



Auto-Enrollment and Auto-Escalation

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Under the SECURE 2.0 Act that passed into law in 2022, auto-enrollment and auto-escalation are required for most new retirement plans. But existing plans may also want to consider adding these features, which have been proven to increase plan participation, employee satisfaction, and more. To start, let's define what we mean by auto-enrollment and auto-escalation. Auto-enrollment means automatically enrolling eligible employees in a company's retirement plan. On the other hand, auto-escalation means automatically increasing each participant's contribution rate over time.

Typically, the contribution rate will increase by a small percentage each year until the employee reaches a specified maximum rate.

For example, an employer might auto-enroll all its employees at 6% of their annual salaries. They might also automatically increase their contribution rate by 1% every year until the employee is deferring 10%

of their salary.

Now, let's talk about how these features can benefit retirement plan sponsors.

First and foremost, research shows that auto-enrollment can significantly increase plan participation rates. This is because it removes the burden of actively opting into the plan, and when employees are auto-enrolled, the vast majority will choose to stay there.

It's important to note that an employer's default enrollment rate has a significant impact here. When employees are enrolled at low rates like 3%, they may assume that 3% is sanctioned by the company as

the right enrollment level. This can lead to lower savings rates and less total savings over time.

Plan sponsors who offer auto-enrollment and auto-escalation should carefully consider their default enrollment rate and rate of increase, and they should consistently communicate financial best practices to all employees.

Another benefit of auto-enrollment and auto-escalation is that they may increase employee satisfaction

by demonstrating an employer's commitment to their employees long-term financial wellness. In fact, studies show that auto-enrolled employees are more likely to be satisfied with their employer's benefit packages and they're more likely to stay loyal.

Automatic features can also help ease administrative burdens by helping the plan meet certain participation and contribution rate requirements set by the Department of Labor and the IRS.

Lastly, consider competitive advantage. In a tight labor market, a robust retirement plan can be a key differentiator. Employees care about retirement plan benefits and want to work for organizations that invest in their financial wellness. Auto-enrollment and auto-escalation are two ways to demonstrate that investment.

For more information on automatic retirement plan features, call CAPTRUST. We're here to help.

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