Testimony before the

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Participant Plan Transfers and Account Consolidation for the

Advancement of Lifetime Plan Participation

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Mr. Chairman, Mr. Worsfold, and Council, we thank you for the opportunity to participate in these proceedings and add our voice in support of the Council's work to advance lifetime plan participation.

About Fidelity Investments

Fidelity's goal is to make financial expertise broadly accessible and effective in helping people live the lives they want. With assets under administration of $5.4 trillion, including managed assets of $2.1 trillion as of June 30, 2016, we focus on meeting the unique needs of a diverse set of customers: helping more than 19 million people invest their own life savings in employer-sponsored retirement plans, over 20,000 businesses, organizations, and governmental entities manage employee benefit programs, as well as providing nearly 10,000 advisory firms with investment and technology solutions to invest their own clients' money. Privately held for nearly 70 years, Fidelity employs 45,000 associates who are focused on the long-term success of our customers. For more information about Fidelity Investments, visit https://www.fidelity.com/about.

Summary

We support the Council's objective to advance the cause of lifetime plan participation and to seek out opportunities to ease and encourage the process of participant plan transfers and account consolidation. The process as it exists today is exceptionally complex, burdened by paper, replete with inconsistent and unintelligible processes and terminology, and ultimately extremely difficult for individual plan participants to navigate. This reality has led to the other three participant options – stay-in-plan, IRA rollover, and cash-out – being much more heavily utilized. Only 1.5% of Fidelity's 13.4 million actively-employed participant accountholders processed a plan-to-plan rollover contribution during the year ending June 30, 2016[1].

This challenge must be attacked from multiple angles:

1. A Participant rollover really consists of two transactions – a distribution from the prior employer's plan and a rollover contribution into the current or successor employer's plan. Both transaction processes must be reviewed and simplified to achieve the desired outcome. The ideal state will be one that allows a participant to truly request only one transaction from one plan and provider – an account consolidation at the desired destination.

2. The qualified retirement plan landscape in the United States is broad and diverse. Not all successor employer plans present a compelling mix of attractive fees, investment choice, and administrative flexibility when compared to a prior employer plan or an IRA rollover. Therefore, actions taken

[1] Fidelity Investments, Workplace Investing Customer Analytics, June 30, 2016.

should support reasonable disclosure and focus on making it as easy as possible for participants to maintain the tax-deferred status of their retirement savings, regardless of which option or destination an individual chooses – current or prior employer plan or a rollover IRA.

3. The facilitation of electronic account transfer from prior employer plan to current employer plan is a noble goal. But this goal must be approached with a sober understanding of the many difficulties before us:

    a. The account consolidation process, discussed further below, is so challenging today that there are few incentives for market participants to invest the millions of dollars required to bridge the disparate plan, legal, and regulatory impediments to digitization.

    b. Retirement plan accounts are typically recordkept on proprietary or highly customized systems, so existing account transfer frameworks from the retail banking and brokerage universes will not be easily connected.

    c. Employer-sponsored plans have a limited and varying array of investment options. Furthermore, and increasingly, those investment options (particularly in larger plans) are not publicly-traded. As a result, a framework like ACATS (the Automated Customer Account Transfer Service, operated by the National Securities Clearing Corporation (NSCC), a subsidiary of the Depository Trust & Clearing Corporation (DTCC)) will likely require significant investment in order to address this problem. Since ACATS is primarily designed for the in-kind transfer of publicly-traded securities between large, open brokerage platforms, it will be an instructive framework but not a ready-made solution.

Issues hindering account transfers and consolidation today

Based on the data and experience gleaned from recordkeeping over 19 million participant accounts for more than 20,000 employers, there does in fact remain significant opportunity to ease and encourage the rollover process to employer-sponsored plans. Today, Fidelity processes over 200,000 rollovers per year into qualified plans, but that is still barely 1.5% of actively employed participants on our recordkeeping system. When we pare down the population to only new, proactively-enrolling participants entering a plan in the last year, only 8% have made a rollover contribution during that year, the time they are most engaged and likely to do so[2]. These numbers illustrate how relatively infrequently accounts are being rolled into the current employer plan. So why is this happening (or not happening)?

- The transaction(s) is hard. Two third-party providers. Two plan sponsors. Two call centers. Two procedures. A paper check. Approximately 25% of Fidelity's roll-in contributions are not-in-good-order when first received[3] – most commonly because we receive only a check with no accompanying identification or documentation.

- Terminology is confusing and inconsistent. Plan transfer. Plan consolidation. Rollover. Direct rollover. Indirect rollover. 60-day rollover. Roll-out. Roll-in. Account consolidation. Distribution. Withdrawal. Full payout. Determination letter. Account application. Form. Documentation. Plan sponsor signature. Successor trustee certification. Successor trustee acceptance. Investment

[2] Fidelity Investments, Workplace Investing Customer Analytics, June 30, 2016.
[3] Fidelity Investments, Workplace Investing Operations Reporting, December 31, 2015.

direction. Investment instructions. Rollover form. Rollover distribution form. Rollover contribution form.

- Forms and procedures are designed first and foremost to protect plan sponsors and administrators, not to help plan participants. One need look no further than the two forms that every single plan sponsor and administrator must use, or interact with, more than any other – the two forms used by the Federal Thrift Savings Plan (TSP) and its approximately 5 million participants: the TSP-60 Transfer-In Form and the TSP-70 Full Payout Form . Both forms are long, dense, full of challenging terminology, and require detailed information and signatures from the plan/IRA on the other side of the transaction. In a nutshell, it quickly becomes easier to get the process wrong, than to get it right.

- Technology has not yet played a significant role in improving the process – primarily because the process still holds too much variability for the technology to be user-friendly. On the distribution side, it's still too common for a paper form to be necessary – either because a plan voluntarily imposes this requirement or because of a legal requirement to obtain spousal consent to waive a primary form of benefit. On the contribution side, plans have taken widely varying approaches to required documentation in an effort to manage their fiduciary risk. At Fidelity, 20% of our clients with plans holding assets greater than $100 million impose custom and varying documentation requirements on inbound rollover contributions[4].

In our opinion, based on what we see every day working with for-profit employers and not-for-profit organizations and their plan participants, the issues discussed above are the key impediments to the plan consolidation process. The additional complexities of loans, self-directed brokerage accounts, additional money types (such as Roth and traditional after-tax) are relevant, but not material impediments to plan consolidation. Among these lesser factors, participant loans are the most prevalent and worthy of attention as they are held by 20% of qualified plan participants.[5] Nevertheless, our data has shown that the percentage of loans ending in default (typically due to termination of employment) has dropped noticeably since the financial crisis of 2008-2009 and was only 2.7% in 2014[6]. Therefore, we do not see outstanding loans as a significant factor for the average participant.

<u>Recommendations for the future: forms, process, technology</u>

The good news is that today's process is so challenging, almost any efforts in terms of guidance, rule-making, and/or new safe harbors will help at least somewhat. A guiding principle should be to achieve an end-state where account consolidation is truly one request for the plan participant.

- In the retail investing universe, account consolidation is achieved by one request to the destination provider, and facilitated by ACATS. That "destination" provider then "pulls" the account from the previous provider. Our goal for retirement account consolidation should also be one request to the destination provider/plan.

- We should consider the potential for safe harbors that create a "streamlined electronic tunnel" for qualified retirement plan asset consolidation:

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[4] Fidelity Investments, Workplace Investing Operations Procedures, June 30, 2016.
[5] Employee Benefits Research Institute, EBRI Issue Brief #423, April 2016.
[6] Fidelity Investments, Workplace Investing Customer Analytics, February 11, 2015.

  - A standard process across plans and providers that treats the transaction as one request, not two.
  - Regulatory support that prioritizes or even mandates digitization, not simply allows for it.

  This will create the market incentives for employers, plan providers, and other industry participants to innovate and improve the participant experience.

- Since not all qualified retirement plans (or IRAs) are created equal in terms of fees, investment choice, or administrative features and flexibility, we should encourage broader acceptance of account consolidation at employer-sponsored plans – even for terminated participants. A participant may find that one of their previous employers' plans is the best destination for consolidation. Today, while there are notable exceptions, that is usually not allowed by the employer.

- Progress on the recommendations above will begin to create an environment where we can envision an enhanced version of ACATS thriving in the retirement plan market. The incentives will be real – today at Fidelity, it is significantly more expensive to process a retirement account consolidation in the employer-sponsored plan environment than it is to process an account transfer in the retail IRA and brokerage account market using ACATS. Due to a complex and inconsistent investment universe and structure from plan to plan, this will likely need to be a new and reimagined ACATS that:
  - Automatically checks account ownership and identification (there could be a need for industry standards on plan and participant identification);
  - Automatically checks for an eligible "full-payout status" at the prior or sending plan; and
  - Automatically liquidates all security positions at the prior or sending plan to generate cash for transfer to the receiving plan.

Conclusion

The challenge of both easing and promoting retirement plan account consolidation to support lifetime plan participation is both real and necessary. We feel it is crucial to first address the legal and regulatory framework that underpins rollover distributions and contributions – through a unified rollover safe harbor that covers both the sending and receiving plans (both the rollover distribution and the rollover contribution) and encourages a modern, digital user experience for participants. When that landscape is simplified and space is created for innovation in support of regulatory objectives, retirement plan industry participants and employers will step in with both technology and creative plan designs to attract and retain employees and retirement plan assets.