Automatic 403(b) TOOLKIT

Your complete guide to automating your organization’s 403(b) plan.
Dear HR/Benefits Manager:

If you are like most retirement plan sponsors, you run your plan to help employees save and invest for a financially secure retirement.

But are you satisfied with your employee's contribution to your 403(b) plan? You may have a low active participation rate. Or, perhaps employee contributions seem low. Maybe employees aren't making good investment decisions. All of this adds up to problems for your employees when it comes to financing their retirement years.

Your organization can help make participation more meaningful with automatic features. With an automatic 403(b) plan, participation is the default. Employees are enrolled at a pre-set contribution rate into a preselected investment fund, and are in the plan unless they opt out.

Automatic plan design has gained strong footing in the 401(k) space. The take-up rate among 401(k) plan sponsors stands at about 40 percent.¹ Experts expect this trend to be replicated among 403(b) providers. And, you can automate with the confidence that employees will view your actions favorably. Our research has shown overwhelmingly positive employee endorsement of automatic enrollment.²

As you may be aware, the 403(b) plan landscape is different than it was even just a few years ago. Legislative and regulatory actions have put employers squarely in the center of responsibility for 403(b) plans. The changes have made 403(b) and 401(k) plans similar in many ways. It's a great time to build off the best practices in the 401(k) marketplace to optimize your 403(b) plan to help participants save for retirement.

Automatic plan features remove impediments that result in “analysis paralysis” over investment decisions. Participants can change how much they contribute and where their money is invested. But inertia no longer stands in their way of building a retirement nest egg.

Retirement Made Simpler™ is a coalition formed by AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP). We have created a free Toolkit just for 403(b) plan sponsors. It provides helpful information and communications samples to help you automate your plan. For more information about automatic retirement plans, or to download an electronic version of any of the following documents, please visit: www.RetirementMadeSimpler.org.

Retirement Made Simpler would like to thank the American Institute of CPAs (AICPA), Robert J. Toth and Conni Toth for their assistance in reviewing this publication.

Sincerely,

Retirement Made Simpler™

¹ Profit Sharing/401(k) Council of America. 52nd Annual Survey of Profit Sharing and 401(k) Plans. 2009.
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This document does not provide legal, tax, or investment advice. You are encouraged to obtain such advice from legal counsel and from competent, professional tax and investment advisers.
Automatic 403(b) Basics

What You Need to Know

Elements of an Automatic 403(b) Plan

An automatic 403(b) plan automatically enrolls employees at a set contribution rate. It requires no initial action by employees. They contribute to the plan unless they opt out. In an automatic plan, contributions go into a pre-selected investment fund. Also, employers may set contributions to increase automatically each year.

Automatic arrangements have taken the 401(k) world by storm, and organizations offering 403(b) plans are focusing on them as well. The passage of the Pension Protection Act (PPA) and resulting regulatory guidance has led 40 percent of all 401(k) plan sponsors to institute automatic plan features. While take-up among 403(b) plans has been slower, at 16.5 percent, there is growing interest in implementing best practices with respect to automatic retirement plan features. Like their 401(k) counterparts, 403(b)s can be automated in a number of ways.

Automatic Enrollment

When it comes to savings behavior, employee inertia is well-documented. Too many employees just don't get around to signing up for the plan. With automatic enrollment, they don't have to. The plan sponsor simply enrolls employees automatically at a set deferral rate. Employees participate in the plan unless they decide to opt-out.

This relatively simple solution can result in remarkable participation gains. A study of 401(k) plans by Vanguard showed a 41 percent increase in participation by new employees in plans that adopted automatic enrollment (86 percent versus 45 percent). Other studies show similar findings and suggest that the experiences in the 401(k) world are likely to be replicated with 403(b) plans.

When plan sponsors first tested the waters of automatic enrollment back in the late 1990s, they focused their efforts on new hires. Since then, sponsors have learned the benefits of annual “reenrollment” to increase participation rates across all employees. Surveys and other evidence confirm that opt-out rates are low and employee response is positive.

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2 Profit Sharing/401(k) Council of America, 403(b) Plan Survey. 2008.
Lessons Learned

• Employee response to automatic enrollment is extremely positive.
• Applying automatic enrollment to existing employees as well as new hires results in higher participation gains.

Automatic Contribution Increases
Even though early adopters were pleased with participation gains, some of them discovered an unintended consequence. The same inertia that kept employees from enrolling in the plan was keeping them from changing the default deferral rate. Sponsors had set the rates low (typically 3 percent of pay). But, average contribution rates were not as high as they could be because employees who would have signed up on their own at higher rates were staying at the lower default rate.

The answer? Automatically increase the deferral rate each year. (For example, an employee’s automatic contribution rate could increase by 1 or 2 percent each year the employee stays with the organization, or each time the employee gets a raise.) Again, employees can opt-out, but most don’t. If the plan does not provide automatic annual increases for all employees, it could allow employees to sign up for them.

Also, plan sponsors have increasingly been setting the initial deferral rate at a higher percentage of pay (as opposed to only 3 percent, for example). Some set it to align with employer matching contributions. Surveys suggest that employees tend to find higher deferral rates acceptable.4

Lessons Learned

• Don’t fear a higher initial deferral rate. Consider setting it at the maximum percentage of employee contributions that you match.
• Set the deferral rate to increase automatically each year.

Automatic Investment
When adopting automatic enrollment, plan sponsors select a default investment. This is an important feature. Many participants will simply remain in the default investment rather than make their own selection.

Early on, many plan sponsors took a cautious approach, opting for principal preservation (money market or stable value funds, for example). They were concerned about fiduciary liability—participant lawsuits over investment losses if, for example, the employer selected a default investment that involved stocks, and if the stock market declined.

Today, many sponsors are concerned about employees who stay parked in a low-risk default fund for many years. The U.S. Department of Labor (DOL) expressed a similar theme when it released plan investment regulations. The DOL pointed out that, over long time horizons, diversified portfolios containing equities have historically generated higher returns than those composed only of fixed-income investments.\(^5\) This, plus new protections for fiduciaries of ERISA plans under the PPA have encouraged many recent automatic enrollment adopters to select equity-based default investments rather than principal preservation funds. 403(b) plans which are not governed by ERISA will now, however, be afforded these new protections.

**Lessons Learned**
- A low-return default investment can be high-risk for retirement income adequacy if employees stay in it for many years.
- Many sponsors now favor diversified default investments over principal preservation funds.

**Automatic Plan Types**

It is possible to set up a basic automatic 403(b) plan to communicate to employees that they will be automatically enrolled in the plan unless they elect otherwise. Also, employees must be notified of the specific percentage of their wages that will be automatically deducted from each paycheck for contribution to the plan. The document must also explain that employees have the right to elect not to have salary deferrals withheld or to elect a different percentage.\(^6\)

Non-ERISA plans that offer automatic contribution arrangements are referred to as Automatic Contribution Arrangements, or ACAs.

PPA and ensuing regulations created two types of automatic contribution arrangements. The first is an Eligible Automatic Contribution Arrangement, or EACA. An EACA plan is an automatic plan that meets Employee Retirement Income Security Act requirements related to the investment fund a plan sponsor selects for depositing automatic contributions. An EACA may permit employees to withdraw contributions penalty-free within a 90-day window.

The second is a safe harbor plan, called a Qualified Automatic Contribution Arrangement, or QACA. These plans conform to deferral, matching, and vesting rules that relieve employers of nondiscrimination testing on employer contributions. A QACA can also be an EACA, but is not required to be.


\(^6\) U.S. Department of Labor, Employee Benefits Security Administration, *401(k) Plans Supplement, Adopting a Written Plan*, www.dol.gov/ebsa/publications/401kplans-supplement.html#section1
With respect to selection of a default investment, PPA and related DOL regulations provide fiduciary relief to ERISA plan sponsors that default participants into a qualified investment fund. If a participant does not make an explicit investment decision, plan sponsors can invest assets in a “Qualified Default Investment Alternative,” or QDIA. A QDIA, and its attendant protections, is not available under non-ERISA arrangements of public schools and state universities.

When plan fiduciaries adopt a QDIA as the default, they are generally not liable for investment losses, as long as the QDIA is prudently chosen and monitored, and as long as they meet notification requirements: employers must provide employees notice in advance of the first investment of automatic contributions and yearly, thereafter.

As noted earlier, an automatic plan that meets the rules surrounding QDIAs is an EACA. An optional feature of the EACA allows employers to permit penalty-free contribution withdrawals within a 90-day window.

So what is a QDIA? Final regulations from the DOL identify them as mutual funds or annuity separate accounts holding lifecycle funds (often called target retirement date funds) or balanced funds. The final regulations also permit initial contributions to go into a capital preservation fund under an annuity contract or mutual fund, but all of these contributions must be transferred into another QDIA within 120 days of deposit.

According to a survey of 403(b) plans, 30 percent of plans currently use a money market or similar capital preservation account for all default investments. So this rule is important to all 403(b) plan fiduciaries, regardless of whether the plans are traditional or automatic.

**Lessons Learned**
- Take advantage of fiduciary relief by adopting a QDIA as the default investment.
- The majority of Automatic 401(k) Plan sponsors use a target retirement date fund for the QDIA.

**QACA Plans Eliminate Testing**
As noted earlier, IRS regulations established a plan design option, the QACA, to provide a safe harbor from nondiscrimination testing of employer contributions to a 403(b) plan. Under a QACA, the automatic plan must meet certain employee and matching contribution rules, vesting requirements, and notification rules. Specifically:

- Employee contributions must start at no less than 3 percent in year one, rising to at least 4 percent in year two, 5 percent in year three, and at least 6 percent in year four and beyond. The maximum is 10 percent.

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7 Profit Sharing/401(k) Council of America, 403(b) Plan Survey. 2009.
• An employer matches 100 percent of the first 1 percent of pay and 50 percent from there up to a maximum of 6 percent. As an alternative, the employer can provide a 3 percent non-elective contribution.

• The vesting period on employer contributions must be two years or less.

• Employees must receive required notices regarding the right to opt out, to elect a different deferral rate and investment selection and an explanation of the default investment.

To avoid administering the step increases within the QACA rules, employers may choose to set the initial deferral rate at 6 percent.

Adopting a QACA eliminates nondiscrimination testing for employer contributions.

Employee Notification Requirements
Both the IRS and the DOL require employers to notify eligible employees about the plan and its characteristics when automatic enrollment first occurs, and annually thereafter. The two agencies concur that employers can combine the required information into a single notice. (For a detailed overview of notice requirements, see “Automatic 403(b) Notification Rules.”)

The notice needs to inform employees of the circumstances under which automatic enrollment will occur, when and at what percentage of pay. It must state vesting rules, the employer matching formula and identify the default investment fund. If the ERISA 403(b) plan is an EACA, the notice needs to describe the QDIA, including the fund’s investment objectives, risk and return characteristics and fees and expenses. Further, the notice must inform employees of how they can override any of the plan’s defaults. The notice for EACA plans that offer the 90-day opt out window must describe it.

Employers can meet the initial and annual notice requirements with one document, which can also fulfill the 403(b) requirement of an annual notice of universal eligibility.

Is Automation Right for Your Plan?
The PPA and regulations provide important guidance and welcome regulatory relief to plan sponsors that have wanted to automate their plans. However, is an automatic 403(b) plan right for your organization and employees?

Think about your plan goals. Do you want to increase participation, raise contribution rates or get employees to recognize the value of your plan? Do you want to eliminate nondiscrimination testing for employer contributions? Most of all, do you want to help your employees save enough to secure a comfortable retirement? If so, adding automatic features to your 403(b) plan makes sense.
There are several decision points for certain 403(b) plans. Non-ERISA plans of 501(c)(3) organizations will become subject to ERISA if the automatic plan is adopted; and sponsors of governmental 403(b)s—typically public school districts and state universities—will not have the fiduciary protections afforded by PPA.

PPA officially cleared the way for automatic plan design. IRS and DOL guidance has clarified the how-to’s. Adoption by 401(k) plan sponsors has highlighted what works and what to look out for. It’s now the 403(b) plan’s turn to evolve into a meaningful retirement benefit for millions of participants.
Automatic 403(b) Feature Provides Fiduciary Relief for Plan Sponsors

In the world of ERISA-governed defined contribution plans, plan sponsors have a lot to deal with. An important decision that comes with sponsoring a plan is choosing an appropriate default investment. For example, sponsors find themselves having to deal with contributions where employees have not made specific investment elections. In these cases, most employers have historically chosen capital preservation funds as the default. They perceived these funds as the best way to protect themselves from fiduciary liability for investment losses.

Now, in the post-Pension Protection Act (PPA) world, many plan sponsors select equity-based default investments. This change is a direct response to the passage of PPA and ensuing DOL guidance.

Smart Resource

The Department of Labor’s Employee Benefits Security Administration (EBSA) recently launched outreach and compliance assistance efforts for 403(b) pension plans subject to Title I of the Employee Retirement Income Security Act (ERISA). The initiatives are part of the agency’s ongoing compliance assistance program to help employers, plan officials and service providers, including the growing number of employers offering automatic features. Visit: www.dol.gov/ebsa/403b.html

The Current Landscape

Under today’s rules, plan sponsors qualify for fiduciary relief for investment losses if the default investment is a Qualified Default Investment Alternative (QDIA). Even with QDIAs, though, plan sponsors are still responsible for the prudent selection and monitoring of plan investment options. Also, employers must provide employees notice in advance of the first investment of automatic contributions, and yearly thereafter.

The focus of the new guidance is on default investments in plans with automatic design. (See “Automatic 403(b) Basics—What You Need to Know” for an overview.) However, it is applicable also to default investments in traditional plan design.

To qualify for fiduciary relief, sponsors need to offer participants the chance to direct their own investments, and the participants must fail to do so. If the participants are defaulted into a QDIA, sponsors qualify for the relief.
A condition for fiduciary relief is that employees must fail to choose their own investment when offered the opportunity to make an affirmative investment choice.

Accepted QDIAs

The regulations do not identify specific investment products, but rather types of investment funds. Default investments that qualify as QDIAs include mutual funds or investment options within an annuity contract holding life cycle funds, balanced funds and managed accounts. A fourth type—capital preservation funds offered within mutual funds or investment options within an annuity contract—is acceptable only as a temporary holding place for contributions.

A life cycle fund or model portfolio, also known as a target retirement date fund, contains a mix of investments based on a participant’s age and expected retirement date. The investment mix becomes more conservative as the participant gets closer to retirement, usually by shifting assets out of mutual funds or an annuity’s pooled separate accounts with underlying investments in stocks and into underlying investments with a higher concentration of bonds.

A balanced fund or model portfolio is a blend of investments that seeks both principal preservation (such as money market funds held for investment within a mutual fund or annuity) and capital growth (like stock funds held for investment within a mutual fund or annuity) based on the plan’s participant demographics as a whole.

A managed account is essentially a modeled portfolio where an investment manager chooses investments available in the plan based on an individual’s age, target retirement date or life expectancy.

A plan sponsor may elect to use a capital preservation fund for the QDIA as long as the sponsor transfers amounts invested in it to one of the other QDIA fund types within 120 days of deposit. The DOL added this option to accommodate plan sponsors wanting to simplify administration for workers that opt out.

Additional Provisions

The DOL’s final rule clarified that plan sponsors may offer a QDIA through a variable annuity contract or other pooled investment funds. It also clarified that ERISA supersedes state laws that would otherwise prohibit or restrict automatic contribution plans.

The fiduciary protection that comes with QDIA selection is contingent in part on providing initial and annual notification to employees.
Employees must receive *initial* notice at least 30 days prior to plan eligibility or the first QDIA investment. Employees may receive the notice on the date of plan eligibility if the plan permits penalty-free withdrawals within the first 90 days. The *annual* notice must occur at least 30 days in advance of the start of each plan year.

The notice needs to describe the circumstances under which the plan directs contributions to a QDIA. It has to explain the participant’s right to direct the investment. It also needs to describe the QDIA and how to move assets to other investments. The notice must identify how participants can get information about other plan investment options. (See “Automatic 403(b) Notification Rules” for more detail on these requirements.)

Plan sponsors have to notify participants before contributions go into the default investment, and before the start of each plan year.

The sponsor is required to make fund prospectuses and other investment materials available to participants and beneficiaries. Further, automatically enrolled participants need to have the same opportunity as other participants to transfer assets within the plan without financial penalty. Finally, the plan must offer a broad range of investment alternatives by offering a diverse lineup of mutual funds and/or investment options within an annuity contract.

**The Movement to Automatic Plan Design**

PPA and the regulations that followed have led to a dramatic increase in the adoption of automatic plan design by private sector 401(k) plans. Forty percent of 401(k) plan sponsors have instituted automatic plan features.\(^8\) Now that recent and significant changes in the rules that govern 403(b) plans generally have been finalized, expect to see an upward trend in 403(b) automatic plan design, too.

If you are considering automatic plan design, seek out organizations that have gone before you to learn from their experiences. Talk with your plan service providers about your options. And refer to [www.retirementmadesimpler.org](http://www.retirementmadesimpler.org) for help and insights. The site intends to encourage automatic plan design adoption. It is a collaborative effort of AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP).

Once you have looked into the benefits and opportunities to your organization and your employees, you may find little reason not to adopt automatic plan features.

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**Automatic 403(b) Plans**

**What Your Employees Need to Know**

The Pension Protection Act (PPA) and subsequent regulations guide the automation of defined contribution plans. With this guidance, plan sponsors can automatically enroll new hires and non-participants into the plan at a set contribution rate. Sponsors gain protection from fiduciary liability if they choose an appropriate default investment fund. And they are eligible to eliminate nondiscrimination testing on employer contributions if they elect a safe harbor design. (See “Automatic 403(b) Basics,” for an overview of automatic plan features and regulations.)

Automatic plan design requires compliance with the IRS and U.S. Department of Labor (DOL) employee notification rules. Sponsors may send separate notices, or they can combine the information required from each agency into a single document. Either way, employees must receive notice generally before eligibility, and before the start of each plan year.

**IRS Notice Requirement**

PPA and resulting IRS regulations created Eligible Automatic Contribution Arrangements (EACAs) and Qualified Automatic Contribution Arrangements (QACAs). IRS regulations require plan sponsors of ERISA 403(b) plans to provide initial and annual notice under both plan types.

“EACA” plan design meets the DOL rules for the default investment fund. An EACA may allow penalty-free employee withdraws within the first 90 days following the initial contribution.

A “QACA” plan design provides a safe harbor from IRS nondiscrimination testing for employer contributions.

- Under the regulations, ERISA Automatic 403(b) Plan sponsors must provide employees with the *initial notice* upon date of hire or at least 30 days in advance of investing contributions into the default investment fund and at least 30 days in advance of each subsequent plan year.

Plans with immediate eligibility can notify new hires “as soon as practicable” following the eligibility date. Plan sponsors need to provide annual notice 30 days prior to the start of each plan year.
The IRS requires the notification to include:

- an explanation of the circumstances under which contributions will be made for the participant;
- the amount of the contribution;
- the participant’s right to select a different contribution amount, or to opt out of contributing; and
- information on the default investment fund in the event the participant does not select an investment.

The notice for QACA plans also needs to include information on the safe harbor design, including the employer match and vesting rules.

For EACA plans that permit penalty-free contribution withdrawals within 90 days following the first contribution, the notice must include this information.

Department of Labor Notice Requirement

As a result of PPA, the DOL established guidance for plan sponsors on default investments. Sponsors of an ERISA 403(b) that adopt a Qualified Default Investment Alternative (QDIA) generally receive protection from fiduciary liability in the event of investment losses. Protection is contingent in part on providing initial and annual notification to employees about the QDIA.

Employees must receive the initial notice at least 30 days prior to plan eligibility, or at least 30 days before the first QDIA investment. Employees may receive the notice on the date of plan eligibility if the plan permits penalty-free withdrawals within the first 90 days. The annual notice must occur at least 30 days in advance of the start of each plan year.

The notice must include:

- a description of the circumstances under which participant contributions are directed to the QDIA;
- an explanation of the participant’s right to direct the investment;
- a description of the QDIA that includes the fund’s investment objectives, risk and return characteristics, and fees and expenses;
- a description of the participant’s right to move assets from the QDIA to other investments in the plan, including related restrictions, fees or expenses; and
- an explanation of how participants can obtain information about other investment options in the plan.
Single Notification Option

The IRS and DOL allow a single initial and annual notice that covers requirements of both agencies for automatic plans that include QDIAs. This notice can also fulfill the 403(b) requirement of an annual notice of universal eligibility. You can find a sample notice that meets both the IRS and DOL guidelines on the IRS website, at www.irs.gov/pub/irs-tege/sample_notice.pdf.

Approved Ways to Provide Notices

Both the IRS and the DOL permit plan sponsors to provide the notice in hard copy or electronically, consistent with existing regulations on how these media may be used. The regulations specifically prohibit communicating these notices within the Summary Plan Description or Summary of Material Modification. This differs from the proposed rule, which would have permitted communicating the notices through these documents. In its final rule, the DOL raised concern that participants could easily overlook notices within these documents.
What to Look For in an Automatic 403(b) Plan Service Provider

You’ve read all about automatic 403(b) plans. You’ve considered the implications of adding automatic features, and have come to the decision that it’s the way to go. You’ve made a strong business case to management, and they’ve agreed that it’s time to move forward. So now what?

Your next step is finding the right service provider. Chances are your current plan vendor supports automatic features. Alternatively, you may choose or need to work with a separate vendor. For small and mid-size employers it’s important to find a provider that will offer a turnkey approach. Like most employers of this size, you may have only a few people handling all human resources and benefits functions. Your provider needs to do the heavy lifting, and many of them are equipped to do just that. The challenge you have is finding the right one.

Take note that choosing a service provider for your plan is a fiduciary action, so you need to undertake any provider-related decision with great care. This publication focuses mainly on assessing a provider’s ability to administer automatic plan features. The fiduciary decisions regarding selection, retention or replacement of plan service providers involve many other important considerations not covered in this publication—such as quality, accuracy and reliability of recordkeeping and other administrative services; ability to assist with participant communications and respond to participant questions; assistance with legal and regulatory compliance; level of fees and expenses; and other considerations.9

Sizing It Up

Large plans have led the way in adopting automatic plan features. Their plan service providers typically have ample staff and technological capability to manage the transition and ongoing administration. Plus, large employers often have dedicated in-house benefits professionals to manage the plan.

This isn’t usually the case with small- and mid-size plans. The service teams may be smaller and the organization is investment in technology may be less than that of large providers. Plus, you may be a staff of one on your side of things. So, put time and effort into finding a provider that can meet your needs with minimal input from you. It will save you time and effort in the long run.

Checking Them Out

Here are some questions to ask when interviewing potential automatic 403(b) plan service providers, whether it’s your existing provider or one you haven’t yet worked with:

1. **Is your plan in the provider’s core market?**
   - If the provider mostly works with smaller employers, make sure it has the experience and the staff to serve your plan’s needs. If the provider works mostly for very large organizations and devotes most of its staff time and resources to the large plans, make sure you won’t be short-changed.

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2. **What has the provider’s experience been with automatic 403(b) implementation?**
   Ask how many plans they have experience with in implementing automatic features, which features in particular, and ask about outcomes to date, such as participation rate increases. Find out if they have experience in enrolling existing employees, and their process for it. Ask if they can support automatic deferral increases.

3. **How does the provider handle specific administrative functions?**
   Look for technology capabilities to streamline the auto-enrollment process, to return contributions to employees who opt-out within the 90-day window allowed by the Pension Protection Act of 2006 (if you choose to give employees that option) and to automatically enroll existing employees who are not participating.

4. **What audit procedures exist to ensure accuracy of the automatic features?**
   Find out their process for ensuring they are automatically enrolling the right employee groups at the right levels.

5. **What specific procedures does the provider have in place to ensure compliance with the Pension Protection Act of 2006 and related regulations?**
   Ask about the provider's approach to updating plan documents and receiving regulatory approvals. Find out if the provider manages the notification requirements related to automatic enrollment. Ask what process the provider will undertake to return contributions to employees who opt out within the allowable timeframe.

6. **What assurances can the provider offer that its team will do most of the heavy lifting?**
   If your resources are limited, you want to hear from the provider that the work they take on will be tasks you cannot or do not want to assume. In other words, be sure you get the most effective bang for your buck.

7. **Can you talk to their existing clients?**
   Ask current clients of your size if they are satisfied with the provider. Find out if their workloads have increased. Ask if they feel they have a reliable point of contact with the provider.

**Summing It Up**

By their nature, automatic plans are not difficult to administer. However, you need to find a service provider that is well-equipped to manage the compliance, technology and ongoing administration. By asking these questions, you’ll be well on your way to finding a provider that will meet your needs.
Financial Education in Automatic Plans
As Important As Ever

Defined contribution plan sponsors and service providers have long sought to educate employees about retirement planning and saving. The goal of financial education in the workplace has largely been to change behavior, to make savers and investors out of often disinterested or preoccupied employees. The results indicate that education alone is not enough to create widespread changes in savings behavior. However, when combined with behavior finance strategies such as automatic enrollment and escalation, a well-designed financial education program can help employees not only save more, but save and invest wisely.

A well-structured automatic plan helps solve many long-standing participation challenges. By simply doing nothing, employees become plan participants. Under many arrangements, employees’ contributions grow automatically over time and their money goes into a fund appropriate for long-term investing.

But automatic plan design doesn’t solve every challenge. It gets people past the barriers of procrastination and inertia, but it doesn’t inform them, or addresses the staggering lack of financial literacy among American workers. Financial education does.

Automatic plan design sets a new paradigm for financial education in the workplace. Since the goal of getting employees in the plan can be met largely through automatic enrollment, sponsors can focus on what participants need to know about the value of the plan, and how to use it to achieve financial security in retirement.

A Look Back

Financial education of defined contribution plan participants began to catch on in the mid-1990s. Soon after, the Department of Labor began issuing guidance on permissible education practices in ERISA-covered plans. Much of the early focus was on advising plan sponsors on how to avoid the fiduciary liability that can come with offering specific investment advice.

In recent years, sophisticated investment guidance has replaced generic financial education. Plan sponsors now offer a range of educational materials and resources, from personalized statements and asset allocation modeling tools to one-on-one financial counseling.

Financial Education Best Practices

Successful financial education programs share common traits. First, they don’t rely on a one-size-fits-all approach. Programs geared to employees based on certain characteristics, such as participation status, income level, primary language and others are more effective than those that rely on generic information. The more personalized the message and the materials, the more successful the program.
Second, successful programs are continuous. Simply offering a one-time seminar or sending out a single communication won't accomplish much. Rather, the program should have an extended time horizon and make use of all available communication channels. Many plan sponsors use posters, voice messaging, e-mail, home mailings, seminars, asset allocation tools, intranet sites and even social networking tools to educate, reinforce key concepts and drive action.

One-on-one financial counseling appears to be the most highly regarded by employees, and the most useful. Surveys document the common refrain of, “Tell me what to do.” One-on-one counseling can range from providing basic information on investment classes to setting specific financial goals.

**How Financial Education Can Benefit Your Organization**

The reality of widespread financial illiteracy in the U.S. is well known. Financial education geared to increasing literacy serves many needs, from the individuals and families who will benefit from better decisions, to investment companies who reach more informed and interested investors. The 2009 National Financial Capability Survey found that few Americans appear to be knowledgeable about fundamentals such as basic financial math, the impact expenses can have on return or how to comparison shop for financial products. But how does the employer benefit?

By providing financial education, you are highlighting the value of your 403(b) plan. As employees’ understanding of the plan’s value grows, appreciation of their employer and their job tends to grow, too. In fact, a Prudential study found that effective communication can have as much of an impact on worker satisfaction with benefits as the range of benefits offered.

A 2009 survey of chief financial officers found that employee concerns over personal finances have an impact on the working environment and on their organizations. The survey also revealed that employees are increasingly looking to their employers for guidance on retirement savings, and to a lesser extent, financial planning in general. Organizations that seek to meet these needs gain the benefit of more financially confident workers who have a greater appreciation for their employer.

**Help When You Need It**

You may feel you simply lack the resources to launch and sustain a thoughtful financial education campaign. Fortunately, you don’t have to do it alone. AARP, the Financial Industry Regulatory Authority (FINRA), and the Retirement Security Project (RSP) are pooling resources and expertise to help improve retirement saving among American workers. This document is part of the effort. You can find a wealth of educational information and support, including sample communications, at [www.retirementmadesimpler.org](http://www.retirementmadesimpler.org).

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Good plan service providers also offer robust educational campaigns and can be helpful in providing guidance about what to communicate, and how best to do so.

That path to financial security in retirement is paved with informed decisions. Financial education helps your employees better understand the value of the 403(b) plan, and when coupled with inertia-busting automatic plan design, can put them on a path to financial security.
Resources

Retirement Made Simpler
www.RetirementMadeSimpler.org

The Pension Protection Act
Employee Benefits Security Administration PPA Page
www.dol.gov/EBSA/pensionreform.html

Department of Labor Employee Benefits Security Administration Outreach and Compliance Assistance
www.dol.gov/ebsa/403b.html

FSLG Toolkit
Concise guide to the basic requirements for compliance with Federal tax laws in major areas of interest to governmental organizations
www.irs.gov/egov/fslg/article/0,,id=158481,00.html

Default Investment Alternatives under Participant Directed Individual Account Plans; Final Rule
Federal Register. 29 CFR, Part 2550
www.dol.gov/ebsa/regs/fedreg/final/07-5147.pdf

U.S. Department of Labor; Sample Automatic Enrollment and Default Investment Notice

Meeting Your Fiduciary Responsibilities
U.S. Department of Labor
www.dol.gov/ebsa/publications/fiduciaryresponsibility.html
www.dol.gov/ebsa/pdf/fiduciaryresponsibility.pdf

Regulation Relating To Qualified Default Investment Alternatives In Participant-Directed Individual Account Plans
U.S. Department of Labor, Employee Benefits Security Administration
www.dol.gov/ebsa/newsroom/fsqdia.html

Automatic Contribution Arrangements, Final Regulations
Department of the Treasury, Internal Revenue Service

Field Assistance Bulletin No. 2008-03
Employee Benefits Security Administration, Department of Labor
Sample Employee Notice of Automatic Enrollment

- Employers are required to send a notice to all 403(b)-eligible employees who will be automatically enrolled in the plan. You must also send a notice annually.

- This communication can be in print or electronic form. It cannot be part of the Summary Plan Description or Summary of Material Modifications utilized by an ERISA 403(b) Retirement Plan.

- Employers need to provide employees with the initial notice “within a reasonable amount of time” before the date the first contribution will be deferred from the participant’s salary. For new employees, the notice can be provided on the date of employment or as soon as practical thereafter, but always 30 days in advance of investing the first contribution in a Qualified Default Investment Fund (QDIA).

- The annual notice must be provided 30 to 90 days prior to the start of each plan year.

- Customize items in [green] to reflect your specific plan details. Some portions may not apply to your specific plan, so delete these sections (for example, automatic contribution increases). Refer to Sample IRS Notice www.irs.gov/pub/irs-tege/sample_notice.pdf

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403(b) Plan Automatic Enrollment

[Initial or Annual] Notice

[Organization] automatically enrolls eligible employees to our 403(b) plan as a way to help them save toward a financially secure retirement.

If you already participate in our 403(b) plan, congratulations! This notice may not apply to you.

Contribution Amount

If you did not complete an enrollment form to participate in our 403(b) plan, [Organization] automatically enrolled you starting with your first paycheck on or after [effective date].

Each pay cycle, your pre-tax automatic contribution is [x percent] of compensation as defined by the plan. You can change this amount or decide not to participate at any time. Simply [call/e-mail/go online] to complete and submit a [Name of Form].

[For initial notice and if plan offers 90-day withdrawal window]: If you decide you don’t want to save through the plan, you can decline automatic enrollment. Simply let us now by [by sending an e-mail / calling/ going online to…]. You have 90 days after contributions start to inform us, and we will return your contributions (adjusted for any investment gains or losses) in a future paycheck. You will lose any employer matching contribution we made up to that point. The amount we return is taxable income.

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Retirement Made Simpler™
Our automatic enrollment process features a regular increase in your contribution amount. This helps you increase your retirement contributions over time without having to think about it. Your contribution amount automatically goes up [1 percent] a year each year, until it reaches [10 percent] of pay.

You immediately vest in your contributions (this means you “own” your contributions and any gains or losses associated with them) to the plan. If you choose to leave [Organization], you can roll your contributions into the new employer’s retirement savings plan or an IRA.

**Organization Contributions**
[Organization] contributes to your 403(b) plan, too. For every dollar an active participant contributes through salary deduction, we contribute [dollar for dollar up to 3 percent of pay].

While you immediately vest in your own contributions, you earn the right to the full employer contribution once you reach [two years of service with us].

Here’s an example of how the match works. Catherine earns $2,500 each pay period. Her automatic contribution to our 403(b) plan is [3 percent] of her paycheck each pay period, or [$75]. [Organization] contributes another [$75] each pay period as the matching contribution. This makes Catherine’s total savings [$150] per pay period in her first year of participation. [Employer Note: Providing an example is required by law.]

**Default Investment Fund**
As part of the automatic enrollment process, your contributions, earnings, and employer contributions automatically go into [Default Investment Fund]. You can change this investment by [calling/e-mailing/going online]. There is no fee for changing your investment selection. [Note here if the plan restricts the number of times a participant may change funds.]

[If target date fund]: The [Default Investment Fund] holds a diversified mix of stocks and bonds. This mix shifts from riskier investments to more conservative investments as your target retirement date draws closer.

[If balanced fund]: The [Default Investment Fund] holds a mix of stocks and fixed income assets. The holdings do not vary based on participants’ age or retirement date.

[If other, explain here].

**Fund Characteristics**

- The fund’s investment objective is [state the objective from the prospectus].
- [Describe the fund’s risk and return characteristics [insert from prospectus]].
- [State the fund’s fees and related expenses [insert from prospectus]].
The [Default Investment Fund] is a good investment for many participants, but you should consider your personal circumstances to invest in the fund(s) that best serve your needs. Our 403(b) plan has [x] fund options for you to choose from. To review the investment options and obtain information on them (through each fund’s prospectus), [go online/call]. [If your organization offers calculators or other tools to help people determine the right investment mix, reference them here and tell readers how to access them.]

To learn more about how our 403(b) plan works, [go online/ see…] for the Summary Plan Description.

Saving for retirement may be one of the most important financial goals you will ever have. Our goal with automatic enrollment is to help you achieve it.
**Sample Letter for New Hire Kit**

- If your organization provides a package of materials to new hires, consider this sample letter as a component to explain the nature of the Automatic 403(b) Plan.

- Contributions amounts and example assumes a $1 for $1 contribution up to 3 percent of compensation as defined by the plan.

- Customize items in [green] to reflect your specific plan details.

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Welcome to [Organization]!

We strongly encourage you to save for retirement through our 403(b) retirement savings plan. It is never too early to start saving for retirement, but it can be too late if you put it off too long.

To help you take advantage of the benefits of saving through the plan, we automatically enroll each new hire. You don’t have to fill out any forms or worry about any deadlines.

Your pre-tax contribution is set at [3 percent] of compensation as defined by the plan beginning with your [first] paycheck. [Employer] also makes a matching contribution. We contribute [dollar for dollar up to 3 percent of your compensation as defined by the plan]. Your contributions and our match automatically go into [Default Investment Fund].

Here’s an example that shows how saving in our 403(b) plan works:

Catherine earns $2,500 a month. Her automatic contribution to our 403(b) plan is 3 percent of her paycheck, or $75. [Organization] contributes another $75 a month as the matching contribution. This makes Catherine’s total monthly savings $150.

[At any time], you can change how much you contribute or select different investment options. If you decide you don’t want to save through the plan, you can decline automatic enrollment. Simply let us know by [sending an e-mail / calling / going online to…]. [If applicable: You have 90 days after contributions start to inform us, and we will return your contributions (adjusted for any investment gains or losses) in a future paycheck. You will lose any employer matching contribution we made up to that point. The amount will be taxable as income.]

It’s important for you to save as much as you can in the 403(b) and review your investments from time to time, especially when personal circumstances change. The amount of your automatic contribution and any employer match is not intended to signal the appropriate amount for your circumstances. [Use the tools and information we provide to help you make decisions that are specific to your needs and circumstances.] [Identify where to go to make changes in contribution amounts and investments, provide location of newsletter, statements, web site, seminars, etc.]
You can learn more about how our 403(b) plan works by reviewing the Summary Plan Description¹, available through [identify how and where to access plan document].

Saving for retirement is one of the most important financial goals you may ever have. [Organization] is proud to help you meet it.

¹Assumes this is an ERISA Plan
Sample Voice Mail Script: Automatic 403(b) Launch

Time: 1 minute

- If your organization is able to reach employees through voice mail, consider this sample message as one means to communicate about the addition of automatic features to your 403(b) plan.

- It’s a good idea to follow-up with an e-mail message with additional detail. See “403(b) e-mail script announcing auto enrollment” for a sample message.

- Customize items in [green] to reflect your specific circumstances.

This is [Senior Executive] with a message to employees who are eligible for our 403(b) retirement savings plan. In an effort to help our people build savings for retirement, we are automatically enrolling eligible employees who aren’t now contributing to the plan. If you already participate, congratulations on successful planning for your retirement security. [Add details of automatic escalation, if your company offers this feature.]

You may ask why we’re doing this. We have two reasons. The first is that we care about your retirement security, and we anticipate auto enrollment will help break down any barriers you may perceive in signing up for the plan. Our 403(b) is a valuable benefit, and we want you to take advantage of it.

Second, we’ve studied the experiences of other organizations who have adopted automatic enrollment for their employees. They’ve had great success in getting more people saving for retirement, and their employees appreciate the help.

For those of you who choose not to save through our plan, you will have the opportunity to opt out. We hope you won’t, though.

I’m very pleased to share this news with you. Keep an eye out for information that will explain this benefit in more detail.

Thanks, everyone.
Sample E-Mail Script: Automatic 403(b) Launch

Send this after voicemail from key leader

To: 403(b)-eligible employees
From: Senior Executive
Subject: Saving for retirement just got easier!

I am pleased to announce enhancements to our 403(b) retirement savings plan. Starting [date], we will automatically enroll eligible employees who have not already elected to contribute to the 403(b) plan.

Our 403(b) plan provides a great way to invest for retirement on a pre-tax basis. And with automatic enrollment, all eligible employees become savers without having to deal with any paperwork.

If you already contribute to the plan, nothing will change for you. But if you don’t currently participate, this is what will happen:

- You’ll receive written notice about this new feature. It will let you know what percent of pay will automatically go into the 403(b) plan, and which investment fund your contributions and our matching contribution will go into. You can choose a different contribution amount, other investment fund(s), or decline to participate.

- [If applicable: You will have 90 days after we enroll you to decide not to participate. Simply notify us [by sending an email/calling/going online to...] and we will return your contributions through your paycheck. You will lose any employer matching contribution we made up to that point, and the amount will be taxable income. You may also incur fees related to your investment, such as management and administrative fees.]

This is a great opportunity to jump-start your retirement saving. It’s never too early to start. Plus, you’ll get the benefit of our matching contribution of [X for every dollar you contribute up to Y percent of your compensation as defined by the plan].

It’s still important that you pay attention to your 403(b) account, save as much as you can, and learn about investing. Review your investments from time to time—especially when personal circumstances change. [Use the tools and information we provide to help you make decisions about planning and saving for retirement. Identify materials and location: newsletter, statements, website, seminars, etc.]

You can learn more about our 403(b) plan by reviewing the Summary Plan Description¹, which is available by [calling/ going online to/e-mailing...].

We encourage you to make the most of your participation in our 403(b) plan. It’s a valuable benefit, and we are pleased to help get you on a path to make the most of it.

¹Assumes this is an ERISA Plan
Sample Notice of Qualified Default Investment

- Automatically enrolled employees must receive prior notice regarding the default investment. You must also send a notice prior to the start of each plan year.

- This communication can be in print or electronic form, and stand on its own. It may not be part of the Summary Plan Description or Summary of Material Modifications.

- Employers need to provide the initial notice to employees upon date of hire or at least 30 days in advance of investing contributions into the default investment fund and at least 30 days in advance of each subsequent plan year.

- Employers also need to provide this notice at least 30 days prior to the start of each plan year.

- Customize items in [green] to reflect your specific plan details.

Your Automatic 403(b) Investment: [Default Fund]
[Initial or Annual] Notice

[For the annual notice, insert the following: You are receiving this notice to inform you how your 403(b) plan contributions are being invested if you have not provided investment instructions. If you have provided instructions, this notice does not apply to you.]

[Organization] automatically enrolls eligible employees in our 403(b) plan as a way to help them save toward a financially secure retirement. (For information on how automatic enrollment works, see “403(b) Plan Automatic Enrollment Notice.”)

If you provided investment instructions for contributions to the plan, your retirement savings are not considered to be held in a “default fund” and this notice may not apply.

As part of the automatic enrollment process, your contributions, earnings and employer matching contributions will be [for annual notice: are] automatically invested in [Default Investment Fund]. You can change this investment [for initial notice: before contributions begin] by [calling/go online], or at any other time. There is no fee to change your investment selection. If you take no action, all contributions and earnings will be invested in [Default Investment Fund].

About the [Default Investment Fund]
[If target date fund]: The [Default Investment Fund] holds a diversified mix of stocks and bonds. This mix shifts from riskier investments to more conservative investments as your target retirement date draws closer.
[If balanced fund]: The [Default Investment Fund] holds a mix of stocks and fixed income assets. The holdings do not vary based on participants’ age or retirement date.

[If other, explain here].

**Fund Characteristics**
The fund's investment objective is [state the objective from the prospectus]. [Describe the fund’s risk and return characteristics [insert from prospectus]]. [State the fund’s fees and related expenses [insert from prospectus]].

**How to Choose Other Investments**
The [Default Investment Fund] is a good investment for many participants, but you should consider your personal circumstances to invest in the fund(s) that best serve your needs. Our 403(b) plan has [x] fund options for you to choose from. To review the investment options and obtain information on them, [go online/call]. [If your organization offers calculators or other tools to help people determine the right investment mix, reference them here and tell readers how to access them.]

Saving for retirement may be one of the most important financial goals you will ever have. Our goal with automatic enrollment is to help you achieve it.
**Sample Newsletter Article**

**Key Ways You Benefit from Our Automatic 403(b) Plan**

As you’ve heard and read, [Organization] has improved our 403(b) plan by making it “automatic.” The plan is a great retirement saving resource. Automatic enrollment helps assure you are getting the advantages that come with our plan.

Here are some important advantages:

1. **Completing an item on your “to-do” list.** By automatically enrolling employees to our 403(b) plan, we’re helping cross off a nagging “to do”—signing up for the plan. Employees tell us they’ve meant to sign up, but they keep putting it off because of other pressing demands. With automatic enrollment, nothing can get in your way of participating in our plan. Unless of course, you decide to opt out of the plan and decline participation. We hope you won’t decline, but you do have that option.

2. **Tax deferred saving.** Your contributions to our 403(b) plan are not included in your taxable income. For example, if you make $30,000 a year, and contribute $1,500 (5 percent of your salary) to our plan, your taxable income is $28,500. The most you can contribute in tax year 2010 is $16,500. Your contributions, employer match and investment earnings grow tax-free until you withdraw them in retirement.

3. **An array of investment options.** You can choose from [x] investment options in our plan. While we’ve carefully selected the options that comes with automatic enrollment, other options may better meet your specific needs. Learn more about the investment options at [source].

4. **Help with a major financial goal.** Saving for retirement is probably the largest financial goal you will ever have. Financial experts suggest saving 10 percent or more of salary to meet retirement income needs. You want as much help reaching your goal as possible. The 403(b) provides a great assist, with its tax advantages and automatic saving.

Even though participation in our 403(b) plan is automatic, it’s still important that you pay attention to your account, save as much as you can, and learn about investing. If you make changes to your investment elections, be sure to obtain and read any applicable investment prospectus. Review your investments from time to time—especially when personal circumstances change. [Use the tools and information we provide to help you make decisions about planning and saving for retirement. Identify materials and location: newsletter, statements, web site, seminars, etc.]

You can learn more about our 403(b) plan by reviewing the Summary Plan Description, which is available by [calling/going online to/e-mailing…].

We encourage you to make the most of your participation in our 403(b) plan. It’s a valuable benefit, and we are pleased to help get you on a path to make the most of it.
Sample Opt-Out Form: Automatic 403(b) Plans

- If your vendor does not have a process in place for handling automatic enrollment opt-outs, you can provide this form to employees eligible for automatic enrollment. Several service providers use the existing enrollment form and request employees who opt out to indicate “$0” for contribution amounts.
- You may provide it in hard copy or electronically.
- If you have a process in place for accepting electronic signatures, you could allow employees to return this form electronically, either as an e-mail attachment or online.
- Customize items in [green] to reflect your specific circumstances.
- Consider disclosing the potential for expenses related to investment management, service or administration.

**Automatic 403(b) Opt Out Form**
Submit this form ONLY if you choose not to participate in the [Organization] 403(b) plan.

This form serves as a notice to [Organization] that you wish to decline enrollment in the 403(b) plan at this time. Please complete the form, sign it, and return it to [provide instructions]. If you decide to enroll on your own later, simply [provide instructions].

By checking these boxes and signing this form, you acknowledge the following:
☐ I have read the terms of participation in the [Organization] Automatic 403(b) plan. I decline enrollment at this time.
☐ [If applicable] If contributions from my salary have already begun, [Organization] will return this amount to me through my paycheck, and the amount will count as taxable earnings.
☐ [If plan permits 90-day penalty-free withdrawal window] I understand that I have 90 days from the first contribution to request a refund and not incur a 10 percent early withdrawal tax penalty. I understand that after this window, I may incur a 10 percent penalty.
☐ I forfeit any matching contributions that [Organization] made on my behalf following automatic enrollment because of my choice to decline participation.
☐ [Organization] may provide notice of intent to enroll me in the 403(b) plan in the future. I understand I will have the option to remain in the plan or opt out at that time as well.

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<th>Print Your Name</th>
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Sample Communication: To Employees Who “Decline” to Participate

- You may think you can’t afford to save for retirement. But can afford not to?
- It’s a big responsibility to save now so you have money to live on when you’re no longer working.
- You might think you can’t afford to save. But even saving a little can help a lot. Here’s an example.

Carolyn is 30 and she earns $30,000 a year. She starts saving 6 percent of her salary each month in the 403(b) plan (or $150). She receives the employer match, which is [dollar for dollar up to 3 percent of compensation as defined by the plan (or $75).] If Carolyn’s investment rate of return averages 7 percent, her account balance would be over $299,000 at age 67.

Maybe you figure you’ll never retire. Did you know that many people who retire early do so because they have to—not because they want to? Personal health issues, family illnesses, death of a spouse, divorce and job loss have surprised millions of people over the years, forcing them to leave the workforce before they were ready. So even if you think you’ll work forever, recognize that you may not have the luxury of making that decision.

Still not convinced you can or should save? As important as it is for you to save, we understand you may decide not to save right now. During the automatic enrollment period, you can tell us you don’t want to participate in the plan by completing an “opt out” form.
YOU’RE IN!
(Our 403(b) Plan, that is.)

✓ You’re now saving [x%] of your paycheck each month for retirement.

✓ We’re adding another [x%] as a matching contribution.

✓ You’re invested in the [name default investment fund].

You can change your contributions and investments at any time. You can even opt out. (But we hope you won’t.)

*Automatic enrollment does not affect any participant who is already in the plan.
AT [ORGANIZATION NAME]  
SAVING FOR RETIREMENT IS AUTOMATIC!

With automatic enrollment in our 403(k) plan, you:
✓ Save [X%] of your pay
✓ Get a company match of [Formula]
✓ Are invested in the [Fund]

Learn more about participating in our automatic 403(b) plan by [Visiting Website/Calling]
Three different organizations, three different missions. Why are we all committed to automatic retirement plans? Because we know that Americans are not saving enough for retirement — and we can help. By combining our resources and expertise, AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP) pool our varied strengths to help employers and their employees save more effectively.