
'Auto-portability' undergoes its first test

By Editorial Staff Thu, Nov 9, 2017

Retirement Clearinghouse, which hopes to launch auto-portability as a business, claims that it will help staunch the "leakage" of savings from 401(k) plans. RCH piloted the technology at a North Carolina plan sponsor last summer.

America is littered with small, "stranded" 401(k) accounts. Most are worth less than \$1,000. Many of these abandoned purses have been converted to rollover IRAs and warehoused at trust companies. Sometimes they're reunited with their owners, sometimes not. Collectively, they represent a significant business opportunity.

As previously reported in *RIJ*, Retirement Clearinghouse (RCH), a Charlotte, NC-based company, has been trying to jump-start the adoption of an electronic network—driven by proprietary "auto-portability" technology—to transfer these accounts from IRA warehouses automatically and roll them into their owners' next 401(k) plan.

From July to October 2017, RCH tested the feasibility of auto-portability in a large North Carolina healthcare company's 401(k) plan. About 400 of 3,000 former participants gave RCH permission to roll their safe harbor IRA balances into their active 401(k) plan accounts, according to a newly-published evaluation of the pilot program by Boston Research Technologies, a consulting firm working with RCH.

RCH claims that auto-portability can help staunch the "leakage" of savings from 401(k) plans that often occurs during job transitions. Many people, especially low-income or minority workers with brief job tenures, often forget about old 401(k) accounts or cash them out and spend the money between jobs. If their money moved automatically to their next plan, RCH contends, they wouldn't be tempted to spend it; over a career, they'd be more likely to accumulate enough savings to retire on.

To make auto-portability a success, according to RCH, a critical mass of large 401(k) recordkeepers—Vanguard, Fidelity and T. Rowe Price fit that description—would need to embrace it. Just as important, the Department of Labor would need to allow plan sponsors to auto-enroll participants in the roll-in program when they join their retirement plans.

Auto-portability relies on technology similar to that used by credit card companies to validate and fulfill transactions. It involves four processes: an electronic-record location search to identify multiple accounts potentially belonging to the same individual; a proprietary "match" algorithm to confirm the located accounts belong to the same participant; receipt of the participant's affirmative consent to consolidate accounts in their active retirement plan account; and an automated roll-in transaction.

The new [report](#), "Making the Right Choice the Easiest Choice: Eliminating Friction and Leaks in America's Defined Contribution System," evaluates on RCH's North Carolina demonstration project. It was released this week by Warren Cormier, founder and CEO of Boston Research Technologies. Cormier is also involved with the National Association of Retirement Plan Participants' recent launch of a workplace IRA program

called Icon.

In its study of the RCH pilot, Boston Research Technologies collected and analyzed data from more than 3,000 participants who had both a safe harbor IRA and an active plan account with their current employer. It found that:

- 15% of participants with matched accounts responded to the roll-in offer, a rate higher than direct mail solicitation and an indication of pent-up demand.
- 91% of the responding participants consented to the transaction and had their savings consolidated in their active-employer plan.
- 9% of participants opted out of the program, with a majority cashing out their accounts.
- Of the account balances that were consolidated through a roll-in, 56% were less than \$1,000—a suggestion that, when given the choice, most participants will retain these balances and not want to cash out, the report said.
- Upon consolidation, workers' median plan account balance increased by 46% and the combined future value of their preserved savings was projected to be more than \$3 million at normal retirement age.
- 85% of participants with matched accounts did not respond to the roll-in offer, but their lack of response was "likely the result of self-destructive behavior or lack of knowledge about where to start rather than a preference to cash out," Cormier's report said.
- 90% of accountholders with stranded accounts worth less than \$5,000 opted to roll their assets into a safe harbor IRA—but of those accountholders, 86% had been in a safe harbor IRA for more than one year, and 44% were in a safe harbor IRA for more than three years.

"Auto-portability helps participants overcome the structural frictions embedded in the consolidation process, making the decision to roll in as easy as the decision to cash out," said Cormier, in the release. "A mechanism is needed to surmount the remaining cognitive frictions, such as procrastination, hesitation, and indecision.

"The utilization of a negative consent mechanism would lead to the preservation of billions of dollars in retirement savings that are currently being cashed out by participants at alarmingly high rates."

Boston Research Technologies publications include the 2013 report "Eliminating Friction and Leakage in America's Defined Contribution System" and the 2015 study "Portability and The Mobile Workforce."

RCH was formerly known as Rollover Systems. The founder, president and CEO of RCH is Spencer Williams, an executive formerly with MassMutual. He and Tom Johnson, another former MassMutual executive, have spent several years promoting auto-portability to 401(k) recordkeepers, plan sponsors and Washington officials.

The owner of RCH is Robert Johnson, the Charlotte businessman who created and later sold Black Entertainment Television to Viacom in 2000 for more than \$2.3 billion in Viacom stock.