The Pulse

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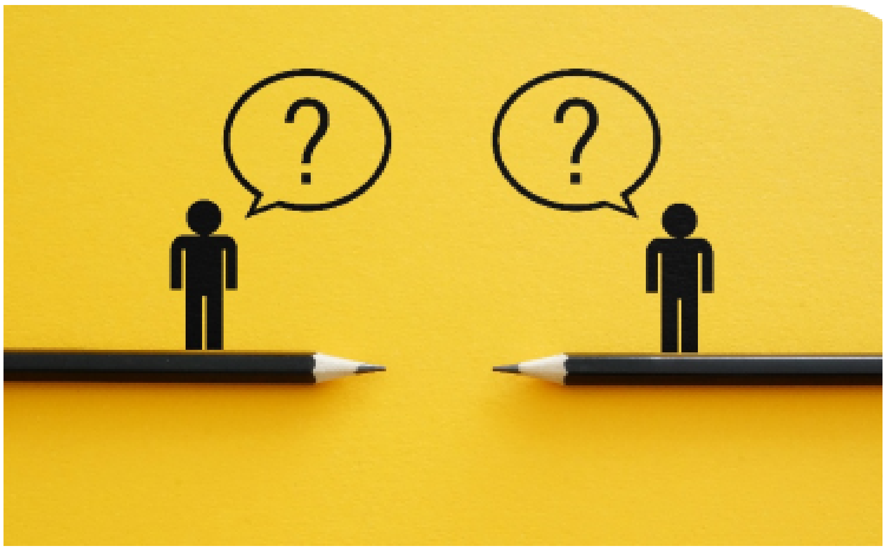

Among people who choose not to participate in their employer-sponsored retirement plan, many cite a lack of understanding as the primary reason, according to recent surveys.

Regulatory mandates have attempted to harness the power of automatic features and strengthen retirement readiness.

SECURE 2.0 requires 401(k) plans established on or after December 29, 2022 to automatically enroll employees at 3-10% of pay, with annual 1% escalations up to 10-15%. (Businesses with 10 or fewer employees or those operating for less than three years are exempt until they cross those thresholds.)

Despite mandates like these and the prevalence of automatic features, some employees do elect to opt out of plan participation. Within plans offering automatic features, around 7% of employees still decline participation, according to a Vanguard study. An Ascensus survey finds 30% of nonparticipants don’t know how a plan works, and 23% view retirement savings as unaffordable.

Advisors can address knowledge gaps by helping employees better understand the value of their plans and clearly articulating how participation can help them meet their goals. Sponsors can help too with clear, accessible, and frequent communications and by offering enrollment assistance across multiple channels.

Automatic features can help boost participation and improve retirement outcomes, but sometimes it’s the human element that can make the difference in getting employees to take the critical first step.

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