Testimony on Lifetime Plan Participation
Before ERISA Advisory Council

Presented by:

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Introduction

Thank you for this opportunity to appear today to present my perspective as a Retirement Plan Administrator on the subject of Lifetime Plan Participation. I have over 3 decades of experience in Retirement Plan administration in a variety of for-profit and not-for-profit organizations. Presently, I am the Senior Director of Compensation & Benefits at Yale University[1] and responsible for Yale's retirement programs.

Yale has offered DC style benefits for almost 100 years and our Plans offer many best-in-class features and benefits. We have over $4.5 billion under management, more than 13,000 active participants, and greater than 30,000 participants overall.

In Plan vs. IRA Rollover

Yale offers the full range of advantages and services of our 403(b) Plans to all participants including retirees and former employees who actually represent more than 56 percent of our participants. There is no formal program to encourage staying in our plan. It is more likely history, lack of roll-over communications upon termination or retirement, ongoing engagement of our former faculty and staff, and our participants' comfort level with the plans that produce this result.

This is significantly different from my 401(k) experience where the norm was a blizzard of messages from the IRA division of our recordkeepers about the ease and advantages of IRA rollovers and an agnostic position of the employer relative to the engagement of former employees. The major obstacles typically preventing rollover were the need for spousal consent or simply participant inaction.

Qualified Plans offer many advantages not typically available in an IRA Rollover and may include:

- Fiduciary Oversight
- Carefully selected and monitored investments
- Institutional or preferred pricing
- Plan Sponsor support
- Recordkeeper support
- Financial education
- Impartial advice services
- Spousal protection
- Creditor protection
- Protection from Required Minimum Distributions, prior to retirement
- Exclusion from consideration in Roth IRA conversions
- Loans
- In plan annuities
- Managed distribution options including RMD administration
- Consolidation of qualified assets

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The main advantage of IRA Rollovers is:

- Investment flexibility.

Unfortunately, from experience and research, we know that too much flexibility and choice is more likely a disadvantage for many investors.

Opportunities

Notification upon Termination

There are several today who can more eloquently comment on effective communication techniques. As a Plan sponsor, I would ask that any required communication be easy to understand; clearly presents the options, advantages, and disadvantages; not be just another regulatory form; and very importantly not create any unnecessary complexity in administration.

Maintaining and/or Rolling Funds into a DC Plan

Guidance would also be helpful on what a Plan Sponsor can and can't communicate about the potential advantages of staying in or bringing other retirement savings into a Qualified Plan. We often struggle with the boundary between information and education vs. advice. Saying less or sticking to generalities may be the safe approach but it is rarely the most helpful to participants.

As an example, consolidating your qualified assets into your current employer's Plan can provide many advantages. However, doing so may require liquidating assets and selecting different investments which might be viewed as advice, something that an employer is not qualified to do. Providing clarity on what and how a Plan can communicate effectively would be helpful to the Plan and beneficial to participants.

We have 284 participants, less than 1%, that have rolled funds into the Plan. This brought in more than $46 million, representing an average present day balance of almost $162,000 so it is clearly not something done lightly. Typically this was part of a formal financial plan and was generally designed to postpone required minimum distribution from other plans, maximize tax efficiency of an IRA Roth conversion, or simplify investment management. There are many more participants who could benefit from consolidating their retirement holdings in a Qualified Plan and information on how this could be communicated would be beneficial.

Transfer of Funds

Regardless of the pros and cons of keeping assets in a Plan, a Rollover IRA, or consolidating into a new or former employer Plan, it would be extremely beneficial to develop a standardized process for moving qualified funds. Today, each request to move assets to or from another Plan or Rollover IRA is labor intensive process unless the same firm is the Recordkeeper or service provider on both sides of the transaction. Each recordkeeper and service provider has their own rules, procedures, forms, and complexities. A standardized process or some form of

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clearing house so that the necessary documentation and instructions can be easily obtained and the transfer of assets easily processed would be in everyone's best interest.

Summary

The current leakage of Defined Contribution savings out of Qualified Plans is not generally in participants' best long term interests for a secure retirement. There is too much temptation to take a distribution or invest in ways that don't have the oversight and advantages offered by most Qualified Plans. Developing an effective vehicle that better informs participants and guides Plan Sponsors about the pros and cons of options upon termination of employment along with simplification and standardization of the process for moving assets between Plans and Rollover IRAs would be a very positive outcome.

Thank you for the opportunity to share my experience and opinions on this important topic.

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