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Introduction

Thank you for letting me speak with you today on the topic of Participant Plan Transfers and Account Consolidation for the Advancement of Lifetime Plan Participation. My name is William Bonk and I am the Group Director of Global Benefits for Techtronic Industries North America, Inc.

Techtronic Industries North America, Inc., also known as TTI, is a world-class leader in design, manufacturing and marketing of Power Tools, Outdoor Power Equipment, and Floor Care and Appliances for consumers, professional and industrial users. TTI reaches those in the home improvement, repair and construction industries. Some of our brands include Milwaukee Tools, AEG, Ryobi, Homelite, Empire, Hoover, Orec, Dirt Devil and Rigid among others. TTI has more than 21,000 employees in over 35 countries around the globe.

I have also held similar global benefit responsibilities with both Lockheed Martin Corporation and Exelis, Inc. (formerly ITT Corp). TTI, Lockheed Martin and Exelis sponsor defined benefit plans of $225 million, $30 billion and $3.4 billion respectively, with a combined participant population of more than 225,000 individual accounts.

Executive Summary

The following includes a summary of some of the key issues surrounding the ability of plan participants to achieve and maintain a consolidated account balance throughout their working careers. Plan participants face some unique and diametrically opposed challenges and opportunities in their attempts to achieve a consolidated account at the end of their working careers. Each stakeholder has a unique set of circumstances that introduce obstacles to consolidation. In conclusion, suggestions are included regarding educational materials designed to address the importance of plan participants receiving full information outlining their options, the flexibility they have, and some of the tools available to them to assess their readiness to retire.

Background

A series of opportunities for account consolidation have been developed and are available for plan participants to use for the eventual consolidation of account balances following the significant reduction and elimination of defined benefit programs over the past 20 years. These changes include the expansion of defined contribution (DC) programs as the primary retirement vehicle for employees and a mobile workforce where an individual can work for several different companies over the span of their career. It is not that consolidation of multiple DC accounts cannot be achieved. On the contrary, it is certainly possible for any plan participant who has multiple DC balances to bring them together under a single account. However, the processes that must be followed and the ramifications of consolidation presents challenges and inherently confusing results that cannot be undone once consolidation is achieved and that most plan participants are not aware of at the time. Participants often find the process intimidating enough to simply default to not taking any action at all.

Regardless of whether today's workforce consists of Baby Boomers or Millennials (as of today, they are roughly equal in size), plan participants whose careers span multiple employers all share the same challenge: multiple account balances across multiple plan administrators.

Industry Stakeholders

In order to understand the challenges of achieving DC account consolidation, it is important to understand who the various stakeholders are and be conscious of their perspectives. Within the realm of DC plans, there are three main components of plan management:

1. Recordkeeping services
2. Investment/asset management services
3. Trustee services

While many employers choose to operate their DC plans with all three components being handled by a single organization, some employers chose to separate these responsibilities among different industry partners. Larger DC plans often have investment management services handled directly by the employer themselves through a variety of direct relationship with investment option managers.

Each stakeholder, to varying extents, is motivated to maximize the amount of plan assets (employee contributions/employer matching funds) they have under management. They are motivated to retain assets of terminated employees as well as to obtain assets of employees with account balances from prior employers. This industry dynamic presents some of the greatest opportunities and challenges associated with the centralization of all employee DC plan assets into a single account.

Plan Participant Options

Once an employee/plan participant becomes eligible for a distribution of plan assets as a result of termination from an employer, they have two options: receive a distribution of their account balances or, depending on the size of their account balance, leave the funds in their now prior-employer plan. For the purposes of this discussion, I am assuming that the employee's account balance is sufficient so as to not trigger an automatic distribution from a plan (generally less than $5,000).

Leaving the funds in the prior plan – If an employee chooses to leave their funds in their prior plan, they generally continue to enjoy the same abilities to manage their investment options through account balance transfers and reallocations of their own choosing. Though statistics show that few prior-employees (or even current employees) choose to do this, the option remains. Prior-employees do not have the ability to make further contributions to their prior-employer plans.

Receiving a distribution – Employees can choose to receive a distribution of their account balance anytime after their termination. Once the distribution is made, however, employees have a limited amount of time to "rollover" those funds into another account. This may take the form of an individual IRA, another employer plan, or some other type of 'qualified' account that is designed to preserve the tax-qualified status of the participant's account.

Administration and investment management fees – Due to the large amount of assets that reside within employer-sponsored plans, employers enjoy reduced administrative and investment management fees. Many employers pass all or part of administrative fees onto plan participants in the form of monthly, quarterly or annual deductions to their accounts. Methodologies vary for the calculation of these fees, but in general, the fees are markedly less than what a plan participant would incur if they had the same assets in an individual account.

Additionally, investment management fees for large plan asset bases tend to run less than investment fees for individual account holders as well. Investment management fees are generally not visible to plan participants since they are generally used to reduce the yield, or earnings, that a participant earns on their investments. While this practice does vary among investment management firms, fee disclosure requirements are always mandatory.

All employer-sponsored plans are required by law to provide participants with full annual disclosures on both administrative and investment management fees applied to their accounts. There is full disclosure to participants on all aspects of plan cost and, although few participants do the math, they can relatively easily calculate the cost of participating in employer-sponsored DC plans.

Better fees for $1 billion or $1 million? The quandary – I believe there are three opposing forces that need to be understood and considered before any progress can be made on this issue:

1. Employers are motivated to have assets remain in their plans in order to negotiate lower administrative and investment management fees.

2. Recordkeepers and investment management firms are motivated to retain the assets of terminated employees in order to maximize retention of large employers (lower fees through volume) and to earn higher rates of investment returns on the assets in the plans.
3. Terminated employees may be financially disadvantaging themselves through higher fees by moving their plan assets out of prior employer plans and into individual accounts.

Solutions

It is somewhat ironic that the decision to leave plan assets with prior employers often is the better financial decision from a fee perspective. There are multiple options that plan participants can choose from to meet their specific needs:

1. Plan participants can usually roll over their prior-employer DC plan assets into their current employers DC plan. All of their accounts would then be in a single employer-sponsored plan upon retirement
2. Plan participants can take a distribution and consolidate their assets into a single individual account of their choosing (i.e. IRA). While it is unlikely they will be able to receive a better fee structure than from an employer-sponsored plan, they will achieve the consolidation of all of their accounts.
3. Plan participant can choose to leave their account balances in their prior employer's plan. While the result is multiple plan accounts over the course of their careers, technological advances now allow plan participants to easily track their account activity. Many recordkeepers have robust systems that allow participants to add specific information about prior account balances into their current plan account information.

Pressure and paperwork – It is an unfortunate but true fact that early, mid, and some even late-career individuals typically do not focus on the importance of saving for retirement until later in life. This does not mean that they are not saving for retirement. In actuality, saving rates for workers at all ages are increasing, in large part due to employer auto-enrollment and auto escalation programming services. In general, plan participants are not focused on account consolidation or on what their current saving rates mean for retirement income purposes.

Many combined recordkeepers/investment manager service providers solicit terminating employees with convenient options for rolling their account balances into private accounts. As participants take their assets out of the plan, fees may go up for them and employers lose asset-leverage. Employers should make sure that they fully understand the solicitation process and materials that go out to their terminating employees and work with their recordkeepers to enhance their understanding of the materials and help define policy in this area so that they clearly explain the rights and options that terminating employees have.

In my own experience, I have decided to keep my four DC plan accounts separate for the time being. While as a plan participant I need to complete the appropriate rollover forms for each plan, I did not find them particularly onerous or confusing. Most were straightforward and, although not all standard, required relatively the same information. This is not to say it is an easy process as rollover paperwork can be intimidating. In one instance, one of my plan accounts required an 18-page form, although only 8 pages required completion, the rest were instructions and information. Other accounts had very similar requirements.

Most of the paperwork seems designed to ensure tracking and protection of the tax-deferred status of account assets under the law as opposed to attempts to discourage account liquidation. As this statement has attempted to point out, it may not necessarily always be to the plan participant's advantage to consolidate all of their accounts, that option is always available.

Conclusion

As always, it comes down to education – The issue of adequate retirement income will continue to become more important as the population ages and more individuals start to worry about outliving their assets. Plan Sponsors, in collaboration with their service providers need to develop educational materials and resources that help plan participants understand their options for account consolidation.

One option might be to develop simple communication materials focused on informing plan participants about the advantages and disadvantages of account consolidation. These materials would strive to provide a comprehensive list of alternatives as well as questions to ask before taking any action.

In addition, modern technologies will continue to develop, which will offer all plan participants options for tracking and consolidating their account information and/or balances if they so choose. Today, I can go into any one of my prior employer accounts and with a little time and focus, electronically connect them to most, if not all, of my prior employer accounts, providing me with consolidated account information without ever having to move my assets or jeopardize my fee structure. In addition, I can connect bank account and other savings vehicles that I might have so as to provide me with a complete picture of my readiness to retire. Many plan administrators also provide intuitive and robust modeling tools for me to assess my financial situation.

Retirement readiness is a complicated business with many stakeholders made even more complicated by the myriad of tax regulations that govern these types of accounts. Above all, plan participants need to be made aware of the multiple options available to them and the flexibility that they have. Savvy plan participants will migrate to the options that are most appropriate for them. The rest of the population needs to have access to informed resources to help them navigate the complexities of ensuring they are able to retire at an income level most appropriate for their situation.

I appreciate the opportunity to provide my perspective on these issues. Thank you for your time.