Testimony of Robert Hunkeler

Before the

ERISA Advisory Council

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Facilitating Lifetime Plan Participation

Background

My name is Bob Hunkeler and I am the vice president of investments at International Paper and a former chair of The Committee on Investment of Employee Benefit Assets, or CIEBA. I'm here today to testify on behalf of CIEBA, and I appreciate this opportunity to share CIEBA's views on facilitating lifetime plan participation.

CIEBA represents more than 100 of the country's largest corporate pension funds. Its members manage almost $2 trillion of defined benefit and defined contribution plan assets on behalf of 17 million plan participants and beneficiaries. As the largest organization of corporate pension investment officers, CIEBA represents the interests of employee benefit plan sponsors before legislators, Congress, regulators and the media. Since 1985, CIEBA has provided a nationally recognized forum and voice for corporate pension plan sponsors on investment and fiduciary issues.

The transition from a defined benefit plan system to a defined contribution plan system has shifted retirement planning responsibilities from plan sponsors to participants. Participants have to decide how much to contribute to their plans, how to invest those contributions, and what to do with their retirement assets when they change jobs. Poor decisions can significantly reduce their retirement assets while good decisions can significantly improve their retirement outcomes. Plan sponsors, as fiduciaries, have taken on a role in helping participants make good decisions – among other things, through auto enrollment in plans and auto escalation of contributions. Plan sponsors also provide diversified, high quality investment options at reasonable costs and many also provide access to financial education. These are all ways that plan sponsors help participants accumulate retirement assets.

Now a new question is: what role can sponsors play in helping participants decide what to do with their retirement assets when they terminate employment? To answer this question, CIEBA conducted two surveys of its members over the past year.

The first survey, conducted last July, examined what DC participants actually do with their retirement assets when they terminate employment. It found that rollovers to IRAs constituted a strong majority of distributions from CIEBA plans, with the plans' recordkeepers receiving about 40 percent of all participant rollover dollars. New research from the Employee Benefit Research Institute (EBRI) found that a number of factors play a role in influencing the decision to rollover plan assets rather than take cash withdrawals. Among other things, EBRI found that rollovers increase with higher account balances. Thus, we believe rollovers to IRAs are not only a major drain on employer DC plan assets, they are likely affecting the largest, most cost effective accounts in our plans.

The second survey, which we just completed in May, explored plan sponsors' perspectives about keeping participants in their DC plans after participants terminate employment. It found that more than 90 percent of respondents agree that keeping participants in ERISA-covered DC plans after termination of employment is a good idea. Why is it a good idea? Most members believe it will result in a better retirement outcome because it lowers participant costs and provides ERISA fiduciary protections.

Although CIEBA members feel strongly about keeping participants in their plans, they are less sure their companies feel as strongly about it. Just over 60 percent felt that their company wanted to keep participants in their plans. This may have more to do with the fact that this is a relatively new area of concern for plan sponsors, rather than any fundamental opposition to the concept of participant retention. For example, less than 10% of respondents felt their company would be opposed to the concept of participant retention.

While most CIEBA members want to keep participants in their plans, less than ¼ have a specific program designed to encourage that behavior. Again, this may simply be a reflection of the relative newness of this issue. The top reasons for not having a retention program were that it was a low corporate priority and that there were concerns about fiduciary liability and cost.

CIEBA members overwhelmingly believe that effective third-party marketing is the primary reason that participants take their assets out of their plans when they terminate employment. Plan sponsors are at a distinct disadvantage when trying to "market" the benefits of staying in their plans. They simply can't afford the sums required to counteract the efforts of service providers to lure their participants away. It's as if we're shooting pistols while the industry is firing howitzers. Other reasons we believe terminating participants take their assets away include the widely-held belief that it is a common practice to do so, and the fact that many DC plans do not allow participants to consolidate other retirement assets into their plans.

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There are a number of plan design features that may encourage terminating participants to leave assets in their DC plans. They include providing brokerage or mutual fund windows, allowing terminating participants to consolidate other retirement assets into the sponsor's DC plan, allowing participants to rollover DB lump sums into the sponsor's DC plan, giving terminating participants access to new loans or continuation of pre-existing loans, providing access to stable value funds, providing partial or systematic withdrawals, and providing access to financial advice or assistance.

While many CIEBA members offer some of these plan features, few offer all or even most of them. Making these features more common across our plans will be an important first step in making the decision to stay in ERISA-covered plans more attractive than rolling over to a non-ERISA-covered alternative. Fortunately, none of these features require regulatory change; only the willingness of plan sponsors to offer them.

Finally, while most CIEBA members could not identify any plan design features that intentionally or inadvertently encouraged terminating participants to exit ERISA plans, a strong majority of CIEBA members indicated they would consider adding some form of annuity or lifetime income option if DOL provided additional guidance, preferably in the form of a formal safe harbor.

Conclusion

In conclusion, CIEBA members believe that terminating participants will have better retirement outcomes if they leave their assets in ERISA-covered plans. However, rollovers to IRAs constitute a strong majority of distributions from CIEBA member plans, with the plans' recordkeepers receiving about 40 percent of all participant rollover dollars.

CIEBA members overwhelmingly believe that the primary reason terminating participants take their assets out of their plans is due to strong third-party marketing efforts. Plan sponsors are at a distinct disadvantage when trying to "market" the benefits of staying in their plans. We simply can't match the industry's marketing budget. CIEBA members also believe that there are a number of plan design features that may encourage terminating participants to leave their assets in their plans, but few plans to date have implemented them all.

Until now, plan sponsors have been largely focused on helping participants grow their retirement assets. Efforts to keep terminating participants in our plans are relatively new and untested. We believe that plan sponsors can play a key role in facilitating lifetime plan participation, but we have no illusions about the challenge ahead of us. It will take a considerable amount of effort and encouragement on the part of employers, regulators and other like-minded parties to cement ERISA-covered plans as the "go-to" option for terminating participants.

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Recommendations:

CIEBA believes that the Department should work towards creating an environment that encourages terminating participants to leave their DC assets in the ERISA-covered plan system. The Department could do this through a participant out-reach program that emphasizes the benefits of keeping assets in the ERISA system.

CIEBA also believes that the Department should create an environment that supports plan sponsors efforts to encourage terminating participants to leave their assets in their plans. The Department could do this by providing best practices guidance that emphasizes the plan design features that encourage terminating participants to leave assets in the plan, and reassure sponsors that their efforts to keep terminating participants in their plans will be considered participant education, not investment advice. The Department could also provide guidance that would help sponsors provide lifetime income options in their plans – a design feature that would encourage terminating participants to leave their assets in the ERISA-covered plan system.

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