

A guide to automatic enrollment

SECURE 2.0 Act requirements



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A boost to retirement security

A key provision of the **SECURE 2.0 Act** will require many retirement plans to **automatically enroll employees** and **escalate their contributions annually**, in an effort to get more employees saving for retirement at an adequate rate.

New 401(k) and 403(b) plans established on or after December 29, 2022, will need to add auto enrollment and auto escalation features for plan years beginning after 2024 – **but acting sooner may help sponsors avoid headaches later on.**

While auto enrollment and escalation can increase plan costs and complexity, **Capital Group, home of American Funds, is here to help make the process simpler.** Plus, Congress also provided greater incentives for small businesses with expanded tax credits that may provide a significant benefit for starting a plan.

The power of auto enrollment

Automatic enrollment can have a significant impact on plan participation. In one study, researchers found that adding an automatic enrollment feature:

- **Boosted enrollment** in the plan by **11 times**
- **Increased average contribution rates** by nearly **10 times**
- Had the **largest impact** on groups that have **traditionally fallen behind on retirement saving**

Source: Richard W. Patterson and William L. Skimmyhorn, *How do behavioral approaches to increase savings compare? Evidence from multiple interventions in the U.S. Army*, September 2022.

SECURE 2.0 automatic enrollment requirements

Covered plans	New 401(k) and 403(b) plans established on or after December 29, 2022. The following exceptions apply: <ul style="list-style-type: none"> • Businesses with 10 or fewer employees • Businesses that are less than 3 years old • Church and governmental plans, and SIMPLE 401(k)s The requirements also don't apply to SIMPLE or SEP IRAs.
Timing	Covered plans must have the feature for the plan years beginning on or after January 1, 2025.
Contributions	Unless employees opt out, covered plans must automatically enroll participants in the plan with a beginning salary deferral between 3% and 10%. Deferrals must be increased by 1% each year, up to a maximum of between 10% and 15%.
Investments	If a participant doesn't make an investment election, automatic contributions must be invested in a qualified default investment alternative (QDIA).
Permissible withdrawals	Employees must be able to withdraw automatic contributions and earnings within 30 to 90 days of contributing.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Consider adding automatic escalation sooner rather than later

Plans established on or after December 29, 2022 have until the first plan year beginning on or after January 1, 2025, to implement the SECURE 2.0 Act automatic enrollment provisions, unless an exception applies.

However, plans may benefit from adding the features earlier, especially at plan inception.

The benefits of starting earlier

Avoid future changes

Plan sponsors that delay implementing auto enrollment and escalation will need to add the features for 2025. To avoid having to make these changes later, sponsors starting a plan in 2023 or 2024 should consider including auto enrollment at plan inception.

Avoid missing out on tax credits

Because automatic enrollment may increase the number of participants in the plan, it can increase plan costs. Employers with 100 or fewer employees* can take advantage of several tax credits to help defray those costs, including:

- **New employer contribution credit:** SECURE 2.0 created a substantial new tax credit that reimburses a portion of contributions the employer makes on behalf of participants, up to \$1,000 annually per employee.* The credit phases out over the plan's first five years.
- **Startup plan costs credit:** Small businesses can also claim a tax credit of 50% of eligible plan costs, up to \$5,000 annually, for the plan's first three years. Smaller employers may qualify for a credit of 100% of eligible plan costs, up to the annual limit.
- **Automatic enrollment credit:** Employers can earn a tax credit of \$500 per year for the first three years they have an automatic enrollment feature.

Scan this QR code to learn more about the SECURE 2.0 tax credits available for startup plans:



The employer contribution and startup plan costs credits are only available for the first years of the plan, so small businesses starting a plan before 2025 may want to include automatic enrollment at inception, rather than waiting, to take full advantage of those credits to offset costs. While the automatic enrollment credit is available even if a plan adds the feature later, employers who include auto enrollment from plan inception could benefit from the credit sooner.

Avoid uncertainty

There remains some uncertainty regarding which employees must be included when adding auto enrollment and escalation to a previously established plan. Possible outcomes include:

- **Having to re-enroll** all employees and participants in 2025 when the features are implemented
- **Automatically enrolling** only employees who haven't yet made an affirmative election, or
- **Only enrolling employees** who become eligible to participate in the plan in 2025 or later

Sponsors can avoid this uncertainty by including auto enrollment and escalation at plan inception.

Avoid bottlenecks

A large number of calendar-year plans will be required to add auto enrollment and escalation features as of January 1, 2025, because these features generally must be added at the beginning of a plan year if not included at plan inception. Adding them earlier, for the 2024 plan year, may reduce the risk of implementation delays with recordkeepers and third-party administrators.

* Employees who received compensation of \$5,000 or more in the preceding year. Employer contribution credit is calculated on contribution to employees earning less than \$100,000 a year.

We're here to help

Capital Group is committed to helping plans comply with the SECURE 2.0 Act requirements and to helping participants reach their retirement goals. Here's how plan sponsors can rely on us and their other service providers to make automatic enrollment and escalation as seamless as possible.



Simplify administration

Sponsors can take advantage of a number of services to reduce the administrative burden of automatic enrollment and escalation:

- **Automatic tracking** of employee eligibility
- **Notice delivery services** for enrollment invitations and required annual notices
- **Payroll integration** with major payroll providers

Painless payroll

Sponsors may want to work with a payroll provider included in our payroll integration service so the recordkeeping system can receive data, such as hours worked, from the provider.

Additionally, if available for your plan, enabling 360° payroll integration* allows auto enrollment and escalation data to pass directly between the recordkeeping system and the payroll provider.



Keep costs low

Capital Group offers automatic enrollment and escalation services at no additional cost in our PlanPremier® and RecordkeeperDirect® solutions.

Plus, enrolled participants have access to a mobile app and tailored educational and engagement resources, all available at no additional cost.



Rely on teamwork

The plan's financial professional and third-party administrator (TPA) are also essential to success. The TPA can help administer auto enrollment and escalation by handling tasks like determining employee eligibility or calculating contributions. And the financial professional can conduct enrollment meetings to educate automatically enrolled participants.



Optimize plan design

Thoughtful plan design can help make automatic escalation easier to administer.

For example, sponsors could consider setting the default contribution rate at 10% to eliminate the need for automatic escalation altogether.



Ready to get started?

Contact us today to add automatic enrollment and escalation to a plan or get more information on our retirement solutions. Visit capitalgroup.com or call **(800) 421-9900**.

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