

WEA Member Benefits

# Automatic Enrollment in 403(b) Plans

Enhance your Wisconsin school district employee benefit program



WEA  
Member Benefits™  
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# Introduction

Are you satisfied with the level of employee participation in your 403(b) retirement savings plan? Would you like to see more employees taking advantage of this benefit? If so, consider offering automatic enrollment.

A 2017 “Measuring the Effectiveness of Automatic Enrollment” study by Vanguard showed a 41% increase in participation by new employees in plans that adopted automatic enrollment. Automatic enrollment, combined with a matching-vesting plan, creates a winning retirement savings plan for you and your employees.

## What is automatic enrollment?

Auto enrollment is designed to help increase the participation by automatically enrolling eligible employees into your 403(b) plan. Enrollment details are set by the employer. For instance, you can set the enrollment to take place at hire, start of the calendar or fiscal year, or some other date agreed upon through collective bargaining (if applicable). You also set the level of contribution or deferral rate.

Further, auto escalation periodically increases the deferral amount up to a pre-defined limit. Increases could be planned to coincide with salary-based cost-of-living adjustments, step increases, or another increment in time. Auto escalation is a critical piece of the 403(b) plan design. Without auto-escalation features of the plan, chances are high that most participants won't increase the initial deferral amount on their own.

**Note: Participants will always have a choice to opt out of the plan or change their deferral rate. The same applies to the auto escalation feature as well.**

## Why automatic enrollment?

An automatic enrollment 403(b) plan offers many advantages, including:

- Helps attract and retain talented employees.
- Increases plan participation.
- Helps employees begin saving for their future.
- Simplifies selection of investments appropriate for long-term retirement savings for participants.
- Allows for salary deferrals into certain plan investments (i.e., target retirement funds) if employees don't select their own investments.
- Offers a tax-advantaged savings plan (ability to deduct employer contributions and defer tax on contributions and earnings until distribution).

## Is automatic enrollment appropriate for your employees?

Every employee can benefit from automatic enrollment, but employers should take into consideration the demographics of their employees and their various savings needs when setting up their program. Consider the various position types (administration, certified staff, support staff), the age of those groups, and where they are in their careers.

## How to establish an automatic enrollment plan

It's easy to set up automatic enrollment. Simply update and adopt your district's 403(b) plan document to include an automatic enrollment provision. *Our Plan Administration Specialist can assist.*

- **Eligible automatic contribution arrangement (EACA).** The EACA plan has specific notice requirements and can allow for automatically enrolled participants to withdraw their contributions within a specified period of time after first contribution.

## Administering an automatic enrollment 403(b) plan

When implementing an automatic 403(b) enrollment plan, there are a few things you must do, including:

- **Provide plan information to all eligible employees.** You must notify employees who are eligible to participate in the plan about certain benefits, rights, and features. Employees must receive an initial notice prior to automatic enrollment in the plan and a similar notice annually.
- **Include a Summary Plan Description (SPD).** You must provide an SPD to all participants in the plan. The SPD informs participants and beneficiaries about the plan and how it operates. This document can also include information about the advantages of automatic enrollment in the 403(b) plan, pretax contribution information, and any matching and vesting opportunities your district provides—all of which help highlight the advantages of saving in your district's 403(b) plan.
- **Provide education.** You must provide eligible employees with information about the default investment and the other investment options that are available to them through the plan. WEA Member Benefits can assist with communications and with complimentary group financial wellness education, group enrollment, benefits fairs, etc.

## Benefits to the district

1. **Increased participation and retirement-ready employees.** On average, only 30% of eligible employees participate in a defined contribution plan such as a 403(b). This may be because mandatory participation in a defined benefit plan like the Wisconsin Retirement System (WRS) leads employees to falsely assume that the WRS and Social Security will be sufficient income in retirement. Employees who have personal savings (like in a 403(b)) are more likely to retire on time (before major medical or health issues arise) and enjoy a comfortable retirement than those who have no personal savings.
2. **Reduced administration resources.** Implementing an automatic enrollment/escalation plan could reduce district resources typically devoted to the administration of the retirement plan. Instead of requiring employees to manually fill out salary reduction paperwork and applications, WEA Member Benefits offers online salary reduction agreements and an online portal to manage your district's plan.
3. **Recruitment and retention.** Automatic enrollment conveys to employees that they are valued and cared for by their employer when they are part of an employee financial wellness program that includes financial education. This contributes to staff engagement and job satisfaction, which increases the employer's ability to recruit and retain quality staff. Higher staff retention means a higher return on a district's investment in the employee. Additionally, financially healthy employees are more productive employees because they aren't stressed about their financial situation.
4. **Improved employee savings behavior.** By automatically enrolling employees in the 403(b) at a specified contribution level with automatic increases, and in a specified investment, employers enlist inertia in the cause of saving—helping staff save more and start saving earlier.

## Benefits for employees

1. Helps jump-start financial security.
2. Engages new employees from day one.
3. Flexibility. Employees can opt out at any time and can change their investment allocations from the default at any time.
4. Access to free financial resources, including financial consultations and seminars.

**Inertia: “a property of matter by which it remains at rest or in uniform motion in the same straight line unless acted upon by some external force.”**

**In 403(b) plans, inertia can be defined as many eligible employees never signing up for the plan – even when the employer makes a matching contribution.**



## Items to consider

### **Automatic enrollment and automatic escalation**

If you are considering auto enrollment for your employees, you may want to consider auto escalation, too.

### **Collective bargaining agreements**

Be sure to talk with your bargaining units first (if applicable). Are there any existing collective bargaining agreements between your district and your employees that could restrict or prohibit automatic deductions and/or impact the district's ability to adopt automatic enrollment arrangements?

### **Multiple 403(b) vendors**

Does your district allow multiple 403(b) vendors? If so, contact a WEA Member Benefits Plan Administration Specialist for more information.

### **Who is eligible?**

Will your plan include all eligible employees or new hires only?

### **Employee savings inertia**

Over time, employee inaction (not increasing contributions, not re-evaluating asset allocations, etc.) can lead to under-saving, asset allocations that aren't consistent with changing risk tolerances, and investment choices that may not be appropriate for the employee's unique situation. Plan to communicate regularly with your employees and implement a financial wellness program so employees understand the importance of re-evaluating their savings goals annually.

### **The Pension Protection Act (PPA) of 2006**

Wisconsin has not addressed clearly The Pension Protection Act (PPA) of 2006, which included automatic enrollment provisions encouraging employers to facilitate their employees' participation in a workplace-sponsored retirement plan. The PPA also established that automatic enrollment programs are not subject to wage restrictions, except when it comes to state and local government employers offering non-ERISA plans. While the Internal Revenue Code now expressly permits 403(b) and 457(b) defined contribution plans to contain default enrollment and contribution features without disqualification, plans must still consider the state of Wisconsin's wage deduction laws as well as other laws. Wisconsin is one of nine states that has yet to address this issue clearly. Because laws are subject to change and could potentially require alterations to existing automatic enrollment arrangements in the future, it is advisable to check with your school district's tax advisor or attorney before implementing an automatic enrollment feature in your district's retirement plan.



## Plan administration

If your district would like to offer automatic enrollment, here is what you will need to do:

- Design a 403(b) automatic enrollment plan for your district.
- Amend your 403(b) plan to set up your plan's features.
- Create a communication plan that includes notices, education, investment options, automatic enrollment information packet, etc.
- Plan for ongoing financial education support.

## Default investment alternative

Employees will be automatically enrolled in the target retirement fund that aligns with their birth year. They can change their investments at any time by logging into their account or calling a WEA Member Benefits representative.

### Default Investment: Target Retirement Funds

#### Simplify your investments.

- ← Select your retirement date.
- ← Choose the fund nearest your retirement or withdrawal date.
- ← Consider the risk associated with your selection.

Although target retirement funds can simplify investment selection, all mutual fund investing is subject to risk. Diversification does not ensure a profit or protect against loss in a declining market. target retirement funds are not guaranteed and may gain or lose value now and after the target date is attained.

| Birth Year      | Suggested Fund                | Approximate Investment Mix                                                                           |
|-----------------|-------------------------------|------------------------------------------------------------------------------------------------------|
| 1993+           | Target Retirement 2060 Fund   |  10.0%<br>90.0%  |
| 1978-1992       | Target Retirement 2045 Fund   |  10.0%<br>90.0% |
| 1968-1977       | Target Retirement 2035 Fund   |  24.0%<br>76.0% |
| 1958-1967       | Target Retirement 2025 Fund   |  39.0%<br>61.0% |
| 1948-1957       | Target Retirement 2015 Fund   |  63.0%<br>37.0% |
| 1947 and before | Target Retirement Income Fund |  70.0%<br>30.0% |



Approximate allocation targets for each fund. Allocations for date-specific funds will shift over time, based on an assumed retirement age of 65. Approximate allocation mix as of 10/31/19. Please call for updated information.

\*Although target retirement funds can simplify investment selection, all mutual fund investing is subject to risk. Diversification does not ensure a profit or protect against loss in a declining market. target retirement funds are not guaranteed and may gain or lose value now and after the target date is attained.

Before investing in any mutual fund, call WEA Member Benefits at 1-800-279-4030 to request a prospectus. We advise you to read it carefully and consider the fund's investment objectives, risks, and charges and expenses carefully before investing.

# Ready to get started? WEA Member Benefits can help.

Member Benefits has helped guide districts through the 403(b) issues and framework to process the automatic enrollment and any vesting/matching contributions allowed through your plan. We can also assist you with communication about your program and provide record-keeping services. Our 403(b) experts are dedicated to assist you, so it's easier to get started than you might think.

## Meet with a Member Benefits representative to explore the option of a 403(b) automatic enrollment feature for your school district.

1

**Discuss the options and benefits of automatic enrollment**

2

**Put a procedure in place**

- Notify employees of the automatic enrollment feature
- Decide on a procedure for new employees

3

**Complete an amendment to your 403(b) plan document. Consider:**

- The default investment percentage.
- Automatic contributions and automatic escalation.
- Updating the language in your district's employee handbook.

4

**Educate your employees**

- Provide ongoing financial wellness education, opportunities, and resources.

### Contact us today

1-800-279-4030, Extension 8579  
retirement@weabenefits.com

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