



## ENCOURAGING AUTOMATIC ENROLLMENT

***In the United States, employers may put their workers on the path to saving for retirement by choosing to automatically enroll employees into their defined contribution retirement plans, selecting a default contribution rate and default investment.***

Automatic enrollment allows an employer to automatically deduct employee contributions (elective deferrals) from an employee's wages unless the employee makes an election not to contribute or to contribute a different amount. This plan design means that a worker will be defaulted onto the path of saving for retirement, which makes it more likely that the benefits of the plan will accrue to a wide array of participants—both across age groups and across a range of incomes.

Automatic enrollment offers additional advantages.

- » The rules for automatic enrollment provide incentives for employers to invest the accounts of automatically enrolled employees in a default investment that is diversified, investing for a mix of growth and income. In the United States, target date funds (also known as lifecycle funds) have been a popular choice as the default investment.
- » If the plan chooses to have an “escalation feature,” the amount of an employee's compensation that is contributed to the plan is automatically increased periodically according to the terms of the plan.

The US Department of Labor notes that adding automatic enrollment to 401(k) plans is an effective way to get employees to save now and to continue saving.



## LAWS

***The design features of automatic enrollment are governed by the Department of Labor (DOL), which enforces the legal provisions that govern the conduct of private-sector retirement plan fiduciaries, and the Internal Revenue Service (IRS), which enforces regulations regarding the tax qualification of retirement plans' activities.***

*Adding Automatic Enrollment to Your 401(k) Plan*

[www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/adding-automatic-enrollment-to-your-401k-plan.pdf](http://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/adding-automatic-enrollment-to-your-401k-plan.pdf)

*Automatic Enrollment 401(k) Plans for Small Businesses* (DOL joint publication with IRS)

[www.irs.gov/pub/irs-pdf/p4674.pdf](http://www.irs.gov/pub/irs-pdf/p4674.pdf)

*Fact Sheet: Regulation Relating to Qualified Default Investment Alternatives in Participant-Directed Individual Account Plans*

[www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-qdia-in-participant-directed-account-plans.pdf](http://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-qdia-in-participant-directed-account-plans.pdf)

*Final Regulation, Default Investment Alternatives Under Participant Directed Individual Account Plans*

[www.govinfo.gov/content/pkg/FR-2007-10-24/pdf/07-5147.pdf](http://www.govinfo.gov/content/pkg/FR-2007-10-24/pdf/07-5147.pdf)

*Retirement Topics—Automatic Enrollment*

[www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-automatic-enrollment](http://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-automatic-enrollment)

*Retirement Plans FAQs Regarding Automatic Contribution Arrangements (Automatic Enrollment Arrangements)*

[www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-automatic-contribution-arrangements-automatic-enrollment-arrangements](http://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-automatic-contribution-arrangements-automatic-enrollment-arrangements)

*T.D. 9447, Final Regulation, Automatic Contribution Arrangements*

[www.govinfo.gov/content/pkg/FR-2009-02-24/pdf/E9-3716.pdf](http://www.govinfo.gov/content/pkg/FR-2009-02-24/pdf/E9-3716.pdf)

*IRS Rev. Rul. 2009-30, Automatic Contribution Increases Under Automatic Contribution Arrangements*

[www.irs.gov/irb/2009-39\\_IRB#RR-2009-30](http://www.irs.gov/irb/2009-39_IRB#RR-2009-30)

# ENCOURAGING AUTOMATIC ENROLLMENT Is Key to Retirement Saving Success

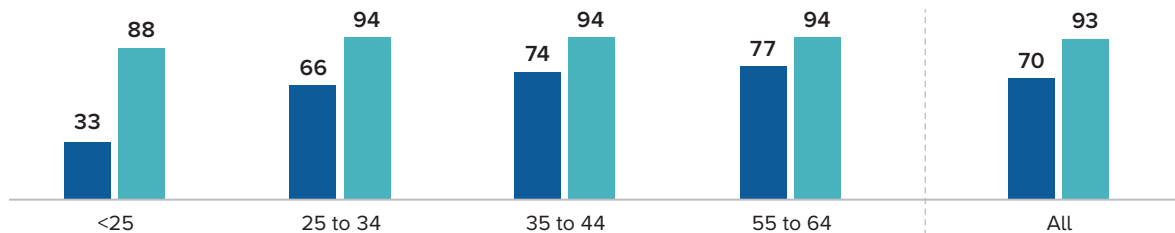


## RESULTS

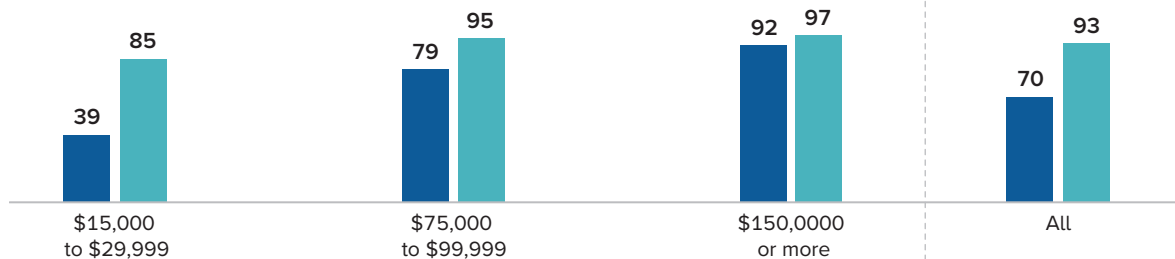
**In the United States, employers that automatically enroll workers into their 401(k) plans have higher participation rates, particularly among younger and lower-income workers.**

Participation rate; percentage of employees, 2022 (Vanguard recordkeeping)

■ Regular enrollment  
■ Automatic enrollment



Worker age



Worker income

**In the United States, 401(k) plans with automatic enrollment typically include automatic increase in employee contribution rates and use target date funds as the default investment.**

## REFERENCES

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*The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans*  
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