



What is the Simplest Way to Add Automatic Enrollment to our Plan?

Facts

We are considering adding automatic enrollment to our 401(k) plan. We've read some of the other posts on your website about EACAs and QACAs, but that all seems like a lot of extra complexity that we don't really need. We're really just looking for the basics; we want employees who don't take any action to be automatically in rather than automatically out. That's it.

Question

Is there an easier version of automatic enrollment that doesn't include all the bells and whistles that come with an EACA or a QACA?

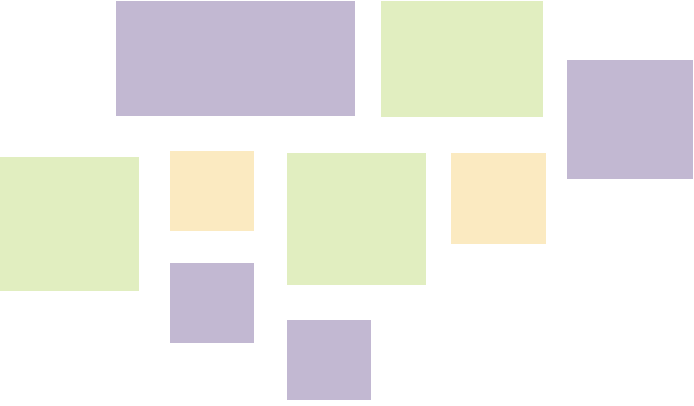
Answer

It's your lucky day. If you don't want to offer permissible withdrawals and you don't care about the extra time to correct a failed [ADP test](#), then there's no reason to take on the additional rules and complexity that come with the [EACA](#) or [QACA](#). You can keep it simple by adding a basic automatic enrollment provision. There is no fancy name or one of those impossible-to-pronounce acronyms, just a simple plan amendment and advance employee notice, and you are off and running. Sometimes less is more!

Well, there is a little bit more to it, but not much. There are a handful of choices to make so that the amendment reflects how you plan to operate the feature:

- **Automatic Enrollment Rate:** This is also referred to as the default rate and is the level at which participants will be automatically enrolled if they do not make an election. There are no minimums or maximums, so it is really a question of the rate that you believe will yield the best results for your participants.
- **Automatic Escalation:** This is a completely optional feature and would provide that those who have been automatically enrolled will have their default rates automatically increased at a set amount and at set intervals, e.g. increase by one percentage point on the first day of each year.
- **Default Investment:** Many plans already have a default investment option in place, so this might not be anything new for you. However, if you do not currently have a default investment option in place, it is a good idea to consider one since the automatic enrollment provision will likely result in contributions on behalf of participants who are not otherwise engaged with the plan.
- **Affected Participants:** Without the uniformity requirement that applies to certain types of automatic contribution arrangements, you must determine which participants will be subject to automatic enrollment. Will it be all participants? Just those in certain locations or job functions? Only new participants or anyone who is not presently deferring?

There is not really a right or wrong answer when it comes to these options. Rather, it is a matter of what works best in your situation. For example, if your workforce is predominantly lower-paid, then a lower default deferral rate would encourage more participants to stick with it; whereas, a higher rate might cause them to opt out.



These features can generally be added to a plan at any time on a prospective basis; however, you are still required to provide affected participants with advance written notice (usually 30 -90 days) that explains how automatic enrollment will work in the plan and what they can/must do if they wish to opt out or defer at a different rate.

Whether we're talking about the EACA, the QACA or the more simplified automatic enrollment feature we've described here, each of these designs offers options that can be effective tools at boosting plan participation and improving annual test results. If you aren't sure which options are best for you, give us a call and we would be glad to talk through them with you and run some projections to show you how they might play out in your situation.

Related Resources

- [DWC 401\(k\) Q&A Topic Archive: Automatic Enrollment](#)



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