

Enhance your retirement plan with

# Auto Enrollment

## Retirement Plan Feature:



Auto Enrollment is exactly what it sounds like. It is an optional provision within a defined contribution plan, such as a 401(k), that automatically enrolls all eligible employees. By adopting the provision, an employer can take advantage of additional safe harbors. However certain parameters must be met including:

- The employer must match a minimum of 100 percent of the employee elective deferral up to 1% of compensation, **and**
- The employer must match a minimum of 50 percent of the employee elective deferrals between 1% and 6% of compensation.
- The auto enrollment salary deferral percentage for affected employees must be at least 3% in the first year, 4% during the second year, 5% during the third, and 6% thereafter.
- Employees impacted must always have the ability to opt out without penalty. Additionally within the first 90 days of enrollment, impacted employees must be able to withdraw contributions and restore deferred earnings already withheld without corporate or IRS penalty.
- Other conditions apply such as the need for a QDIA.

## Background:

Approximately one-third of workers eligible to participate in an employer sponsored defined contribution plan such as a 401(k) do not contribute. Consequently Congress included a number of new provisions in the Pension Protection Act of 2006 focused on urging employees, with the help of their employers, to begin contributing to existing plans. One result was this expanded version of the Auto Enrollment feature. Although it had been available and adopted by some plans in the past, popularity was limited due to the lack of protection prior law provided employers.

## Employer Safe Harbors and Benefits:

- The plan would not have to perform the 401(k) and matching contribution discrimination tests.
- The employer would receive protection against state law interference concerning withholding.

Please feel free to ask us about all the provisions and requirements for implementing Auto Enrollment in your retirement plan.



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