2016 Advisory Council on Employee Welfare and Pension Benefit Plans

Participant Plan Transfers and Account Consolidation for the Advancement of Lifetime Plan Participation

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Description of Issue:

Significant obstacles to the consolidation of retirement savings within employer-sponsored plans exist in the U.S. today, amplified by the increase in worker mobility over recent decades resulting in the average worker having participated in several employer-sponsored qualified plans over his or her career.

Prior Councils touched upon this issue. In the 2014 study of “Issues and Considerations Surrounding Facilitating Lifetime Plan Participation” and the Council’s 2015 report on “Model Notices and Sponsor Education for Lifetime Plan Participation,” witnesses and the Council identified challenges in initiating and completing the rollover of prior employer qualified plan assets into a new employer qualified plan and/or trying to consolidate qualified plan assets from multiple prior employer plans within a single defined contribution plan as issues for future Councils to consider.

In 2014, the Council reported that the employer-sponsored system has become extremely effective in facilitating payroll deductions into retirement plans, and many employer-sponsored plans in the U.S. permit participants to transfer assets from plan to plan. However, the system remains highly ineffective when it comes to actually moving assets between plans. The core administrative structural framework was developed in the early years of the system, when DC plans were considered “supplemental” to traditional pension plans and social security, were opt-in vehicles, and the need for portability was limited.

Many features of employer-sponsored plans have evolved over the last 40 years. However, this evolution has resulted in a patchwork system of different providers and technologies that work well for the individual who is actively employed and contributing to his or her current employer’s plan, but becomes more cumbersome at the time of job change. Because systems do not “talk” well to each other, plan administrators do not have clear and consistent informational requirements, and participants face the challenge of navigating between varied information needs of administrators, the system often presents barriers to consolidating accounts in order to achieve effective lifetime plan participation.

The 2014 and 2015 Councils heard testimony from several witnesses who shared either first-hand experience or reports from others who had tried to initiate a plan transfer, only to become frustrated with the process and abandon their efforts in favor of an easier IRA rollover or a cash-out. These past Councils concluded that the overall foundational framework needs modernization.

In 2015, in its investigation of plan cash-outs, the Council heard testimony that half of participants cashing out of the qualified plan environment would not have done so if it was as easy to roll assets into the plan of their current employer as it was to rollover to an IRA or to cash out. The testimony highlighted uncertainties about the process to initiate and complete transfers in general.

An emerging trend in the development of government-sponsored plans at the state level should be considered. Concerned over the low rate of saving among American workers, some state governments have already sought to expand access to savings programs for their residents and other individuals employed in their jurisdictions by creating their own programs and requiring employer participation. For instance, some have passed laws that would require employers not offering workplace plans to automatically enroll employees in payroll deduction IRAs administered by the states, which are also called "auto-IRA" laws. Other states are considering alternatives in which the states sponsor or facilitate plans covered by ERISA, such as state marketplaces, prototype plans, and multiple employer plans.

Objective and Scope:

The Council is examining this topic and intends to draft recommendations to the Secretary of Labor for consideration. Our study will include the following:

A. **Identification and development of a better understanding** of the issues hindering plan to plan transfers and account consolidation by individual participants as they change jobs. The Council would welcome witnesses representing individual participants, plan sponsors, plan administrators, and other interested parties to help identify the inefficiencies and barriers in the employer-sponsored DC system, including:

a. What are the current practices for rollovers into qualified plans and account consolidation?
b. What regulations influence transfers?
c. How do loans impact transfers?
    i. Single loan vs. multiple loans
    ii. Treatment upon separation of service (loans typically repaid from payroll deduction)
d. What other factors complicate these actions, including:
    i. Plan type
    ii. Money type
    iii. Investment types, including annuities

iv. Self-directed brokerage accounts
v. Fees and expenses

e. What is the experience of participants in transferring assets and attempting account consolidation?
f. What communications from sponsors and/or plan administrators are available to help guide these activities?
g. The role of technology, including current technology, supporting the transfer and consolidation process, standards in effect, or differences which exist across the system today; and
h. State-sponsored retirement savings initiatives, and considerations for transfers and consolidations.

B. **Development of proposal of model forms and technology standards:** The Council would like to hear recommendations related to:
a. The development of proposed model or standard forms to facilitate plan to plan transfers and account consolidations that the Council could deliver to DOL, which could in turn adopt and promote to encourage industry to simplify and standardize the participant plan transfer and consolidation process; and
b. Technology standards and best practices for electronic transfer and consolidation of accounts to simplify and facilitate the participant transfer and account consolidation process, including the additional benefits of reducing costs associated with such transfers, and improving the privacy and security of participant data.