMPANY NAME]
Saving for Retirement is Automatic!

With automatic enrollment in our 401(k) plan, you:

✓ Save [X percent] of your pay
✓ Get a company match of [Formula]
✓ Are invested in the [Fund]
AT [Company Name]
SAVING FOR
RETIREMENT IS SIMPLE!

LEARN ABOUT OUR AUTOMATIC
401(k) PLAN BY [Visiting Web
site/Calling/Emailing]
Automatic 401(k) Case Study

Power Company Amps up Retirement Plan

For years, the U.S. arm of a global utilities company worried about lackluster 401(k) plan participation. The plan had a great line-up of investment options and a generous employer match. But the company’s 8,600 employees weren’t taking advantage of it.

Out of concern for their employees’ retirement security, the company began considering the idea of adding automatic features to the 401(k) plan. They hesitated, though. The company didn’t see many other employers adopting automatic features. They weren’t interested in being among the first. Then came what a financial executive of the company refers to as “the tipping point.”

“We started seeing more and more companies automatically enrolling their employees,” she explained. “We are liability-conscious, but when we saw the trend, our comfort level went up with it.”

The automatic features have been in place for just over a year, but the company is already pleased with the results. “Our participation rate is up for both our union and non-union employees. Plus, we use a managed account approach for the investment default, so we feel our people are appropriately invested based on their individual needs.”

Company Snapshot

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<thead>
<tr>
<th>Type:</th>
<th>U.K.-based Publicly-traded</th>
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<tbody>
<tr>
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<td>U.S. Employees:</td>
<td>8,600</td>
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<tr>
<td>401(k) Plan Assets:</td>
<td>$1.6 billion</td>
</tr>
<tr>
<td>Participation Rate:</td>
<td>Non-union 92% Union 84%</td>
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<tr>
<td>Automatically Enrolls:</td>
<td>New hires as well as existing with $0 account balances (or an annual basis for employees who are non-participants).</td>
</tr>
<tr>
<td>Default Contribution Rate:</td>
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<tr>
<td>Contribution Increases:</td>
<td>Automatic if employee chooses</td>
</tr>
<tr>
<td>Default Investment:</td>
<td>Managed account</td>
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</tbody>
</table>
How They Do It

Automatic Enrollment
The company automatically enrolls all non-union employees and half of the non-union population. New employees are enrolled 45 days following their date of hire.

The company originally intended to limit automatic enrollment to new hires. Recently, though, it added annual enrollment for employees with zero account balances. “We automatically enroll employees only if they have no account balance. We don’t want to capture employees who are not currently contributing but have account balances. That would mean moving their existing balances into the default account, which would cause an unintended change to their investment allocation.”

The overall opt-out rate hovers at around 20 percent. It isn’t clear yet why employees opt-out. Even at this rate, though, the overall participation rate is a healthy 92 percent for non-union employees, and 84 percent for union employees.

Default Contribution Rate
The company set the default contribution rate at six percent to align with the employer matching contribution. “We thought it made sense to set [the default contribution rate] at a level for employees to get the full match.”

Participants can sign up for their contributions to increase automatically each year. The default increase is one percent a year, up to 15 percent of pay. Participants can choose a different rate for the automatic increases if they want.

Default Investment Fund
The company’s 401(k) plan participants have a range of investment options, including several lifecycle funds. (These funds are invested based on an employee’s expected retirement date.) However, the company didn’t think the lifecycle funds were the right investment default for their employees. “Our people have a solid defined benefit pension, and they also tend to retire early. We felt the lifecycle default wasn’t particularly useful.”

Instead, the company decided to implement managed accounts. The managed account firm pulls age, years of service, and expected pension payout data from information the plan service provider makes available. Each participant’s 401(k) account is then invested across funds available in the plan based on this specific information.
“Power”-ful Advice

The company has no complaints about the implementation process, and is pleased with the results so far. The additional cost from paying the employer matching contribution to more participants is trivial, since automatic enrollment tends to capture lower earners.

The company does offer the following advice: Make sure your 401(k) plan investment provider has the systems in place to support the automatic features. Establish mutually agreed upon and documented roles, responsibilities and procedures for future reference and updates when necessary. Also, set up audit procedures to make sure that the correct population is being automatically enrolled.

In other words, this power company advises you to avoid any unexpected shocks.
Three different organizations, three different missions. Why are we all committed to automatic 401(k)s? Because we know that Americans are not saving enough for retirement — and we can help. By combining our resources and expertise, AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP) pool our varied strengths to help employers and their employees save more effectively.