Testimony

on Behalf of Aon Hewitt

By Glenn Hutto

DC Operations Leader

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"Participant Plan Transfers and Account Consolidation for the Advancement of Lifetime Plan Participation"

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Mr. Chairman, Rennie Worsfold, Issue Chair, and Members of the ERISA Advisory Council, thank you for the opportunity to submit this statement for the record.

Aon plc (NYSE: AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resource solutions and outsourcing services. We have 72,000 colleagues worldwide. Aon unites to empower results for companies in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise.

As the global leader in human resources solutions, Aon Hewitt is the largest independent provider of administration services for retirement plans, serving more than 14 million retirement plan participants in the U.S. Our 12,000 retirement and investment colleagues are dedicated to helping plan sponsors maximize retirement outcomes for their employees. We are honored to be a part of the discussion about the important topic of participant plan transfers and account consolidation to help facilitate lifetime plan participation and improve the retirement security of Americans.

To an individual participant in a defined contribution (DC) plan, it may seem that the process to transfer money from one plan to another is the same as cashing out the account. After all, both involve contacting the former employer's plan and requesting a distribution. In reality, the two can be quite different.

The process participants must follow to roll over money between qualified retirement plans varies from recordkeeper to recordkeeper and sometimes from plan to plan. Additionally, there are many steps participants must take to complete a rollover and some of these steps can mistakenly be overlooked; participants will send forms without attaching the rollover check, forget to send required documentation, or have the former employer plan mail the check directly to their new employer's plan without required documentation. Other complications occur when participants elect to have the former employer mail the rollover check directly to the new plan, but it is "lost in the mail" and never received. In some instances, months can go by before participants notice their money has not been deposited into the account in the new plan. This results in great frustration and lost earnings to participants. In some cases, the aggravation of delays leads participants to request the former or new plan make up lost earnings.

Because millions of Americans rely on defined contribution plans as the backbone of their retirement savings, it is important to address the complications with plan to plan transfers. We thank the Council for the opportunity to share our perspective, data, insights, and recommendations.[1]

Identification and development of a better understanding of the issues hindering plan to plan transfers and account consolidations.

I. How much does the process for a distribution and rollover-in differ?

Processing either a distribution or a rollover-in starts with collecting the same basic information:

- Money type being disbursed:
  - Pre-tax contributions can be rolled over to any qualified employer plan as long as it is allowed by the employer's plan
  - After-tax contributions can be rolled over to any qualified employer plan as long as it is allowed by the employer's plan. In 2015, 48% of employers allowed for after-tax contributions to the plan[2]

[1] Aon's testimony focuses on the questions set forth by the Council as they relate to distributions where the participant's balance is $5,000 or greater. Distributions resulting from an automatic force-out of a participant's balance are not factored into our testimony but we do see a similar application of the clearing house services with both participant-initiated as well as force-out distributions.

- Roth contributions can be rolled over to a Roth IRA or a 401(k), 403(b) or 457(b) Designated Roth Account (our research shows 42% of employers still do not allow for Roth 401(k) contributions in their plans and therefore cannot permit roll-ins of Roth monies)[3]

- The name of the receiving employer plan/where the money will be transferred
- The year in which the participant began contributing to a Roth 401(k)

A participant may also need to make decisions about his/her disbursement, including:

- The amount of the distribution. Some plans allow participants to take partial distributions
- The rollover destination for each contribution type (i.e. rollover to another qualified employer plan or a traditional or Roth IRA)
- The withholding amount taken from an indirect distribution, if applicable
- Whether to take a portion of the distribution in shares if the employer plan offered an employer stock investment option and the participant invested in that option. Generally, a receiving employer plan does not accept a transfer of shares in kind. Consequently, the participant may need to liquidate the shares into cash before transferring to the receiving employer plan or roll over the shares into a brokerage IRA.

a. **Distributions**.

Participants are required to read the Payment Rights Notice and verify that they understand the options (e.g.: (i) how much money will be withheld, if applicable; (ii) rolling out of the plan into another employer plan or an IRA; (iii) electing to make an indirect rollover; (iv) cashing out and taking the distribution into income, etc.) before proceeding with the distribution process

b. **Rollover-ins**.

Participants generally have the option to determine how the transferred assets will be invested. In most plans, a participant can have the investment portfolio of their new plan match the asset class structure of the previous plan. However, investment options will vary from plan to plan and an identically constructed portfolio may be impossible to construct. Plans may also automatically invest rollovers-in using the default investment option, such as a target-date fund

II. Minimum data elements for distributions and could they be standardized? And would these standard data elements be readily adopted by recordkeepers?

a. **Rollovers.**

For distributions that have been rolled over, the receiving recordkeeper needs the following data elements from the sending recordkeeper:

- Total amount rolled over
- Amounts by each money/contribution type—(i) Before-Tax (including employer money types), (ii) After-Tax and (iii) Roth 401(k)
- Non-taxable contribution amounts, both for non-Roth and Roth money types
- If applicable, the year in which Roth 401(k) contributions began

b. Terminology.

[2] Aon Hewitt, *2016 Universe Benchmarks* (Lincolnshire, IL: Aon Hewitt, 2016).
[3] Aon Hewitt, *2015 Trends & Experience in Defined Contribution Plans* (Lincolnshire, IL: Aon Hewitt, 2016).

While the required data is the same from recordkeeper to recordkeeper, providers may use different terminology to describe the same data; this lack of consistency can result in incorrect data being shared, leading to delays in processing. For example, one recordkeeper may classify money as “non-taxable” while another may use the term “after-tax,” or some record keepers would consider money as non-taxable since it is being rolled over. Creating a common language for data elements would be a simple step in making plan to plan transfers faster and more efficient.

c. Loans.

When my Aon colleagues testified before the Council on June 8, 2016, they explained that loans are one of the major barriers to plan consolidation and are at risk of default upon employment termination. To reduce this risk and mitigate the possibility of leakage, we recommended facilitating the transfer of loans from plan to plan by adding repayment flexibility upon transfer. This recommendation included a 90 day grace period for loan repayment and a standardized collection of information on loans to create consistency across the industry.

In order to accomplish this, there are many data elements needed including, but not limited to:

- Original loan amount
- Original loan term (begin and end dates)
- Current loan amount outstanding (principal and missed interest)
- Current loan repayment amount
- Last repayment date
- Loan interest rate
- Loan amortization schedule

III. How are distributions processed, mostly electronically or via form?

The large majority of distributions are processed electronically unless spousal consent is required. A small minority of plans, typically those sponsored by governmental entities, require form-based processing.

IV. What would it take to support ACATS or some other electronic fund movement?

Taking advantage of the existing Automated Customer Accounts Transfer Service (ACATS) or automating the process through other means to facilitate the payment transfer component of the plan consolidation process would greatly simplify the process of plan to plan transfers.

In order to use ACATS, a trustee must be a member of the Depository Trust Company (DTC). Currently, most major trust companies are members of the DTC and already have the capability to automate transfers between trust companies holding assets for qualified plans. Because this process is already firmly established, the biggest investment for all parties involved would be to standardize and automate the process of transferring accounts seamlessly between recordkeepers and trustees.

To automate the process, recordkeepers would need to agree on a standard set of data elements, as well as standard terminology of data, to seamlessly complete transfers. This would include:

- Total amount rolled over
- Amounts by each money type:
  - Before-Tax (including employer money types)
  - After-Tax

  - Roth 401(k)

- Roth 401(k) Begin Date when applicable
- Specific data on loans if they are being rolled over

Even if the process and data elements needed to automatically move assets from one qualified employer plan to another is standardized, there would still be some barriers before all plan to plan transfers can be fully automated. For example, if participants are invested in annuities or funds that are not easily liquidated, are not daily valued, or have a liquidation penalty, it may be difficult for record keepers to automatically liquidate assets without an election from the participants. In addition, participants with outstanding loans may want to have the option to pay off the loan rather than roll it to the new plan.

V. How could clearing house services be adopted from a record keeping perspective?

Aon suggests looking to other geographies for ideas and experience to facilitate inter-plan transfers. A great example is Australia's super streaming process, which enables the consolidation of superannuation accounts. In order for this process to work effectively, each plan (fund) has an assigned Tax File Number. When workers change employers, they can choose to consolidate all prior accounts into their new fund by providing the Tax File Numbers of their prior and new plan(s). Forms and processes are simple, and providers are given only three business days to complete the consolidation.

To ease the administrative burden of plan to plan transfers on workers, Aon suggests adapting certain elements of the Australian super streaming process, which enables the consolidation of superannuation accounts. We propose that when workers change employers, a standard form would be issued in both online and paper format by the employer or plan provider for the worker to authorize the automatic rollover of their retirement account balance from the former plan into the new employer's plan. Tax identification numbers would be required for each plan, and a centralized database managed by a third party entity (e.g., the U.S. Department of the Treasury) would be available to confirm qualification, thus negating the need for special letters or other documentation. The tax identification numbers could be required to be included on each plan's website, as well as be available on a public website by plan name.

Certain investment structures would require special disclosures, including:

- Investment funds with a liquidation fee or penalty
- Investments that are not valued daily
- Investments that include an insured guarantee or other lifetime income features

Specifically, the following features would be required:

- An independent party (government sponsored or funded) would issue an identifier (Plan ID) to all employers
- A standardized form would be developed and all employers would be required to distribute it to newly hired workers electronically or in print
- A list of all employer IDs would be available for the worker to input the ID of the former and new employer on the rollover form on a public website, as well as on each plan's website
- The new employer would send the form (or the appropriate data elements) electronically to the independent party to facilitate the money transfer process between trustees, with appropriate connection to the plan recordkeepers

Recordkeepers would need to build integration with the clearing house to facilitate the following:

- Initiating the electronic transfer of assets between brokerages/banks

- Passing of required data elements (as noted earlier in this testimony) between recordkeepers
- Agreement on standard reconciliation and issue resolution procedures between the clearing house, brokerages/banks and recordkeepers

VI. What could DOL do to facilitate the overall easing of the plan to plan transfer process?

Defined Contribution plans now play the primary role in helping American workers save for retirement. Simplifying the process for moving assets from plan to plan will reduce the risk of leakage of assets outside of the employer-provided system and thereby help to improve long-term outcomes for workers.

As outlined in our June 8, 2016 testimony before the Council, Aon recommends four changes to ease the plan to plan transfer process:

1. Streamline the process steps for a plan consolidation
2. Create an automated clearing house, based on the Automated Customer Accounts Transfer Service (ACATS)
3. Facilitate the transfer of loans from plan-to-plan by adding repayment flexibility upon plan transfer
4. Provide assurance to plan sponsors that plans will not be penalized if non-rollover eligible assets are accepted into the plan

Each of these ideas is discussed in more detail below.

1. Streamline the process steps for a plan consolidation.

As detailed in section V of this testimony, Aon suggests adopting and adapting some of the most effective features of the Australian super streaming solution in order to simplify the rollover process.

We propose that when workers change employers, a standard form would be issued in both online and paper format by the employer or plan provider for the worker to authorize the automatic rollover of their retirement account balance from the former plan into the new employer's plan. Each employer plan would be given a tax identification number and would rely on a third part to verify plan eligibility.

2. Create an automated clearing house, based on the Automated Customer Accounts Transfer Service (ACATS).

Whether to further automate Aon's first recommendation, or simply to facilitate the payment transfer component of the plan consolidation process, a process could be developed for trustees to "talk" to each other to facilitate money movement for qualified plans, similar to what is currently in place for other asset transfers. In the U.S., the foundation for this has already been laid through the Automated Customer Account Transfer Service (ACATS). ACATS is a service that standardizes the ability to transfer funds, speeds transaction settlements, and, ultimately reduces operating costs by efficiently automating the transfer of customer accounts from one brokerage firm/bank to another.

To utilize ACATS, a trustee must be a member of the Depository Trust Company (DTC). Currently, most major trust companies are members of the DTC and already have the capability to automate transfers between trust companies holding assets for qualified plans. Details of our recommendations for creating a clearing house based on ACATS are outlined in section IV of this testimony.

The solution to automate plan transfers would result in an overall savings to participants and plan sponsors. Plans experience lower administrative fees due to reduced numbers of accounts, as well as reduced costs from eliminating manual processing and participant support navigating a complex process. Participants benefit from cost savings because they are not paying administrative fees on multiple accounts. Both plan sponsors and participants enjoy the streamlined plan transfer process and ease of account consolidation.

3. Facilitate the transfer of loans from plan-to-plan by adding repayment flexibility upon plan transfer.

As noted earlier in this testimony, loans create a barrier to plan consolidation and are at high risk of default upon employment termination. Some employers facilitate post-termination repayment, but even with that added flexibility there is a deterrent to plan consolidation.

Allowing the rollover of loan balances from one employer to another would provide a valuable benefit to employees and would reduce leakage. However, loan repayment is complicated and in today's regulatory environment, allowing loan rollovers would be an administrative burden. To provide flexibility for loan repayment upon job change, as well as limit the risk of inadvertent loan defaults and/or administrative complexity, we recommend:

- If employers agree to accept loans, allow a 90-day grace period prior to loan payment commencement, with flexibility to amortize the loan over a different set of parameters consistent with the new plan's provisions.
- Update the model form for rollovers, to be completed online or in paper, to include needed information about the loan and to create consistency across the industry.

Enabling the transfer of loans would give employer plans an additional edge over IRAs and we predict a measureable and significant decrease in leakage via loan defaults.

4. Provide assurance to plan sponsors that plans will not be penalized if non-rollover eligible assets are accepted into the plan.

It will be up to the participants to certify the eligibility of balances being rolled over.

VII. Conclusion:

Streamlining the plan to plan transfer process will enable greater portability of retirement plan benefits and improve long-term participation in the employer-provided retirement system, which provides workers with expertise, protections and cost savings that are not available in the retail market

We appreciate the opportunity to share our data, resources, expertise and recommendations with the Council as you continue your efforts to help simplify the portability of retirement plans and improve retirement security for all Americans.

Thank you.