Testimony of Robert Hunkeler

Before the

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Model Notices and Plan Sponsor Education on 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 retirement 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 retirement investment officers, CIEBA represents the interests of employee benefit plan sponsors before Congress, regulators, and the media. Since 1985, CIEBA has provided a nationally recognized forum and voice for corporate retirement plan sponsors on investment and fiduciary issues.

Shift from DB to DC System

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 retire or 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 by, among other things, offering 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. Up to now, plan sponsors have focused on helping participants accumulate retirement assets. Now they're beginning to explore how they can help participants decide what to do with their retirement assets when they terminate employment.

CIEBA Member Surveys

Over the past two years, CIEBA conducted three surveys of its members in order to better understand its members' attitudes and practices towards post employment plan participation. The first survey 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.

The second survey focused on what plan sponsors were doing to encourage plan participation after separation from service. It was conducted in May 2014 and then repeated just this month. Both surveys revealed that almost 90 percent of respondents believe keeping participants in ERISA-covered DC plans after termination of employment is a good idea. And most believe it will result in better retirement outcomes, mainly because it lowers participants' costs and it provides fiduciary protections.

However, very few CIEBA companies currently have programs in place designed to encourage participants to stay in their plans. And, even among those few companies that have retention programs, most do not appear to have programs specifically targeted at participant retention. Rather, they tend to be more educational in nature. Written communications are the most frequent communication medium used, followed by web-based, in-person, and telephonic media. Only about ten percent of respondents in our most recent survey indicated they were monitoring retention rates, and none thought their programs were "very effective".

Very few CIEBA companies plan to begin a participant retention program within the next two years, mainly because they see it as a low priority issue and/or because of concerns about fiduciary liability or administrative complexity.

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. They also believe their participants generally understand it to be common practice.

Combating these third-party marketing efforts and participants' general perceptions about remaining in employer plans are the two most significant hurdles to overcoming the participant retention problem. Minor efforts by companies and/or the DOL, such as the development of model notices for participants, will likely have little impact on participant retention.

CIEBA believes that if we are to change the trajectory of participant retention, we must change participants' attitudes toward lifetime plan participation. In order to do that, we must be prepared to go well beyond "model notices".

We must use all channels of communication: written, spoken, advertised, televised, in-person, by telephone, at work, away from work. We must continually communicate throughout the worker's life – not just at retirement or at separation from service. And we must be prepared for a long-term, multi-generational campaign to change workers' attitudes, perceptions and knowledge about lifetime plan participation.

Model Notices

While such an effort is most likely beyond the scope of the Council, and perhaps even the DOL, CIEBA can, in the mean time, offer the following suggestions for model notices:

- They should describe the four ways participants can manage their money after separation from service, with simple pro/con analyses of each way.
- They should describe the benefits (if any) of remaining in the employer's plan.
- They should explain that participants can defer their distributions to a later date and keep their current balances in the plan.
- They should permit employers to express their desire to keep participants in their plans without it being deemed investment advice.
- They should demonstrate, on an individualized basis if possible, the consequences of cashing out of the plan.
- They should be communicated to participants throughout their careers, not just at job termination, and all forms of communication should be encouraged.
- They should be written in simple, plain English, and should not exceed two pages in length (preferably one page, front and back).

Finally, any model notice should be principle-based, not prescriptive. We don't yet know what forms of communication are most effective, so we shouldn't lock ourselves into something we may later determine to be inferior.

Plan Design

There are a number of plan design features that may encourage terminating participants to leave assets in their DC plans. CIEBA believes the DOL should encourage plan sponsors to include the following plan features in their 401(k) programs as a means to further lifetime plan participation:

- Financial advice services (web-based or otherwise)
- Stable value funds
- DB-to-DC rollover provisions
- Ability to consolidate other retirement assets (e.g., IRAs, prior employer 401(k)s)
- Brokerage or mutual fund window options
- Access to loans post separation
- Partial lump-sum or installment distributions
- Annuities or other lifetime income options

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, which we believe are largely due to effective third-party marketing efforts.

Until recently, plan sponsors have been largely focused on helping participants grow their retirement assets. Efforts to keep terminating participants in our plans are relatively new, but we believe that plan sponsors can play an important role in facilitating lifetime plan participation. At the same time, we have no illusions about the size of the effort required to alter participants' attitudes about leaving their assets in their DC plans after separation from service.

CIEBA members are proud of the work they perform creating cost-competitive, high-performing retirement plans. They're confident the platforms they've created are among the best in the Country and are eager to participate in the effort to convince the American worker that his employer-sponsored DC plan is the go-to choice for a lifetime of investing.