MERRILL® SMALL BUSINESS 401(K)

Auto-enrollment can help boost plan participation

Despite national educational efforts surrounding the importance of contributing and investing for the future, too many eligible employees still are not participating in their employer's retirement plan.

How auto-enrollment works

Auto-enrollment puts employees' inertia to work for them. If they don't enroll in your company's 401(k) plan when they become eligible, they will be automatically enrolled. Other features of auto enrollment include:

- Defines the contribution level for all automatically enrolled employees, usually 3%, but you can modify this amount during your plan set-up process.
- Auto-enrolled participants can be invested into a qualified default investment alternative (QDIA). Morningstar Investment Management LLC, the investment fiduciary of the Merrill® Small Business 401(k), has selected two of the model portfolios in the plan that may serve as a QDIA. You will select the one you wish to have as your plan's QDIA. (For more on QDIA, see next page.)
- Employees can opt out at any time or change their contribution rate and investments.

Auto-enrollment helps maximize benefits of 401(k)

Automatic programs may help get employees on the path to pursuing financial wellness. Auto-enrollment can also:

- Help to increase plan participation across all employee groups including those who tend to be less likely to participate — including low income employees.[1]
- Help the plan to satisfy nondiscrimination testing and reduce certain compliance risks. Highly compensated employees may face fewer restrictions on deferrals.
- Support a 401(k) plan that may be more effective both for retaining valued employees and for recruiting new talent.
- Help employees start understanding the advantages of their 401(k) plan; for example, participants' pre-tax deferrals[2] reduce their current taxable income.
- An additional $500 tax credit available for new plans that include automatic enrollment.

Lack of participation, increases the potential for significant groups of employees being ill-prepared for retirement. Automatic enrollment is a feature that may help your employees get started preparing for a more secure financial future.

Research shows

91%

automatically enrolled new hires enroll and remain level for years.[3]

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Considerations for your business

You should determine whether the program is a good fit for your business. You would want to consider your company's:

- **Culture:** Understanding the mindset of your employee base is a critical litmus test for determining whether automatic enrollment can succeed within your organization.
- **Demographics:** Automatic enrollment has shown to significantly increase participation rates, especially among younger and lower-income workers.[4]
- **Employee retention:** An automatic enrollment 401(k) plan helps attract and keep talented employees.[5]
- **Cash flow:** You will need a stable cash flow that can support contributions to all of your eligible employees automatically enrolled if your plan is structured with employer contributions.
- **Plan administration:** You will need to commit to distributing the required notification to employees and beneficiaries within the required time frame. Ascensus will provide you the document to distribute.
- **Eligible automatic contribution arrangements (EACA):** Automatically enrolls all eligible employees who never enrolled, unless they opt out. An EACA affords you the option to offer a 90-day unwind.[6] With this option you can also receive an extension for making nondiscrimination testing refunds (from 2½ months after plan year-end to six months after plan year-end), to help avoid the 10% excise tax. An EACA also requires a notice before the beginning of each plan year that includes detailed information about the terms of the plan. And, the time used for salary deferral increases must be uniform.

What is a qualified default investment alternative (QDIA)?

Under the Pension Protection Act of 2006, lawmakers and regulators have given special protection to employers who choose certain types of investments designated as QDIAs. Employers who choose a QDIA for their company's plan and satisfy its requirements may be eligible to receive safe harbor protection for assets directed to the QDIA. Approved QDIAs, as defined by Department of Labor regulations, include:

1. An asset allocation service or managed account that allocates contributions among investment strategies to account for individuals' ages, life expectancies or retirement dates;
2. A life-cycle or target-date fund[7] (or other account that considers individuals' ages, life expectancies or retirement dates); or
3. A balanced fund or investment that addresses the characteristics of the entire employee group.

As part of the value Morningstar Investment Management LLC provides as the plan's investment fiduciary, they have also selected two of the plan's model portfolios that may serve as QDIA investment options. You will need to select one of the two to serve as your plan's QDIA.

The defined contribution (DC) industry widely recognizes **automatic enrollment as the most influential in terms of increasing employee participation** in an employer-sponsored retirement savings plan.[1]

Automate your plan today

Employees should have the opportunity to pursue their financial goals, and automatic enrollment can help them take the first step toward preparing for their future. Weighing both the benefits of auto-enrollment along with the business impact will help you ensure whether it is the right decision for you.

For assistance

Call 866.890.4177, Mon.–Fri., 8:00 a.m.–5:00 p.m. Central Time or visit merrilledge.com/401k.

[1] About 85% of workers earning between $15,000 and $30,000 a year participated in their 401(k) regardless of whether they were automatically enrolled at 2% or 6%. More employers put 401(k) savings on autopilot, www.cnbc.com/2021/12/28/more-employers-use-401k-automatic-enrollment.html, December 2021.

[2] Taxes are due upon withdrawal. Additionally, if an employee takes a distribution prior to age of 59½, they may be subject to a 10% additional federal tax.

[3] www.forbes.com/advisor/retirement/401k-auto-enrollment/, March 2025

[4] https://www.americantrustretirement.com/auto-enrollment-becomes-mandatory-for-new-401k-plans-in-2025/

[5] https://www.irs.gov/pub/irs-pdf/p4674.pdf

[6] Employees who are automatically enrolled are permitted to opt out and withdraw their automatic contributions within 90 days of the payroll date for their first automatic contribution. Any employer matching contributions on such withdrawn amounts are forfeited by the participant.

[7] The target date for these funds is the approximate date when an investor plans to start withdrawing the assets from their retirement account. The principal value of these funds is not guaranteed at any time, including at the target date. These funds are designed to become more conservative over time as the target date approaches.

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