All About Auto Enroll

Automatic enrollment designs

Historically, employees in a 401(k) or 403(b) plan have had to make an active choice to join the plan, but this trend is shifting. In voluntary enrollment plans, decisions were framed as a positive election: "Decide if you'd like to join the plan." Why have some employees failed to take advantage of their employer's plan? Research in the field
of behavioral finance provides explanations:

- **Lack of planning skills.** Some employees are not active, motivated decision-makers when planning for retirement. They have weak planning skills and find it difficult to defer gratification.
- **Default decisions.** Faced with a complex choice and unsure of what to do, many individuals often take the default or "no decision" choice. In the case of a voluntary saving plan, which requires that a participant take action to sign up, the "no decision" choice is a decision to not contribute to the plan.

- **Inertia and procrastination.** Many individuals deal with a difficult choice by deferring it to another day. Eligible nonparticipants, unsure of what to do, postpone their decision. While many employees know they are not saving enough and express an interest in saving more, they simply never get around to joining the plan—or to increasing their contribution rate over time if they do join.

Automatic enrollment or autopilot plan designs reframe the savings decision. With an autopilot design, individuals are automatically enrolled into the plan, their deferral rates are automatically increased each year, and their contributions are automatically invested in a balanced investment strategy. In such a plan, the decision to save is framed negatively: "Quit the plan if you'd like." And "doing nothing" leads to participation in the plan and investment of assets in a long-term retirement portfolio.

As of year-end 2023, 59% of Vanguard plans permitting employee-elective deferrals had adopted components of an autopilot design **(Figure 17)**. Plan adoption of automatic enrollment has consistently increased over the past 15 years.

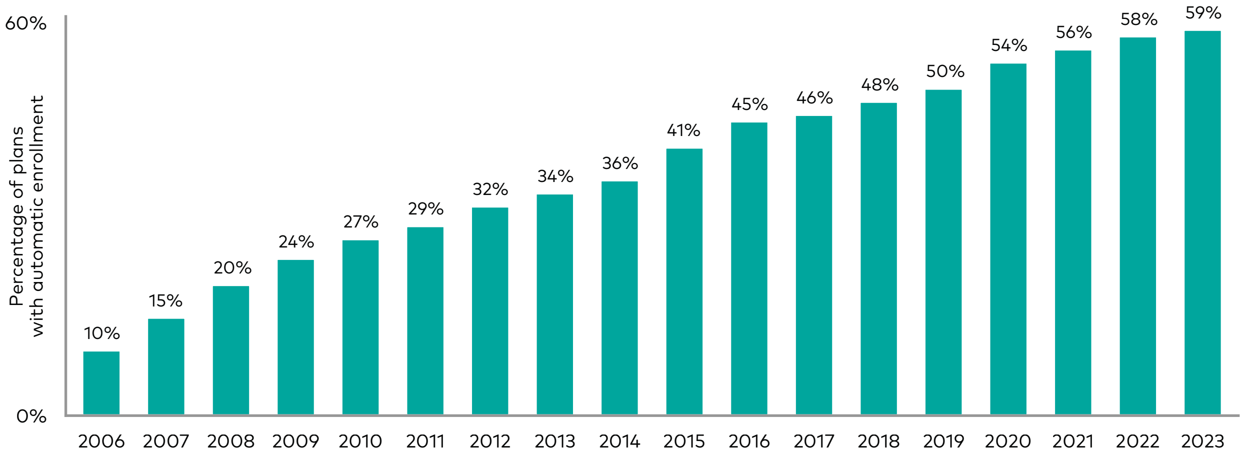
Larger plans were more likely than smaller plans to implement automatic enrollment, with 74% of larger plans using the feature **(Figure 18)**. As a result, nearly 3 in 4 participants were in plans with autopilot designs, although automatic enrollment itself may only apply to newly eligible participants.

Among plans automatically enrolling employees, 69% used all three features of an autopilot design in 2023. These plans automatically enrolled employees, automatically increased deferral rates annually, and automatically invested participants' assets in a balanced fund. Another 3 in 10 plan sponsors automatically enrolled employees and invested participants' assets in a balanced fund but did not automatically increase participant deferral rates.

Automatic enrollment adoption varied by industry group **(Figure 19)**. Plans in the manufacturing industry group were the most likely to use automatic enrollment, with 73% of plans offering the design; while plans in the education and health industry group were the least likely to automatically enroll employees (38%).

Figure 17. Automatic enrollment adoption

Vanguard defined contribution plans with employee-elective contributions



Source: Vanguard 2024.

Figure 18. Automatic enrollment design by plan size, 2023

Vanguard defined contribution plans with employee-elective deferrals

	Number of participants				
	All	**<500**	**500–999**	**1,000–4,999**	**>5,000**
Percentage of plans with employee-elective contributions offering automatic enrollment	**59%**	**40%**	**71%**	**78%**	**74%**
Percentage of participants in plans offering automatic enrollment	**72%**	**50%**	**71%**	**80%**	**71%**
In plans offering automatic enrollment					
Percentage with automatic enrollment, automatic saving rate increases, and a balanced default fund	69%	62%	71%	73%	73%
Percentage with automatic enrollment and a balanced default fund	30%	36%	29%	27%	27%
Percentage with automatic enrollment and a money market or stable value default fund	1%	2%	0%	0%	0%

Source: Vanguard 2024.

Figure 19. Automatic enrollment adoption by industry

Vanguard defined contribution plans permitting employee-elective deferrals

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Manufacturing	52%	56%	58%	61%	63%	66%	69%	70%	72%	73%
Transportation, utilities, and communications	39%	42%	49%	56%	57%	58%	58%	62%	63%	64%
Media, entertainment, and leisure	39%	45%	49%	49%	53%	55%	55%	58%	58%	59%
Business, professional, and nonprofit	28%	29%	32%	34%	36%	39%	43%	45%	47%	57%
Wholesale and retail trade	45%	51%	56%	56%	59%	59%	57%	58%	58%	55%
Finance, insurance, and real estate	45%	48%	49%	50%	52%	56%	59%	64%	66%	54%
Agriculture, mining, and construction	41%	44%	46%	48%	50%	52%	54%	54%	52%	49%
Education and health	19%	24%	28%	29%	33%	35%	33%	34%	37%	38%

Source: Vanguard 2024.

Thirty-three percent of these plans automatically enrolled participants at a 3% contribution rate **(Figure 20)**. Sixty-nine percent of plans automatically increased the contribution rate annually. Ninety-nine percent of plans were using a target-date or other balanced investment strategy as the default fund, with 98% choosing a target-date fund.

Automatic enrollment plan design is improving. In 2023, 60% of plans chose a default of 4% or higher, compared with 27% of plans in 2005 **(Figure 21)**. In fact, 29% of plans chose a default of 6% or more—nearly double the proportion of plans choosing 6% or more in 2014.

Figure 20. Automatic enrollment design trends

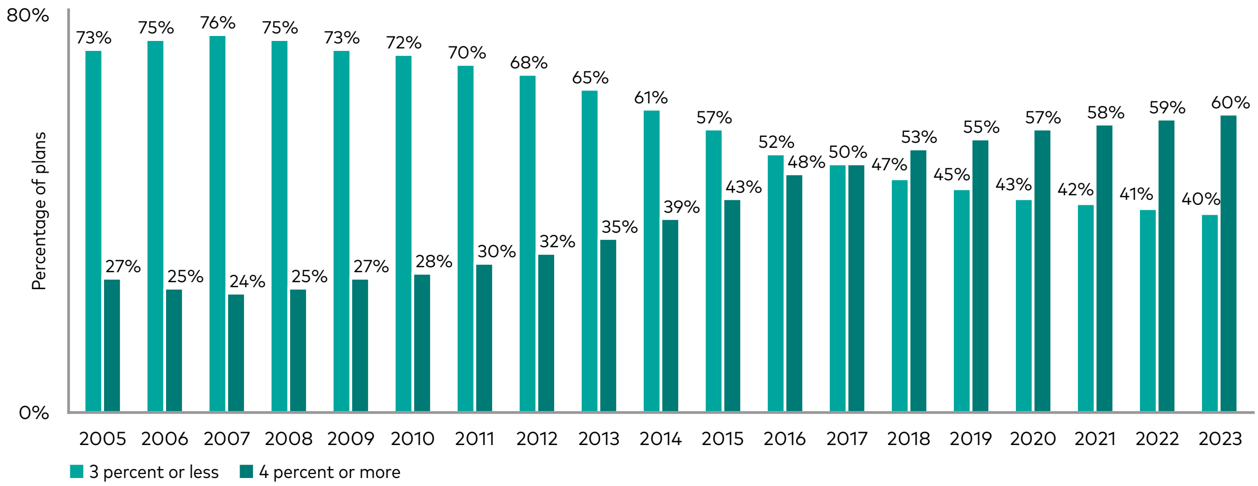
Vanguard defined contribution plans with automatic enrollment

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Default automatic enrollment rate	1 percent	2%	1%	1%	1%	1%	2%	1%	1%	2%	2%
	2 percent	10%	8%	7%	8%	6%	5%	5%	5%	5%	5%
	3 percent	49%	48%	44%	41%	40%	38%	37%	36%	34%	33%
	4 percent	15%	16%	15%	15%	15%	15%	15%	14%	14%	14%
	5 percent	9%	11%	13%	14%	15%	16%	16%	17%	17%	17%
	6 percent or more	15%	16%	20%	21%	23%	24%	26%	27%	28%	29%
Default automatic increase rate	1 percent	68%	68%	65%	64%	64%	66%	67%	67%	66%	67%
	2 percent	2%	2%	2%	2%	2%	2%	2%	2%	3%	2%
	Voluntary election	18%	20%	24%	25%	26%	26%	24%	24%	25%	25%
	Service feature not offered	12%	10%	9%	9%	8%	6%	7%	7%	6%	6%
Default automatic increase cap	<6 percent	3%	2%	2%	3%	2%	2%	2%	2%	2%	2%
	6 percent	18%	16%	14%	14%	13%	13%	13%	12%	12%	12%
	7 to 9 percent	9%	11%	10%	9%	7%	6%	6%	5%	6%	5%
	10 percent	42%	42%	44%	44%	46%	47%	46%	42%	41%	41%
	11 to 20 percent	21%	22%	23%	23%	23%	23%	26%	29%	32%	32%
	>20 percent	2%	2%	2%	2%	2%	2%	2%	3%	2%	4%
	No cap	5%	5%	5%	5%	7%	7%	5%	7%	5%	4%
Default fund	Target-date fund	95%	97%	97%	97%	98%	98%	98%	98%	98%	98%
	Other balanced fund	3%	2%	2%	2%	1%	1%	1%	1%	1%	1%
	Subtotal	98%	99%	99%	99%	99%	99%	99%	99%	99%	99%
	Money market or stable value fund	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Source: Vanguard 2024.

Figure 21. Automatic enrollment default trends

Vanguard defined contribution plans with automatic enrollment



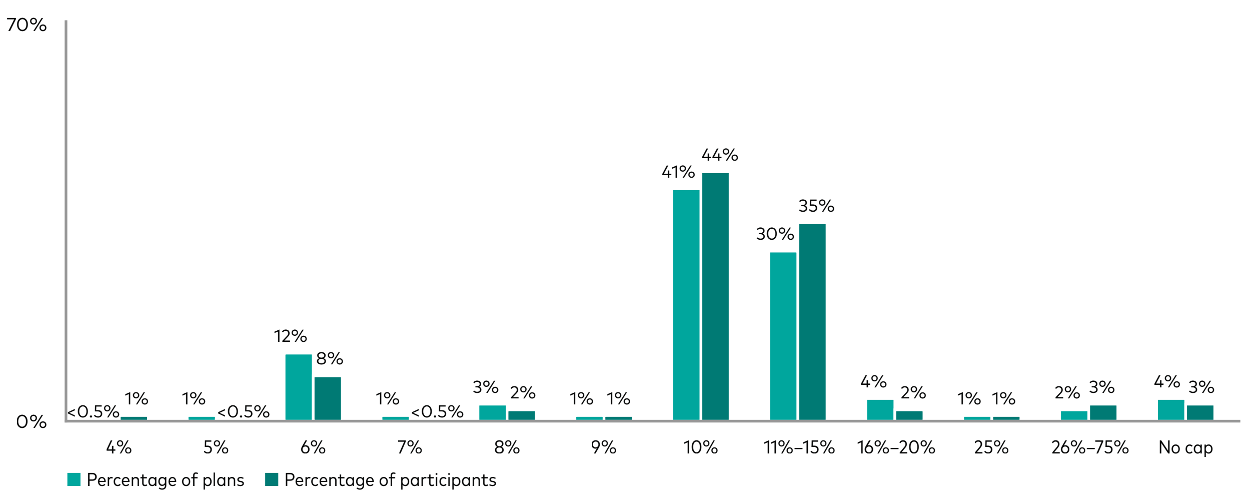
Source: Vanguard 2024.

Forty-one percent of plans with automatic enrollment and automatic annual increases capped the annual increase at 10%, and 44% of annual-increase participants were capped at that level **(Figure 22)**. One in 3 plans implemented caps between 11% and 25%. Four percent of plans had no cap—likely an error. We recommend plan sponsors set the cap at a level where participants are saving 15% or more, including employer contributions.

Plan sponsors may also elect to offer automatic annual increases in voluntary enrollment plans. Participants are then presented with the annual increase election at enrollment and when they change their employee-elective deferral rate. In 2023, 39% of plans with voluntary enrollment offered an automatic annual increase option, and three-fourths of participants in these designs had access to the option **(Figure 23)**. One in four participants in these plans elected automatic annual increases when offered.

Figure 22. Automatic increase plan caps

Automatic enrollment plans with an automatic annual increase as of December 31, 2023



Source: Vanguard 2024.