



BANK OF AMERICA WORKPLACE BENEFITS™

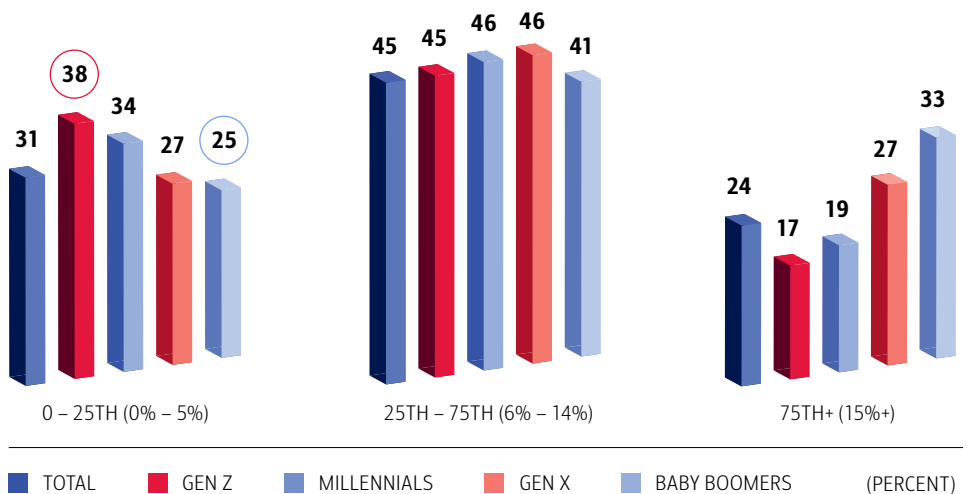
Automatic plan features for employees

Helping to make saving for retirement less challenging

Retirement savings are a critical component of financial security, yet many employees fail to save adequately for their future. Historically, 401(k) plans have relied on voluntary participation and self-selected contribution levels, which often resulted in suboptimal saving behavior. Our research shows that **more younger (38%) than older (25%) employees are contributing less than 5% of household income toward their retirement** (see graphic below). This retirement savings gap can also be seen across gender, ethnic and income segments.

Incorporating effective plan design elements, like automatic programs, can help simplify the enrollment process and encourage higher contribution rates over time. Additionally, gaining a better understanding of the demographic differences and saving behaviors within your workforce will enable you to optimize your plan design to enhance employee engagement and improve financial wellness.

Household's annual pretax income retirement contribution



Source: Bank of America Financial Wellness Tracker for the period January to December 2023. Based on the responses of 105,127 401(k) participants. Calculations by CIO Portfolio Analytics.

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Automatic programs

One of the most effective elements of plan design is automatic enrollment. Among its many advantages is the dramatic increase in participation rates. Studies have shown that when employees are automatically enrolled in a 401(k) plan, participation rates can exceed 90%, compared to significantly lower rates under voluntary enrollment schemes. This increase is largely due to inertia—employees are more likely to stay in a plan if they're enrolled by default, as opting out requires a deliberate action.

Automatic enrollment can also enhance financial literacy and engagement among employees. When employees are automatically enrolled, they're more likely to pay attention to their retirement savings and seek information about their investment options. This heightened awareness can lead to better financial decision-making, a greater understanding of the importance of long-term savings, and a greater appreciation of employer-provided benefits.

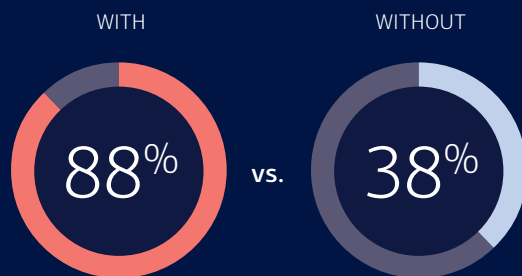
Automatic increase, also known as automatic escalation, involves gradually increasing employees' contribution rates over time, often in line with salary increases. This feature addresses the common issue of low initial contribution rates and the failure to adjust them as financial situations improve. By ensuring that contribution rates rise over time, automatic increase helps employees accumulate a more substantial retirement nest egg.

When combined, automatic enrollment and automatic increase create a powerful savings strategy that addresses both initial participation and long-term contribution growth. This dual approach ensures that more employees start saving early and continue to increase their savings over time, leading to better retirement outcomes. Best practices aim for a total contribution rate of between 12% and 15%, including salary deferrals, plan matches and other contributions.

“Automatic programs are among the most effective design features plan sponsors can use to positively impact participants' trajectories toward retirement. Employers can implement automatic programs on different scales— from tentative to robust.”

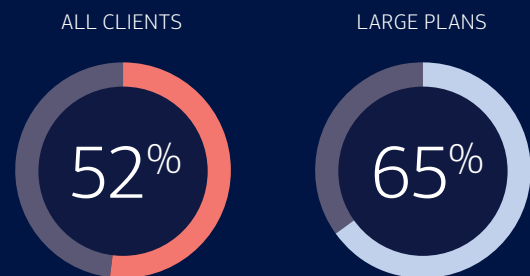
– Tom Kuuskvere
Retirement Plan Consultant

Automatic enrollment helps drive significantly higher participation



88% employee participation rate **with** automatic enrollment compared to **38%** **without** automatic enrollment

More than half of clients of all sizes offer automatic programs



52% of all clients and **65%** with more than 1,000 employees

Comparisons to reference data derived from Bank of America Workplace Benefits™ 401(k) data platform as of 8/30/24.

Closing the retirement savings gap

Research has demonstrated that lower-income workers, women and minorities participate at lower levels and defer at lower rates than others. Automatic enrollment and automatic increase features are particularly effective in reducing the retirement savings gap among different demographic groups. These features can help close the gap by making it easier for all employees to save for retirement.¹

Supportive legislation

Legislation such as the Pension Protection Act of 2006 (PPA) has been instrumental in encouraging the adoption of automatic features in 401(k) plans. The PPA provided legal clarity and incentives for employers to implement automatic enrollment and automatic increase, recognizing their potential to improve retirement security.

- The PPA offers a safe harbor for employers, protecting them from certain liabilities associated with automatic enrollment.
- Regulatory support encourages the adoption of best practices in plan design, benefiting both employers and employees.
- The automatic-enrollment provision has proven its value for years. In 2025, it will be required for new plans formed after December 29, 2022.

Employer benefits

Employers also stand to gain from implementing automatic enrollment and automatic increase features. These benefits include improved employee engagement, satisfaction and retention; enhanced reputation as a supportive employer; and potential tax advantages.



By standardizing enrollment and contribution increases, employers can foster greater equity and inclusion in retirement savings. Employers can use targeted communication strategies to further support underrepresented groups in maximizing their 401(k) benefits.

Conclusion

The implementation of automatic enrollment and automatic increase features within 401(k) plans offers substantial benefits for employees, employers and the broader economy. By significantly increasing participation rates and contribution levels, these features enhance retirement readiness and financial security. Additionally, they promote greater equity and inclusion in retirement savings, helping to close the savings gap among different demographic groups.

Supported by favorable legislation and employer incentives, automatic enrollment and automatic increase represent a powerful strategy for fostering a more secure and prosperous retirement landscape. As more employers adopt these features, the positive impact on retirement savings behavior is likely to grow, benefiting individuals and the overall financial wellness and retirement readiness of the American workforce.

¹ Jack VanDerhei and Lori Lucas, *The Impact of Auto-enrollment and Automatic Contribution Escalation on Retirement Income Adequacy*, Employee Benefit Research Institute (EBRI) and the Defined Contribution Institutional Investment Association (DCIIA), November 1, 2010.

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