MARINER

Keeping auto-enrollment effective:

Why plan sponsors should look beyond the default

Key takeaways

- Auto-enrollment remains a positive workplace retirement plan design feature because it can help employees overcome inertia and begin saving.
- Participants generally retain the ability to opt out, change their contribution rate or make different investment elections, which preserves flexibility for employees in different financial situations.
- Plan sponsors should periodically review default design, auto-escalation, investment defaults, employer match communication and participant messaging to help keep automatic features effective.

Auto-enrollment has become an important tool in workplace retirement plans, helping more employees start saving. By changing the default from not saving to saving, it can help address participant inertia and make the first step easier.

Importantly, employees still have control. Participants generally retain the ability to opt out entirely, change their contribution rate or make different investment elections. For employees in different financial situations and stages of life, that flexibility matters.

For plan sponsors, the opportunity is to look beyond whether auto-enrollment is in place and consider whether the plan's default contribution rate, escalation features, investment default and participant communications are still supporting long-term retirement readiness.

Auto-enrollment is a strong starting point

Many employees intend to save for retirement but often delay taking action. They may be unsure how much to contribute, unfamiliar with investment options or focused on more immediate financial priorities. Auto-enrollment helps reduce that initial barrier by allowing saving to begin unless the employee chooses otherwise.

It can also introduce employees to investing in a more accessible way. For employees who are new to saving or don't have meaningful savings outside the workplace plan, an employer-sponsored retirement plan may be their first experience with long-term investing.

But participation alone isn't the full measure of success. A plan may successfully enroll employees while still leaving room to improve savings behavior, education and long-term engagement.

What may look like "auto-enrollment fatigue"?

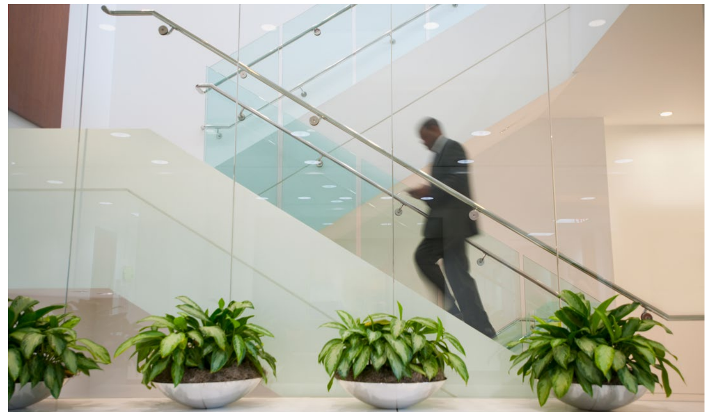
What may seem like auto-enrollment fatigue is often not a failure of auto-enrollment itself. It may instead point to a communication, engagement or design issue.

Some participants may stay at the initial default contribution rate for years without reviewing whether that amount is enough for their goals. Others may assume the default rate is a recommendation or that the plan sponsor has determined the default amount is sufficient.

That can be especially important when the default rate is intentionally modest. For example, a 3% default contribution rate may be a practical starting rate, particularly for employees who may be sensitive to changes in take-home pay. But the starting rate shouldn't be mistaken for a long-term retirement savings goal.

Participants may also miss key details about how the plan works, including how auto-escalation affects their contribution rate, how much they need to contribute to receive the full employer match or what investment option they were defaulted into.

In those cases, participants may need clearer guidance to stay engaged and make informed decisions over time.



Are automatic features aligned with participant outcomes?

Auto-escalation can be an important complement to auto-enrollment. While auto-enrollment helps employees begin saving, auto-escalation can help them gradually increase contributions without requiring a new election each year.

When communicated clearly, gradual increases may feel more manageable than larger contribution changes. But if participants don't understand when increases occur or how those increases may affect their paycheck, auto-escalation can create confusion or frustration.

The default investment also should be reviewed over time. Participants are often defaulted into a diversified investment option, such as a target-date fund or similar qualified default investment alternative. This can help new investors get started without requiring them to select individual investments before they fully understand the plan menu.

Still, participants should understand what the default investment is and how it works. They also should know they can review their investment choices as their circumstances, goals or timelines change.

The employer match should be part of the review as well. If the default contribution rate is below the level needed to receive the full match, employees who remain at the default may miss out on available employer contributions.

These details can help plan sponsors assess whether automatic features are working together as intended. The goal is not only to increase participation, but also to help employees make progress toward retirement readiness.

Communication can turn automatic enrollment into informed engagement

Auto-enrollment is most effective when participants understand what is happening. Employees should clearly understand their contribution rate, investment default, employer match, auto-escalation schedule and ability to opt out or make changes.

Communication shouldn't stop after enrollment. Participants may benefit from reminders after they join the plan, before contribution increases take effect and during annual education periods.

Messages should be clear, timely and easy to understand. The goal is to help employees understand what the plan does automatically and what decisions they can make for themselves.

SECURE 2.0 reinforces the growing role of automatic features by requiring automatic enrollment and escalation for many newly established 401(k) and 403(b) plans, subject to certain exceptions. That broader policy direction underscores the value of automatic design, but also the importance of thoughtful implementation and ongoing review.

From enrollment to engagement

Auto-enrollment can be a powerful way to help employees begin saving and gain exposure to long-term investing through the workplace retirement plan. But its effectiveness depends on more than enrollment alone.

When automatic features are paired with thoughtful plan design and clear education, they can support more informed engagement and help employees take the next step toward long-term retirement readiness.

A retirement plan advisor can help plan sponsors look beyond participation rates and evaluate whether default contribution rates, auto-escalation, investment defaults, employer match design and participant communications are working together to support plan goals and help improve participant outcomes.

For more information visit: **mariner.com**