



Who Is Subject to Automatic Enrollment?

The SECURE 2.0 Act requires certain 401(k) plans to have automatic enrollment provisions starting January 1, 2025. There are a few exceptions to this requirement.

Exceptions

- 401(k) Plans adopted prior to December 29, 2022 (called “Grandfathered Plans”).
- New companies that have been operating for less than three years.
- Businesses with 10 or fewer employees.

Automatic enrollment is intended to make saving for retirement easier since employees will be enrolled automatically without having to sign up or fill out any complicated paperwork. This helps employees start saving as soon as they are eligible. In contrast, the traditional enrollment approach required employees to actively sign up to make 401(k) contributions, often resulting in lower participation rates.

How Automatic Enrollment Works

1. **Identify Employees:** This applies to newly eligible and existing employees who have not actively enrolled in the Plan.
2. **Default Enrollment:** The minimum deduction rate is 3.00% (or higher if determined by the Employer), and the maximum deduction is 10%. The Employer decides if the automatic deduction rate will be Pre-tax or Roth.
3. **Opt-Out Option:** Employees always retain the right to opt-out or select a different deduction rate from the default rate.
4. **90-Day Withdrawal:** Employees can take back their 401(k) deferrals within the first 90 days, including any earnings or losses on the deferrals.
5. **Automatic Escalation Feature:** For automatically enrolled employees, the contribution rate will increase by 1% each year. The annual 1% increase will continue until it reaches 10% (it must be at least 10% but not over 15%).

Best Practices

Notification: Notify employees about enrollment at least 30 days before they become eligible.

Enrollment: Obtain an enrollment form for each person, even if they opt-out.

Setup Payroll: Make sure your payroll systems are set up to handle automatic enrollment.

Tracking: Keep a detailed record of employees who are auto-enrolled and opted out.

Need Help?

Contact CRI TPA Services for assistance with the 401(k) automatic enrollment processes.