

Automatic Enrollment

A Segment in Our Retirement Rescue Series

While automatic enrollment provisions are attributed with dramatically increasing plan participation, they are known to create a host of compliance issues as well. Earlier this year, we shared [The Effects of Automatic Enrollment](#), highlighting the impact that this popular feature may have on Plans overall.

Common Mistake -

Failure to Implement Automatic Enrollment Provisions

In plans which contain automatic enrollment provisions, all eligible employees are deemed to have elected the automatic deferral amount as their contribution rate unless they elect otherwise. After receiving enrollment materials notifying them of the plan's automatic enrollment feature, employees may choose one of two options. 1) Take no action, whereby the employee is deemed to have elected to participate based on the automatic enrollment provision and contribute at the automatic deferral amount or 2) change their contribution amount from the automatic deferral election including electing not to contribute.

The most common errors regarding automatic enrollment provisions include the following:

- Failure to automatically enroll an eligible employee
- Erroneous exclusion of an eligible employee
- Failure to properly implement an employee's deferral election
- Failure to properly increase an employee's deferral election under an automatic escalation provision

Generally, if an eligible employee is not automatically enrolled into the Plan or the employee's deferral election is not implemented correctly, a qualified non-elective contribution (QNEC) should be made by the employer to the employee's account. The QNEC is equal to 50% of the missed deferral plus earnings.

Revenue Procedure 2015-28

In April 2015, the IRS announced modifications to the correction method for enrollment and contribution failures in plans with automatic features as detailed in Revenue Procedure 2015-28. The modifications are designed to help encourage automatic features in plans as well as favor early correction if errors do occur. Many Plan Sponsors that do not add automatic enrollment provisions into their Plan cite the potential expense of QNECs as a primary reason.

With the modification, the QNEC for elective deferral failures in plans with automatic enrollment is *waived* if the following criteria are met:

1. The missed deferral is corrected by the earlier of:
 - 9½ months after the end of the plan year in which the error occurred, or
 - the first pay period in the second month after the employer is notified of the error;
2. The employee is notified of the error within 45 days of correction; and
3. Missed employer match contributions, plus earnings, are given to the employee.

If the 9½ month deadline has passed, a modified correction method may be available if corrected by the first pay period after the end of the second year following the end of the Plan year in which the error occurred.