GAO recommends changes to “automatic rollover” practices

By Editorial Staff *Thu, Jan 15, 2015*

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Reflecting a concern among some legislators about “leakage” from defined contribution plans and its potential damage to individual retirement security, the U.S. Government Accountability Office (GAO), made public a research report in late December, “401(K) Plans: Greater Protections Needed for Forced Transfers and Inactive Accounts.”

GAO found that when small (under $5,000), forgotten or neglected accounts held by former employees are forced out of 401(k) plans and rolled over to IRA custodial accounts, the IRAs tend to lose value over time because the returns from the safe investments that, by law, the forced-out assets must be placed in.

GAO also discovered that a plan can force out an account with a balance of, for instance, $20,000 if less than $5,000 is attributable to contributions other than rollover contributions.

GAO recommended that Congress consider amending current law to permit alternative default destinations for plans to use when transferring participant accounts out of plans, and repealing a provision that allows plans to disregard rollovers when identifying balances eligible for transfer to an IRA.

Among other things, GAO also recommends that DOL convene a taskforce to explore the possibility of establishing a national pension registry. DOL and SSA each disagreed with one of GAO’s recommendations, but GAO said it maintains the need for all its recommendations.

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Officials in two countries told GAO that inactive accounts are consolidated there by law, without participant consent, in money-making investment vehicles. Officials in the United Kingdom said that it consolidates savings in a participant’s new plan and in Switzerland such savings are invested together in a single fund.

In Australia, small, inactive accounts are held by a federal agency that preserves their real value by regulation until they are claimed. In addition, GAO found that Australia, the Netherlands and Denmark have pension registries, not always established by law or regulation, which provide participants a single source of online information on their new and old retirement accounts.