

401(k) Auto-Features Aren't Set-It-and-Forget

By Ary Rosenbaum, Esq.

Auto-enrollment and auto-escalation have become the comfort food of the retirement plan industry—warm, reassuring, and often over-relied upon. Plan sponsors love them because they create a sense that the plan is quietly doing the work for you. Participants are defaulted into saving. Deferral rates rise. And on paper, it looks like progress. But anyone who has ever actually managed a retirement plan knows that the moment you start treating auto-features as a self-driving car, you're on your way to a fiduciary collision. Auto-enrollment and auto-escalation remain two of the most effective plan design features created to increase participation and improve participant outcomes. They are widely promoted as the set-it-and-forget-it solution to retirement readiness. But as any experienced plan sponsor eventually learns, nothing in a retirement plan is maintenance-free. Auto-features don't eliminate fiduciary responsibility, they intensify it. They are powerful tools, but tools that are poorly monitored can cause more harm than good.

The Myth of Automation

One of the most persistent myths in the 401(k) world is that auto-features run themselves. In reality, auto-features create additional layers of complexity. The moment a plan sponsor assumes automation equals accuracy, operational failures emerge. The Department of Labor does not care if a plan sponsor meant well. Compliance is measured in execution, documentation, and consis-

tency, not intention. When sponsors rely on automation without oversight, mistakes multiply, often snowballing into missed deferrals, faulty escalations, delayed notifications, and correction costs that far exceed the minimal effort required to monitor these processes in the first place.

may be skipped, or worse, enrolled incorrectly. Every mistake triggers corrective contributions, lost earnings, and administrative costs. Auto-features expose weak processes quickly because they rely on precision. When that precision breaks down, the fiduciary risk increases sharply, creat-

ing cascading errors that strain service providers, frustrate employees, delay compliance corrections, and ultimately undermine the confidence that plan sponsors hope automation will bring to their retirement plan operations.

The Payroll Problem

Payroll is the engine that powers auto-features, yet it is also the number-one source of plan errors. A single incorrect code can cause widespread miscalculations. Missed deferrals compound over time, and the employer, not the recordkeeper, must correct them. Regular payroll audits, reconciliation with recordkeeper data, and clear accountability between HR and payroll teams are essential. Automation does not replace verification. It demands more of it, because even small oversights can escalate into costly corrections,

participant dissatisfaction, compliance failures, and unnecessary headaches that undermine the entire rationale behind adopting auto-features in the first place.

The Default Rate Dilemma

Many plan sponsors adopt a 3% default deferral rate because it feels safe. But 3%



Where Auto-Features Fail

Auto-enrollment and auto-escalation fail most often where systems meet people: payroll integration, eligibility tracking, and internal communication. If payroll codes are misaligned or eligibility dates are misinterpreted, entire groups of employees

is not a retirement strategy; it is a beginning point with little long-term value. Participants view default rates as endorsements, and most will not increase contributions unless prompted. Auto-escalation helps, but only if monitored. When escalations don't apply on schedule, or apply incorrectly, participants lose out on compounding, and employers inherit fiduciary liability.

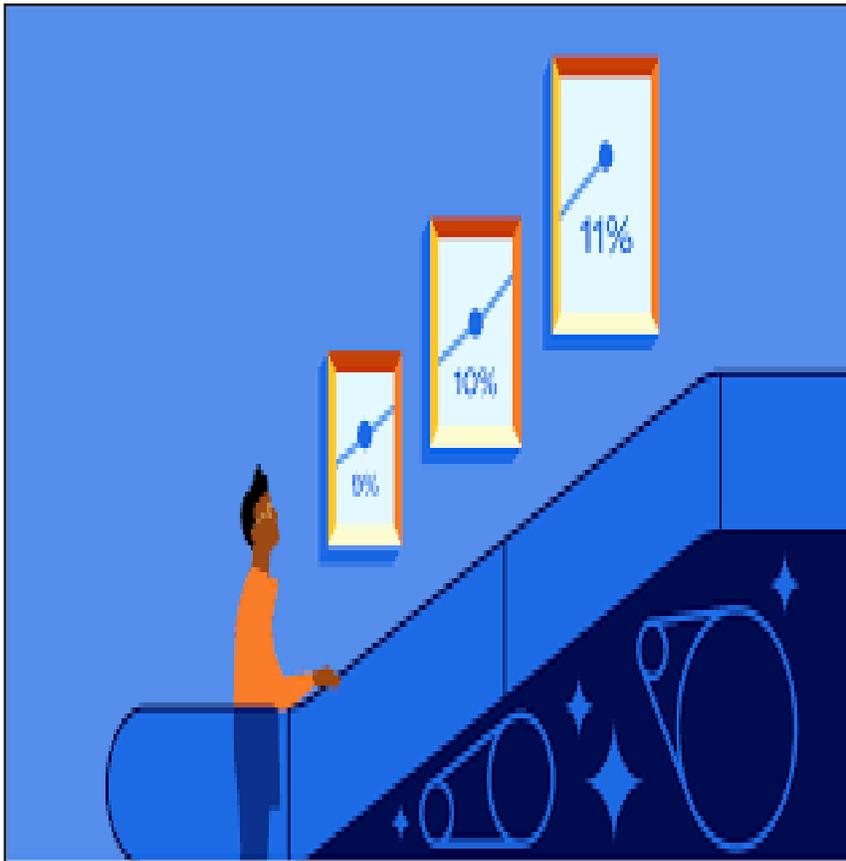
Communication Counts

Participants deserve to know how and why they are being enrolled and why their contributions rise automatically each year. Without communication, auto-features feel intrusive. With transparency, they feel supportive. Plan sponsors should provide simple, consistent

explanations to reduce confusion and avoid unnecessary complaints to HR. Good communication reinforces trust and increases participant engagement, helping employees understand that these features are designed to build long-term savings habits, reduce decision paralysis, and create a smoother, more predictable retirement outcome that benefits them well into the future.

QDIA Oversight Is Still Required

Selecting a Qualified Default Investment Alternative (QDIA) is one of the most significant fiduciary decisions a plan sponsor makes, yet many treat it as a one-time selection. Target-date funds, the most common QDIA, require ongoing review: fees, glide paths, performance, and suitability. Market conditions change, participant demographics shift, and investment lineups evolve. A QDIA needs monitoring just like any other investment option. Automation cannot replace fiduciary diligence, because even the most sophisticated default strategy can drift out of alignment with participant needs or regulatory expectations if sponsors fail to maintain a disciplined, documented review process, ultimately exposing the plan to unnecessary liability while diminishing the very protections a QDIA is intended to provide for disengaged or inexperienced employees who rely on it most.



Strengthening the Plan Through Trust

Participants respond positively when they see their employer actively managing the retirement plan. Strong oversight builds confidence and reduces skepticism. When auto-features work as intended, accurately, consistently, and transparently, participants engage more, contribute more, and rely more on the plan's long-term structure. Trust isn't built through automation. It's built through responsible monitoring of automation.

Conclusion

Auto-features were never designed to operate on autopilot, and plan sponsors who treat them that way invite

Building an Oversight Process

A strong oversight process is the difference between auto-features that work and auto-features that create problems. Sponsors should document a repeatable procedure that includes checking enrollment files, verifying payroll feeds, confirming annual escalations, and reviewing communication timing. Coordination between service providers—recordkeepers, TPAs, advisors, and payroll vendors, is essential. Oversight is not optional; it is a fiduciary requirement and a practical necessity, especially as automated plan functions can spiral quickly without human review, creating avoidable errors, costs, and participant frustrations that undermine plan confidence.

Culture and Engagement Matter

Auto-features thrive in organizations where leadership values financial wellness and communicates regularly with employees. A plan sponsor that reinforces the importance of saving helps participants understand that auto-enrollment is not a passive process but part of a broader commitment to their financial security. Education sessions, ongoing communication, and open dialogue help participants appreciate their plan's design rather than misunderstand it.

operational problems. Auto-enrollment and auto-escalation require oversight, documentation, clear communication, and ongoing collaboration with service providers. These features work best when plan sponsors treat them as strategic tools, powerful, but dependent on proper care. Auto-features may simplify participation, but they don't simplify fiduciary duty. In retirement plans, cruise control still requires hands on the wheel.

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