The Benefits of Automatic Enrollment

Supporting Participant Outcomes in Retirement Plans

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Automatic enrollment has become one of the most effective tools for improving employee retirement readiness within defined contribution plans. By shifting enrollment from an opt-in to an opt-out structure, employers remove behavioral and administrative barriers that commonly prevent individuals from saving. Decades of research demonstrate that automatic enrollment increases participation, boosts contribution rates (particularly when paired with automatic escalation) and has the potential to enhance long-term investment outcomes. Below we outline key benefits of automatic enrollment and highlight why it remains a cornerstone of modern retirement plan design and retirement plan solutions.

Automatic Enrollment Improves Participation

Behavioral inertia is one of the primary challenges in retirement savings. Many employees intend to save but fail to act due to complexity, procrastination or decision fatigue. Automatic enrollment eliminates this friction. Studies consistently show that:

- Participation increases sharply when employees are automatically enrolled rather than required to actively sign up.
- Opt-out rates remain low, demonstrating broad participant acceptance of the feature.
- Automatic enrollment is particularly effective among employees who are younger, new to the workforce, or less financially experienced groups traditionally at risk of under-saving.

By helping to ensure that saving becomes the default, employers foster stronger participation across their employee population.

Higher Rates and Auto-Escalate Help Build Retirement Contributions

While early automatic enrollment programs often began with 3% default deferral rates, industry practices have evolved significantly:

- Employers increasingly set default contribution rates at 6% or higher, and evidence suggests employees accept these higher defaults at the same rate as lower ones.

- Automatic escalation, which increases deferrals annually (commonly by 1% per year), has become a powerful companion feature. It helps employees reach meaningful savings thresholds without requiring active decision-making.

These design enhancements can help participants build substantial long-term balances, particularly when combined with employer matching contributions.

Improved Long-Term Retirement Preparedness

Automatic enrollment not only gets employees into the plan, but also supports their continued progress toward the ultimate goal, retirement readiness:

- Automatically enrolled participants are more likely to stay invested over time.
- Research shows substantial increases in overall savings behavior, even when adjusting for real-world factors such as job changes or temporary contribution suspensions.
- Automatic enrollment is especially beneficial for employees who may lack the confidence or financial literacy needed to navigate complex savings decisions.

Although external factors such as pre-retirement withdrawals or incomplete vesting can diminish long-term accumulation, automatic enrollment still consistently offers better likelihood for retirement outcomes as compared to voluntary participation systems.

Alignment With Best Practices and Regulations

Automatic enrollment has rapidly grown industrywide, supported by strong regulatory incentives and recommended best practices. Increasingly, employers view automatic enrollment not just as a competitive advantage but also as a component of fiduciary duties.

Key trends include:

- Widespread adoption across large and mid-sized retirement plans.
- Strong alignment with participant first plan design philosophies.
- Integration of automatic escalation and diversified investment defaults as part of holistic plan health strategies.

The continued emphasis on plan effectiveness and behavioral finance reinforces automatic enrollment as a core component of employer-sponsored retirement programs.

Benefits of Qualified Default Investment Alternatives (QDIAs)

Automatic enrollment typically pairs with professionally managed default investment options, most commonly target date funds. This combination helps participants:

- Achieve proper diversification.
- Maintain an appropriate risk profile.
- Avoid common behavioral pitfalls such as market timing or overconcentration.

Most automatically enrolled participants remain in the default investment option, potentially leading to improved long-term investment performance compared to self-directed investors who may choose suboptimal allocations.

Employer Contributions Amplify Automatic Enrollment

While automatic enrollment increases participation, employer matching contributions can significantly enhance the effectiveness of the feature:

- Matching contributions help increase the total savings rate and encourage participants to remain engaged with the plan.
- Combined with automatic escalation, matching can meaningfully improve long-term wealth accumulation.

Employer contributions not only incentivize savings but also reinforce a culture of financial wellness within the organization.

A Focus on Contributing to the Future

Automatic enrollment is one of the most effective mechanisms for potentially improving participant outcomes in 401(k) plans. It removes structural and psychological barriers to saving, increases participation across employee demographics, strengthens contribution behavior, may enhance investment quality and supports attention to long-term financial security. This is why many fiduciary advisors recommend Plan Sponsors consider adding automatic enrollment to their defined contribution retirement plan.

When paired with thoughtful plan design, higher default rates, automatic escalation, diversified QDIAs and employer contributions, automatic enrollment forms a powerful framework that may help advance both participant success and organizational objectives.

Ready to strengthen your retirement plan strategy? Contact Fiducient Advisors to explore how automatic enrollment, smart default designs and evidence-based plan features can help improve participant outcomes and support your organization's goals.

About the Author

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Greg services institutional clients by providing counsel and guidance on portfolio design, asset allocation, manager selection, investment policy statements and performance monitoring. He is also a member of the Recordkeeper Oversight Council. Greg joined Fiduciary Investment Advisors, LLC in 2017, which combined with Fiducient Advisors in 2020.

Before joining the firm, Greg worked in both institutional and individual wealth management helping create positive retirement outcomes for plan sponsors and plan participants. He received his BA from the University of Connecticut and is a ChFC® (Chartered Financial Consultant). He volunteers as a Chair of the Board for MARCH, Inc. of Manchester, a Connecticut organization dedicated to enriching the lives of individuals with intellectual and developmental disabilities, as a Board Member of the Connecticut Council on Problem Gambling, and as a Board Member for Riverfront Recapture. Greg enjoys biking, hiking, kayaking, running, lacrosse and football in his free time.