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Automatic Enrollment Myths

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In Vanguard's "How America Saves 2017" report, they cited a 300% increase in plans offering automatic enrollment since year-end 2007! If your plan is considering adopting the automatic enrollment provision, here are some common myths you should address.

1. 6% is too high to start the deferrals

The fear that most plan sponsors have with starting automatic enrollment at an amount over the commonly accepted 3% is that the amendment will be met with ill will from the employees and/or the amount will be too much for the employees to afford. However, research has shown the opposite of that to be true. According to the 2014 PLANSPONSOR Defined Contribution survey, plans with a 5-6% default deferral rate have a 90% participation rate which is 13% higher than the national average.

2. My participants will be ready to retire

Even though 3% is better than nothing, it will not get your participants ready to retire if it is the only form of savings they take advantage of. It may be worthwhile to take a look at adding an auto-escalate provision which would increase deferral percentages up to a certain number. For instance, the provision could read "every January 1st, all automatically enrolled participants deferral percentages increase by 1% until a 10% deferral percentage is achieved."

3. It will immediately help annual compliance testing

More than likely only automatically enrolling newly hired employees will not have a significant impact on your plan's annual compliance testing since it does nothing to address the employees that are not currently participating. With that in mind, your plan may want to consider including all eligible employees in the automatic enrollment which may have a more immediate positive impact.

4. It costs nothing

While it is true there may only be a nominal document amendment fee to add the automatic enrollment provision, a company that offers a match needs to consider what an increase in participation will do to the company match commitment.

Automatic enrollment is here and gaining popularity and, in most cases, is a great addition to a company's 401(k) plan as long as you completely understand what it is and isn't before making the change. If you would like to discuss the potential impact that auto-enroll would have on your plan, please contact us.

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About the Author

Jamie serves as the Strategic Retirement Plan Coordinator for Grinkmeyer Leonard Financial. She works with company presidents, CEOs, CFOs, and human resources professionals to design, implement, and manage a total benefit strategy, including 401(k) plans and group health and welfare plans. Jamie holds the Qualified 401(k) Administrator (QKA) designation as awarded by the American Society of Pension Professionals and Actuaries, which signifies her qualifications as they pertain to the complex issues of qualified plan design, testing, and administration. She also holds the Accredited Investment Fiduciary® (AIF®) designation as awarded by Fi360 and the Certified Plan Fiduciary Advisor (CPFA) designation as awarded by the National Association of Plan Advisors.

About Grinkmeyer Leonard Financial

Grinkmeyer Leonard Financial is an industry leader in helping to provide focused, full-service defined contribution consulting services to employers looking for efficient, effective strategies for managing their retirement plans. We seek to help employers maximize plan efficiency, minimize fiduciary risk, increase participation and diversification, boost investment possibilities, and improve the overall plan experience. Grinkmeyer Leonard Financial is a proud member of the Retirement Plan Advisory Group, one of the largest independent consulting networks in the U.S.

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