SunTrust

Understanding Automatic Enrollment

What is Automatic Enrollment?

Automatic Enrollment, also referred to as auto enrollment, is a plan feature under which employees who are eligible to participate in a retirement plan are automatically enrolled into the plan and automatically have a predetermined percentage of their compensation deferred into their individual accounts and invested in a default investment option.

Advantages of Auto Enrollment in a 401(k) Plan

- Assists undecided participants in establishing and starting the growth of their retirement account.
- Overcomes employee inertia and creates best opportunity for them to save for retirement.
- Typically seen as the most effective way to increase plan participation and average deferral rates.
- Can improve testing results and potentially reduce refunds to Highly Compensated Employees (HCEs).

Considerations of Auto Enrollment in a 401(k) Plan

- May take time to see increased average deferral rate results.
- Due to employee inertia, default rates may not be adequate to meet long-term retirement needs (it is recommended to offer automatic escalation in conjunction with auto enrollment).
- Could lead to increased matching contributions.

Auto Enrollment Options to Consider:

Automatic Contribution Arrangement (ACA)

- Allows an employer to automatically deduct elective deferrals from an employee's wages unless the employee makes an election not to contribute or to contribute a different amount.

Eligible Automatic Contribution Arrangement (EACA)

- An ACA that permits employees to withdraw automatic contributions, including earnings, within 90 days of the date of the first automatic contribution.

Qualified Automatic Contribution Arrangement (QACA)

- An ACA that meets the “Safe Harbor” status exempting the plan from annual ADP and ACP nondiscrimination testing requirements.
  - The default deferral amount starts at 3% and gradually increases to 6% with each year that an employee participates. The default percent cannot exceed 10%.
  - Employees must become 100% vested in the employer’s contribution after no more than 2 years of service.
  - The plan may not distribute any of the required employer contributions due to an employee’s financial hardship.

Next Steps to Implement Auto Enrollment:

- Determine which auto enrollment option to implement based on plan goals.
- Amend the plan document (note that Eligible Automatic Contribution Arrangement & Qualified Automatic Contribution Arrangement designs have special requirements).
- Select a default investment if one has not already been selected.
- Provide an initial and annual notice to eligible employees at least 30 days prior to their participation and 30 days prior to the beginning of each plan year.

The chart on the following page details the requirements and potential benefits associated with each Automatic Contribution Arrangement.

Automatic Contribution Arrangement Comparison Chart

Requirements

	Automatic Contribution Arrangement (ACA)	Eligible Automatic Contribution Arrangement (EACA)	Qualified Automatic Contribution Arrangement (QACA)
Effective date for existing plans	At any time during the plan year	First day of the plan year	First day of the plan year
Employees who must be auto enrolled	Employees who are hired or become eligible after auto enrollment effective date Optional: employees without affirmative election in effect	Generally, all employees without an affirmative election in effect. Optional: Employees who are hired or become eligible after auto enrollment effective date1	All employees without an affirmative election in effect
Qualified Default Investment Alternative (QDIA)	Required (Optional for Pre-PPA ACA)	Optional	Optional
Auto increase	Optional	Optional	Required at least at the rates specified under PPA
Initial and annual notice	Required for defaulted employees	Required for all eligible employees	Required for all eligible employees
Initial notice timing	Generally, distribute 30 to 90 days before an employee's eligibility date. May distribute on date of hire in certain circumstances.	Generally, distribute 30 to 90 days before an employee's eligibility date. May distribute on date of hire in certain circumstances.	Generally, distribute 30 to 90 days before an employee's eligibility date. May distribute on date of hire in certain circumstances.
Annual notice timing	Distribute between 30 and 90 days prior to the first day of the plan year	Distribute between 30 and 90 days prior to the first day of the plan year	Distribute between 30 and 90 days prior to the first day of the plan year
Employer contribution	Optional	Optional	Required
Vesting of employer contributions	Regular vesting rules apply	Regular vesting rules apply	2 Year cliff maximum

Potential Benefits

	Automatic Contribution Arrangement (ACA)	Eligible Automatic Contribution Arrangement (EACA)	Qualified Automatic Contribution Arrangement (QACA)
"Erroneous" contributions/ permissible withdrawals allowed within 90 days	Not permitted	Permitted	Permitted only if also EACA
ADP/ACP tests	Required	Required. ADP/ACP refunds have an extended deadline of 6 months after end of plan year if EACA applies to all eligible participants	Exempt
Top heavy rules	Applicable	Applicable	Deemed to satisfy, if conditions met

**This comparison does not constitute legal, tax or financial advice, and is intended as an informal reference source only. In addition, this schedule may not be accurate for a particular circumstance or apply to all situations.*

[1] *If a plan elects this option, it will not be eligible for the extension of the distribution period for refunds of excess contributions to 6 months following the end of the plan year.*

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