Retirement Clearinghouse

an RLJ company

June 4, 2013

Testimony of J. Spencer Williams On Behalf of Retirement Clearinghouse (RCH) Before the ERISA Advisory Council On Locating Lost and Missing Participants

Thank you for allowing Retirement Clearinghouse (RCH) to testify before the 2013 ERISA Advisory Council on the important topic of locating lost and missing participants. I am Spencer Williams, RCH's President and Chief Executive Officer.

RCH (formerly known as RolloverSystems) has been providing employee transition (job changer) services to retirement plan sponsors for the past 7 years. RCH has worked with thousands of retirement plans and hundreds of thousands of mostly small-balance, job-changing participants amounting to billions in retirement savings (see Appendix A for a graphic overview of RCH services). Our core philosophy is to help keep these job-changing Americans invested in their retirement. We accomplish this by offering them start-to-finish personalized assistance and providing them with services that simplify & streamline the process of consolidating their retirement savings. RCH's services are typically delivered at either the point-of-hire or the point-of-separation. In an industry that traditionally focuses on the final transition to retirement, these key transition periods are often overlooked, to the detriment of retirement security, especially for Americans with small account balances. In delivering these services to plan participants, RCH further assists plan sponsors in fulfilling their fiduciary duty to act in the best interests of plan participants.

When participants move or change jobs, they'll bring along families, personal belongings and bank accounts – but often leave their DC plans behind. Why? The answer is simple: system friction -- meaning there is no easy, standard or straightforward way for participants to consolidate their retirement accounts within the DC system, and consolidation can be key to increasing account balances to the level that has been proven successful in keeping millions of

Americans invested in retirement. Consequently, too many participants, especially those with low account balances, will make a really bad choice, and simply cash out. Others will follow the path of least resistance, and leave behind a patchwork – sometimes up to five or six - of small-balance DC accounts, many of which will be forgotten or will languish, receiving insufficient time and attention.

Because we specifically focus on the needs of job-changers, establishing a participant's correct address and status is mission-critical, and lays the foundation for effective delivery of our services. As we've refined our approach to locating participants, we're often asked to perform lost and missing participant searches as a separate, stand-alone service.

<u>What Gives Rise to Lost & Missing Participants?</u>

It is important that we first consider some of the underlying, root causes of lost and missing participants. Our experience indicates three primary contributors to the issue of lost/missing participants: change of residence, change of job and early mortality.

First, American society is highly mobile. Census data suggests that the average American will move almost 12 times over the course of a lifetime. In any given year, almost one out of every six Americans will relocate.

These geographic migration patterns are mirrored in our workforce – a pattern that RCH refers to as the "job changer" phenomenon. According to the Employee Benefit Research Institute, Americans will change jobs about 7.4 times, on average, over the course of a 40-year career. Doing the math, in any given year we estimate that from 9.5 to 11.3 million DC participants will change jobs (see Appendix B for additional information on the 'job-changer' market).

Finally, mortality tables inform us that, on average, more than 16% of plan participants will die between the ages of 40 and 65. This means that one out of six participants will die prior to normal retirement age, which can all too frequently occur suddenly and without warning -- denying these individuals the opportunity to get their affairs properly in order. Early mortality often leaves their beneficiaries without adequate documentation to locate all their savings accounts or worse, leave their retirement savings accounts without a designated beneficiary.

RCH experience is that participants become lost / missing when two of these primary drivers are coincident.

Best Practices for Lost & Missing Participants

Given these realities, we've developed and implemented a number of practical ways to address the lost/missing participant challenge and locate beneficiaries.

For our discussion, please refer to Figure 1.

Best Practice #1: Initiate Periodic "Scrubbing" Efforts at Termination

The best solution is one that keeps participant data as up-to-date as practical, with the least cost and with minimal manual intervention. RCH has found that a periodic program of "scrubbing" participant data can begin as soon as a participant has terminated employment.

Retirement Clearinghouse's approach is to automate this process with one of the many service providers having access to the National Change of Address (NCOA) registry, maintained by the United States Postal Service. It's generally inexpensive, can be easily automated, and is likely to capture much of the initial job changer relocation activity.

This "ounce of prevention" – performed periodically for all terminated participants - can dramatically improve the quality of terminated participant information and reduce the overall volume of lost and missing participants that would otherwise be encountered.

Best Practice #2 – Utilize "Waterfall" Methodology with Credit Service Bureaus

Inevitably, Best Practice #1 will not identify the correct addresses for all lost/missing participant scenarios, resulting in returned mail or failed transactions (eg., required minimum distributions) which creates a related challenge: uncashed or stale-dated benefit payment checks.

When these events occur, RCH utilizes the major credit service bureaus to determine participant status. These services are generally quite effective in locating participants, and can be automated in similar fashion to the terminated participant data "scrubbing" described in Best Practice #1 above.

The approach utilizes a "waterfall" methodology that invokes additional searches as needed or required until the participant is found or the services are exhausted.

Best Practice #3 – Engage Subscription-only Legal and Journalistic Services

In specific states (eg. Nevada) and for deceased individuals, subscription-only legal and journalistic services such as LexisNexis can be engaged. At this point, the search is usually performed by an individual with direct access to the Internet; it is manual and labor intensive, and therefore "expensive," particularly relative to Best Practices #1 and #2 above.

In the case of participants who have been confirmed as deceased, these searches are very useful in finding next-of-kin.

Best Practice #4 – Perform "Last-Ditch" Creative Searches

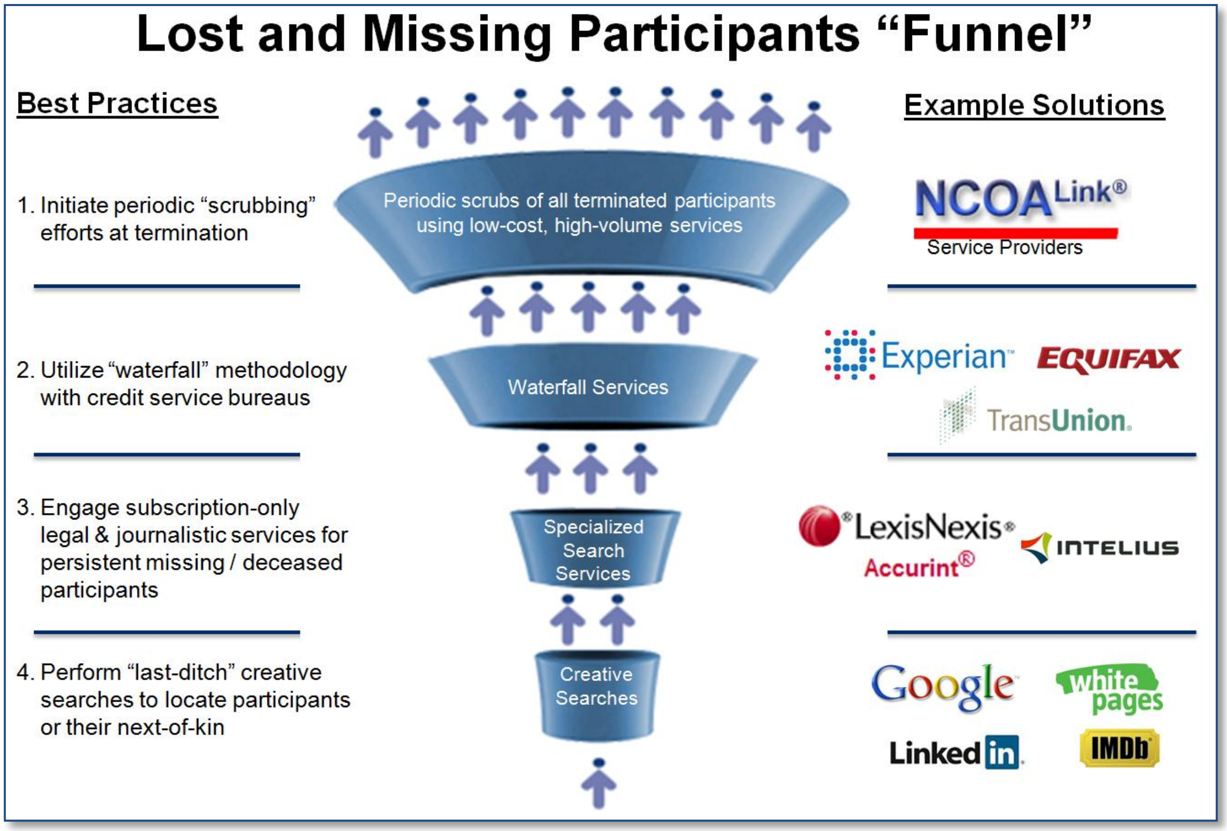
When Best Practices #1 through #3 yield no results, locating lost & missing participants becomes an art form, where success will depend upon persistence and creativity applied in utilizing the internet to either locate a participant or to identify beneficiaries.

Broad search engines such as Google, as well as specific people search engines (e.g.. Whitepages.com) can be utilized with good outcomes. In highly specialized situations (eg., the entertainment industry), RCH has relied upon websites such as IMDB.com in order to locate actor/entertainers or their agents.

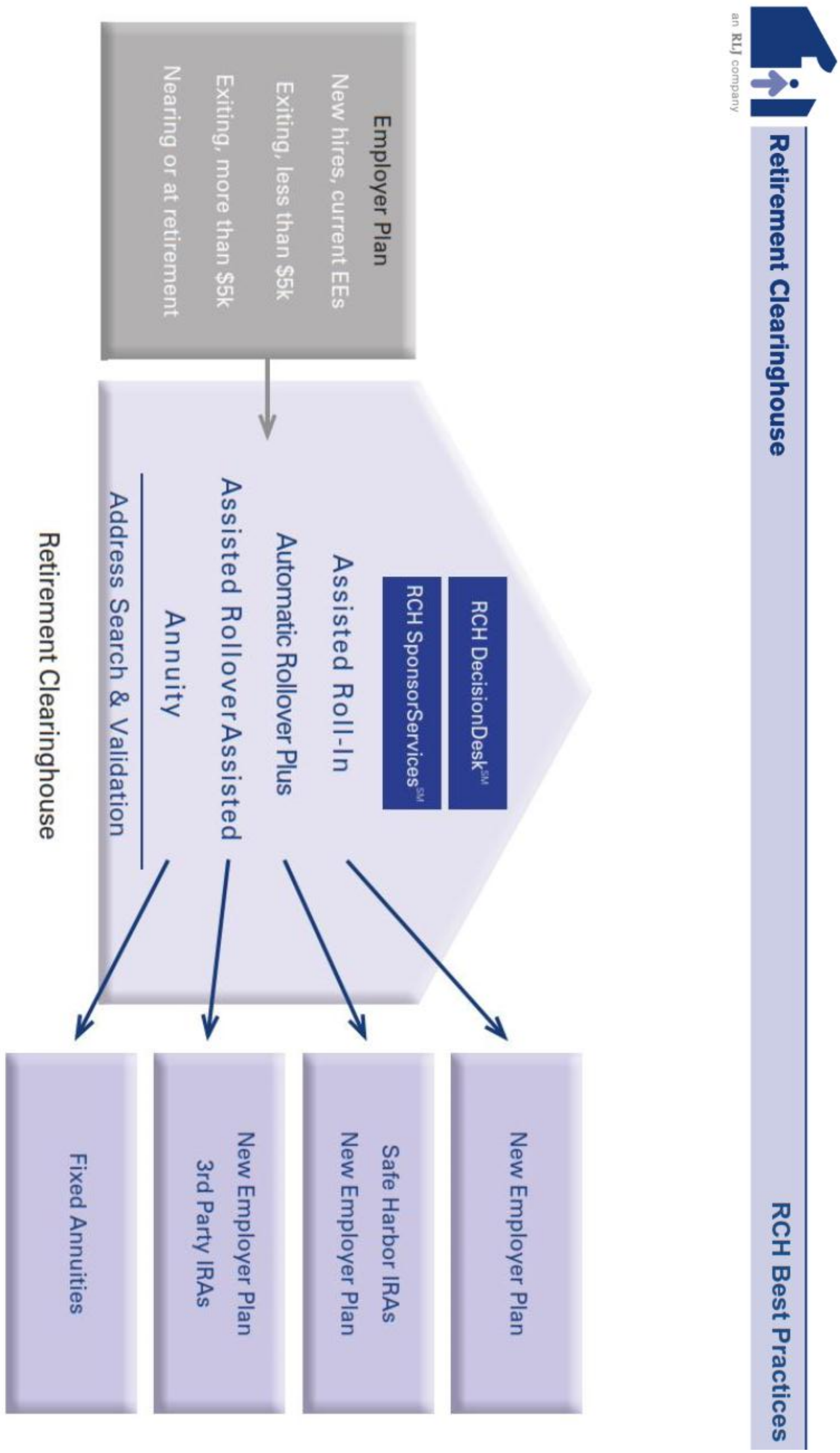
Best Practice #5: The Plan-to-Plan "Roll-In"

Partnering with progressive plan sponsors, RCH has helped pioneer an existing but widely underutilized transaction with proven results. The plan-to-plan "roll-in" allows new and current employees to consolidate their retirement savings from their former plans into their current plan, ensuring that their retirement savings move as easily as their other possessions. Widespread adoption of 'automatic', systematic and timely plan-to-plan roll-ins would, in our view, address the root cause of system friction, and eliminate 90-95% of the volume of lost and missing participants, and at the same time dramatically reduce cash outs and simplify management of their retirement savings for millions of Americans. This solution has been validated and is presented in ground-breaking research performed by the Boston Research Group in April, 2013, and located at www.bostonresearch.com/whitepaper.pdf.

Figure 1 – Best Practices for Finding Lost and Missing Participants



Appendix A



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RCH Best Practices
Employer Plan
New hires, current EEs
Exiting, less than $5k
Exiting, more than $5k
Nearing or at retirement
RCH DecisionDesk℠
RCH SponsorServices℠
Assisted Roll-In
Automatic Rollover Plus
Assisted Rollover Assisted
Annuity
Address Search & Validation
Retirement Clearinghouse
New Employer Plan
Safe Harbor IRAs
New Employer Plan
New Employer Plan
3rd Party IRAs
Fixed Annuities

Appendix B

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The Job-Changer Market: By the Numbers

Statistic	Description	Source
I. THE U.S. JOB-CHANGER PHENOMENON		
7.4:	number of times an employee will change jobs in a 40-year career	Employee Benefit Research Institute (Employee Tenure Trends, 1983-2012)
70 million:	total number of D.C. participants	Investment Company Institute, "The U.S. Retirement Market, 2007," Research Fundamentals, vol. 17, no. 3 (2008).
9.5 million:	estimated number of D.C. participants affected by job-changing, annually	Job persistence (avg. tenure / avg. length of career) x total number of D.C. participants (70 million; from GAO Study)
34%:	of dollar distributions to job-changers with balances less than $5,000	Employee Benefit Research Institute (Lump Sum Distributions at Job Change)
66%:	of dollar distributions to job-changers with balances less than $20,000	Employee Benefit Research Institute (Lump Sum Distributions at Job Change)
II. THE CRISIS AT THE POINT-OF-SEPARATION		
Cash-Outs Leaving the System		
$74 billion:	annual cash-outs, at separation	General Accounting Office, Report to the Chairman, Special Committee on Aging, U.S. Senate (August 2009)
42%:	of workers terminated in 2010, taking a cash distribution	Aon Hewitt (Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income, 2011)
40%:	of participants with balances < $20,000, cashing out completely	Fidelity Investments (Plugging the leaks in the DC system: Bridging the gap to a more secure retirement: Q2 2010)
74%:	of employers expressing alarm over cashout behavior	Aon Hewitt (Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income, 2011)
Proliferation of Small-Balance IRAs and "Stranded" D.C. Accounts		
38 million:	separated/retired participants remaining in D.C. plans ("stranded")	Cerrulli (Quantitative Update, Retirement Markets 2009)
25 million:	small-balance IRAs (less than $25,000)	EBRI / IRS Data (2004)
III. THE OPPORTUNITY FOR POLICY & BEST PRACTICES		
Reducing Cash-Outs by 50%		
$1.3 trillion:	increase in retirement savings by 2020, if cashout rates reduced 50%	EBRI Center for Retirement Income
Consolidating Small-Balance & "Stranded" Accounts		
$43.5 billion:	participant fees saved by consolidating "stranded" D.C. accounts	2012 "stranded" accounts, growing at 5% per year, over 10 years @ $92/account/year