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April 24, 2025

401(K) AUTOMATIC ENROLLMENT: A REVIEW FOR 2025

One of the goals of the SECURE 2.0 Act of 2022 (SECURE Act 2.0) legislations was to increase participation in retirement plans and help employees strengthen their financial future. On January 10, 2025, proposed Treasury Regulations were issued to answer questions concerning the mandatory automatic enrollment effective January 1, 2025.

A 401(k) plan will not be qualified unless it satisfies certain automatic enrollment requirements including:

- Require automated enrollment of employees with elective deferral contributions of at least 3% and no more than 10% of employees compensation in the first year of participation. Contributions must increase by 1% each year until at least 10% is reached, but no more than 15%.
- Permit participants to withdrawal their automatic elective deferrals within 90 days of their first elective deferral contribution is made.
- If no investment election is made, the automatic elective deferral will be invested in qualified default investment alternatives (QDIAs).

These regulations do not apply to

- Retirement plans established before December 29, 2022,
- Businesses with 10 or fewer employees,
- New businesses less than 3 years old,
- Governmental and Church plans, and
- SIMPLE plans.

The automatic enrollment must be applied to all employees who meet the eligibility requirements to make deferrals in the plan. This would include all long term/part time employees, seasonal employees, union employees, new employees, so basically everyone. Employees may opt out of automatic elective deferrals.

To implement the automatic enrollment, the business owner should take the following steps:

1. Set Up Payroll Process: Ensure your payroll can process an account for automatic enrollment, including auto-escalation.
2. Confirm a Default Investment: Verify your plan's default investment fund is in place.
3. Notify Employees: Distribute the required automatic enrollment notice to employees before the start of automatic enrollment.
4. Correct Errors: Closely monitor the contributions for the first year. If someone is mistakenly left out or enrolled incorrectly, use the IRS safe harbor correction method to fix it.

Conclusion: The proposed regulations provide guidance to the Employer to properly implement these requirements. Before the final regulations are available, the Employer must apply reasonable, good faith interpretation of the regulations.

Please contact us if you have any questions or want a proposal to establish a new plan.