Successful Rollovers

What plan sponsors should know about automatic rollovers—and where to find help

Plan sponsors have long wondered what best practices are in handling terminated, missing and lost plan participants. One option for defined contribution (DC) and defined benefit (DB) plan sponsors, at least for those with terminated participants that have account balances of $5,000 or less and provide no direction for those funds, is to automatically roll such participants out of the plan and into a safe harbor individual retirement account (IRA). However, for plan sponsors, the selection of a provider for such a service requires the proper due diligence and can be challenging. In recognition of the need for plan sponsors to get help in the practical movement of assets when rolling participants out of the plan, Wealth Management Systems Inc. (WMSI) has partnered with multiple IRA providers to offer a bundled automatic rollover solution for plan sponsors.

To discuss the current state of the automatic rollover space, PLANSPONSOR Editor-in-Chief Alison Cooke Mintzer spent time with John Geli, CEO of WMSI, and representatives from three WMSI partner firms: Terry Dunne, managing director of the automatic rollover solution at Millennium Trust; Lowell Smith, president and founder of Inspira; Bill Cassidy, senior vice president and managing director at The Bancorp's Institutional Banking division; and the Safe Harbor IRA Services Solution Manager at The Bancorp Bank, Derick Shaffer. They discussed how adding automatic rollover provisions to a retirement plan can help plan sponsors, as well as what characteristics make a good partner and IRA provider for rollovers from DB and DC plans.

PS: Why should a plan sponsor consider automatically rolling over terminated, small plan balances of $5,000 or less into a safe harbor individual retirement account?

Geli: With 47% of plans adopting auto-enrollment provisions, the number of small-balance accounts left behind by terminated employees is on the rise. You now have participants who may not realize that they're in a retirement plan. So, they don't always think about what they should do with their savings when they leave—and over time these accounts can increase plan expenses, administration and fiduciary responsibility, etc., if not addressed.

Smith: We talk to our clients about a few primary reasons: One, terminated employees are hard to communicate with; they get lost. Second, as a result, those participants tend to drive up the cost of the plan in additional recordkeeping fees—that is, for maintaining these terminated employee accounts.

The third issue is fiduciary responsibility. Plan sponsors do have to communicate with terminated participants and treat them as they would any other active participant in the plan—providing disclosures and pertinent information. In most cases, when companies' retirement plans get sued, these lawsuits typically don't come from active employees, they come from terminated employees.

Cassidy: Expense control and risk management. For smaller companies, audit and Internal Revenue Service (IRS) reporting regulations have increased for plans that have over 100 participants. So, employers may want to distribute small-balance accounts to reduce the participant count to less than 100—eliminating the expense of auditing for some plans.

Dunne: In all cases—whether it's an active, terminated or even an abandoned plan—once the IRA rollover happens, the individual is no longer considered a participant in the original plan, and the plan sponsor has satisfied its fiduciary duty. Basically, the plan fiduciaries then are no longer responsible for or required to keep track of the individual. This is a very significant burden that's being released for the plan sponsor.

There is a benefit to plan participants, too. Many of these individuals are missing, and the IRA provider reunites the participant with his or her retirement money.

PS: Let's discuss then what is important when selecting an IRA provider. Is it difficult to find an option that complies with the safe harbor requirements?

Geli: No, but different IRA custodians have different philosophies, and they also have what I would call different hot buttons. When we talk to plan sponsors or recordkeepers about our automatic rollover services and choice of IRA options, the decision really comes down to a number of key factors such as: What's the IRA custodial fee? What's the default investment vehicle, and what's the rate of return on that investment? What other investment options are available to participants? Can participants properly diversify within the IRA, or do they have to move their money out? What does the IRA company do to locate people? Is this a core part of its business offering? These are the kinds of questions we get when recordkeepers and plan sponsors are comparing IRA options and performing their due diligence.

Dunne: It is relatively easy to find a qualified IRA provider; any Google search can track us down. Still, IRA providers are not identical in how they approach automatic rollovers. One of the most important elements is the whole issue of searching for individuals, and each IRA provider will deal with it differently. We're not all the same, and we have different levels of client service and different service features.

At Millennium Trust, we have found that the participants—the former employees—like to talk to somebody live on the telephone. They may just want to check their balance or learn about what other investment choices there are. They often want to know how their account ended up moving from their former employer. Our client service people can explain whatever the client needs. They are experts on the benefits and requirements of IRAs.

One element we've seen more interest in from plan sponsors is the IRA custodian's technology—specifically protecting the participant's confidential information.

Shaffer: I agree that one of the big key items for an automatic rollover provider is having that staff that participants can talk to; providing that human touch and a properly trained staff is essential to making the program run smoothly.

When it comes to selecting the IRA provider, plan sponsors may have particular differences that make them favor one company over other institutions. They may want a lower custodial fee or more investment options for participants. It can be very difficult to determine the best fit for a company. That is where firms like WMSI can provide value to plan sponsors, by offering a choice of IRA options and the information needed to make it easier for plan sponsors to perform due diligence on the financial institutions that will ultimately custody the safe harbor accounts.

Smith: One last comment on this area, we're finding that the ability to take Spanish calls in your call center is becoming more and more important. We're seeing a lot more need for Spanish reports.

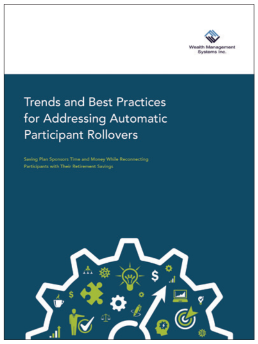
PS: In considering the recent Department of Labor (DOL) Field Assistance Bulletin (FAB) 2014-02 about finding lost and missing participants, what search services are required for automatic rollovers? Can a plan sponsor hire an automatic IRA provider to perform searches for participants?

Smith: The recent DOL FAB you mention is a clarification of an earlier Field Assistance Bulletin relating to the process for terminating plans; the last step of which discussed using the IRS or Social Security letter forwarding service to find missing participants if you were unable to find them by electronic means, searching beneficiaries or certified mail. However, those programs are no longer available to plan sponsors, which led plan sponsors to ask, "How can I get help to find missing participants to terminate these plans?"

So, the most recent FAB acknowledged the prevalence of firms like ours that find participants through a plethora of searches using databases such as credit records and driver's license records, often being more successful than the IRS and Social Security were. Therefore, it can be beneficial for plan sponsors to use IRA rollover providers for electronic searches and beneficiary searches as part of a single offering, instead of hiring an outside search firm to perform searches separately from the IRA provider.

Cassidy: Plan sponsors can be assured that by selecting a company in the IRA provider business, all the proper procedures and guidelines are being followed. After all, you can't afford to be in the business and be noncompliant. So, if somebody is using an industry-leading company, if they're involved in the process, the plan sponsor should feel pretty confident that everything is being examined from a regulatory perspective.

Geli: As we think about what's required for an active plan that has an involuntary cash-out provision, that sponsor is not required to initiate participant searches. So, in that instance, if the plan has an involuntary rollover provision and it has identified the IRA party to receive those rollovers, many times the IRA provider is accepting



Download White Paper

Download at: info.wealthmsi.com/BestPracticesForAddressingAutomaticRollovers.html.

WMSI discusses best practices for managing automatic rollovers in the white paper "Trends and Best Practices for Addressing Automatic Participant Rollovers."

the last known address on file, and then the IRA provider is initiating the participant search as part of its overall program management. Every plan is unique, and so, whether a plan sponsor chooses to initiate participant searches upfront before participants are notified or not can vary according to the particular scenario, the volume of small accounts the plan is dealing with and the number of accounts with known bad addresses.

PS: How can automatic rollovers be used in the case of defined benefit plan terminations and pension lump-sum windows?

Dunne: There is a significant increase in demand for automatic rollovers for defined benefit plans that are developing de-risking strategies. To minimize the volatility of their DB situation, many plan sponsors are trying to minimize the total volume in the plan, and they're creating windows to offer lump-sum opportunities to the participants who have never had a lump-sum opportunity. So, many individuals who have balances that are greater than $5,000 are choosing to take that lump sum, and then there are also many individuals who are missing or nonresponsive who have balances less than $5,000. They can be rolled over into an IRA through an automatic rollover process.

Geli: DB plans tend to have more out of date participant address information than you may find with DC plans. We find, working with DB plan sponsors who are contemplating lump-sum windows and who are focusing on communications programs to support the benefit selection process, that very often they want to clean up the small benefits first and take the opportunity to do participant searches upfront, to make sure they clean up their records before the lump-sum offering gets underway. This clean-up effort helps to ensure that as many participants as possible are notified and receive materials about the lump-sum option so they can make informed decisions. ■

To Learn More about WMSI's Automatic Rollover Program and the services offered by The Bancorp Bank, Inspira and Millennium Trust, please call 973.241.5882 and press Option 2 to speak with a Relationship Manager, or send us an email at sales@wealthmsi.com.

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