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Twenty years later: the Pension Protection Act that changed everything

When Congress passed the Pension Protection Act (PPA) in August 2006, most attention focused on fixing pension funding rules and encouraging greater participation in 401(k) plans. Twenty years later, it's clear that the legislation accomplished far more than that.

Yes, there were changes to better protect pension promises. But more than that, the PPA fundamentally changed how defined contribution plans are designed, how participants save, how fiduciaries approach investment decisions and even how the retirement industry itself operates. Looking back at these changes may help plan fiduciaries identify new opportunities to continue evolving their plans in ways that better support participant retirement outcomes in the years ahead.



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Here's what plan sponsors should know:

- **The PPA made permanent significant retirement enhancements we now take for granted** — The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) raised contribution and compensation limits, created age-50 catch-up contributions, increased Individual Retirement Arrangement (IRA) contribution limits, expanded portability, created the Saver's Credit and authorized Roth contributions in 401(k) and 403(b) plans.¹ Those provisions were scheduled to sunset after 2010. The PPA made them permanent.²
- **The PPA gave automatic enrollment a stronger legal and fiduciary foundation and transformed participant behavior** — Automatic enrollment existed before 2006, but employers faced uncertainty about state wage-withholding laws and the fiduciary consequences of investing contributions for participants who made no affirmative investment election. The PPA addressed those concerns and created frameworks for automatic enrollment, automatic escalation and qualified default investment alternatives (QDIAs).
- **The PPA changed the importance of the default** — Before the PPA, much of the investment discussion centered on constructing a prudent menu for participants who made their own investment elections. The PPA and subsequent QDIA regulations elevated the importance of what happened when participants made no election at all. Target-date funds (TDFs), balanced funds and professionally

managed accounts could provide diversified investment strategies while offering fiduciaries protection from liability for investment outcomes when the QDIA requirements were satisfied.

- **The PPA changed expectations, not just practices** — Perhaps the PPA's most enduring contribution was establishing a different philosophy of plan design: Instead of simply giving participants choices and waiting for them to act, plans could be designed to help participants make better decisions or benefit from better defaults when they made no decision at all. Much of the innovation that followed has built on that foundation.

It's easy to forget what the retirement plan landscape looked like before the PPA. Automatic enrollment existed, but relatively few employers used it. Employers also faced uncertainty about whether state wage-withholding laws permitted contributions to be deducted without an employee's affirmative election and participation rates tended to land between 66% and 75%. TDFs were available, but many fiduciaries questioned whether defaulting participants into investments without affirmative elections created unnecessary liability. Stable value or money market funds were the typical default.

Congress recognized that behavioral economics mattered. People procrastinate. They become overwhelmed by too many decisions. Many never get around to enrolling or increasing contributions. Rather than trying to change human nature, the PPA encouraged plan designs that worked with it.

Twenty years of change(s)

The effects have been profound. Here's how things have changed since passage of the PPA, both the outcomes and the expectations.

Participation

Automatic enrollment dramatically increased participation rates, particularly among younger workers, lower-income employees and minority populations—groups that historically had lower participation levels. The adoption numbers illustrate the shift. Before the PPA, automatic enrollment was largely confined to a relatively small group of pioneering employers. Today, most large plans (and nearly two-thirds of all plans) either utilize automatic enrollment or are implementing it for new hires and the SECURE 2.0 Act has effectively made automatic enrollment the default expectation for many newly established plans.³ Indeed, the basic insight behind automatic enrollment (that inertia can be harnessed rather than fought) has since spread well beyond ERISA plans, including to state-facilitated automatic IRA programs.

Saving more

The impact of automatic features extends beyond participation. Automatic escalation provides a mechanism for participant contribution rates to increase gradually over time rather than remaining frozen at the initial default rate. Today, industry surveys regularly report average total participant and employer contribution rates around 12%, considerably higher than the initial default rates commonly associated with early automatic enrollment programs.

1. This term incorporates both an individual retirement account under IRC section 408(a) and an individual retirement annuity under IRC section 408(b).

2. Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, 115 Stat. 38 (2001).

3. Plan Sponsor Council of America, "Annual 401(k) Survey," accessed August 11, 2026, <https://www.psc.org/industry-content/surveys/annual-401k-survey/>.

Better investment diversification

Perhaps no statistic better illustrates the PPA's influence than the growth of TDFs. In 2006, 32% of large 401(k) plans offered TDFs; this increased to 89% of plans in 2021. Similarly, the percentage of participants who were offered TDFs increased from 42% of participants to 85% between 2006 and 2021 and the percentage of assets invested in TDFs increased from 3% to 29%.⁴

Additionally, innovations like managed accounts (also contemplated in the Department of Labor's QDIA regulations) are expanding the innovation trend.⁵

Significantly, the QDIA framework did more than solve the problem of where to put contributions when participants failed to make an investment election. It helped normalize professionally constructed, diversified portfolios as the default, providing a mechanism for periodic asset allocation, rebalancing and—in the case of managed accounts—greater participant-level personalization.

A direction for future plan design

Possibly the most enduring influence of the PPA was the plan design philosophy it helped validate. Rather than relying exclusively on

participants to enroll, make savings decisions and choose appropriate investments, the PPA provided a framework for using automatic enrollment, automatic escalation and diversified default investments to put inertia to work on participants' behalf.

Subsequent legislation has built directly on that foundation. The SECURE 2.0 Act requires most newly established 401(k) and 403(b) plans to automatically enroll eligible workers and automatically increase their contribution rates over time. Other developments, including emergency savings provisions, student loan matching and an increased emphasis on retirement income, reflect a broader willingness to design plans around how participants actually live and behave rather than simply providing them with choices.

Its greatest achievement may not have been any single provision. Rather, it changed the industry's mindset from relying primarily on participant initiative to recognizing that thoughtful plan design can help people make better financial decisions almost by default.

In that sense, PPA didn't just change plan design in 2006. It helped establish the direction plan design would take for the next 20 years and beyond.

Action items for plan sponsors

Twenty years after the PPA, plan sponsors should ask whether their plans have fully embraced the opportunities the legislation created and continue to evaluate how this evolution will influence the plan's future changes.

- Review whether automatic enrollment and automatic escalation remain appropriately designed
- Periodically review the plan's QDIA and document the fiduciary process supporting its selection
- Evaluate whether participants are making appropriate use of automatic features or opting out unnecessarily
- Review participant communications to help them reinforce long-term savings behaviors
- Consider whether retirement income, emergency savings and financial wellness initiatives complement the plan's overall objectives
- Review the positioning of Roth provisions, including the SECURE 2.0 Roth catch-up requirement for affected higher-paid participants



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4. BrightScope and Investment Company Institute, The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2021 (San Diego, CA: BrightScope, and Washington, DC: Investment Company Institute, August 2024), <https://www.ici.org/system/files/2024-08/24-ppr-dcplan-profile-401k.pdf>.

5. U.S. Department of Labor, Employee Benefits Security Administration, "Fact Sheet: Regulation Relating to Qualified Default Investment Alternatives in Participant-Directed Individual Account Plans," April 2008, <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/fact-sheets/default-investment-alternatives.pdf>.

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