

# ADDING AUTOMATIC ENROLLMENT TO YOUR 401(K) PLAN



## **Why Add Automatic Enrollment to Your 401(k) Plan?**

By providing a 401(k) plan to your employees, you have helped many of them start on the road to a secure retirement. You may be looking to increase participation in your plan so that more of your employees will get started. If so, an automatic enrollment 401(k) plan may be the option for you.

Automatic enrollment permits you to act on your employees' behalf by getting them to build their retirement savings with pre-tax employee contributions and matching contributions from you. It can be a valuable tool for increasing the number of employees that participate in your 401(k) plan and can significantly increase their retirement savings. And once your employees are in the plan, it is likely that they will stay in the plan. By adding an automatic enrollment feature to your 401(k) plan, you provide your employees with an important long-term benefit that will help you attract and retain qualified employees.

Automatic enrollment 401(k) plans offer additional advantages. Employers may invest the accounts of automatically enrolled employees in a default investment that is designed to

grow employees' accounts at the pace needed to build adequate retirement savings. Moreover, the employer may be protected from fiduciary liability for having chosen default investments that meet certain requirements.

Automatic enrollment also offers significant tax advantages, including deduction of employer contributions and deferred taxation on contributions and earnings until distribution. Automatic enrollment increases participation, thereby making it more likely that a plan will pass the Internal Revenue Code's nondiscrimination testing.

With more workers approaching retirement, saving is a high priority. Automatic enrollment 401(k) plans are an effective way to get employees to save now and to continue saving.

## **Helping Employees Save for Retirement**

There may be many reasons why employees have not enrolled in a plan. Maybe they need the money to buy a car, pay off debts, save for their children's education, buy a home, or just pay their daily living expenses. Maybe they think that retirement is too far away to start saving now. Or maybe they intend to sign up, but just haven't gotten around to it.

Today, people are living longer and the cost of retirement is increasing. As you already know, an employer has an important role to play in helping employees save: workplace retirement plans are a highly effective way for employees to save, and automatic enrollment helps them take advantage of the plan and keep saving.

## Limiting Fiduciary Liability

You may not have considered an automatic enrollment feature because of concerns relating to potential fiduciary liability for losses to employees' accounts if you select investments for employees who fail to provide investment directions. However, you can limit this liability by investing these employees' accounts in certain default investments that, over the long run, are designed to minimize the risk of large losses and to provide long-term growth. Examples of investments that can be used include lifecycle funds, balanced funds, and managed accounts. You may already offer one of these investments as part of a broad range of investment options in your plan.

To take advantage of this fiduciary relief, you need to notify your employees that they can direct their own investments and that you will invest their contributions if they do not provide instruction. You also need to describe the default investment that you select for your plan.

Finally, state wage withholding laws are not a barrier to automatically deducting employee contributions without employees' permission.

For more information about automatic enrollment 401(k) plans, see *Automatic Enrollment 401(k) Plans for Small Businesses*, Publication 4674, available from the U.S. Department of Labor's Employee Benefits Security Administration and the IRS. It is available on both the DOL [Website](#) and IRS [Website](#). You can order the publication [electronically](#) or by calling toll free **866-444-3272**.



**EMPLOYEE BENEFITS SECURITY ADMINISTRATION**  
UNITED STATES DEPARTMENT OF LABOR



Publication 4721 (Rev. 09-2019) Catalog Number 52341Y  
Department of the Treasury **Internal Revenue Service** [www.irs.gov](http://www.irs.gov)

September 2019