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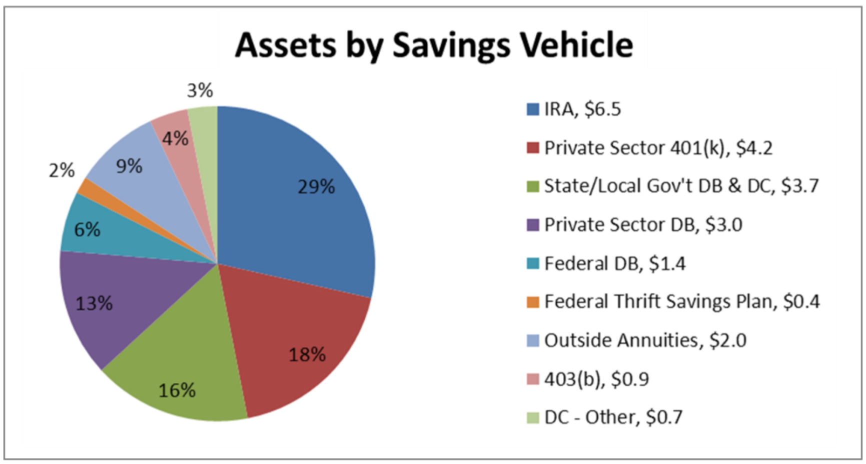
ERISA Council tackles Lifetime Participation

In January of 2014, Ekon Benefits released [“Why Don’t You Stay?”- The Benefits of Not Rolling Over](), highlighting the outpouring of money that leaves defined contribution plans each year as participants retire and move their retirement savings into Individual Retirement Accounts (IRAs). According to research by the ERISA Council on Employee Welfare and Pension Benefit Plans[1] shown in Figure 1, Americans had a total of $22.8 trillion in retirement assets as of December 31, 2013. IRAs represent the largest sector with $6.5 trillion in retirement assets, followed by private sector 401(k) plans accounting for $4.2 trillion. Public sector plans and private Defined Benefit plans trail with $3.7 trillion and $3.0 trillion, respectively.[2] In-service distributions, such as loans and hardships, also contribute to the flow of assets out of ERISA sponsored savings vehicles.

Figure 1:



Facilitating Lifetime Plan Participation

This past August, the ERISA Council held public meetings in order to understand this movement of assets from ERISA covered Defined Benefit and Defined Contribution plans to other retirement accounts not covered by ERISA. Several industry professionals and Plan Sponsors shared their research and recommendations pertaining to lifetime plan participation. During these meetings, the Council focused on the following areas.[2]

1. Participants’ considerations when deciding whether to leave money in an employer sponsored plan.
2. Gaining a better understanding of the asset movement out of employer based systems, including frequency of withdrawals, volume of assets leaving, destination of the assets, etc.

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[1] Based on Testimony from Sarah Holden and Elena Barone Chism, Investment Company Institute.

[2] Issues and Considerations Surrounding Facilitating Lifetime Plan Participation. Advisory Council on Employee Welfare and Pension Benefit Plans. November 2014. http://www.dol.gov/ebsa/pdf/2014ACreport2.pdf

3. The perspectives of Plan Sponsors towards retaining plan assets.
4. Information about the pros and cons of IRA rollovers that is currently available to Participants from the DOL or other governmental sources.
5. Educational programs or other plan mechanisms designed to discourage pre-retirement withdrawals such as hardship distributions or loans.

Plan Sponsor Considerations

Among Plan Sponsors in the ERISA Council study was Robert Hunkeler, the Vice President of Investments at International Paper and a former chair of the Committee on Investment of Employee Benefit Assets (CIEBA). Mr. Hunkeler shared the results of a 2014 CIEBA study in which 90% of those surveyed agreed that "keeping participants in ERISA-covered DC plans after termination of employment is a good idea because it will result in lower participant costs and provide ERISA fiduciary protections". In contrast, approximately 60% believed their company wanted to retain participants, with less than 25% of sponsors having a retention program in place. "Low corporate priority" and "concerns about fiduciary liability and cost" were cited as primary reasons for a lack of retention program.

This study highlights two of the most prominent shortcomings in facilitating lifetime plan participations - communication and education. Communication and education for both Plan Sponsors and Participants can create an environment where everyone sees the benefits of Participants staying in ERISA plans.

Recommendations for the DOL

Based on research and testimony from industry professionals, the Council formulated recommendations for the DOL and issued a report to the U.S. Secretary of State[2]. A summary of their recommendations is as follows:

Regarding Plan Sponsors:

- Provide educational materials relevant to lifetime plan participation and offer additional guidance to encourage lifetime income offerings and options.
- Provide education concerning the considerations and benefits of retaining assets in ERISA plans.
- For Plan Sponsors currently offering participant loans, provide information regarding the continuation of loan repayments after separation from employment and the advantages of loan initiation post-separation in order to prevent leakage.

Regarding Participants:

- Provide education pertaining to the considerations and benefits of retaining assets in ERISA covered plans. Provide sample educational materials to be used at all stages of participation in the plan.

- Develop easy-to-understand models and plain language communications that can assist Participants in deciding what to do with their retirement assets at distributable events such as job change or retirement.
- Find additional ways to make useful planning tools, such as the DOL's Lifetime Income Calculator, available to Participants and integrate with existing tools such as My Social Security from the Social Security Administration.

General Recommendations:

- Create uniform sample forms for plan to plan transfers.
- Work with other agencies and industry professionals to foster technology standards to streamline processes, reduce costs associated with transfers and account consolidations, and improve privacy and security of Participant data.
- Encourage a future council to consider the issues related to standardized technology solutions for automatic account aggregation for job changers.

Conclusion

In conclusion, the Council lists "incorrect or incomplete information, a lack of fiduciary clarity in some areas, and infrastructure issues" as hurdles to facilitating lifetime plan participation. It is our hope that further initiative and guidance from the DOL will foster positive change.

Review our article "Why Don't You Stay?"- The Benefits of Not Rolling Over for the benefits of a Flexible Payment Option in ERISA plans.

A summary of the testimonies, research, and the ERISA Council's rationale for recommendations can be found in the November 2014 report to the U.S. Secretary of Labor entitled "Issues and Considerations Surrounding Facilitating Lifetime Plan Participation".