

ERISA Advisory Council

Uncashed Checks & State Unclaimed Property Funds

Written Statement by Retirement Clearinghouse, LLC

June 26, 2019

I. SUMMARY

America's workforce is highly mobile, with the average worker having nearly ten employers over the course of their career. Research and experience have demonstrated that workers come and go into and out of retirement plans over the course of their working career as they change jobs.

Job changing leads to workers taking many and varied paths to retirement which in turn impacts their savings patterns, habits and behaviors, particularly for small account holder. Many of the decisions made at the time of a job change have severe adverse consequences for workers financial security at retirement. A partial list of the worst outcomes that occur when a worker changes jobs includes:

- Cash outs / Leakage at the time of a job change
- Missing Participants / stale addresses as workers change residence and fail to update their information with their financial services provider
- Uncashed checks, which often leading to escheatment to state unclaimed property funds

RCH's Auto Portability program is designed to preempt cash outs and missing participants, which by itself will reduce the incidence of uncashed checks and escheatment. In addition to its natural benefits, auto portability is executed by connecting financial institutions and exchanging data between them, creating a virtual network of heretofore untapped, reliable data that can be used to further resolve uncashed checks issues and reunite owners with properties escheated to state unclaimed property funds. Auto portability has been in use on a pilot basis since mid-year 2017.

RCH's contribution to the thought leadership goals of the ERISA Advisory Council is to explain how the Clearinghouse Network™ can be utilized to add new best practices to the current state-of-the-art for resolving uncashed checks and the escheatment of qualified accounts to state unclaimed property funds. These additional practices include:

1. Conducting periodic 'Locate & Match' services for owners of uncashed checks, and always before escheatment to state unclaimed property funds
2. Adding state unclaimed property funds as participants in the network:
 - a. periodically check state records to locate property owners
 - b. receive and respond to electronic inquiries from consumers – via the clearinghouse – to determine if consumers have unclaimed property in the state fund

II. INTRODUCTION

Originally founded in 2001 as RolloverSystems, Charlotte, NC-based Retirement Clearinghouse (RCH) is a financial technology ("fintech") services organization that works with plan sponsors and service providers to move retirement plan participants' retirement savings forward, solving the small account problem, which in turn helps minimize the twin problems of missing participants and cash out leakage.

RCH's core philosophy is to leverage innovative financial technology that greatly simplifies and streamlines account consolidation processes, while delivering participants personalized education and assistance -- all significantly improving the odds that job-changing participants will move their retirement savings forward and avoid the high cost of cashing out.

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RCH also provides related services, which include administering safe harbor IRAs for participants in transition from active plans as well as for terminating plans, pre-force out communication services, extensive electronic and manual search services for missing participants, including stale-dated check resolution services, and escheatment services. RCH has worked to resolve uncashed checks, some of which in time are escheated, for tens of thousands of participants and many millions of dollars of retirement savings.¹

RCH has worked closely with the Department of Labor and the ERISA Advisory Council ('EAC') over the years. In 2013 RCH testified to the EAC on the topic of locating missing participants for terminated plans, which contributed to Field Assistance Bulletin 2014-1. In 2016 RCH and EBRI jointly testified to the EAC on the topic of simplifying plan-to-plan transfers for small accounts via auto portability. In November 2018, the Department of Labor issued legal guidance that will enable widespread adoption of auto portability: the Auto Portability Advisory Opinion and a proposed Prohibited Transaction Exemption ('PTE'). The final PTE is expected to be issued by the Department in the coming weeks. The Advisory Opinion includes also a footnote (Footnote #5) that provides guidelines for conducting missing participant searches for small account holders in the auto portability program.

As a both a thought leader and a leading practitioner in mobile workforce services, RCH has sponsored multiple seminal research projects, published hundreds of articles and blogs, and has extensively engaged with policy-makers and government agencies. RCH's work has been widely covered by the national and trade press.

A summary of the research and reports that inform RCH's insights into the topic of Uncashed Check and State Unclaimed Property Funds include:

- ***Employee Benefit Research Institute:*** Over a period of years, EBRI has published reports that quantify the dimensions of the mobile workforce:
Key Findings: the average worker will have nearly ten jobs during their career and an estimated 15 million workers with defined contribution plans change jobs each year. Forty seven percent of those workers have less than \$15,000 in their account at the time of their job change and more than thirty percent of those small balance accounts will be cashed out.

- ***Actionable Insights for Your Mobile Workforce,*** Boston Research Technologies ('BRT'), April 2015²
Key Finding: the lack of portability, particularly in the small account segment of the defined contribution market, is directly connected to the most common, adverse consequences that occur when a worker changes their job: cash outs, missing participants and uncashed checks.

- ***Making the Right Choice the Easiest Choice,*** BRT, November 2017³
Key Finding: workers' stranded safe harbor IRAs are periodically compared ('Located') with the plan records of a mega-plan sponsor. Thousands of IRA account holders are 'Matched', often

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years after they left their prior job, and the matched IRAs are consolidated into the employer sponsored plan.

- ***The Mobile Workforce’s Missing Participant Problem***, BRT, March 2018⁴
Key Finding: in the first year after their job change, an estimated sixty six percent of workers move to an employer that offers a plan. Over a five-year horizon, an estimated eighty four percent of job changing workers join a new employer plan.

This body of work demonstrates that workers regularly enter and leave the workforce – and their qualified plans - in variable, even random, patterns, driven by their individual work-life circumstances. Said another way, the mobile workforce is a highly dynamic population: at any given moment, a worker may appear, or reappear in an employer-sponsored plan or IRA.

III. THE MOBILE WORKFORCE & UNCASHED CHECKS

One of RCH’s innovations is auto portability – the systematic consolidation of a job-changer’s small, stranded account into their active employer plan – an action that serves to prevent cash out leakage, preserve a worker’s retirement savings, and consolidate their multiple accounts into their current employer-sponsored plan. As reported by the Employee Benefit Research Institute (‘EBRI’), preventing small-accounts from cashing out when a worker changes jobs could preserve as much as \$1.5 trillion in present value dollars.

The “heart and soul” of RCH Auto Portability, is an electronic records-matching technology that is used to **Locate & MatchSM** participant accounts across record-keeping platforms. The same technology can be deployed with defined contribution recordkeepers and other financial institutions to create a ‘virtual database’ of hundreds of millions of financial accounts that can be queried on demand for current information for forgotten accounts as well as reliable and valid addresses for account holders with a stale address.

The relevance of this observation to the topic of Uncashed Checks and State Unclaimed Property Funds is tied to the network that underlies auto portability, an infrastructure illustrated below that is designed to connect the financial institutions that play essential roles in the delivery of a wide range of retirement services to America’s workers and to tap into the power of their aggregate data – an untapped source of reliable data that can be utilized to resolve many heretofore intractable issues, including uncashed checks.

IV. THE CLEARINGHOUSE NETWORKTM

RCH’s contribution to the thought leadership objectives of the EAC as it pertains to Uncashed Checks & State Unclaimed Property Funds is embodied in the illustration of the clearinghouse network below and the accompanying description of how the network can be utilized to help resolve issues associated with Uncashed Checks and State Unclaimed Property Funds.

The clearinghouse network is not yet fully built out; a pilot version has been in service since mid-2017, connecting Retirement Clearinghouse and the defined contribution record keeper for a mega-employer plan in the hospital services industry that has more than 250,000 employees.

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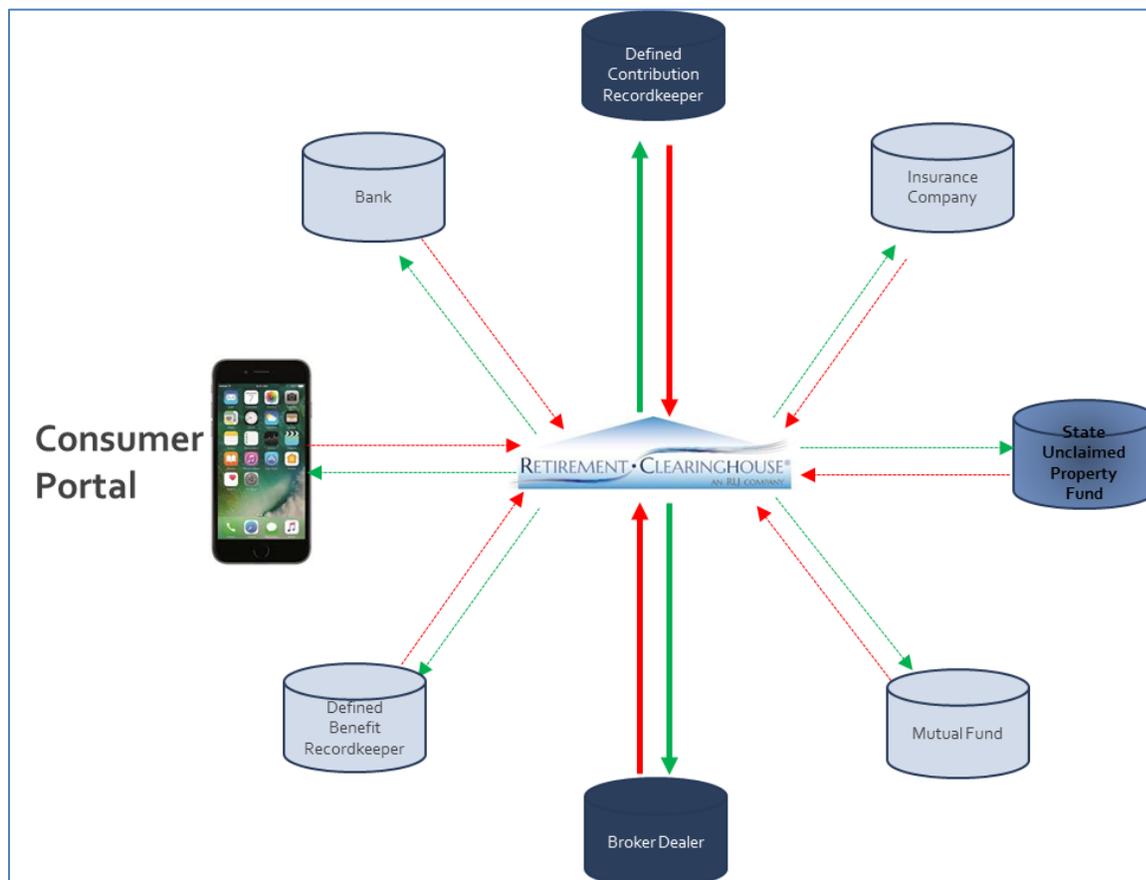
Many defined contribution record keepers have expressed interest in participating in the clearinghouse network but are awaiting issuance of the final PTE for auto portability as a pre-requirement for implementation.

Principles of the Network

The clearinghouse network is designed to maximize its potential benefits and its efficiency by following a set of principles that include:

- Open architecture: participation by all financial institutions is encouraged
- Data transmission and network security protocols
 - Encryption of data in transit
 - Encryption of data at rest
- Limited / restricted use of data / PII
 - Legitimate use of data / PII
- Common operating standards, including:
 - File layouts
 - Required data fields
 - Frequency and timeliness of transmission
 - Frequency and timeliness of response

Illustration of the Clearinghouse Network



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How the Clearinghouse Network Functions

The clearinghouse network is designed to create a virtual database meaning that data is only resident on each participating financial institutions' system for keeping such records. Operating as a virtual database, the clearinghouse network preempts the need to duplicate, aggregate, store or maintain data in a third-party system. The clearinghouse network is designed to be accessed by financial institutions and consumers alike, as further described below.

Institutional Portals

As denoted by the bi-directional arrows, the clearinghouse network is structured to conduct two-way transmission of data with and between one or more financial institutions (the red and green arrows). A data query is transmitted to the clearinghouse (the red arrows) which then distributes the query to all the participating financial institutions (a.k.a. the 'Locate' function). In the event that the query returns a positive result, and after the response is validated (a.k.a. the 'Match' function), the newly matched data is returned to the financial institution that originated the query. It is important to note that **only** data from matched records are returned by participating financial institutions, i.e. legitimate use of the data for the benefit of the owner or beneficiary of the account, and that unmatched records are deleted / destroyed.

Example: a defined contribution record-keeper ('DC-RK1'), acting on behalf of a plan sponsor client, has an uncashed check that was issued to 'Participant A'. Participant A's address of record is stale and DC RK1 has received returned mail. DC-RK1 sends a query to the clearinghouse, requesting that any financial institution that is participating in the clearinghouse network that has an account belonging to Participant A to provide updated address information to DC-RK1. The clearinghouse distributes the query to all participating financial institutions, each of which will query their internal records. In our example, a broker dealer ('BD1') identifies an account that appears to belong to Participant A. BD 1 transmits a data file with additional information (name, address, etc.) to the clearinghouse, which, after validating the data, automatically forwards the data file from BD1 to DC-RK1. DC-RK1 then utilizes the new data to contact Participant A and resolve their uncashed check issue.

While the example cited above is for a single query, queries can be batched / bundled to expedite large-scale resolution of open issues.

Consumer Portal

Similar to the institutional portal described above, the clearinghouse network can also be utilized to aid consumers in locating 'orphaned' accounts that may have been 'lost' due to a change of address, a change in the corporate ownership of a prior employer's plan, or a change in plan record-keepers.

Example: a consumer has an account statement, dated several years back, that records their participation in a defined contribution plan sponsored by a former employer. Desiring to verify their retirement savings, and perhaps consolidate those savings in their current employer plan. The consumer accesses an app on their smartphone and sends a query to the clearinghouse, which then distributes the query to all participating financial institutions. In our example, a defined contribution

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record-keeper, DC-RK2 locates the consumer's accounts, transmits a response to the clearinghouse along with information as to how the consumer should contact them. The clearinghouse forwards the data to the consumer who subsequently reaches out and receives assistance from DC-RK2 regarding the disposition of their previously orphaned account.

V. THE NETWORK, UNCASHED CHECKS & STATE UNCLAIMED PROPERTY FUNDS

Financial institutions and State Unclaimed Property Funds could utilize the clearinghouse network to:

1. Conducting periodic 'Locate & Match' services for owners of uncashed checks, and always before escheatment to state unclaimed property funds
2. Adding state unclaimed property funds as participants in the network:
 - a. periodically check state records to locate property owners
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END NOTES

¹ RCH Stale Dated Check Service Overview

Automatic Rollover Option

RCH typically solves the uncashed check problem through an automatic rollover to an RCH Safe Harbor IRA established in the name of the participant or beneficiary, after the plan has made the decision to move stale-dated check balances out of the plan. Participants with uncashed distributions receive an enhanced standard of care once they are an account holder in an RCH safe harbor IRA.

Upon establishment and funding of the RCH Safe Harbor IRA, the plan is deemed to have fulfilled its fiduciary responsibilities. Ongoing, RCH will continue to perform missing participant searches, and one-on-one counseling to facilitate eventual consolidation or distribution of uncashed balances.

Paying Agent Option

For plans looking to resolve uncashed checks while assets remain in the plan, and willing to outsource distribution processing for this purpose, RCH can act as a paying agent. Under this option, RCH takes custody of assets in a non-interest bearing account to process distributions. RCH then utilizes the same set of services – missing participant search, participant mailing, phone outreach and Service Center participant support that includes distribution form preparation for signature – RCH has performed for over 13,000 plans while providing assisted rollover support and pre-force out participant communication as part of the RCH automatic rollover service, to resolve the uncashed distribution checks. Any remaining assets after a period of time are either directed back to the plan forfeiture account, or to the plan's automatic rollover provider (a role RCH also performs as described above). Under this option, RCH establishes the distribution account, performs the mailings, handles the participant calls, processes the distribution checks and handles the 1099 reporting.

² Actionable Insights for Your Mobile Workforce:

https://info.rch1.com/hubfs/Presentation_Decks/Mobile_Workforce_Executive_Summary.pdf

³ Making the Right Choice the Easiest Choice – Eliminating Friction and Leaks in America's Defined Contribution System: https://info.rch1.com/hubfs/brt_choice_white_paper_HR.pdf

⁴ The Mobile Workforce's Missing Participant Problem:

https://info.rch1.com/hubfs/Presentation_Decks/MWF_Missing_PPT_Survey.pdf