Lew Minsky Talks about 'Auto-Portability'

By Kerry Pechter *Thu, Sep 25, 2014*

Lew Minsky is executive director of the Defined Contribution Institutional Investment Association, an organization of retirement plan providers and asset managers. We asked him about the automatic plan-to-plan transfer initiative discussed in today's RIJ cover story.

To gain a high-level view of the industry effort to facilitate the automatic transfer of small qualified plan accounts to a new qualified plan when participants change jobs, *RIJ* reached out to Lew Minsky.

He's the executive director of the Defined Contribution Institutional Investment Association, whose broad membership includes virtually all of the major retirement plan providers, including investment-only firms, full-service firms and recordkeeping specialists.

Here are excerpts of our conversation:

RIJ: How do you see this new campaign for 'auto-portability' of small retirement plan accounts, and what role, if any, does the DCIIA play in it?

Minsky: DCIIA has no official role; there's no official role to play because we're still at the early stages of what I think is an important and growing dialog in the industry. We're participating in it and doing what we can to advance it.

RIJ: What's sort of problem are you trying to solve?

Minsky: The question is, what can we do to keep people in the qualified plan system once we have them engaged? There's a lack of connection within the system right now. Building some level of connectivity would help move things on. We don't have the kind of connectivity that you'd expect in 2015. It's more akin to 1974.

RIJ: How so?

Minsky: The process is far too complicated. There are pitfalls all along the way. And the technology we use is so antiquated. How, in 2014, does it make sense that when you rollover or roll-in there's a live check cut? Why doesn't that happen electronically? My bias is that if we fix some of the drag in the system there will be a greater degree of account consolidation, and that will benefit [personal] decision-making and retirement security.

RIJ: How do approach that sort of problem?

Minsky: For something to be successful here, it needs to be a coalition effort. It has to be supported by and participated in by as broad a coalition of key industry players as possible. I would encourage them to think of something that looks like a co-op. There are other clearinghouses that you could use models. Like DTCC, for instance.

RIJ: How did we get where we are today?

Minsky: Most of the regulatory framework has been built around the qualification rules, which start with a false premise. The overall concern has been around the [tax] status of the money. A lot of the process has evolved to ensure that the money that is coming from and going to a qualified source. That's at cross-purposes with the goal of making it easy to keep money in the system. Brigitte Madrian of Harvard recently said, "If you want to make things happen, make them easy. To make sure they don't happen, make them complex." We've made the cash-out easy and the roll-in complex.

RIJ: What's the payoff to keeping money in qualified plans?

Minsky: There's no doubt that savings rates are much higher in the 401(k) system than in the rollover IRAs. The proportion of people who save is multiples higher. According to EBRI [the Employee Benefit Research Association], only two percent of the IRA owners who are eligible to contribute to IRAs contribute to them. The IRA system is not a sufficient accumulation system. It has become a rollover system.

RIJ: What do DCIIA's members think about auto-portability?

Minsky: There's broad support [among the DCIIA membership] for the idea of making it easier for participants to stay in the system and do things that combat leakage. At that basic level there's widespread support.

RIJ: Do you think other retirement industry players might see 'roll-ins' as a threat?

Minsky: I'd be surprised if there were segments of the industry that were all that concerned [about leakage and rollovers]. I think this is an opportunity for a win-win-win. If you keep more people invested for retirement, all of the different players in the system ultimately benefit. You're growing the system.