Testimony of

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

Introduction

Thank you for letting me speak with you today on the topic of Participant Plan Transfers and Account Consolidation for the Advancement of Lifetime Plan Participation.

I am responsible for defining and establishing Facebook's financial benefits strategy for our people including, but not limited to, retirement plans and non-retirement plans such as financial planning, savings, investment, estate and legal plans, debt management, home buying, and education. Prior to Facebook, I have held leadership positions at Intuit, Inc. and Symantec Corporation, responsible for global retirement programs, mergers & acquisitions, compliance and governance, and pension scheme design. I've had active roles conducting vendor analysis, investment manager research, fee analysis and negotiations, Request for Proposal construction, and investment policy statement development.

The testimony put forth is reflective of my personal experience and opinions formed over the course of my career. They are not in any way intended to reflect the perspectives of Facebook, Inc.

Executive Summary

The theme of my comments is that lifetime participation in retirement plans is inhibited due to system structure that is stuck in the past. Working for various companies in Silicon Valley for most of my career, rarely a week goes by that I do not think – why are Americans contributing to, managing, and accessing their retirement plan accounts via technology and processes created more than two decades ago. While I acknowledge that many processes and procedures aim to preserve a retirement system that has legitimate concerns around early distributions and subsequent income tax and/or penalties, we live in an era with a basic premise that all actions and interactions should be completed in a matter of a few clicks and a swipe. The retirement system and corresponding federal government regulations need to catch up.

Brick & Mortar and the Pen are obsolete

In the June panel, other speakers explained the complicated process of an employee requesting a distribution or obtaining a rollover. As explained, if you leave a job, you must request a form from your current plan administrator that can often take multiple phone calls or emails to obtain. In addition to actually completing the form, which includes various "Sections" that even seasoned retirement plan individuals have difficulty with, a majority of the forms require completion by printing, filling out by hand, and a visit to a bank or notary for signature. The receiving retirement plan may have other requirements and questions that need to be answered on a second form. Thankfully, few institutions still require a medallion signature. It is not necessary to explain the function of the medallion signature to this panel but in short, a medallion signature guarantee was developed to help protect people involved in a paper-based stock transaction from fraud. An increasing number of banks have reached the conclusion that the medallion signature guarantee is no longer feasible to provide due to a service that generates no revenue, is costly to properly run, and exposes the bank to large financial risk. Many banks have concluded it is safer to say “No” to a customer request than to incur the inevitable angry response to a quoted fee that is commensurate with the costs and risks involved.

Reviewing studies from JD Power regarding satisfaction of the US financial advisory system, found that the 2016 level of overall satisfaction among financial advisors “…the Employee Advisor segment has declined year over year to 701 (on a 1,000-point scale) from 732.” Also of note was that “The percentage of full service investment advisory customers who are validators…” (Validators want to make their own decisions, but still have access to an advisor for support and as a sounding board) “…has increased steadily since 2013, and now accounts for 36% of all full service investors. In contrast, the percentage of collaborators…” (Collaborators interact with an advisor and depend on that guidance and advice for investment decisions.) “…has decreased steadily during the same period (to 51% in 2016 from 59% in 2013), while the number of delegators…” (Delegators want an advisor to make decisions on their behalf) “…has remained flat. The trend is even more pronounced among Millennials (born 1982-1994), with 64% falling within the validator segment this year.” This data suggests that more individuals want control of their financial lives and as a result, need a system that supports them in this endeavor.

You may be familiar with a company called Betterment or Wealthfront. They are just a few of many, financial technology (“fintech”) companies that use technology to make financial services more efficient. Like most fintech companies, the basic premise of their service is that the user experience and interaction is facilitated 100% via a mobile or desktop device and that all transactions can be completed with a few clicks and a swipe. As an example, Wealthfront provides a service to consolidate retirement and non-retirement accounts to provide long-term investment management. This is an extremely important service for all generations looking to consolidate 401k assets with the goal of creating an appropriate asset allocation for retirement. Another firm, Acorns, introduces individuals to micro investing by connecting individual’s bank accounts and credit cards used to make everyday purchases. Concurrent with a purchase, the company will round-up the purchase to the nearest dollar and then invest the difference into a pre-selected, low cost investment portfolio based on the individual selected risk tolerance. Capital One, a large institution in the US, has built features that allow users to “swipe right” to complete a transaction that leverages the capabilities of e-Signature on mobile through companies like DocuSign. Referencing these firms is not to be seen as an endorsement but rather illustrating that the services provided can all be completed without a need for the user to access a printer or speak with a bank manager.

One might think that adopting this type of technology exposes the end user and institutions to greater risks of fraud – this could not be farther from the truth. Through technology, financial institutions are utilizing the highest levels of security with SSL encryption, multi-factor authentication, ID verification, automatic logouts, secure servers, and account alerts. How big is the fintech space today? Global investment in financial technology reached $22 billion in 2015 (about $15 billion in the US alone) to continue to bring efficiency and an improved customer experience in services such as payments, investments, financing, insurance, advisory, and many other financial services.

All Data is Available in a Database

Every company in the digital age maintains customer data in some form of a data center (either with on-premise hardware or off-premise cloud storage). Many banks, insurers, and other financial institutions are leveraging this data with other technology to improve their services and outcomes for customers. In the UK, a company called Simpler World has created a service to make it very easy for customers to switch bank accounts. To make the process simple and easy, customers can choose the switch date. All outgoing payments, debits, and automatic payments are moved seamlessly; additionally any deposits made to the old account will be redirected to the new account for up to three years. Not only is the service simple but it is supported by many UK banks, which makes the process familiar for users and consistent for the financial institutions. The volume of data in existence today and in the future not only provides an abundance of opportunity to improve individual's lives and outcomes, it has required new database management skills. Many businesses in the last 5-10 years have woken up to the realization that data is a valuable asset that they need to protect and exploit. Businesses and academics are on the forefront, however governments all over the world are still playing catch up and need to find new ways to make data more easily accessible.

The predominant method of transferring a retirement account is through a rollover. When a request for a retirement account rollover is made, the account's current custodian sells all the securities held and sends the proceeds directly to the individual via check. The account holder must then send the amount received to the new retirement account within 60 calendar days to avoid the distribution from being reported as a taxable distribution. However, when an account holder requests a direct transfer, the account's current custodian electronically transfers the contents of the qualified account (i.e. securities and cash) to the new custodian via ACAT. Unfortunately some brokerage firms and automated investment services do not allow retirement accounts, such as IRAs, to be transferred electronically because they do not support ACATS – the industry standard for electronic account transfer. Electronic transfers are radically simpler than rollovers because they avoid lost or stolen checks and are completed within a few days without any intervention from the individual. When it comes to retirement accounts, specifically 401(k) plans, electronically transferring accounts should be the norm and will lead to improved lifetime plan participation.

IRS Reporting Requirements Too Complicated and DOL Focus on Lost Participants

Not only is the current existence of paper forms, checks, and wires burdensome on the front end for the individual and lifetime plan participation, the strain is felt on the backend as well as on the financial institution itself. As an example, when a wire transfer occurs, the financial institution distributing the proceeds is required to file an IRS Form 5329 for reporting purposes. Additionally, the same financial institutions is then required to report the distribution for the individual's IRS Form 1099, even if it is going directly to an IRA or other qualified plan. This means that the receiving firm must get a deposit form from the client and file another form with the IRS indicating that money was re-deposited. Otherwise, the IRS considers the distribution as taxable income and the individual will start receiving notices. Understanding that this process is under the purview of the IRS, there is no reason why both distributing and receiving accounts should be required to report a direct rollover between qualified plans in order to create a tax reporting record.

Most plan sponsors have a percentage of retirement plan participants who are terminated and are either lost or non-responsive participants when it comes to engagement. This matters to plan sponsors and should matter to other participants because most plans are charged on a per participant fee even if the fee may be charged to the participant. This challenge is compounded by the fact that DOL regulators are focusing in examination on lost or non-responsive participants. There is appropriate concern about participants being cheated out of retirement assets and plan sponsors must ensure that accounts are retained for when the participant shows up. For large plan sponsors, the population of lost or non-responsive participants could easily be a couple thousand participants and regardless of the number of repeated distribution notices – for whatever reason, some participants will not take their money! Plan sponsor employees collectively spend countless hours completing multiple lost or non-responsive participant searches. This is not to imply the retirement account holders should obtain a distribution, but rather highlighting that eliminating the barriers to consolidation will create better prepared and more engaged retirement plan account holders.

The Practical Challenge of the Plan Sponsor

As long as participant assets are in an employer sponsored retirement plan, it is likely that the investment fees will be lower than in an IRA, which will increase lifetime savings. My personal opinion is that IRA fees can be excessive and that the investment duties to adequately identify an appropriate asset allocation is too burdensome for the average retirement plan participant looking to roll over an account. Therefore, it is better to roll over assets to another employer plan than to an IRA. Also, today's generation of "millennials" demands an increased attention to their retirement plan portfolios because the traditional three legged stool has been eliminated – it seems likely that they will have to rely on a smaller portion of the social security system compared to earlier generations of individuals. With the investment management industry proliferating, employers focusing their employer "contribution" or "match" on its impact to the bottom line versus helping to supplement replacement income, and employees subject to low limits of tax preferred contributions, greater living expenses, and average employee tenure less than five years, the system cannot continue to operate under a premise that individual IRA's are superior to 401(k) plans. We have to make it easier for participants to roll-in accounts to their new employer plan.

At a prior employer, I started a campaign to encourage employees and terminated employees (still maintaining an account in the 401(k) plan) to move their old 401(k) accounts and IRA balances; or to roll-in. The plan's third party administrator, Empower Retirement, assisted the employees with a white glove, concierge model of service. We found that many employees were eager to roll over their prior retirement accounts but did not fully understand the process for doing so; or could not get all the way through the process even in a highly educated workforce with larger than average salaries. This service model was successful in its own right, however it still required the individual to follow the traditional rollover steps with forms, etc.

There is actual complexity as well as a perceived level of complexity that discourages individuals from requesting rollovers and specifically rollovers to another employer's plan in order to help consolidate their assets and build lifetime retirement income. This, coupled with the fact that most retirement plans' third party administrators set a communication precedent that their IRA is the best rollover option, hinders consolidation. The federal government hoped that the newly required disclosures would help inform retirement plan account holders but I still see individuals steered toward less optimal IRA's from various outside "experts" versus to their prior or current employer 401(k) plan. The current administration's myRA proposals would likely be better than having employees so dependent on potentially biased recommendations, which is an easy default because there is very limited paperwork.

Conclusion

My goal is to help individuals succeed in reaching their financial goals. Facebook, along with many other companies have created financial wellness initiatives focused on helping employees have access to tools, services, and products that aid in achieving their financial goals. The government also plays a vital role in this goal by providing critical long-term investments that private markets alone will not produce. Technological success will require updates to regulations, priorities, and policies to extend lifetime plan participation and improve the lives of all individuals.