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Introduction

Thank you for inviting me to speak with you today on the topic of Model Notices and Plan Sponsor Education on Lifetime Plan Participation. My name is Pat Haverland and I am the Vice President of Pension Fund Management for Siemens' North American retirement plans.

Siemens Corporation is a U.S. subsidiary of Siemens AG, a global technology powerhouse that has stood for engineering excellence, innovation, quality, reliability and internationality for more than 165 years. With 343,000 employees in more than 190 countries, Siemens reported worldwide revenue of approximately $98 billion in fiscal 2014. Siemens in the USA reported revenue of $22.2 billion, including $5.2 billion in exports, and employs approximately 50,000 people throughout all 50 states and Puerto Rico.

Siemens is home to more than 70 manufacturing sites in the U.S. Siemens invests nearly $1.4 billion in R&D annually and more than $500 million in job training each year, including $50 million in the United States alone. At Siemens, the U.S. is not only by far the largest market, but is also an extremely vital production location, one of the most important research centers and key base from which Siemens exports globally.

Siemens Corporation sponsors a U.S. defined contribution plan with $10 billion in assets and more than 70,000 participants; the defined benefit plan with $3.7 billion serves nearly 60,000 participants. Plan sponsors, as stewards of retirement programs, strive to develop strong investment features and plan designs that will facilitate and encourage participants to make successful investment choices for retirement.

Executive Summary

The following includes a summary of some of the key reasons for plan participants to maintain their retirement plan assets in the plan sponsor system throughout their careers and into retirement. An approach to the development of a model notice for plan participants is described, including suggestions on information to include, timing of distribution, mediums of communication, and length of notices. Finally, suggestions are included on educational materials that may be provided to plan sponsors to facilitate their understanding of various features that could be incorporated in their plans to encourage lifetime plan participation.

Background

Previous testimony and analysis provided to the ERISA Advisory Council identified compelling reasons for enhancing education and communications to promote lifetime plan participation including:

- Fees advantages – in the overwhelming majority of cases, plan sponsors are able to access investment funds with lower fees than the IRA marketplace.
- Oversight - Plan committees take great care in monitoring the investments, operations and fees on a regular basis, and make changes when necessary.
- Solely in participants' interest – Under ERISA, plan committees are required to act solely in the best interest of the plan participants.
- One plan - Participants can accumulate career-long assets in their "final" employer sponsored plan by continuing to rollover employer plan assets, or IRAs.
- Retirement features – Increasingly, plans are incorporating features such as online advice, professionally managed accounts, partial withdrawals, target date funds, annuities, etc., that facilitate optimal long term outcomes and support lifetime participation.

In spite of the advantages and features of employer sponsored plans, it is often assumed by participants that it is best, or expected, or even required to rollover assets into an IRA upon retirement. Marketing by IRA account providers with access to participants in employer sponsored plans, and other IRA providers facilitate the transfer of retirement assets into IRAs by highlighting features of more investment options, tailored advice, and an all-in-one solution. In my experience at Siemens and with other defined contribution plan sponsors, "leakage" from defined contribution plans runs at around 5-10% per year; with about 90% of the transfers moving into IRAs.

As noted in prior testimony to the Council, younger plan participants and those terminating with smaller balances are the most likely to cash out their savings from the system entirely, incur the immediate tax penalty, and suffer the opportunity cost of compounding investment returns over a lifetime. For participants with smaller balances it can be difficult to find cost-effective solutions in the retail markets where account minimums, maintenance fees, restricted investment menus, and sliding-scale loads combine to quickly reduce the earning power of smaller balances.

Because an individual may participate in many 401k plans before reaching retirement, consolidation of assets can be a challenge. Though I have spent most of my career in this industry, I have had challenges coordinating rollovers from several former employers' plans into my current plan. This has included deflecting marketing efforts aimed at consolidating my assets in an IRA with previous employers' administrators, with much higher fees. I have also tried to help colleagues and friends with the plan-to-plan rollover process. Out of sheer frustration with the paperwork and coordination required, they often abandon their efforts and simply move their funds to an IRA.

Plan participants make many financial decisions along the way to retirement. Informative and ongoing participant communications as well as plan features (breadth and cost of investment options, education/advice, distribution options, etc.) are critical components for building up savings for retirement. The Council's focus today centers on developing communications for decisions on accumulated retirement savings upon termination at job change or retirement.

Model Notices for Participants

As each plan has different features, a model notice should allow for plan sponsors to tailor the information that is specific to their plan. In drafting a model notice for distribution by plan sponsors to participants, the Council may consider both listing the options for departing employees and highlighting key aspects of each option that would impact the ultimate financial outcome for the participant.

Information to Include

To support what is, in most cases, the best financial outcome for the participant, the first two options listed should be to retain the assets in the employer sponsored plan system. For example:

1. Retain assets in the XYZ plan with the following features: *Plan Sponsor to describe features unique to the plan, such as:*
    - Continued access to a diversified, lower-cost investment option lineup, including features not available in the IRA market such as institutionally priced funds, customized investment guidelines for focused and risk controlled investment strategies, and stable value funds.
    - Oversight by objective experts carefully selecting and monitoring the plan funds, and replacing poorly performing funds as necessary.
    - The participant's continued ability to control investment decisions.
    - Ability to roll-in other 401k plan assets and IRAs.
    - Access to other plan features such as:
        - A self-directed brokerage account with a wide array of investments (including stocks and mutual funds outside of the plan's "core options")
        - Investment advice by a non-conflicted third-party advisor that may have the ability to incorporate other plans' assets, spousal investments, other non-retirement savings accounts, social security income, annuity income from defined benefit plans
        - Professionally managed account
        - Partial withdrawals
        - Annuities, Deferred Annuities, Target Date funds with embedded annuities
        - Investment strategies that achieve annuity-like outcomes
        - Retirement Fund (e.g. as part of a Target Date Fund line-up)

2. Rollover assets into a new employer sponsored plan (if applicable)
    - Remind participants that remaining in the current plan is an option.
    - Advise participants to compare fees and plan features of the exiting / enrolling plans.
    - Provide the rollover distribution options and tax implications (402(f) notice).

3. Rollover assets into an IRA
    - Advise participants to compare fees and features of the exiting plan with the IRA offering.
    - Provide the rollover distribution options and tax implications (402(f) notice).

4. Cash out of the plan
    - Include a simple example of the actual lifetime cost of cashing out of a 401k plan at an early stage. This could be provided by the DOL and utilized in termination communications.

- Direct the participant to an on-line “calculator” that calculates the long-term benefits foregone by cashing out at termination: “cash today” versus “savings accrued at retirement”.
- Provide the rollover distribution options and tax implications (402(f) notice).

Because the long-term financial benefits of keeping assets in lower-cost employer sponsored funds can be significant, it would also be helpful for a notice to direct participants to an online calculator that displays projected differences in account balances at retirement and annual income in retirement, due to fee differences alone. Or provide an example of the impact of different fee levels on balances and annual income in retirement.

Finally, since many participants could use guidance in asking the relevant questions when considering a rollover into an IRA, incorporate a checklist into the notice that compares key aspects of the participant’s plan with the IRA they are considering. The plan sponsor could pre-populate answers for the plan, so the participant could then run down the checklist with the IRA provider to get the comparable answers for the IRA.

Timing of Notices

Employers can encourage active decision-making by plan participants by proactively delivering a notice to participants upon termination, rather than waiting for a participant to request rollover forms. Notices of participants’ options should be provided, at a minimum, whenever a participant leaves an employer, whether in-career or at retirement. This information should also be incorporated into the plan providers’ website to inform and facilitate participants’ decision-making process at any point in their careers. For new hires, in addition to providing basic plan design information, the employer can provide the new employee with information about the rollover process from their account in a previous employer’s plan or an IRA, into the new employer’s plan.

Methods of Delivery

A notice could be developed by plan sponsors, tailored to their specific plan and delivered in writing, webinar, and/or video. To reach those without internet access, the notice from a plan sponsor would need to be in writing, delivered by mail.

Individuals making decisions about their 401k plan investments may search the web to understand the rollover process and options. An online search for key words, “401k rollover” for example, could bring the public to a DOL page devoted to describing options that 401k plan participants should consider when terminating employment. In addition to a written description, webinar and/or video, the site could also include online calculators allowing participants to input key assumptions and compare the long-term outcomes of keeping assets in an employer’s plan versus an IRA or cashing out. A link from the plan sponsor’s website or written communications could direct participants to such a DOL page.

Customization

Different information and emphasis could be directed to “in-career” participants leaving an employer, versus retiring or near-retiring participants describing the positive aspects of retaining assets in the employer’s plan or the qualified employer plan system. In the former case, the cost of cashing out and the features of retaining assets within the employer plan system should be highlighted. For the latter, highlighting the relatively lower fees and retirement-focused features offered in the final employer's plan, and providing checklist for the participant to compare the employer's plan to an IRA could be helpful.

Length and Style

In all cases, the wording of a model notice should be simple and flexible, avoiding legal terminology and industry jargon. Written format could cover the topic in no more than two pages; if delivered by webinar or video, a clip as short as five minutes could cover the basic information.

Educational Material for Sponsors on Plan Features

As the amount of money accumulating in employer sponsored plans has grown, the number and variety of post-retirement plan features available in the marketplace has increased. For a plan sponsor interested in providing participants with features that may encourage lifetime participation, the options are many, and growing.

As a starting point, to assist plan sponsors sorting through the many options in the market, it would be helpful to have a guide such as a chart, listing generic products, with a description of each. Each description could describe the general features of the product, the variations that may be provided, and how the product might be expected to support lifetime participation in employer sponsored plans. In addition, a "questions to ask" section to assist plan sponsors in their due diligence of the products would be helpful. The guide should also direct plan sponsors to fully understand the costs, explicit and embedded, of the various options.

Features to describe include annuities, financial planning and advice, investment strategies that mimic annuities, professionally managed accounts, partial payouts, rollovers from DC to DB plans, target date funds, target date funds that incorporate annuities, etc.

Distributing such material through the DOL website and including articles and updates in its weekly email would inform plan sponsors of the features they might wish to consider. In addition, including such information in the DOL's Fiduciary Education Campaign seminars and webcasts would be helpful, particularly for small and medium sized employers with fewer resources to gather the information. To avoid specifically endorsing any particular feature, a simple alphabetic listing of features would introduce the plan sponsor to the products in an objective manner.

Conclusion

A well-designed, employer sponsored retirement plan is a cost effective and closely monitored vehicle enabling employees to accumulate significant savings over the course of their careers. Now, as participants increasingly rely upon defined contribution plans for their retirement savings, it is important to provide clear, concise and objective information to employees about the options available to them throughout various stages: as they change employers, approach retirement, and during retirement, when the benefits of these plans are realized.

The Council has an important role to play in both developing such communications for participants and educating plan sponsors on plan design features that are available for lifetime plan participation. I appreciate the opportunity to provide a plan sponsor's perspective on these issues. Thank you.