
The beginning of the end of “leakage”?

By Editorial Staff Thu, Jul 27, 2017

Retirement Clearinghouse (RCH) completed its first live test of 'auto-portability,' thus demonstrating the feasibility of a nationwide automated network that would ensure that 401(k) accounts followed participants from job to job.

Auto-portability—the “routine, standardized and automated movement of a retirement plan participant’s 401(k) savings from their former employer’s plan to an active account in their current employer’s plan”—took another step toward reality last week.

The “roll-in” portion of the system, which is intended to stop so-called leakage from qualified plans when workers change jobs, has now been demonstrated to work, according to Charlotte, NC-based Retirement Clearinghouse (RCH; formerly Rollover Systems, a custodian of unclaimed rollover IRAs), the company that pioneered the process.

In the first live exercise of the concept, RCH worked with Conduent, a business process services company spun off from Xerox this year, and a large health care company that uses Conduent as its 401(k) recordkeeper. Conduent built the interface that allowed RCH to find matches between people in its database of owners of abandoned 401(k) accounts and current participants in the health care company’s plan.

“More than 150,000 safe harbor IRA accountholder records were sent to the plan using RCH’s file transfer protocols, which have been implemented at the plan’s recordkeeper. Among the more than 200,000 active participant accounts in the plan, over 2,800 accountholders’ records were located and matched,” said an RCH release.

“The located and matched records belong to plan participants who have been subject to a mandatory distribution from a prior employer’s plan over a period that spanned one week to 10 years ago. In the coming weeks, RCH will seek the affirmative consent of the matched account holders, and for those that respond, will complete an automated roll-in of their savings to the plan.”

In an interview with *RIJ* this week, Spencer Williams, the president and CEO of RCH, described the auto-portability process as comparable to turning today’s custodial IRA firms from “landfills” into one big “recycling center” at RCH. The Employee Benefit Research Institute has found that such a system could reduce so-called leakage from qualified plans. Leakage prevents many participants from accumulating adequate retirement savings.

Today, 401(k) plan sponsors and recordkeepers routinely, and legally, purge the small-balance accounts that former employees—many of them low-income or minority workers—leave behind when they leave their jobs.

The accounts are sent to “safe harbor” IRA custodians like RCH or Millennium Trust, in Oak Brook, Illinois. These custodians invest the money in cash equivalents and earn fees on assets-under-management until

they track down the rightful owners and release the money.

Williams envisions replacing this system with a nationwide automated network running through a data exchange run by RCH. When the name of the owner of an old, abandoned account matches the name of the owner of a new 401(k) account at a different company, RCH validates the match, obtains electronic consent from the owner and forwards the assets to the owner’s current plan account.

As Williams said in a recent press release:

“Defined contribution plan sponsors and their record-keepers are swamped with the administrative burdens of small accounts from separated participants, such as excess recordkeeping fees, missing participants, and uncashed distribution checks—all of which have exploded since the advent of auto enrollment.

“RCH Auto Portability addresses the small account problem through systematic consolidation of retirement savings as participants change jobs—attacking each of these problems at their root cause, which will significantly reduce the incidence of stranded accounts, lost/missing participants, and uncashed checks.”

For this system to work smoothly, workers will have to agree to auto-portability when they join a firm’s 401(k) plan, perhaps during the auto-enrollment process. RCH has been seeking an advisory opinion from the Department of Labor that will assure plan sponsors that it is permissible under the Employee Retirement Income Security Act of 1974 (ERISA) to auto-enroll participants into an auto-portability program.

Eleven Republican members of the U.S. Senate have co-signed a letter to the DOL from RCH on the matter. Tim Scott (R-SC), a friend of RCH owner Robert Johnson, the billionaire who founded and later sold Black Entertainment Television, led the contingent of legislators who signed the letter.

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