AUTOMATIC ENROLLMENT

A POSITIVE IMPACT ON EVERYONE'S BOTTOM LINE

HIGHLIGHTS

When it comes to effective plan design, no other feature finds the kind of strong success that automatic enrollment does across employer-sponsored retirement plans.

At GuideStone®, we believe automatic enrollment not only optimizes the early years of saving but also living life well during retirement.

Automatic enrollment incorporates retirement saving as an up-front, built-in plan feature — meaning employees must make the mindful decision to opt out. It allows inertia to work for employees instead of against them — jump-starting overall plan health and individual success. It accelerates the saving average of your current employees and helps new hires easily match current employee pace.

WHAT IS AUTOMATIC ENROLLMENT?

Automatic enrollment is a valuable retirement plan feature in which organizations automatically enroll employees to contribute to their employer-sponsored retirement plan. **No action is required on the part of the employee to enroll,** because **the employer sets a default contribution percentage amount on behalf of the employee** to be invested in the plan's default fund — typically a Target Date Fund.

By implementing this automatic contribution agreement, organizations — like yours — can motivate employees to start saving immediately.

KEY TIP

Consider automatic enrollment if your employee participation rate is less than 80%.

Automatic enrollment was specifically designed to encourage plan participation for employees who previously did not take the initiative to enroll or did not understand the negative consequences of delayed enrollment into the plan. However, investment choices are ultimately always left in the hands of the employees, and they may opt out of automatic enrollment or select a different savings amount at any time.

WHY USE AUTOMATIC ENROLLMENT?

(1) Automatic enrollment helps promote financial preparedness among EMPLOYEES.

Automatic enrollment greatly increases the likelihood employees will contribute to their employer-sponsored retirement plan and effectively save for retirement. Without an automatic enrollment plan feature, it's possible that some participants would never participate in the retirement plan — which may be detrimental to their retirement savings and future.

On the other hand, a large percentage of employees may already be participating in the plan. That's great! But these employees may be saving at a low deferral rate or not contributing enough to receive the employer matching contributions. Implementing an automatic contribution arrangement can optimize retirement savings in these instances as well.

With automatic enrollment, the employee is engaged in an active decision to do one of the following:

1. Accept the employer's suggested automatic deferral rate(s) to save for retirement,
2. Save at a different deferral rate — hopefully higher — than the plan's automatic deferral default or
3. Make the conscious choice to opt out of saving for retirement instead of allowing a passive choice to potentially lead to unexpected regret.

By properly communicating the plan design features — such as automatic enrollment — an employee has adequate time and information to help with important decisions that will largely affect his or her future.

KEY TIP

You have a retirement savings plan for a reason — make sure your employees make the most of it!

KEY TIP

Consider your role as a steward of the retirement plan. Your influence can empower or delay your employees' ability to retire with dignity.

(2) Promoting retirement readiness among employees also benefits EMPLOYERS with an overall healthy retirement plan.

Increasing retirement plan participation with automatic enrollment allows your organization to:

- Attract and retain valued talent
- Stimulate employee engagement
- Remain competitive in the job marketplace

Plus, automatic enrollment helps enhance plan benchmarks:

Increase Employee Participation Rates

Once employees are automatically enrolled in retirement savings plans, few decide to opt out. In fact, according to a recent Deloitte study:*

Once enrolled, **91% of employees opt to stay enrolled.**

Those employees who decide they do not want to participate or decide to contribute at a different deferral rate must request to be excluded from the automatic enrollment feature.

Increase Employee Contribution Rates

Implementing the automatic enrollment feature benefits your employees by:

- Increasing retirement savings
- Instilling positive saving habits
- Bringing awareness to the retirement plan
- Setting initial momentum with an automated deferral rate
- Investing in a diversified and appropriate asset allocation

KEY TIP

Define plan success as:

- 90% employee participation
- 15% minimum contribution between the employer and employee
- 90% of employees invested in an appropriate asset mix

WHAT ARE THE COST CONSIDERATIONS FOR AUTOMATIC ENROLLMENT?

Enrollment Options

Deciding how to implement the automatic enrollment plan feature may depend on your annual budget.

— **Our recommendation:** Enroll all non-participating, eligible employees to kick-start your automatic enrollment program. **However,** if the cost seems a bit daunting, simply start with auto-enrolling new hires and make steps to bring all eligible employees on board within the next year — or when your budget allows.

KEY TIP

Explore enrollment options and set a meaningful deferral rate to find the best fit for your organization.

Deferral Rates

Choosing an automatic enrollment rate doesn't have to be difficult, because your employees can always adjust.

— **Our recommendation:** Set a 5% or 6% deferral rate. In fact, 42% of employers already fall in this range.* Don't be afraid to set a deferral rate that is "too high". Providing this initial momentum encourages employees to stay on track by increasing contributions or save on their own.

Some plans also include an automatic escalation feature, which increases employees' deferrals annually until they reach a target rate. Remember, it's about motivating your employees to save well so they can retire with financial security.

Administrative Processes

Some expenses will naturally accompany administrative and recordkeeping processes. Automatic enrollment maintenance expenses may include:

- Sending initial and annual notices to eligible participants
- Un-enrolling employees who opt out or choose a different deferral rate
- Factoring in the costs associated with matching contributions (if applicable)
- Determining when annual increases should occur (if applicable)

— **Our recommendation:** Make sure you provide both the required initial notice and subsequent annual notices if you choose to implement automatic enrollment as a plan design feature. Keep a close watch on other administrative costs as you make specific decisions regarding automatic enrollment for your organization.

Again, employees may opt out of automatic enrollment or select a different savings amount at any time. However, automatic enrollment was designed to encourage plan participation for employees who previously did not take the initiative to enroll or did not understand the potentially negative consequences of delayed enrollment into the plan.

WHAT QUESTIONS SHOULD AN ORGANIZATION CONSIDER BEFORE ADDING AUTOMATIC ENROLLMENT TO THE RETIREMENT PLAN?

SECTION 1: General Information

Can an employer legally withhold money from the employee's compensation without his or her written consent?

When a plan is subject to ERISA, ERISA generally pre-empts state laws relating to employee benefit plans. ERISA also expressly exempts any state laws that would impede a plan from providing an automatic enrollment arrangement.

For church plans, the 2015 PATH Act states **that a church plan may establish an automatic contribution arrangement,** which pre-empts any state law relating to wage, salary or payroll payment; collection; deduction; garnishment; assignment or withholding that would directly or indirectly prohibit or restrict the inclusion of an automatic contribution arrangement in a church plan. In other words, the PATH Act puts church plans on the same footing with ERISA plans with regard to exemption from state laws hindering automatic enrollment arrangements and **allows an employer to legally withhold money from the employee's compensation without his or her written consent.**

Under the PATH Act, an automatic contribution arrangement of a church plan must generally follow the rules applicable to ERISA-covered plans, as described below, regarding notices and other requirements.

What is an Eligible Automatic Contribution Arrangement?

An Eligible Automatic Contribution Arrangement (EACA) is a type of automatic plan arrangement where plan sponsors must satisfy specific requirements.

For example, there are certain notice requirements that must be met as described below (see Section 5) and certain requirements that contributions be of a uniform percentage of compensation. Some EACAs qualify for an extended correction period for failed nondiscrimination tests, such as Actual Deferral Percentage (ADP) tests and/or Actual Contribution Percentage (ACP) tests, if applicable. An attractive feature of an EACA is that a plan with such an arrangement can elect to provide participants the ability to request a refund of automatically withheld amounts within 90 days (see Section 6).

Can a plan include an automatic contribution arrangement without being an EACA?

Yes, a plan subject to ERISA can offer an automatic contribution arrangement that is not an EACA and offers some flexibility in plan design — for instance in setting the effective date of the automatic contribution arrangement.

Additionally, a church plan can also offer such an arrangement that is not an EACA.

Note: All Q&As in the following sections are related to EACAs unless otherwise stated.

SECTION 2: Implementation

How does an employer successfully implement automatic features?

Depending on your plan documents, an employer may successfully implement automatic features through policies and/or plan amendments. Please contact GuideStone for assistance.

Once you have an automatic feature in place, clear and concise communication for all affected employees allows the automatic features to be more successfully implemented. It's important to regularly educate employees about the provisions of the plan and saving for retirement.

When should an automatic contribution arrangement begin?

Under EACA, the feature must generally be effective as of the first day of the plan year unless it is included in a newly established plan or the EACA is appropriately limited to newly eligible employees.

However, for plans subject to retirement plan nondiscrimination testing, an EACA that does not cover all employees eligible to participate in the plan is not entitled to the extended six-month, excise tax-free period for correcting retirement plan nondiscrimination testing failures. Instead, it is subject to the normal three-month period.

What are the administrative factors that Human Resources will need to consider prior to implementing an automatic contribution arrangement?

Administrators need to consider how they will:

- Send the initial and annual notices to eligible participants
- Track those who opted out or are deferring a different percentage
- Factor in the costs associated with matching contributions (if applicable)
- Determine when the annual increases should occur (if applicable)
- Track the expiration of affirmative elections annually or upon some stated event (if applicable)

SECTION 3: Enrollment

Who should be automatically enrolled?

The employer must implement this feature for all eligible covered employees, which are generally new hires and current employees. Employers also have the option to limit covered employees to employees who become eligible after a certain date.

When should enrollment begin?

The employer should consider waiting until the first pay period that is 30 to 60 days after the hire date to allow time for employees to receive the required notice and time to choose their own deferral rate and investments.

For enrolling existing eligible employees, the employer may want to allow 60 to 90 days to provide enough time for the employees to learn about the new feature before implementing the deduction. This will allow enough time for employees to choose their own deferral or opt out of the plan before the default is implemented.

How do participants select their investment option?

Participants will be automatically enrolled in the plan's default Fund. They have the option at any time to make fund exchanges and/or future allocation changes simply by accessing their account online at *My.GuideStone.org* or by calling our toll-free number **1-888-98-GUIDE** (1-888-984-8433). This information will be included in the annual notice.

SECTION 4: Automatic Deferral Rates and Annual Increases

Who selects the default deferral rate?

The employer chooses the deferral rate for employees automatically enrolled into the plan. GuideStone recommends you start strong at 6% working toward a goal of 10%. If the plan includes a matching contribution, consider using at least the minimum percentage required to receive the match so participants can take full advantage of the matching feature.

What is an automatic annual increase?

An automatic annual increase periodically raises a participant's contribution by a set percentage. This feature acknowledges that the initial automatic enrollment default percentage may not be enough to adequately meet the employee's retirement needs. Implementing an annual increase to the plan slowly increases the deferral percentage up to a specific maximum amount (typically around 10%). The increase can be made on a single date each plan year.

Starting to save is significant; however, building upon that foundation is just as important.

SECTION 5: Required Notices

What information needs to be included in the notices, and when are they provided to the employees?

The employer will have notice obligations under an automatic contribution arrangement. GuideStone has sample notices that an employer can use to develop its own notice. In addition, GuideStone can work with the employer to draft a notice that is specific to the plan and administrative needs.

The notices must be provided when employees are first eligible to participate. In addition to being provided to newly hired and eligible employees, **the notice must be delivered annually at least 30 days and not more than 90 days before the beginning of each plan year.** There are various methods of delivery that an employer can consider. IRS regulations have detailed rules for providing notices electronically (see Treasury Regulation 1.401(a)-21). It is important that you consult with your own legal counsel as to the method of delivery for this notice.

In addition, if the employer chooses to implement automatic annual increases, the employer will need to:

- Monitor each employee's deferral percentage to track the amount and timing of the increases
- Accommodate those employees who have opted out of the program or opted in at a different amount
- Work with the Payroll department or payroll provider to determine whether they can assist with automatically increasing contribution percentages

SECTION 6: Permissive Distributions

What is a permissive distribution?

A permissive distribution may allow an employee to withdraw automatic enrollment contributions if the plan contains an EACA.

The employee must make a withdrawal election within the time stated in the plan (no fewer than 30 days or no more than 90 days from when the employee first had any automatic enrollment contributions deducted).

An employee who elects to withdraw automatic enrollment contributions forfeits any matching employer contributions that would have been made with respect to the automatic enrollment contributions.

Any pretax automatic enrollment contributions that an employee withdraws are taxable income to the employee in the year they are distributed. The withdrawn amount is not subject to the additional 10% tax that normally applies to early distributions from retirement plans.

Are permissive distributions allowed in all automatic contribution arrangements?

No. The permissive distribution is a provision that only certain plans can elect to implement. As stated above, a plan that has a default deferral provision but does not qualify as an EACA is not allowed to offer permissive distributions.

What action can the employee take if he or she meant to opt out but forgot to contact Human Resources before contributions were reduced from his or her compensation?

In the event an employee did not opt out of making deferrals into the retirement plan prior to the start of reducing contributions from his or her compensation, **he or she will need to contact the Human Resources department to cease future contributions by completing a *Retirement Contribution Agreement* form** indicating he or she affirmatively elects no further reductions.

Under EACA, the employer may elect to add a permissive distribution provision as described above.

Is the permissive distribution adjusted for investment gain or loss?

Yes, the distribution of default deferrals should be adjusted for any investment gain or loss.

HOW CAN GUIDESTONE HELP WITH YOUR AUTOMATIC ENROLLMENT?

GuideStone is here to help you implement and maintain your employer-sponsored retirement plan.

Providing cost-effective personalized retirement services is what we do best, and we are here to make this process as easy as possible.

Our dedicated team can:

- Help you design a plan that incorporates automatic features and meets regulatory compliance
- Assess and adjust your current plan design to confirm compatibility with the automatic enrollment feature
- Provide ongoing support to help you meet notification requirements — keeping employees informed of their eligibility and handling proper administrative paperwork

Automatic enrollment can be advantageous for everyone involved. And we're here to offer guidance!

Contact us at **1-888-98-GUIDE** (1-888-984-8433) or visit *GuideStoneRetirement.org* today!

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SOURCES

*Deloitte Development LLC, International Foundation of Employee Benefit Plans. 2019 Defined Contribution Benchmarking Survey Report: The retirement landscape has changed—are plan sponsors ready? © 2019.

https://www2.deloitte.com/content/dam/Deloitte/us/Documents/human-capital/us-2019-defined-contribution-benchmarking.pdf.