
New report ponders leakage from 401(k) plans

By Editorial Staff Thu, Jan 29, 2015

The ERISA Advisory Council, reporting on testimony it heard last August, recommends the creation by the Dept of Labor of sample forms that will promote the transfer of 401(k) assets from one plan to another when workers change jobs and help stop leakage.

The ERISA Advisory Council has made public a report, *Issues and Considerations Surrounding Facilitating Lifetime Plan Participation*, based on testimony that council members heard in Washington, D.C., last August from a variety of retirement industry participants.

Anyone in the retirement industry or in the public policy realm who has an interest in the IRA rollover phenomenon may want to read the report. It examines the causes and implications of the largely unforeseen movement of trillions of dollars of tax-deferred savings from ERISA-regulated employer-sponsored retirement plans to individual non-ERISA IRAs.

The movement of those trillions to brokerages and mutual fund companies has been a boon to those businesses. But it is a source of anxiety to the Obama administration's Labor Department, which worries that the higher fees and potentially risky investments available to IRA owners could frustrate the public policy goal of tax-deferral: to enhance savings and retirement security.

According to the abstract of the report:

- The 2014 ERISA Advisory Council examined recent movement of participant assets out of Defined Contribution (DC) and Defined Benefit (DB) Plans, and into retirement accounts not covered by ERISA, such as IRAs or other savings accounts, or as plan distributions.
- Based upon testimony received during two days of hearings, this report provides ideas for plan administrators and plan participants, including communications strategies and plan design options to facilitate lifetime retirement plan participation.
- The Council recommends DOL develop educational materials for Participants and Sponsors on the value of lifetime plan participation and educate Plan Sponsors on various plan features that may encourage such participation.
- The Council also makes recommendations with respect to plan loans and development of sample forms to simplify plan rollovers and facilitate consolidation of retirement assets within a plan.

The council also advised the Department of Labor to:

- Provide education and outreach to participants and plan sponsors on the considerations and benefits to participants of retaining assets within the employer-sponsored system, including providing sample educational materials that can be used by plan sponsors at all points of participation in the plan.
- Develop model, plain language communications that can be provided to participants at all points of their participation in the plan, including prior to enrollment and throughout employment to help them decide what to do with retirement assets, particularly at job change and retirement, or other distribution events.
- Provide educational outreach and materials to plan sponsors relating to plan features that encourage lifetime participation.
- Provide additional guidance to encourage plan sponsors to offer lifetime income options, including an updated defined contribution plan annuity selection safe harbor.
- Look for additional ways to make useful tools available, including the DOL's Lifetime Income Calculator (www.dol.gov/ebsa/regs/lifetimeincomecalculator.html), and integrate existing tools such as those in My Social Security (<http://www.ssa.gov/myaccount/>).
- Provide information to plan sponsors who make loans available to participants about allowing continuation of loan repayments after separation from employment. DOL also should point out the advantages of loan initiation post-separation in order to prevent leakage.
- Create uniform sample forms for facilitating plan-to-plan transfers. In cooperation with other agencies, industry groups, and other interested groups, foster technology standards which simplify the electronic transfer and consolidation of accounts, reduce costs associated with such transfers, and improve the 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.