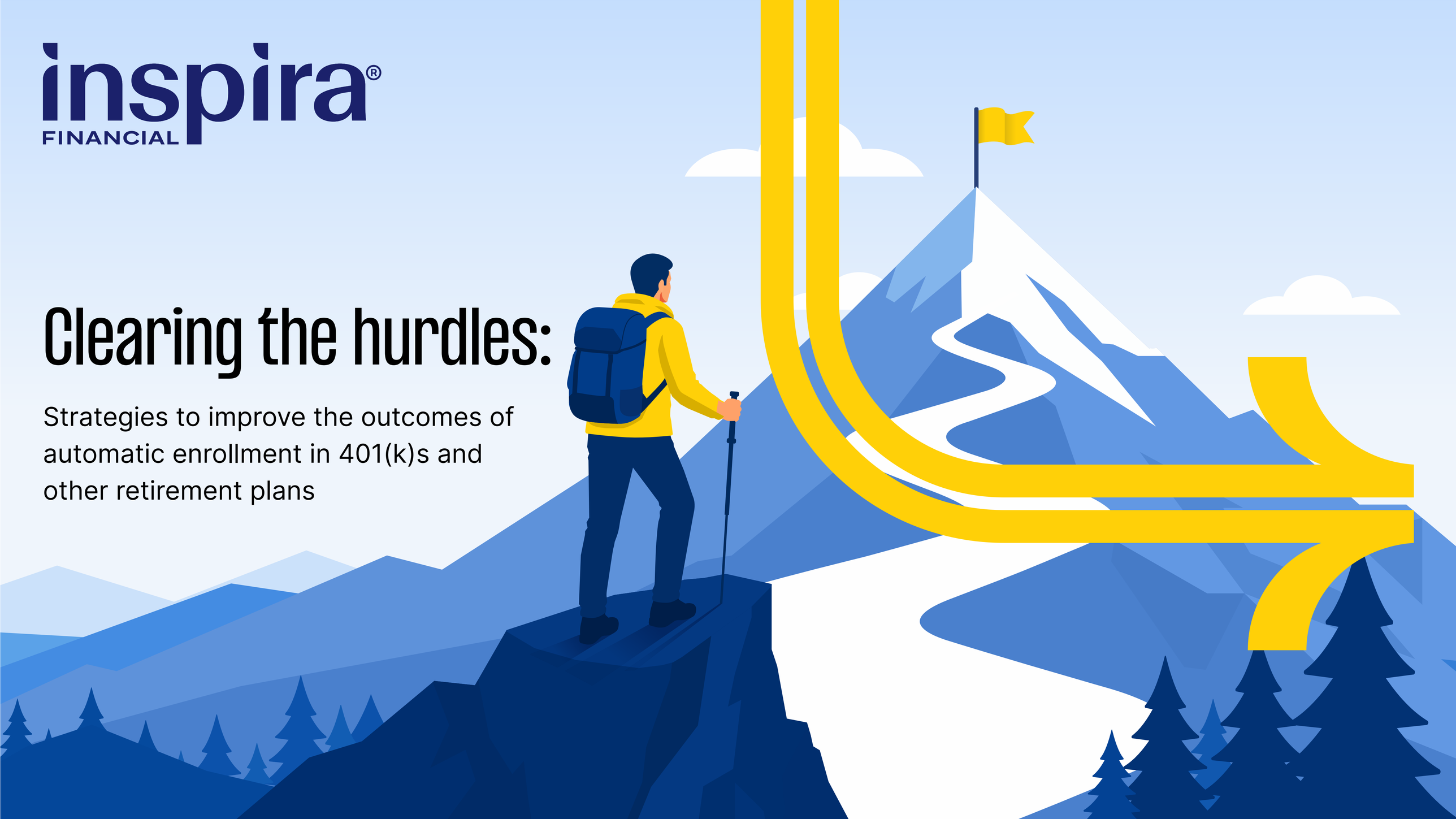
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Clearing the hurdles:

Strategies to improve the outcomes of automatic enrollment in 401(k)s and other retirement plans



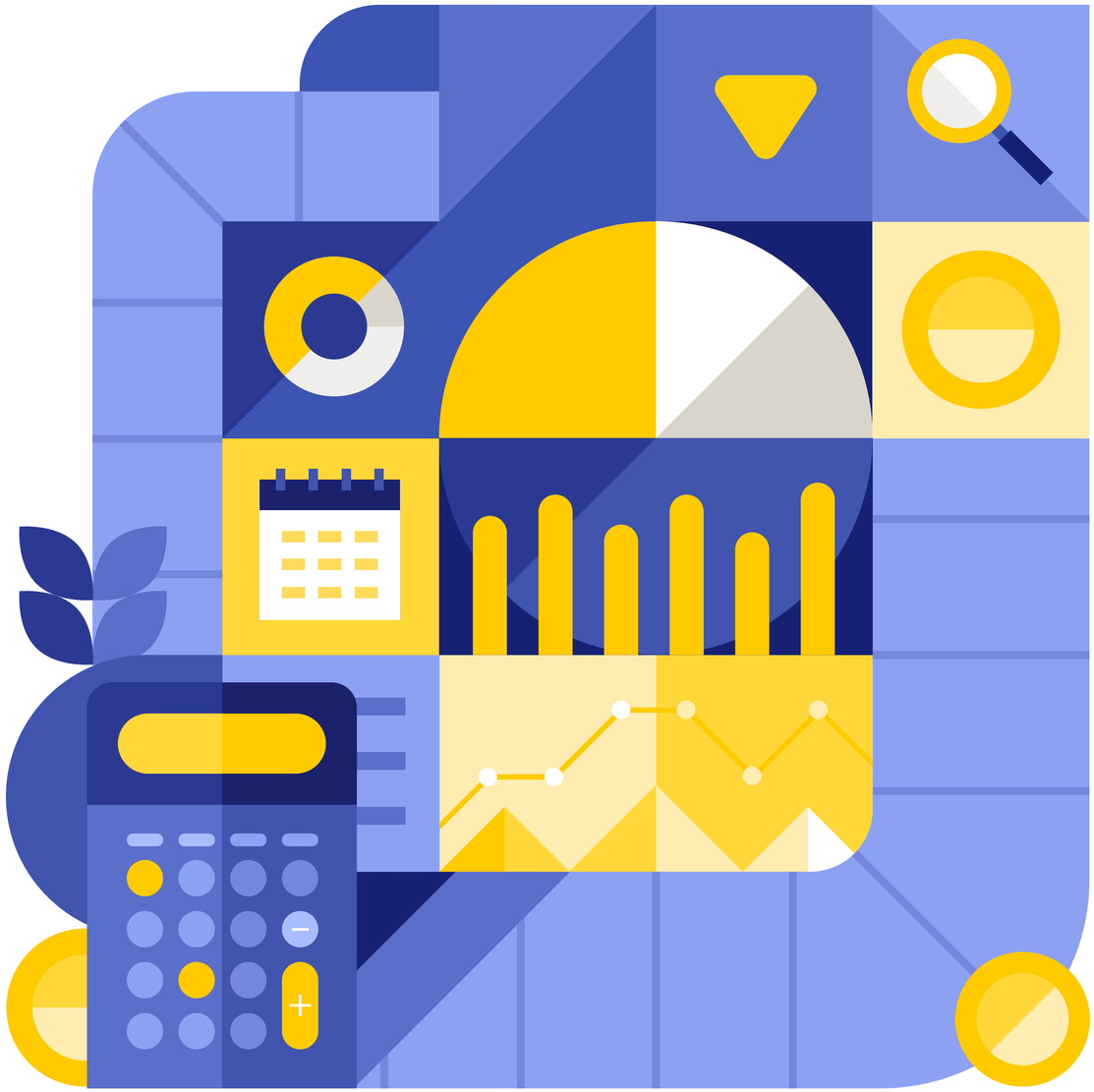


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More than **60%** of employer-sponsored 401(k) plans use auto enrollment.[1]

Automatic enrollment in 401(k)s and other defined contribution retirement plans is designed to help American workers participate in employer-sponsored retirement plans, save money for retirement, and prepare them for long-term financial security. Part of the SECURE 2.0 Act, the provision applies only to 401(k) and 403(b) plans established after Dec. 29, 2022, but has been adopted more widely by other employer-sponsored retirement plans. More than 60% of employer-sponsored 401(k) plans use auto enrollment.[1] Accordingly, more U.S. workers than ever are being enrolled in retirement plans, which helps improve the rate of saving for retirement, and that trend is likely to continue. However, certain factors have caused the initiative to face challenges. Some of those factors are the inability of some people to pay unexpected expenses, high employee turnover, a nonexistent or ineffective retirement plan cash-out policy, and missing participants.





[A] recent survey suggests that almost half of American workers are prioritizing paying for everyday expenses while putting off saving for retirement because of upticks in the cost of living.[2]

Inability for some people to pay unexpected expenses

When Congress passed the SECURE 2.0 Act, the legislation was widely praised as a tool to increase employees' participation in workplace retirement plans, improve American workers' financial wellness and retirement security, and strengthen the retirement system. In principle, these objectives would seem to benefit every American worker participating in an employer-sponsored retirement plan, but as each successive provision of SECURE 2.0 takes effect, it becomes clear that the outcomes do not benefit everyone. Here's why:

Most American workers are effectively living paycheck to paycheck, unable to afford an unexpected emergency expense. For those who do have money set aside for emergencies, most of them use that money to pay for emergency expenses as well as essentials such as rent, utilities, or other monthly bills; food; home repairs; and supplies. Accordingly, for many Americans, having money automatically deducted from their paychecks for retirement puts significant strain on household budgets that are already stretched thin. In fact, a recent survey suggests that almost half of American workers are prioritizing paying for everyday expenses while putting off saving for retirement because of upticks in the cost of living.[2] As a result, by the time an immediate financial need comes along, many Americans turn to their retirement savings to cover the expense — taking loans or hardship withdrawals from their retirement plans or cashing out their retirement accounts altogether.

Clearly, improving workers' retirement outcomes will require more than automatically enrolling them in workplace retirement plans, especially since many Americans are not adept at managing their personal finances. It will require helping them to achieve financial wellness, which is an essential ingredient for retirement readiness.

Financial wellness is the ability to manage money and meet basic financial needs throughout life. But only about half of U.S. adults have a general understanding of what financial wellness is, so attaining it remains elusive for many. Besides requiring some degree of financial literacy, financial wellness is dependent on individuals' adopting behaviors and practices that help them manage their finances and improve their lives. While people can develop certain habits that might help them attain financial wellness, there is a key way that employers can help: financial wellness (or preparedness) programs.

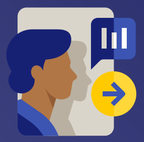
An employer-sponsored financial wellness program can encourage employees to save more for retirement, decrease their reliance on retirement plan withdrawals or loans, and increase their use of other offerings aimed at spending and saving money wisely. Moreover, when employers assist employees in achieving financial wellness, job satisfaction and productivity improve. Still, some employers may need guidance on where to begin and what steps to take to launch a financial wellness program. By implementing the following measures, employers and other plan sponsors can empower their employees to manage their money better and save for the future:

- Financial literacy programs
- Personal finance tutorials led by financial advisors
- Financial assistance options (e.g., emergency savings and student loan assistance programs)

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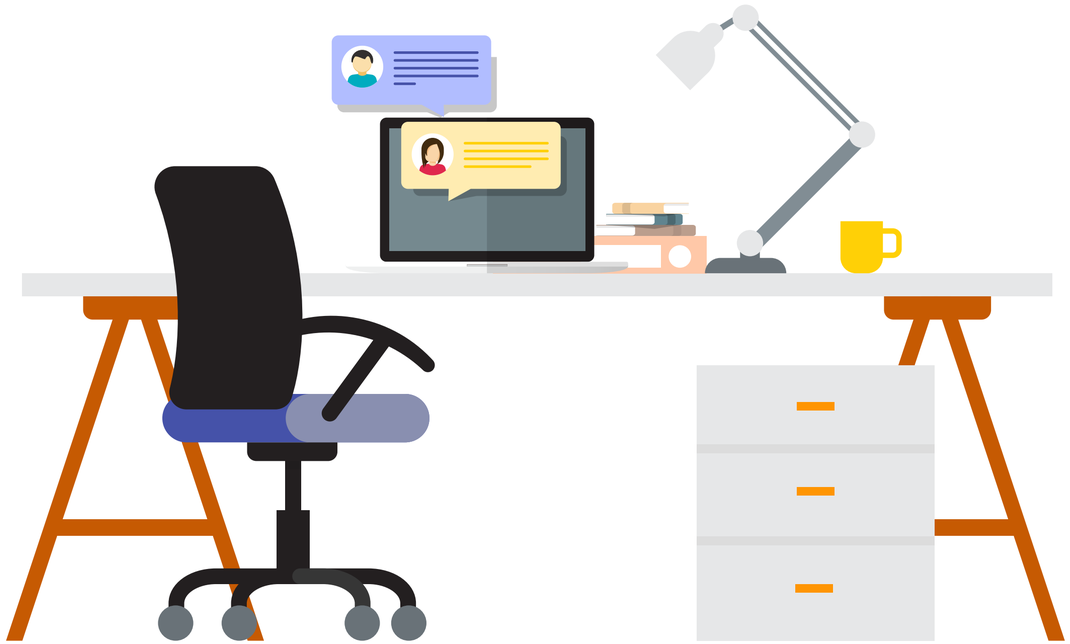
Financial literacy programs



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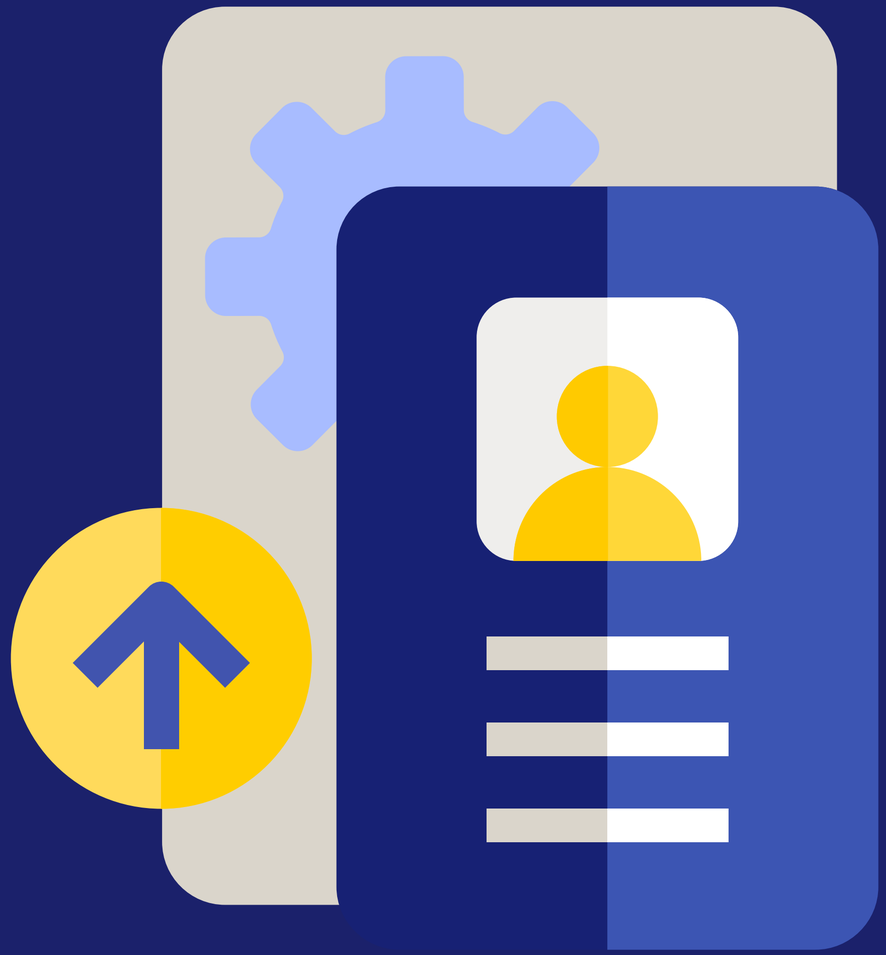


High job turnover

Despite going to great lengths to apply for jobs, nearly 40% of individuals resign from their positions within a year of being hired.[3] Many of these people leave behind employer-sponsored retirement plan accounts, which some may not even realize they have. This is because some workers may not be aware that they were automatically enrolled in their employers' retirement plans and did not take action to opt out. By requiring employees to opt out of 401(k)s and 403(b)s instead of allowing them to opt in, employers are enrolling thousands of employees who may not intend to stay with employers and grow their retirement savings. For individuals who move on to other job opportunities within a year or two of being hired, there's a good chance they'll lose track of their retirement plan accounts with former employers.

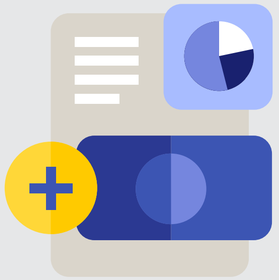
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Consequently, the number of small-balance accounts left behind in employers’ retirement plans when employees leave is rapidly increasing. The effects of this are as follows:

- Plan sponsors must manage a growing number of former employees’ small-balance accounts in their retirement plans, which may require routine annual audits if the plan expands beyond 99 participants.
- Because administrative fees for retirement plans are typically based on the amount of assets in a retirement plan or how many participants are in the plan, retirement plans with former employee small-balance accounts may generate higher administrative fees.
- Plan sponsors continue to have fiduciary obligations for former employees’ small-balance accounts left behind, which may increase risks.



Most employers do not want to retain fiduciary responsibility for small-balance accounts left behind by former employees, incur higher administrative fees, or undergo routine annual plan audits.

A nonexistent or ineffective mandatory plan cash-out policy

Most employers do not want to retain fiduciary responsibility for small-balance accounts left behind by former employees, incur higher administrative fees, or undergo routine annual plan audits. There are two things plan sponsors can do. First, they can update their retirement plans' documents to include a mandatory (or involuntary) cash-out policy. With a sizeable number of ex-employees' small-balance accounts in retirement plans, a mandatory cash-out policy takes on more meaning: Upon notification, if a former employee fails to specify within a designated time frame what to do with his or her retirement money, a mandatory cash-out policy allows plan fiduciaries to force out ex-employees' small-balance accounts without consent. Since Jan. 1, 2024, the upper limit for mandatory cash-outs is $7,000 and applies to 401(k)s, 403(b)s, 457(b)s, and 401(a)s.

Second, plan sponsors can implement a regular cadence of cashing out ex-employees' small-balance retirement accounts. Though not mandatory, establishing a cash-out policy for former employees' retirement plan accounts with balances of $7,000 or less is a wise move, and here are a couple of legal cash-out options:

- Account balances of $1,000 or less can be cashed out via distribution checks.
- Account balances above $1,000 up to $7,000 must be rolled over to safe harbor IRAs (i.e., automatic rollovers).

Missing participants and uncashed checks

When individuals resign or are terminated from their jobs, rarely do they keep in touch with their former employers. As a consequence, when plan sponsors choose to cash out small-balance retirement accounts of $1,000 or less via checks, some or many of those distribution checks may go uncashed. This is because employers likely do not have up-to-date contact information for former employees, which puts them in the category of missing or non-responsive plan participants.

Plan sponsors have a fiduciary duty to search for missing or non-responsive participants, which is time-consuming and difficult to do. This can be a significant burden to company staff whose workdays are already brimming with issues involving current employees. Moreover, uncashed checks are considered plan assets until they are cashed, so they constitute a fiduciary risk for plan sponsors.

To avoid uncashed checks, plan sponsors can either work with a third-party search services provider or roll over small-balance accounts of $1,000 or less into safe harbor IRAs — just as they do for balances between $1,000 and $7,000. Rolling over all former employees' accounts balances of $7,000 or less into IRAs can decrease retirement system leakage while keeping their money in the retirement system until these individuals are located and contacted. It can also reduce plan maintenance, plan fees, and fiduciary liability issues for plan sponsors.



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Another option to help minimize the number of small-balance accounts left behind is to change the employee offboarding process. Often, individuals who voluntarily terminate their employment participate in exit interviews. Most exit interviews are almost entirely focused on employers: how to improve their brand, culture, and policies to attract and retain valuable employees. But an exit interview could also be an opportunity to remind departing employees that they have retirement plan accounts and update contact information.

By simply adjusting the exit interview process, employers can help ensure that the contact information for departing employees is accurate. The payoff (fewer missing participants, lower administrative costs, and cleaner plans) can be significant.

The bottom line

While automatic enrollment in 401(k)s and other defined contribution retirement plans can help Americans save money for retirement and improve retirement readiness, it can also have unfavorable effects on both plan sponsors and American workers. Key strategic moves can help plan sponsors successfully navigate these challenges. These include amending retirement plan documents to include a mandatory cash-out limit as well as the following:

- Modifying the exit interview process to include reminding departing employees that they have retirement plan accounts and updating employee contact information
- Setting the mandatory cash-out limit for retirement plans to $7,000 or less
- Engaging with an automatic rollover IRA and/or search services provider or implement another means to transfer funds

By addressing the challenges of automatic enrollment, employers can reduce administrative obligations as well as help employees save money for retirement, prepare for unexpected expenses, and improve their financial wellness, all of which will lead to better retirement plan outcomes for both plan sponsors and plan participants.



Key strategic moves can help plan sponsors successfully navigate these challenges.

Endnotes

1. PSCA, November 2025, Auto-enrollment less popular with small plans, but gap is narrowing.
2. NFP, July 2026, New NFP data finds workers trust employer-provided financial advisors, but most still aren't ready for retirement.
3. Work Institute, 2026, 2026 retention report.

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