

NEWS Retirement

# DOL gives go-ahead to auto enrollment in emergency accounts



The regulator issued a set of answers to frequently asked questions addressing contributions, limits and investment types.

January 17, 2024 *By Emile Hallez*



Automatic enrollment might be the single biggest factor that has boosted 401(k) savings over the past 18 years, and it could soon be used to sign up employees for emergency savings accounts.

Wednesday, the Department of Labor issued a set of guidance in the form of [answers to frequently asked questions](#) about pension-linked emergency savings accounts, a workplace benefit that is available this year under [provisions of the Secure Act 2.0](#).

Those accounts differ from the [emergency savings](#) programs that employers have been rolling out for their workers over the past few years. The pension-linked emergency savings accounts, or PLESAs, would be part of the defined-contribution plans companies provide, whereas existing emergency savings accounts are separate from retirement plans.

Whether employers opt to add the new, Roth-style accounts instead of out-of-plan emergency savings programs is a big question, as PLESAs add some complexity that companies may not want to deal with. But PLESAs have some additional benefits that out-of-plan options lack.

“Auto enrollment is the big win. The ability to auto enroll employees at 3 percent with the ability to opt out is a massive win in terms of automating outcomes and enabling employees to save in a frictionless manner,” Laurel Taylor, CEO of workplace student-debt program provider Candidly, said in a statement.

Another significant point the DOL clarified Wednesday concerns matching contributions. If a worker is contributing to a PLESA, that money will count as it would for employer matches in the 401(k) plan, the DOL stated. The account contributions are limited to \$2,500 and count toward the elective deferral limits for tax-qualified accounts, which for 2024 are \$23,000, not including catch-up contributions.

However, because the requirements around the new accounts are complex “and the fact that the PLESA provisions of the SECURE Act 2.0 are optional, it will take time for the industry to prioritize this provision,” Taylor said.

For one thing, the accounts will require separate record keeping from the 401(k) accounts, even while linked to the plan, and that complicates matters for record keepers, she said.

Another limiting factor, which the DOL addressed in its FAQs, is that the investment options for the new emergency accounts must meet capital preservation and liquidity criteria. In most cases, that means that the investment option will be different from the default options used in 401(k)s, which are often target-date funds or managed accounts.

“The immediacy of the funds’ availability is essential to fulfilling and delivery on the promise of relief during a time of emergency,” Taylor said. But “from a behavioral economics perspective, it is not ideal for withdrawals from the retirement savings plan to become the reflex for emergency situations.” For example, participants will need to be aware not to withdraw more than their accounts hold, as excess withdrawals, if coming from the tax-qualified 401(k), carry penalties, she noted.

Generally, the industry has become well-aware of [the need for emergency savings](#), as workers who lack such savings tend to tap into their 401(k)s early when unexpected costs arise. [Surveys](#) have indicated that many Americans are ill-equipped for financial shocks but that building emergency savings is one of their top priorities. Having easy access to savings for emergencies has been seen as a way to encourage more people to participate in employer-sponsored retirement plans.

Big retirement plan record keepers like [Fidelity](#) and Voya have emphasized their emergency savings options for employers, while fintechs like Vestwell and Candidly have been preparing programs for the new accounts made possible by Secure 2.0.

The need also hasn’t been lost on Congress. Amid the Covid-19 pandemic, the CARES Act allowed people to take emergency withdrawals from their accounts of up to \$100,000 without the 10% penalty.

“Continuing with the line of thought, Congress has now seen fit to add PLESAs as an option, and to allow some subsidization for savings even where the savings are not strictly retirement-oriented,” Andrew Oringer, general counsel at the Wagner Law Group, said in an email. “It’s well-intentioned, but by its nature narrowly available.”

The DOL’s guidance came just after the [IRS provided some clarification](#) on PLESAs, outlining eligibility and contribution requirements.

“It’s not clear to me that employers will broadly take the bait, at least given the restrictions of current law,” Oringer said. “Ultimately, we’ll see where it goes, and whether the rules evolve further, but there are real restrictions on investments and real administrative burdens surrounding these new accounts.”

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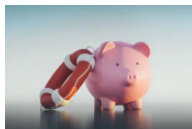
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