

September 5, 2024

Defined Contribution Retirement Plans: Automatic Enrollment

Many employers offer their employees the opportunity to save for retirement in defined contribution (DC) plans, of which the most common is the 401(k) plan. Sponsors of DC plans have two ways to enroll eligible employees. Historically, most employees had to *opt in* to participate in their plans. In opt-in plans, eligible employees make an active choice to enroll in their employers' DC plans by signing up to participate, choosing how much of their salary to contribute up to caps specified in statute, and selecting their investments in the plans.

Over the past 15 years, an increasing number of employers have been using *automatic enrollment*, in which they enroll eligible employees in their DC plans without employees making decisions with regard to participation, contributions, or investments. Employees may, if they choose, opt out of participating and change their contribution amounts or their investments in the plans.

This In Focus analyzes data from publicly available pension disclosures to determine the percentage of DC plans that have automatic enrollment and the percentage of DC plan participants that are in automatic enrollment plans.

Background on Automatic Enrollment

Until the passage of the Pension Protection Act of 2006 (PPA, P.L. 109-280), most DC plans used the opt-in method of enrollment. PPA facilitated the adoption of automatic enrollment, and the SECURE 2.0 Act of 2022, enacted as Division T of the Further Consolidated Appropriations Act, 2023 (P.L. 117-328), requires most new DC plans adopted after December 29, 2022, to automatically enroll eligible participants.

One of the features of automatic enrollment is that participation rates tend to be higher. While participation rates in opt-in plans are typically around 70%, participation rates in automatic enrollment plans are typically around 90%.

In 1998, the Internal Revenue Service (IRS) issued Revenue Ruling 98-30, which clarified that automatic enrollment in 401(k) plans was permissible for newly hired employees. IRS issued a second ruling in 2000 stating that automatic enrollment was also permissible for current employees who had not already enrolled in the plan (Revenue Ruling 2000-8). PPA facilitated automatic enrollment in DC plans in two ways: (1) by preempting state laws that might have directly or indirectly prohibited automatic enrollment and (2) by exempting plans with specified automatic enrollment features from requirements that ensure that DC plans are used by a wide swath of employees and not just the highly compensated.

Participants who are automatically enrolled in plans do not choose how their contributions are invested, though they may choose their investments at any time once enrolled. A 2008 Department of Labor (DOL) regulation specified the type of investment, called a Qualified Default Investment Alternative (QDIA), into which automatically enrolled participants' contributions could be invested (for example, in target date funds), shielding the plan sponsor from being held liable for investment losses.

Data on Automatic Enrollment

Table 1 provides data on automatic enrollment in private sector DC plans that filed Form 5500 disclosures for the 2021 plan year (the most recent year for which complete data are available) using DOL's Private Pension Plan Bulletin research file. The Form 5500 is the annual disclosure that nearly all private sector pension plans file with DOL, IRS, and the Pension Benefit Guaranty Corporation (PBGC). **Table 1** provides data on the percentage of plans that indicated they automatically enroll participants from among all plans that identified as DC plans.

The data indicate that among the 718,735 DC plans (with 114.9 million participants) that filed Form 5500 for the 2021 plan year, 16.5% had automatic enrollment and 37.1% of participants were in plans that had automatic enrollment. Because a plan can adopt automatic enrollment at any point in its existence, it is likely that some participants in plans with automatic enrollment became participants prior to the plans adopting automatic enrollment. The disparity in percentages between percentage of plans and percentage of participants in plans with automatic enrollment is because large plans are more likely to have automatic enrollment. For example, 15.7% of plans with fewer than 500 participants had automatic enrollment compared to 39.7% of plans with 500 or more participants.

Data on automatic enrollment varies depending on the source. For example, Bureau of Labor Statistics (BLS) data indicated that 42% of private sector workers participating in DC plans were in plans that had automatic enrollment in 2022. Vanguard's *How America Saves 2024*, which examined 2023 data for 1,700 DC plans for which Vanguard provides recordkeeping, indicated that 59% of Vanguard plans had adopted automatic enrollment and that more than 70% of its plans with 500 or more participants had adopted automatic enrollment. The Plan Sponsor Council of America (PSCA) reported that 58.8% of the 557 plans in its survey had automatic enrollment in 2021 and that more than 72% of plans with 200 or more participants had automatic enrollment. Transamerica reported that 35% of the 1,873 employers in its survey automatically enroll newly eligible employees in their 401(k) plans. Differences

in automatic enrollment estimates may be a result of different types of plans and employers captured in each survey, whereas Form 5500 data cover the universe of nearly all private sector plans in a given year.

Increase in Automatic Enrollment Since 2007

The prevalence of automatic enrollment has increased since the 2007 DOL QDIA regulation. **Table 1** shows the percentage of plans and participants in plans with automatic enrollment based on plan effective year (typically the year in which a plan comes into existence). Fewer than 10% of plans with effective years from 2009 to 2013 had automatic enrollment, while more than 36% of plans with effective years of 2020 or 2021 had automatic enrollment. The increase seemingly results from smaller plans adopting automatic enrollment. The percentage of plans with fewer than 500 participants with automatic enrollment increased with plans' effective years from 2012 to 2021.

Due to recent changes in law, the percentage of plans with automatic enrollment will increase over time. Section 101 of SECURE 2.0 requires that most private sector DC plans established after December 29, 2022, have automatic enrollment. Existing plans and new plans sponsored by employers with 10 or fewer employees or by employers that have been in business for fewer than three years are exempt from this provision.

Further Information

CRS Report R47152, *Private-Sector Defined Contribution Pension Plans: An Introduction*

EBSA, *Private Pension Plan Bulletin Abstract of 2020 Form 5500 Annual Reports*, <https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletins-abstract-2021.pdf>

Table 1. Percentage of DC Plans and Participants in DC Plans That Have Automatic Enrollment

Plans with Plan Years That End in Calendar Year 2021

Plan Effective Year	All Plans		Plans with Fewer Than 500 Participants		Plans with 500 or More Participants	
	Plans	Participants	Plans	Participants	Plans	Participants
All Effective Years	16.5%	37.1%	15.7%	21.9%	39.7%	41.7%
Prior to 2009	10.6%	38.9%	8.9%	21.0%	41.2%	42.7%
2009	9.4%	33.9%	8.6%	18.1%	36.5%	41.0%
2010	9.1%	33.8%	8.5%	17.8%	38.0%	42.6%
2011	8.9%	36.5%	8.4%	17.1%	35.6%	46.8%
2012	8.6%	24.2%	8.1%	16.9%	35.7%	30.0%
2013	8.9%	33.5%	8.4%	18.0%	39.5%	45.7%
2014	11.5%	29.7%	11.0%	20.1%	44.1%	37.1%
2015	13.3%	27.9%	12.9%	20.0%	40.0%	35.3%
2016	15.4%	33.0%	15.1%	21.4%	40.2%	42.6%
2017	20.2%	27.8%	20.0%	25.5%	35.7%	30.1%
2018	25.5%	41.1%	25.3%	29.3%	40.7%	51.4%
2019	28.9%	35.1%	28.9%	30.1%	34.0%	41.6%
2020	36.2%	34.8%	36.2%	33.1%	34.7%	37.2%
2021	37.3%	39.4%	37.3%	32.1%	37.9%	52.6%

Source: CRS analysis of Department of Labor Form 5500 data.

Notes: The effective year is typically the year in which a plan comes into existence. *Percentages* refer to the percentage of plans with automatic enrollment and percentage of participants in plans with automatic enrollment. Because a plan can adopt automatic enrollment at any point in its existence, it is likely that some participants in plans with automatic enrollment became participants prior to the plans adopting automatic enrollment.

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