United States Government Accountability Office

Report to Congressional Requesters

November 2014

# 401(K) PLANS

# Greater Protections Needed for Forced Transfers and Inactive Accounts

GAO-15-73

GAO Highlights

Highlights of GAO-15-73, a report to congressional requesters

November 2014

# 401(K) PLANS:

## Greater Protections Needed for Forced Transfers and Inactive Accounts

### Why GAO Did This Study

Millions of employees change jobs each year and some leave their savings in their former employers' 401(k) plans. If their accounts are small enough and they do not instruct the plan to do otherwise, plans can transfer their savings into an IRA without their consent. GAO was asked to examine implications for 401(k) plan participants of being forced out of plans and into these IRAs.

GAO examined: (1) what happens over time to the savings of participants forced out of their plans, (2) the challenges 401(k) plan participants face keeping track of retirement savings in general, and (3) how other countries address similar challenges of inactive accounts. GAO's review included projecting forced-transfer IRA outcomes over time using current fee and return data from 10 providers, and interviews with stakeholders in the United States, Australia, Belgium, Denmark, the Netherlands, Switzerland, and the United Kingdom.

### What GAO Recommends

GAO recommends that Congress consider (1) amending current law to permit alternative default destinations for plans to use when transferring participant accounts out of plans, and (2) repealing a provision that allows plans to disregard rollovers when identifying balances eligible for transfer to an IRA. Among other things, GAO also recommends that DOL convene a taskforce to explore the possibility of establishing a national pension registry. DOL and SSA each disagreed with one of GAO's recommendations. GAO maintains the need for all its recommendations.

View GAO-15-73. For more information, contact Charlie Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

### What GAO Found

When a participant has saved less than $5,000 in a 401(k) plan and changes jobs without indicating what should be done with the money, the plan can transfer the account savings—a forced transfer—into an individual retirement account (IRA). Savings in these IRAs are intended to be preserved by the conservative investments allowed under Department of Labor (DOL) regulations. However, GAO found that because fees outpaced returns in most of the IRAs analyzed, these account balances tended to decrease over time. Without alternatives to forced-transfer IRAs, current law permits billions in participant savings to be poorly invested for the long-term. GAO also found that a provision in law allows a plan to disregard previous rollovers when determining if a balance is small enough to force out. For example, a plan can force out a participant with a balance of $20,000 if less than $5,000 is attributable to contributions other than rollover contributions.

Some 401(k) plan participants find it difficult to keep track of their savings, particularly when they change jobs, because of challenges with consolidation, communication, and information. First, individuals who accrue multiple accounts over the course of a career may be unable to consolidate their accounts by rolling over savings from one employer's plan to the next. Second, maintaining communication with a former employer's plan can be challenging if companies are restructured and plans are terminated or merged and renamed. Third, key information on lost accounts may be held by different plans, service providers, or government agencies, and participants may not know where to turn for assistance. Although the Social Security Administration provides individuals with information on benefits they may have from former employers' plans, the information is not provided in a consolidated or timely manner that would be useful to recipients.

The six countries GAO reviewed address challenges of inactive accounts by using forced transfers that help preserve account value and providing a variety of tracking tools referred to as pension registries. For example, officials in two countries told GAO that inactive accounts are consolidated there by law, without participant consent, in money-making investment vehicles. Officials in the United Kingdom said that it consolidates savings in a participant's new plan and in Switzerland such savings are invested together in a single fund. In Australia, small, inactive accounts are held by a federal agency that preserves their real value by regulation until they are claimed. In addition, GAO found that Australia, the Netherlands and Denmark have pension registries, not always established by law or regulation, which provide participants a single source of online information on their new and old retirement accounts. Participants in the United States, in contrast, often lack the information needed to keep track of their accounts. No single agency has responsibility for consolidating retirement account information for participants, and so far, the pension industry has not taken on the task. Without a pension registry for individuals to access current, consolidated retirement account information, the challenges participants face in tracking accounts over time can be expected to continue.

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**Abbreviations**

| | |
|---|---|
| ATO | Australian Tax Office |
| BLS | Bureau of Labor Statistics |
| DOL | Department of Labor |
| EBSA | Employee Benefit Security Administration |
| EGTRRA | Economic Growth and Tax Relief Reconciliation Act of 2001 |
| ERISA | Employee Retirement Income Security Act of 1974 |
| IRA | individual retirement account |
| IRC | Internal Revenue Code |
| IRS | Internal Revenue Service |
| OEA | Office of Outreach, Education, and Assistance |
| PBGC | Pension Benefit Guaranty Corporation |
| PPA | Pension Protection Act of 2006 |
| SEC | Securities and Exchange Commission |
| SSA | Social Security Administration |
| Treasury | Department of the Treasury |

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November 21, 2014

The Honorable Tom Harkin
Chairman
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable Elizabeth Warren
Member
Committee on Health, Education, Labor and Pensions
United States Senate

Every year, millions of American workers change jobs[1] and many fail to stipulate what should be done with 401(k) plan[2] savings[3] they may have accrued. If a separated participant's[4] 401(k) plan balance is small enough, it can be transferred out of the plan. Specifically, the Internal Revenue Code[5] allows former employers to force participants with vested balances of $5,000 or less out of their 401(k) plans[6] and, absent

[1] In 2013, 38 percent of workers left their jobs. The average of the previous 5 years, 2008 to 2012, was a similar 38.4 percent. U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, table 16.

[2] In this report, the term "plan" is used to mean a plan or plan sponsor under the Employee Retirement Income Security Act of 1974 (ERISA). Pub. L. No. 93-406, 88 Stat.829 (codified as amended at 29 U.S.C. §§ 1001-1461). Under ERISA, plans are sponsored by employers or employee organizations or jointly by both. Other countries use the terms "scheme" and "fund" in reference to workplace retirement benefits. We use the term plan when discussing workplace benefit provisions abroad and in the United States and when referring to particular responsibilities that may technically fall to the plan sponsor or plan administrator.

[3] In this report, the term "savings" is used to mean the assets or funds in an individual's workplace retirement plan account and may include employee contributions, employer contributions, amounts attributable to rollovers from another plan or an IRA, and investment returns on any of these funds.

[4] In this report, the term "separated participant" includes those who left their job voluntarily or otherwise, retirees, and participants who kept their jobs but whose employer was bought out by another company.

[5] 26 U.S.C. §§ 401(a)(31) and 411(a)(11).

[6] Federal statute refers to this process as "mandatory distribution." 26 U.S.C. § 401(a)(31)(B). For this report, however, in the U.S. context, the term "forced transfer" is used. In an international context, the term "forced transfer" is used more broadly to mean the transfer of a participant's assets out of a retirement plan without their consent.

participant instruction, transfer their savings into an individual retirement account (IRA) referred to as a forced-transfer[7] IRA in this report. Despite the potentially large volume of forced transfers that may occur annually, their effects on workers' retirement security are not well understood.[8] Additionally, many employees go on to participate in other companies' 401(k) plans and may accumulate multiple accounts over time. As these employees continue to move in and out of jobs, companies go out of business or merge with other companies, and plans are terminated or merged as a part of corporate restructuring, it is difficult for plans and participants to keep track of one another, according to industry professionals and consumer groups.

Regulators have focused on helping plan participants save through 401(k) plans, but little attention has been paid to the use of forced transfers or managing multiple accounts. Consequently, you asked us to examine these issues and the steps that other countries may be taking to address similar issues. Specifically, this report examines (1) what happens to forced-transfer IRAs over time, (2) the challenges 401(k) plan participants face keeping track of their retirement savings, and what, if anything, is being done to help them, and (3) how other countries address the challenges of inactive[9] accounts.

To understand what happens to forced-transfer IRAs over time as well as challenges 401(k) plan participants face keeping track of multiple 401(k) plan accounts, we reviewed relevant data from government, research, and industry sources. Because we found no comprehensive data on the number of IRA accounts opened as a result of forced transfers or other data relevant to their use and management, we collected data from a

[7] Applicable Department of Labor (DOL) regulations use the term "automatic rollover" in connection with the use of these IRAs. 29 C.F.R. § 2550.404a-2(a). Those regulations also permit plans to purchase annuities for individuals forced out of plans, but our review did not include that option. In addition, IRA providers we interviewed did not indicate that annuities are used by plans seeking a destination for forced transfers.

[8] Federal statute permits plans to rollover accounts of more than $1,000 but not over $5,000 to an IRA on behalf of participants who have not instructed, for example, to have them rolled over to a new employer's plan or a pre-existing IRA, or sent directly to them. 26 U.S.C. § 401(a)(31)(B).

[9] In this report we use the term 'inactive' to refer to a retirement account where the account holder, a participant in a 401(k) plan, has changed jobs and is no longer making contributions. The account holder in such cases may or may not be 'missing' or otherwise not providing instruction, when requested, to the plan.

non-generalizeable group of 10 providers of forced-transfer IRAs about their practices and outcomes, including 3 of the largest IRA providers. There is no comprehensive list of all forced-transfer IRA providers. For this reason, we built a list of them through interviews with industry professionals, a review of IRA market data, and online searches. Our objective was to create a group that would cover a large share of assets in the forced-transfer IRA market and represent both small and large IRA providers in terms of company size. We reached out to the largest IRA providers by assets under management, as well as all small forced-transfer IRA providers on our list and obtained forced-transfer IRA account data from 10 providers that represent this mix of characteristics. We also interviewed plan sponsor groups, 401(k) plan industry groups, research entities, consumer groups, and six federal agencies (Consumer Financial Protection Bureau, Department of Labor, Department of the Treasury, Pension Benefit Guaranty Corporation, Securities and Exchange Commission, and Social Security Administration) about plans' use of forced transfers and what challenges individuals and plans face related to inactive accounts and multiple 401(k) plan accounts in the United States. To assess the reliability of the data we analyzed, we reviewed IRA market data and interviewed IRA providers familiar with forced-transfer IRAs. We determined that these data were sufficiently reliable for the purposes of this report.

We also reviewed research and industry literature, relevant federal laws and regulations, Advisory Council on Employee Welfare and Pension Benefit Plans[10] testimony on missing participants, industry whitepapers on a proposed default roll-in system, and submissions in response to the 2013 Pension Benefit Guaranty Corporation request for information related to a tracking system for distributions from terminating plans.

To examine how some countries are addressing the challenges of inactive retirement accounts, we selected six countries to study. In making our selection we considered countries with extensive workplace retirement systems to include populations that might face challenges similar to those of U.S. participants, and considered the extent to which

[10] In 2013, the Advisory Council on Employee Welfare and Pension Benefit Plans, also known as the ERISA Advisory Council, held 2 days of public hearings on June 4, 2013 and August 28, 2013 to hear testimony about "Lost Participant" issues from a number of constituencies. See *Advisory Council on Employee Welfare and Pension Benefit Plans, Locating Missing and Lost Participants*, (Washington, D.C.: November 2013).

such countries had recent or innovative approaches to address the challenges posed by inactive retirement accounts. We determined that six countries could potentially provide lessons for the United States. They were Australia, Belgium, Denmark, the Netherlands, Switzerland, and the United Kingdom. We interviewed government officials, service providers, and other stakeholders from all the selected countries. We did not conduct an independent legal analysis to verify the information provided about the laws or regulations in the countries we selected for this study. Instead, we relied on appropriate secondary sources, interviews with relevant officials, and other sources to support our work. We submitted key report excerpts to agency officials in each country for their review and verification, and we incorporated their technical corrections as necessary. Appendix I provides additional information on our scope and methodology.

We conducted this performance audit from May 2013 to November 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Background

## Forced Transfers and Forced-Transfer IRAs

A forced transfer occurs when a plan participant has separated from an employer, but still has vested savings in the employer's 401(k) plan and the plan sponsor decides not to allow the savings to remain in the plan. Prior to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA),[11] plans could, in the absence of participant instructions, distribute balances of not more than $5,000 by paying them directly to the participant, referred to as a cash-out. EGTRRA sought to protect forced-out participants' retirement savings by requiring that, in the absence of participant instructions, active plans transfer balances of $1,000 or more to forced-transfer IRAs, thus permitting the plan to distribute them while

[11] Pub. L. No. 107-16, 115 Stat. 38.

preserving their tax-preferred status.[12] Expanding upon the statute, regulations later provided that in the absence of participant instructions, plans could opt to also transfer balances of $1,000 or less into forced-transfer IRAs. Active plans may not distribute accounts with contributions of more than $5,000 without the consent of the participant.[13]

EGTRRA also required DOL to prescribe regulations providing safe harbors under which the designation of a provider and the investment of funds for a forced-transfer IRA are deemed to satisfy fiduciary duties under ERISA.[14] These regulations, issued in 2004, established a 'safe harbor' for plan fiduciaries transferring forced-out participants' accounts, which includes conditions pertaining to the plan fiduciaries' selection of the IRA provider and the investments of the transferred funds.[15] We identified five main components in the regulations, which are: (1) preservation of principal, (2) maintenance of the dollar value of the investment, (3) using an investment product of a state or federally regulated financial institution, (4) fees and expenses, and (5) a participant's right to enforce the terms of the IRA. Plan sponsors forcing participants out of plans by transferring their accounts into forced-transfer IRAs legally satisfy their fiduciary standard of care to participants if they

[12] § 657(a), 115 Stat. 135-36 (codified at 26 U.S.C. § 401(a)(31)(B)).This provision effectively codified a previous IRS ruling that a plan could make a direct rollover to an individual retirement plan (which is an IRA or an annuity) its default option for involuntary distributions, without jeopardizing its tax-qualified status, when a participant has a balance greater than $1,000 but not in excess of $5,000 and makes no election. Rev. Rul. 2000-36, 2000-2 C.B. 140. We reviewed only the use of forced-transfer IRAs in this report. EGTRRA also provided that plan amounts may be determined for such purposes without regard to any portion of a participant's account attributable to rollovers and their earnings. § 648, 115 Stat. 127 (codified at 26 U.S.C. § 411(a)(11)(D)).

[13] 26 U.S.C. § 411(a)(11).

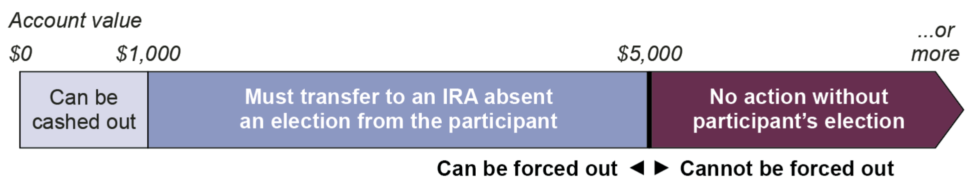
[14] Pub. L. No. 107-16, § 657(c)(2)(A), 115 Stat. 38, 136.

[15] Fiduciary Responsibility Under the Employee Retirement Income Security Act of 1974 Automatic Rollover Safe Harbor, 69 Fed. Reg. 58,018 (Sept. 28, 2004) (codified at 29 C.F.R. § 2550.404a-2).

comply with DOL's safe harbor regulations.[16] After the account is transferred into a forced-transfer IRA it is subject to the rules generally governing IRAs.

A forced-transfer IRA is a type of IRA that can be opened by a plan on behalf of a participant, without the specific consent or cooperation of that participant. In these instances, a plan signs a contract with an IRA provider, which may or may not be the plan's record keeper, to establish and maintain the account. While the use of forced-transfer IRAs for accounts under $1,000 is not required, plan sponsors may elect to use forced-transfer IRAs rather than cash-outs when forcing out such accounts in the absence of distribution instructions from the participant, as shown in figure 1.[17]

**Figure 1: Options for Forcing Out a Separated Participant Depend on the Participant's Vested Balance**




Source: GAO review of select laws and regulations. | GAO-15-73

Note: A plan can only transfer a participant's eligible account to a forced-transfer IRA in the absence of the participant's instruction to do otherwise. An account of less than $1,000 can also be transferred to a forced-transfer IRA, if the plan provides. These balance thresholds pertain to active plans. In the case of terminating plans that must distribute all benefits in order to complete the termination, plans can forcibly transfer missing participants' account balances of any size if the participant, after being notified, does not provide instruction and cannot be located after a search.

[16] The safe harbor ensures that both (1) a plan administrator's designation of an institution to receive the forced-transfer, and (2) the initial investment choice for the rolled-over funds will be deemed to satisfy ERISA's fiduciary standard of care at 29 U.S.C. § 1104(a). In addition, a financial institution may designate itself or an affiliate to receive the forced-transfers from its own plan, and select a proprietary initial investment for the funds, under the terms of a prohibited transaction exemption developed in conjunction with the safe harbor. 29 U.S.C. § 1106 and Class Exemption for the Establishment, Investment and Maintenance of Certain Individual Retirement Plans Pursuant to a Mandatory Distribution, 69 Fed. Reg. 57,964 (Sept. 28, 2004).

[17] If a participant's account is $1,000 or less, a plan can complete a forced transfer by paying the account balance directly to the participant, which is a taxable event. The plan would withhold 20 percent of the balance for possible tax liability. An additional 10 percent tax may apply if the individual is under age 59 ½ at the time of the distribution. 26 U.S.C. § 72(t).

Use of forced-transfer IRAs is common among 401(k) plans. One annual industry survey shows that about half of active 401(k) plans force out separated participants with balances of $1,000 to $5,000.[18]

Data provided by the Social Security Administration (SSA) highlight an amount of retirement savings that could be eligible for forced-transfer IRAs. From 2004 through 2013, separated employees left more than 16 million accounts of $5,000 or less in workplace plans, with an aggregate value of $8.5 billion.[19] A portion of those accounts constitutes billions in retirement savings that could be transferred later to IRAs. Even if plans do not force out participants' accounts immediately upon separation they may do so later in the year. For instance, they may sweep out small accounts of separated participants once a year or amend their plans years after participants separate and then force them out.

## Regulatory Oversight of Forced Transfers

Multiple federal agencies have a role in overseeing forced transfers and investments, inside and outside the Employee Retirement Income Security Act of 1974 (ERISA) plan environment, as discussed in table 1.

[18] Plan Sponsor Council of America's (PSCA) *55th Annual Survey of Profit Sharing and 401(k) Plans*. Another 42 percent simply cash out balances less than $1,000 and let larger balances remain in the plan, while just 7 percent allow balances of any size to remain in the plan after a participant separates. The survey collects data on the 2011 plan experience from 840 plans with more than 10 million participants and more than $750 billion in plan assets. PSCA surveys both profit sharing plans and 401(k) plans. Some of the data we use from this report are for only 401(k) plans, but other data are for both kinds of plans combined. Given that just 2 percent of plans surveyed are profit sharing plans, we determined the data are sufficiently representative of the 401(k) plan experience. There are no comprehensive federal or private industry data on the number of forced-transfer IRAs created or the amount of employer-based retirement savings transferred into them.

[19] SSA analysis of Form 8955-SSA data, which are collected by IRS and then transmitted to SSA. SSA data include benefits left behind by separating participants in all defined contribution plans, including 401(k) plans, as well as in defined benefit plans, which are not subject to forced transfers under 26 U.S.C. § 401(a)(31)(B). GAO assessed the reliability of the data and found that it met our standards for our purposes.

**Table 1: Brief Summary of Federal Agencies' Roles Overseeing Forced Transfers of Separated 401(k) Plan Participants**

| | |
|---|---|
| **Department of Labor (DOL)** | DOL administers and enforces the Employee Retirement Income Security Act of 1974 (ERISA), which requires plan fiduciaries to act solely in the interest of plan participants and beneficiaries.[a] DOL promulgated a safe harbor rule pursuant to statute[b] for plans transferring balances to forced-transfer IRAs.[c] The rule sets out conditions that, if met, will ensure that a plan sponsor using forced-transfer IRAs satisfies its fiduciary standard of care under ERISA. Like the plan sponsor, DOL's oversight of such funds generally ends after those funds are transferred out of the ERISA plan into a forced-transfer IRA because DOL generally has no jurisdiction over IRAs.[d] |
| **Internal Revenue Service (IRS)** | The IRS oversees the compliance of 401(k) plans and IRAs with the Internal Revenue Code (IRC), which sets standards plans and IRAs must meet to qualify for preferential tax treatment. For example, the IRC lays out requirements for plans making forced transfers[e] and requires that any participant whose balance is to be distributed has the option of having a direct (and thus, non-taxable) transfer of their balance to a tax-qualified plan or IRA of their choosing. The IRS is also responsible for imposing taxes on prohibited transactions.[f] |
| **Pension Benefit Guaranty Corporation (PBGC)** | The Pension Protection Act of 2006 amended ERISA to require PBGC to expand its program under which terminated defined benefit plans must transfer the designated benefits of missing participants to PBGC, to permit terminating 401(k) plans to transfer the assets of missing participants to PBGC as well.[g] On June 21, 2013, the agency published a request for information from the public about how to implement the new requirement,[h] but has not yet implemented it. PBGC may, but is not required to, compel terminating defined contribution plans to provide information on what happens to participant accounts. PBGC does not track information about the location of assets transferred out of active plans into forced-transfer IRAs, but maintains an online database the public can use to find lost benefits from some terminated defined benefit plans. |
| **Social Security Administration (SSA)** | SSA maintains data reported to the IRS by plans on undistributed vested 401(k) plan (and other plan) benefits of their separated participants using the Form 8955-SSA.[i] When individuals apply for Social Security benefits, SSA must transmit to the individuals, on a letter called "Potential Private Retirement Benefit Information,"[j] notice that the individuals may be entitled to private retirement savings or benefits from a past employer. |
| **Securities and Exchange Commission (SEC)** | The laws that govern the securities industry include the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940 and the Investment Advisers Act of 1940.[k] The SEC is the primary regulator overseeing various entities (e.g., transfer agents broker-dealers) and investment vehicles, such as mutual funds, which are offered in both 401(k) plans and IRAs. The Investment Company Act of 1940 is the primary law that governs a mutual fund's activities. Mutual funds are subject to extensive investment restrictions and disclosure requirements with respect to risks, fees, and expenses. |

Source: GAO review of select laws and regulations. | GAO-15-73

[a] 29 U.S.C. § 1104.

[b] Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, § 657(c)(2), 115 Stat. 38, 136.

[c] 29 C.F.R. § 2550.404a-2.

[d] DOL also determines when prohibited transactions may have occurred with respect to such IRAs.

[e] 26 U.S.C. § 401(a)(31)(B). By distribution, we mean that retirement savings are leaving a particular plan. They could be transferred by the account holder to a new employer's plan, to an existing IRA, or transferred by the plan into a forced-transfer IRA on behalf of the account holder. The distribution could also be cashed out by the account holder—or by the plan if the balance is below $1,000—but in this report we do not assume that a distribution is equivalent to a cash-out.

[f] 26 U.S.C. § 4975.

[g] Pub. L. No. 109-280, § 410(b), 120 Stat. 780, 934-35 (codified at 29 U.S.C. § 1350(d)).

[h] Missing Participants in Individual Account Plans, 78 Fed. Reg. 37,598.

[i] 26 U.S.C. § 6057(a).

[j] 42 U.S.C. §1320b-1(a)(2)(B). See figure 7 for an excerpt of the Notice. The law also requires that SSA provide potential pension benefit information to participants upon request.

[k] 15 U.S.C. §§ 77a - 77bbb, 15 U.S.C. §§ 78a - 78pp, 15 U.S.C. §§ 80a-1 - 80a-64, and 15 U.S.C. §§ 80b-1 - 80b-2, respectively.

## Current Law and Regulations Allow Sponsors to Force Certain Participants Out of 401(k) Plans, Which Can Result in Reduced Retirement Income

### Conservative Investments Required by DOL Can Result in Decreasing Balances in Forced-Transfer IRAs

Some forced-transfer IRAs are not the short-term investment vehicles for which their default investments are better suited, but providers do not have the flexibility under current DOL safe harbor regulations to use investment vehicles that are better suited to a longer-term investment horizon.[20] Rather, the safe harbor requires that the investment "seek to maintain, over the term of the investment," the dollar value equal to the amount rolled over.[21] To achieve this, DOL narrowly wrote the investment guidance portion of the forced-transfer IRA safe harbor regulations to effectively limit providers to holding the funds in money market funds, certificates of deposit, or assets with similarly low investment risk typically deemed appropriate for holding money for a short term.[22] While such conservative investments generally ensure that the money is liquid (that is, available to the owner upon demand for cash-out, transfers to another account, or reinvestment elsewhere), they can result in a low return and potentially minimal growth over time.

Most forced-transfer IRA balances in accounts we analyzed will decrease if not transferred out of forced-transfer IRAs and reinvested, because the fees charged to the forced-transfer IRAs often outpace the low returns earned by the conservative investments prescribed by DOL's safe harbor

[20] While forced-transfer IRA providers could invest money in assets other than money market funds, certificates of deposit, or savings accounts, such investments would not meet DOL's current requirements for the safe harbor.

[21] 29 C.F.R. § 2550.404a-2(c)(3)(ii).

[22] 29 C.F.R. § 2550.404a-2(c)(3).

regulations. In recent years, the typical forced-transfer IRA investment, such as a money market account, has earned almost no return. For example, taxable money market funds averaged 1.45 percent for the 10 years ending July 31, 2014.[23] We collected forced-transfer IRA account information from 10 forced-transfer IRA providers, including information about the fees they charged, the default investments used, and the returns obtained (prior to these fees).[24] Among those 10, there were 19 different combinations of fees and returns, as some providers offered more than one combination for their forced-transfer IRA contracts. The typical investment return for the 19 different forced-transfer IRA combinations ranged from 0.01 percent to 2.05 percent. A low return coupled with administrative fees, ranging from $0 to $100 or more[25] to open the account and $0 to $115 annually, can steadily decrease a comparatively small stagnant balance.[26] Using the forced-transfer IRA fee and investment return combinations, we projected the effects on a $1,000 balance over time. While projections for different fees and returns show balances decreasing at different rates, generally the dynamic was the same: small accounts with low returns and annual fees decline in value, often rapidly. In particular, we found that 13 of the 19 balances decreased to $0 within 30 years.[27] (See appendix III for all projected outcomes.) For example, the fees and investment returns of one provider we interviewed

[23] Data are from Morningstar.com.

[24] When we refer to returns, we mean the fund return net of fund investment expenses. We found that the fund return is generally equivalent to the return for the account because all but one IRA provider we interviewed use only one default investment per account. When we refer to fees, we mean additional fees charged by the provider generally expressed as dollar amounts.

[25] This reflects one provider's policy of charging a 20 percent opening fee for a "premium" forced-transfer IRA account, which must have a balance of at least $500.

[26] Administrative fees paid on a forced-transfer IRA include account opening fees, address search fees for a missing account holder, and annual administrative fees. An account holder might also pay transaction fees and account closure fees if they decide to reinvest or transfer the savings in their forced-transfer IRA.

[27] We used a $1,000 starting balance to simplify the observation of the effect. While most balances declined over time, two gained slightly in value and one had no change in value—after an initial decrease due to the account opening fee—because fees are capped at the value of the investment returns.

would reduce an unclaimed $1,000 balance to $0 in 9 years.[28] Even if an account holder claimed their forced-transfer IRA after a few years the balance would have significantly decreased. Among the 19 combinations we analyzed, our analysis showed an average decrease in a $1,000 account balance of about 25 percent over just 5 years. The rate of investment return needed to ensure a forced-transfer IRA balance does not lose real value varies depending on the rate of inflation and the fees charged. For example, given the median fees for the 19 forced-transfer IRAs we analyzed, the investment return on $1,000 would have to be more than 7.3 percent to keep pace with both the rate of inflation and the fees charged.[29] Our projections are consistent with anecdotal evidence obtained from forced-transfer IRA providers, five of which told us that their accounts are reduced to zero or do not keep pace with inflation and fees.

Default investments used by many plans for automatic enrollment in 401(k) plans produce a better long-term return than the conservative default investments for forced-transfer IRAs. The most popular default investments for automatic enrollment in 401(k) plans are target date funds. Target date funds, which are often mutual funds, hold a mix of stocks, bonds, and other investments. Over time, the mix gradually shifts according to the fund's investment strategy. We previously reported that target date funds are designed to perform well over a long period of time.[30] As noted in an industry research paper, while some target date funds produced severe losses in 2008, most have since produced double

[28] This projection reflects one forced-transfer IRA's $50 account set-up fee, a recurring $50 annual fee, and a recurring $65 annual address search fee, with a 0.11 percent investment return. The same provider uses three other default investments, which would also contribute to the balance decreasing to $0 in 9 years. See appendix III for all forced-transfer IRA combinations that we analyzed.

[29] This reflects adding the annual decrease on a $1,000 balance (7.3 percent) attributable to the median account opening fee of $6.75 and the median annual fee of $42 and the average annual inflation rate over 20 years from 1993 to 2013 (2.45 percent), according to the U.S. Bureau of Labor Statistics' Consumer Price Index for All Urban Consumers (CPI-U).

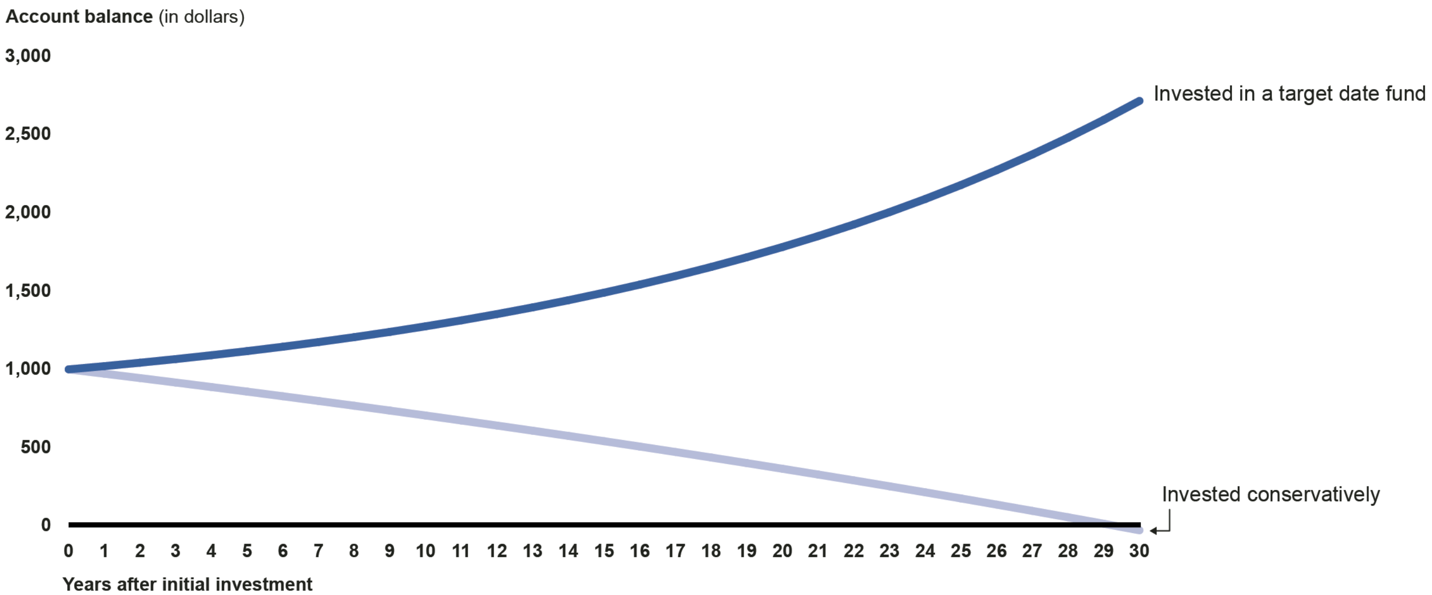
[30] Target date funds are designed to be long-term investments for individuals with particular retirement dates in mind. For more information on target date funds, see GAO, *Defined Contribution Plans: Key Information on Target Date Funds as Default Investments Should Be Provided to Plan Sponsors and Participants*, GAO-11-118 (Washington, D.C.: Jan. 31, 2011).

digit gains.[31] In recent years, assets in target date fund default investments have produced a higher return than typical forced-transfer IRA investments, which have seen minimal returns.[32] For example, as shown in figure 2, under reasonable return assumptions, if a forced-out participant's $1,000 forced-transfer IRA balance was invested in a target date fund the balance could grow to about $2,700 over 30 years (173 percent growth), while the balance would decline to $0 if it had been invested in a money market account. We also projected the remaining balance assuming a 15-year average return for money market funds, which is 1.89 percent, and found no material difference in the result. Using that return the balance significantly decreased over time, leaving a $67 balance after 30 years.

[31] Morningstar.com, Morningstar Fund Research Target-Date Series Research Paper: Survey 2013, p.20. The paper reports that "[f]rom the pre-crisis peak in 2007 through the end of 2012, all but one of the currently extant 2015 funds have recouped their losses, and most have produced double digit positive gains."

[32] The mean total return for taxable money market fund investments over 10 years ending July 31, 2014 was 1.45 percent, whereas the geometric mean of 10-year returns for all target date funds was 6.3 percent, according to our analysis of data from Morningstar.com. Money market funds, such as those commonly used in forced-transfer IRAs, have not always underperformed target date funds common to 401(k) plans. In 2008, during the last recession, 2010 target date funds had a negative total net return in the double digits while money market funds overall earned a return of 2.05 percent. Still, equities-based funds like target date funds are designed to perform well over the long run.

**Figure 2: A $1,000 Forced-Transfer IRA Balance Invested in a Target Date Fund Could Grow Over 30 Years but Declines When Invested Conservatively**




Source: GAO projection based on analysis of investment return data. | GAO-15-73

Notes: The forced-transfer IRA account assumptions used are the median account opening fee ($6.75), median annual fee ($42), and the mean return on taxable money market funds (1.45 percent) over 10 years ending July 31, 2014. The target date fund example uses the same account fees but reflects a 6.3 percent return, which is the geometric mean of 10 year average returns across all target date funds, ending July 31, 2014. Investment returns reflect our analysis of data reported by Morningstar.com. An alternate projection using the 15 year mean return ending July 31, 2014 on taxable money market funds, which is 1.89 percent, found a result similar to the 10-year return, the funds invested conservatively decreased significantly to $67 after 30 years.

According to DOL officials, the agency has the flexibility under current law to expand the safe harbor investment options for forced-transfer IRAs, but currently its regulations do not permit those accounts to be invested in the same funds allowed for participants automatically enrolled in 401(k) plans.[33] DOL's goal of preserving principal is important and consistent with statute, but without more aggressive investment options, forced-

[33] DOL's qualified default investment alternative regulation provides relief to plan fiduciaries who comply with notice and other requirements when investing on behalf of plan participants who fail to direct their own investments. 29 C.F.R. § 2550.404c-5. It includes three categories of investments that may be eligible as qualified default investment alternatives—target date or similar funds, balanced funds, and managed accounts.

transfer IRA balances can continue to lose value over time, causing some former participants to lose the savings they had accumulated in their 401(k) plans. However, allowing forced-transfer IRAs to be invested for growth, such as through a target date fund, may be more effective in preserving principal.

## Current Law Limits Forced Transfer Options and Permits Plans to Force Out Some Participants with Balances Larger Than $5,000

### DOL and IRS Are Precluded from Permitting Alternative Destinations for Forced Transfers

Currently the default destination for forced transfers of more than $1,000 from active plans is an IRA. EGTRRA sought to protect forced-out participants by providing that, in the absence of any participant instructions, active plans that choose to force out participants with accounts of $1,000 or more must transfer the accounts to an individual retirement plan, which is defined as an IRA or individual retirement annuity.[34] Directing these larger balances to IRAs in lieu of cashing them out preserves their savings' tax-preferred status in a retirement account. Current law does not permit DOL and IRS to adopt alternative destinations.

The forced-transfer IRA, like any IRA, is an investment product sold in the retail environment by financial service firms.[35] IRAs are also subject to regulation by the IRS, which oversees contributions to and distributions from them. DOL has limited regulatory oversight over IRAs beyond working with IRS to oversee enforcement of prohibited transactions

[34] 26 U.S.C. §§ 401(a)(31)(B)(i) and 7701(a)(37). We reviewed only the use of forced-transfer IRAs in this report, and providers we interviewed did not indicate that individual retirement annuities are used by plans seeking a destination for forced transfers.

[35] The specific investment products held in IRAs and 401(k) plans, as well as the various financial professionals that service them, are subject to oversight from applicable securities, banking, or insurance regulators, which can include both federal and state regulators.

provisions.[36] Thus, when an individual's 401(k) plan account is transferred to a forced-transfer IRA it is no longer under the regulatory purview of ERISA and is essentially without DOL oversight. In addition, by transferring forced out participants' funds in accordance with the safe harbor regulations, a plan satisfies its fiduciary duty of care under ERISA, and the transfer constitutes a final break between the plan and the transferred account. For example, the plan is not required to monitor the forced-transfer IRA to ensure that the provider abides by the terms of the agreement.

Current law permits terminating plans to distribute forced transfers in multiple ways, with the forced-transfer IRA being only one option, as shown in table 2.[37] In addition to transferring accounts to a forced-transfer IRA, terminating plans may also purchase an annuity with the forced-transfer balances or escheat (transfer) the balances to the state. Further, the Pension Protection Act of 2006 (PPA) created a forthcoming alternative for terminating 401(k) plans, which will be to transfer balances to the Pension Benefit Guaranty Corporation (PBGC) when there are no instructions from the participants.[38] Moreover, we found that some providers will not provide forced-transfer IRAs for terminating plans, generally doing so only as an accommodation to ongoing plan clients and because these plans do not have alternatives to the IRA. As a result, a smaller number of participants forced out of terminating plans will end up with savings in a forced-transfer IRA.

[36] Generally, DOL has interpretive jurisdiction over prohibited transactions and IRS has certain enforcement authority. See GAO, *Individual Retirement Accounts: Government Actions Could Encourage More Employers to Offer IRAs to Employees,* GAO-08-590 (Washington, D.C.: June 4, 2008).

[37] 26 U.S.C. § 4975 and 29 U.S.C. § 1108. Terminating plans force out both current and separated participants' balances to dispose of all plan assets, as required to complete a plan termination.

[38] Officials at PBGC told us that they are in the process of expanding their existing program, which takes custody of and invests pension assets of terminated defined benefit plans to include this new role. PBGC hopes to open its program to terminating defined contribution plans in 2016.

**Table 2: Terminating 401(k) Plans Have More Options Than Active Plans When Forcing Out Participants Who Do Not Elect a Distribution Option**

| | Terminating plans | Active plans |
|---|---|---|
| **If the participant does not elect another distribution option…** | May force out both current and separated participants with balances of any size. | May force out separated participants with balances not in excess of $5,000. |
| **Cash-out (i.e. issue a check to the account holder)** | Not an option, unless payment can be reliably made to participant (not in the event of a missing participant). | May cash-out balances of $1,000 or less. |
| **Forced-transfer IRA** | May transfer balances of any size to a forced-transfer IRA. | Must transfer accounts of more than $1,000 to $5,000 to a forced-transfer IRA.[a]<br>May transfer accounts of $1,000 or less to a forced-transfer IRA instead of cash out. |
| **Escheat to the state**[b] | May escheat balances of any size to the participant's last known state of residence or work location, if state requirements are met and if an individual retirement plan is not available.[b] | Not an option.[c] |
| **Purchase an annuity** | May purchase an annuity for the participant. | An individual retirement annuity is permitted for forced transfers. |
| **Transfer to a bank** | May transfer to a federally insured bank account, if an IRA or individual retirement annuity is not available.[d] | Not an option. |
| **Transfer to Pension Benefit Guaranty Corporation (PBGC)** | Pending: May transfer balances of any size to PBGC. | Not an option. |

Source: GAO review of select laws and regulations. | GAO-15-73

[a] An IRA is one form of an individual retirement plan. 26 U.S.C. § 7701(a)(37).

[b] States generally have jurisdiction over unclaimed property, but they cannot require escheatment of inactive accounts still in a 401(k) plan because the Employee Retirement Income Security Act of 1974 (ERISA)—the law governing employer-based retirement plans—preempts states' claims to what would otherwise be considered abandoned property. 29 U.S.C. §1144. Therefore, this escheatment is the plan's choice for the disposition of the account. U.S. Dept. of Labor, Field Assistance Bulletin 2014-01 (Aug. 14, 2014), available at http://www.dol.gov/ebsa/regs/fab2014-1.html.

[c] In testimony before the ERISA Advisory Council, June 4, 2013, a representative of The Plan Sponsor Council of America proposed that escheatment be available to active plans seeking to manage the administrative burden of small inactive accounts.

[d] U.S. Dept. of Labor, Field Assistance Bulletin, 2001-01. Forced-transfer IRAs providers told us that the accounts are sometimes escheated to states after the account holder reaches the age of required minimum distribution.

We also found that forced-transfer IRAs can become long-term investments for the many account holders who do not claim their accounts even though the emphasis placed by the safe harbor regulations on liquidity and minimizing risk are more often associated with short-term investment vehicles. One of the larger providers we interviewed said that during the first year after an account is opened about 30 percent of account holders will do nothing with the account.

According to a forced-transfer IRA service provider, an estimated half of the accounts they opened are for missing participants. Many unclaimed accounts may remain so indefinitely. For example, one provider we interviewed reported that nearly 70 percent of the accounts it has opened within the last 5 years remain open and unclaimed. Additionally, an individual could end up with multiple forced-transfer IRAs over time—each incurring its own administrative fees. Two providers we interviewed explained that they do not consolidate forced-transfer IRAs opened for the same individual, meaning that accounts even with the same provider could incur redundant fees.

Although there may be alternatives to the forced-transfer IRA today that were not considered in 2001 when the law was passed, without authority to do so, DOL and IRS cannot identify or facilitate alternative destinations for these accounts. Providing an alternative destination for forced transfers would help to preserve participants' accounts and increase the possibility for growth. Absent the allowance of such an alternative, as we have shown, former plan participants' savings will continue to be placed in investments unlikely to be preserved or grow over the long term.[39]

## Disregarding Rollovers Makes It Harder for Low-Wage Workers to Keep Retirement Savings in a 401(k) Plan

Current law allows plans that are determining if they can force out a participant to exclude rollover amounts and any investment returns that have been earned while in the plan.[40] The law explicitly permits plans to exclude a participant's savings that were rolled into the plan when calculating their vested balance, which determines whether the participant may be forced out. Specifically, separated participants with 401(k) accounts of any size can be forced from a plan if the vested balance (in the absence of rollover amounts and its earnings) is $5,000 or less, as demonstrated in figure 3. A rollover of more than $5,000 would not have been subject to forced transfer if it had remained in the participant's last plan, but may become subject to it once transferred to the new plan.

[39] In the future, additional alternatives to the forced-transfer IRA may be available, such as the forthcoming "My Retirement Account" (myRA), which is to be initially offered through employers.

[40] 26 U.S.C. § 411(a)(11)(D). Amounts rolled over into a new plan from another workplace plan remain vested in the new plan, although they do not count toward the vested balance for purposes of determining eligibility for forced transfer once a participant has separated from the plan.

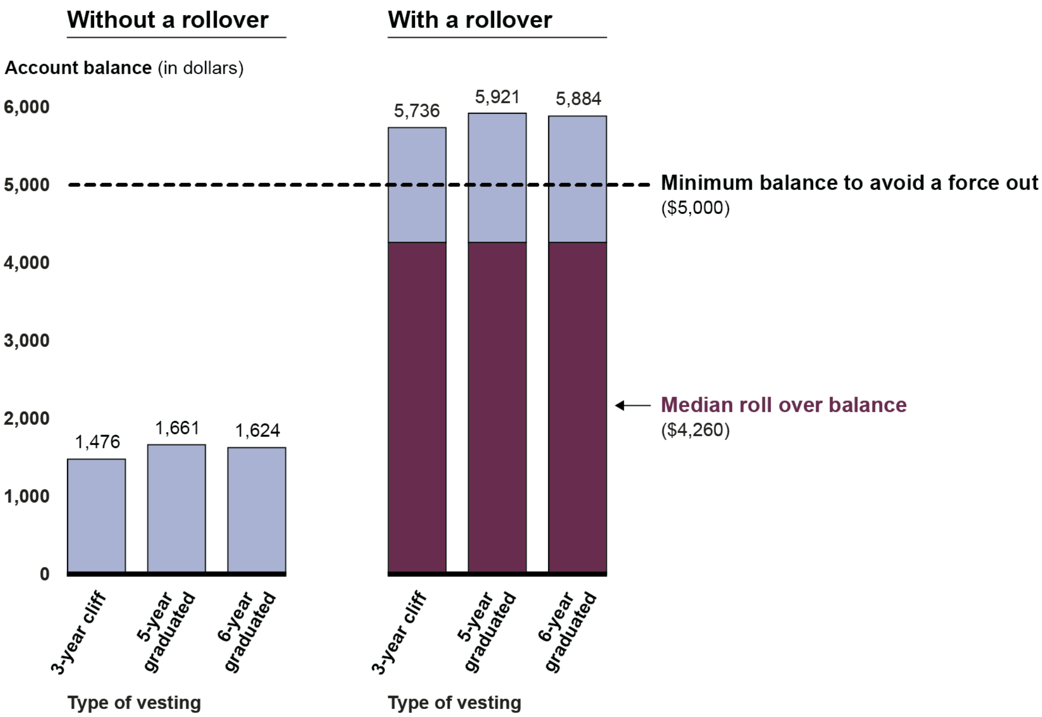
**Figure 3: 401(k) Plan Savings Rolled into a New Employer's Plan Are Not Protected by the $5,000 Cap on Forced Transfers**

| | | | |
|---|---|---|---|
| **A worker participates** in an employer-sponsored 401(k) plan, gradually saving up $15,000 | **The worker takes a new job,** and transfers the $15,000 to his new employer's plan | **The worker participates** in his new employer's plan, saving another $4,500, and bringing his total to $19,500 | **If he leaves for a third job,** he could be forced from the previous employer's plan because only $4,500 is attributable to that plan |

Source: GAO review of select laws and regulations. | GAO-15-73

As discussed further in appendix II, a significant number of plan participants separate from jobs with vested balances at or below $5,000 and thus can be forced out of plans. Many highly mobile workers who participate in 401(k) plans could have significant rollover balances that they have accumulated over time due to successive job changes. However, they could still have their savings transferred out of their plans into forced-transfer IRAs if their plans use forced transfers because they are unlikely to have accumulated $5,000 *vested balances* at their new plans before they separate from employment. Figure 4 shows that disregarding rollovers can make the difference between separated low-wage workers or other low-balance participants remaining in plans or being forced out and then possibly transferred into forced-transfer IRAs.

**Figure 4: Disregarding Rollover Balances Can Result in Low-Wage Workers' Vested Balances Falling Below the $5,000 Cap on Forced Transfers**




Source: GAO analysis of industry data regarding 401(k) plans' use of different plan rules and projections; Rollover data from ICI's report "The IRA Investor Profile: Traditional IRA Investors' Rollover Activity, 2007 and 2008". | GAO-15-73

Notes: The projections assume the annual mean wage in 2013 ($21,580) for the service sector occupation with the most workers, specifically "food preparation and serving related occupations", including an annual raise of 2.36 percent, which is the average annual increase in wage over 15 years (1999-2013). For these assumptions, we referred to the U.S. Bureau of Labor Statistics' (BLS) Occupational Employment Statistics, Employment and Wage Estimates. We assumed a 2.2 year tenure, which is the 2014 median tenure for employed workers in the food preparation and serving related occupations, according to BLS data. We also assumed that employer contributions, when there were any, were made concurrently with employee contributions. More than half of defined contribution plans (such as 401(k) plans) are in the service sector and about 40 percent of defined contribution plan participants work in the service sector, according to 2011 data published by the Employee Benefits Security Administration. These projected amounts also reflect a 6.3 percent investment return, which is the geometric mean of 10-year returns for all target date funds according to our analysis of data from Morningstar.com. Target date funds are the most popular default investment for individuals automatically enrolled into 401(k) plans, according to the Plan Sponsor Council of America's (PSCA) *55th Annual Survey of Profit Sharing and 401(k) Plans*, which reflects the 2011 plan experience. The median rollover balance is for participants age 30-34 with an average income less than $35,000 in 2007, according to the Investment Company Institute. The Investment Company Institute, *The IRA Investor Profile: Traditional IRA Investors' Rollover Activity, 2007 and 2008* (2010).

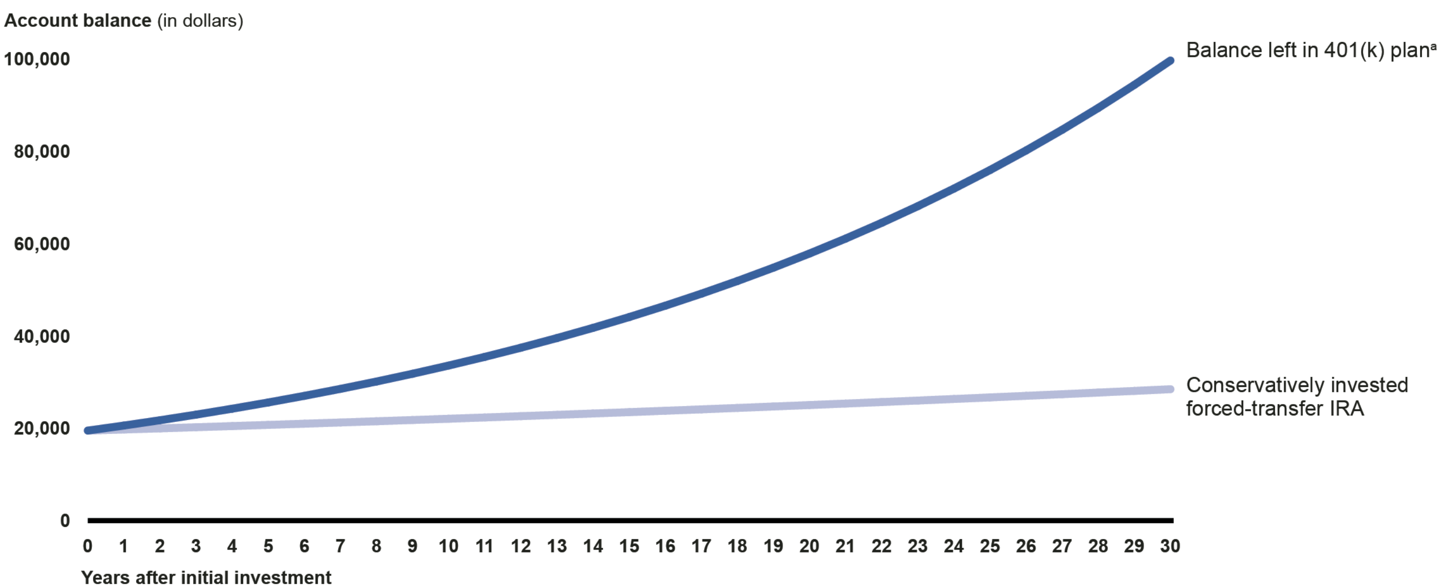
This projection reflects our 'moderate' assumptions for a low-wage worker's vested balances, which assumes a 3 percent employee contribution, a 50 percent employer match, and a 3-month service requirement. About 54 percent of plans that automatically enroll employees in the plan set a default contribution of 3 percent of salary and 48 percent of plans offer a 50 percent match, according to data from the Plan Sponsor Council of America's (PSCA) *55th Annual Survey of Profit Sharing and 401(k)*

*Plans*. According to the same source, 16.6 percent of plans reported a service requirement of three months. Our assumptions for vesting schedules follow:

- Under 3-year cliff vesting, the employer's contribution is 100 percent vested after 3 years of service.
- Under graduated vesting, the employer's contribution is partially vested after each year of service, depending on how long the graduated vesting period is. For example, in our projections, we used:
    - for a 5-year graduated vesting schedule: 0, 25, 50, 75, 100 percent at the ends of years 1 through 5; and
    - for a 6-year gradated vesting schedule: 0, 20, 40, 60, 80, and 100 percent at the end of years 1 through 6.

If the $19,500 balance used as an example in figure 3, which included rollover funds, had been left in a 401(k) plan and invested in a target date fund earning 6.3 percent, it would have gained more than $80,000 over 30 years, reflecting more than 400 percent growth, potentially much more than if it was invested conservatively in a forced-transfer IRA (see fig. 5).

**Figure 5: Projected Growth of $19,500 Balance Invested in a Forced-Transfer IRA or Left in a 401(k) Plan**




Source: GAO projection based on analysis of forced-transfer IRA and 401(k) industry data. | GAO-15-73

Notes: We use a $19,500 balance for this example because it reflects the 401(k) balance workers might have if they rolled over their vested balances from prior employers several times ($5,000 x 3 jobs), but had less than a $5,000 vested balance (say $4,500) at their current plan. We used a target date fund investment for the plan projection because target date funds are the most popular default investment for 401(k) plans using automatic enrollment, according to Plan Sponsor Council of America's (55th) Annual Survey of Profit Sharing and 401(k) Plans. The 6.30 percent target date fund return is the geometric mean for the 10-year average returns through July 31, 2014, on all target date funds, which reflects our analysis of data from Morningstar.com. We assumed an 'all-in' 401(k) plan fee of .67 percent, which was the median participant and asset weighted all-in fee among defined contribution plans, according to an Investment Company Institute and Deloitte survey and report "Inside the Structure of Defined Contribution/401(k) Plan Fees, 2013: A study assessing the mechanics of the 'all-in' fee," published August 2014, that surveyed defined contribution plans covering a range of plan assets and participant counts for plans with assets of $1 million or more. For the forced-transfer IRA, we calculated the median account opening fee ($6.75) and the median annual fee ($42). We used the mean 10-year return for taxable money market funds, as calculated by us with data from Morningstar.com. An alternate projection using the 15-year mean return ending July 31, 2014 on taxable money market funds, which is 1.89 percent, resulted in a balance of $32,510, still about a third of what could be earned in a target date fund.

[a] "Balance left in 401(k) plan" projection assumes investment in a target date fund earning 6.30 percent with a 0.67 percent all-in fee. See general notes below for detail on these assumptions.

Participants trying to consolidate their savings as they move from job to job could ultimately lose their ability to remain in a 401(k) plan with its choice of investments and could realize a lower retirement savings balance because of the current provision allowing rollover balances to be forcibly transferred out of the plan environment. Absent a change in law, active plans can continue to force out participants who have account balances over $5,000 by excluding rollover funds when calculating the vested balance, creating a disadvantage for those workers who change jobs and consolidate to keep their retirement savings in the plan environment. As we previously reported, investing in a workplace plan offers certain features that may suit individuals.[41]

## Low-Wage Workers' and Young Workers' Vested Balances May Often Fall Below the Required $5,000 Vested Balance Needed to Prevent Forced Transfers

Low-wage workers and young workers are vulnerable to forced transfers since they may change jobs often, which can leave them with particularly low balances. As shown in figure 3, we projected the vested balance of an average low-wage worker who: 1) earns $21,580 (the mean annual salary in 2013 for the largest occupational group within the service sector),[42] 2) works an average service sector tenure of 2.2 years, and 3) receives a 2.36 percent annual salary increase (the average annual

[41] For example, some plans offer investment choices with fees that reflect the lower pricing available for institutional grade shares. A fund's "institutional" class of shares are generally available only to investors of large sums, such as a pension fund or a trust for a university, and are less expensive than share classes available to an individual retail investor. GAO, *401(k) Plans: Labor and IRS Could Improve the Rollover Process for Participants*, GAO-13-30 (Washington, D.C.: Mar. 7, 2013).

[42] We chose the service sector for our projections because more than half of defined contribution plans (like 401(k) plans) are in the service sector and about 40 percent of defined contribution plan participants, according to a 2011 report by the Employee Benefits Security Administration. The annual salary data used for our projections are for the food preparation- and serving-related occupations.

change in earnings over 15 years from 1999 to 2013). We found that the vested balance fell below $5,000 even when using our “optimistic” assumptions.[43] (See appendix IV for more detail on the projections.) However, as discussed above, if the participant had transferred a small balance in a prior plan to their current plan, it could be enough to push their vested balance over the $5,000 cap, preventing a forced transfer, if plans were not permitted under current law to disregard rollover balances.

A service requirement[44]—the length of time a plan may require that someone work before participating in the 401(k) plan—like a vesting schedule, makes it harder for a worker to build up a vested balance that will exceed the $5,000 cap on forced transfers. In 2011, about 40 percent of plans used a service requirement.[45] Service requirements can result in smaller balances because a participant has less time to contribute to their account. If a plan imposes a service requirement and a vesting requirement, young workers and low-wage workers may not be able to accumulate vested balances over $5,000. As shown in table 3, the median tenure for workers age 20-24 is just 1.3 years.[46]

**Table 3: Median Years of Tenure with Current Employer, by Age (January 2014)**

| Age | 18-19 | 20-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65+ |
|---|---|---|---|---|---|---|---|
| Years of tenure | .8 | 1.3 | 3.0 | 5.2 | 7.9 | 10.4 | 10.3 |

Source: U.S. Bureau of Labor Statistics, Economic News Release, “Median years of tenure with current employer for employed wage and salary workers by age and sex, selected years, 2002-2014.” This table shows the data for men and women combined. Release last modified Sept. 18, 2014. | GAO-15-73

[43] Our assumptions include plan service requirements, deferral rates, employer-matching rates, and vesting, among other factors. All our projections assumed a plan investment in a target date fund, the most common default investment for automatic enrollment, with a return of 6.30 percent, the geometric mean of 10-year average returns for all target date funds ending July 31, 2014, based on GAO analysis of data from Morningstar.com. See appendix IV to see all projections and assumptions used.

[44] By statute, any such service requirement may extend no longer than the later of the date on which an employee attains the age of 21 or completes 1 year of service. 26 U.S.C. § 410(a)(1)(A).

[45] PSCA’s *55th Annual Survey of Profit Sharing and 401(k) Plans*, (Reflecting the 2011 Plan Experience), table 11.

[46] Data are from the U.S. Bureau of Labor Statistics for both men and women in January 2012. http://data.bls.gov/cgi-bin/print.pl/news.release/tenure.t01.htm.

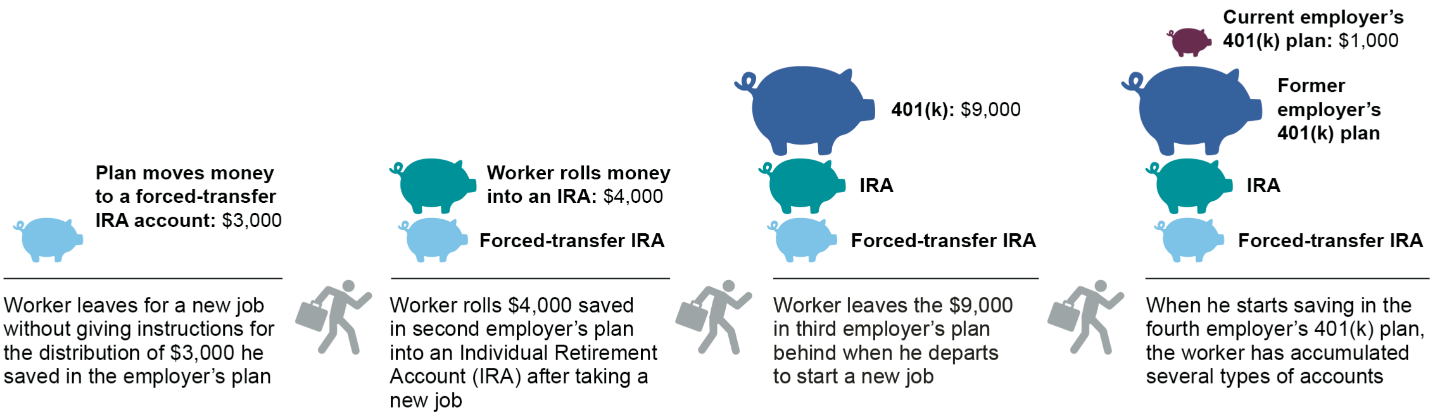
## Keeping Track of 401(k) Plan Accounts Can Be Difficult Because of Challenges with Consolidation, Communication, and Information, but SSA Is in a Position to Help

### Having Multiple Accounts Makes It Difficult for Participants to Keep Track of Retirement Savings

401(k) plan participants often lose track of their accounts over time. In the United States, the responsibility is on the individual to manage their retirement savings, including keeping track of 401(k) plan accounts. The considerable mobility of U.S. workers increases the likelihood that many will participate in multiple 401(k) plans. Over the last 10 years, 25 million participants in workplace plans separated from an employer and left at least one account behind and millions left two or more behind.[47] When individuals hold multiple jobs, they may participate in many 401(k) plans or other types of employer-sponsored plans and upon changing jobs face recurring decisions about what to do with their plan savings. Figure 6 illustrates how a participant can accumulate multiple retirement accounts over a career.

[47] SSA analysis of Form 8955-SSA data. SSA data include benefits left behind by separating participants in all defined contribution plans, including 401(k) plans, as well as in defined benefit plans, which are not subject to forced transfers. GAO assessed the reliability of the data and found that it met our standards for our purposes.

**Figure 6: A Worker's Accumulation of Multiple Accounts for Retirement Savings**




Source: GAO review of select laws and regulations. | GAO-15-73

## Participants Face Challenges Consolidating 401(k) Plan Accounts

There are many reasons participants have multiple accounts for retirement savings. Currently, there is no standard way for participants to consolidate their accounts within the 401(k) plan environment. For example, employers do not always permit rollovers into their 401(k) plans. As we previously reported, there are barriers to plan-to-plan rollovers that DOL and IRS need to address to facilitate such rollovers when participants may wish to choose that option.[48] Absent plan-to-plan rollovers, participants frequently roll over their accounts into IRAs or leave their 401(k) savings with their former employers, both of which increase the number of accounts for the participants if they then go on to enroll in their new employers' plans. Plan-to-plan rollovers help reduce the number of lost accounts because the accounts stay with the participants. This option is, however, irrelevant if the new employer does not offer a plan.

[48] GAO-13-30. Plans are not currently required to accept rollovers. One issue that plans have with accepting rollovers is with verifying that funds coming from outside a plan are legally tax qualified under the Internal Revenue Code. We previously recommended that IRS and DOL work together to communicate to plan sponsors IRS's guidance on the relief from tax disqualification provided for plans that accept rollovers later determined to have come from a plan that was not tax qualified. Subsequently, on April 3, 2014, IRS issued guidance to ease the process and make plan-to-plan rollovers less burdensome for plans. The ruling provides a simple method for receiving plans to verify the tax-qualified status of sending plans by checking a recent annual report (Form 5500) filing for the sending plan on a public database. Rev. Rul. 2014-9, 2014-7 I.R.B. 975.

Industry representatives we interviewed said automatic enrollment also contributes to participants having multiple accounts. Although automatic enrollment facilitates retirement saving, individuals may be less apt to pay attention to an account that they did not make the decision to enroll in. Industry professionals told us that individuals with a collection of many small accounts may forget about them because the small balances provide them less incentive to pay attention to them. In addition, automatic enrollment is likely to exacerbate the accumulation of multiple, small accounts. As more participants are brought into the system there could be an increase in forgotten accounts, because many of those participants are unengaged from the start, in spite of DOL notification requirements.[49] However, as GAO has previously reported automatic enrollment can significantly increase participation in 401(k) plans.[50]

### Participants Face Challenges Communicating with Former Employers' Plans

When participants leave their savings in a plan after leaving a job, the onus is on them to update former employers with address and name changes, and to respond to their former plan sponsor's communications. Plans and record keepers have no automatic way to keep this information up to date for participants, nor do they have ways to ensure that separated participants will respond to their communications. For example, one industry professional noted that if former participants' e-mail contacts are work e-mails, they will lose contact with their plans when they change jobs and do not provide alternate e-mail addresses. When a plan loses track of a participant it can create a number of challenges because the plan has to spend time and incur the cost of searching for the participant. In addition, there are no standard practices among plans and providers for the frequency or method of conducting searches for missing or nonresponsive participants.

While there is agency guidance on searching for missing participants in terminating plans prior to forcing them out,[51] in hearings before the ERISA Advisory Council and in our interviews, providers and other industry professionals reported that the guidance on searches is unclear and insufficient. For instance, it is unclear how to satisfy disclosure

[49] 29 C.F.R. § 2250.401a-2(c)(4).

[50] GAO, *Retirement Savings: Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges*, GAO-10-31 (Washington, D.C.: Oct. 23, 2009).

[51] U.S. Dept. of Labor, Field Assistance Bulletin 2014-01 (Aug.14, 2014).

requirements when the participant's address on file is known to be incorrect. One provider told us plans are obligated to make a "good faith effort" to locate participants, but they do not always know what a good faith effort entails. This leaves plans unsure of what steps they must take to satisfy applicable search requirements.

## Participants Face Challenges Obtaining Information Useful for Keeping Track of 401(k) Plan Accounts

Employer actions, such as terminations, mergers, and bankruptcies can also make it difficult for participants to keep track of their accounts. Participants and beneficiaries can lose track of former employers' plans when the employers change location or name, merge with another company, spin-off a division of the company, or go out of business. DOL officials said that one of the most challenging problems facing participants and their advocates is tracking down lost plans. For example, company records for legacy plans, old plans that no longer have operating units, may be scattered, making employee and participant data difficult to locate, and the former plan's administrative staff may no longer be available to respond to questions regarding participant records.

The current regulatory environment also presents challenges to participants. Participants separating from their employer are to receive information about their accounts via multiple disclosures. Depending on the actions participants take regarding their accounts upon separation, their former employers will provide them and regulatory agencies with relevant required disclosures and reports. (See appendix VI for a list of selected disclosures required when participants separate from employment or when plans undergo certain types of corporate restructuring.) As participants change jobs over time and accumulate multiple accounts, those who remain engaged with their accounts will acquire a large volume of documentation. For example, the hypothetical worker from figure 6 who had separated from three jobs would receive at least nine different notices from the three plan sponsors. In the instances where the worker's 401(k) plan savings were transferred to another account, the worker would have been provided information about the new account. Over time, the worker would continue to receive annual—or sometimes quarterly—statements from each account as well as various other notices and disclosures depending on any changes in the structure or terms of the plans or accounts. Over 10 years, if that worker had no further job changes or changes to the existing accounts, routine account statements alone would result in at least 40 separate documents. If even one of the accounts issued quarterly statements, the number of documents would increase to 70, which does not include any disclosures the worker might receive about the underlying investments of the accounts or information regarding changes to a plan or IRA.

Participants may also have difficulty understanding the complex notices or account statements they receive. As we have previously reported, the quantity of information participants receive may diminish the positive effects such important information could have for them.[52] Our previous work found that participant disclosures do not always communicate effectively, participants often find the content overwhelming and confusing, and many participants rarely read the disclosures they receive.[53]

In addition, although 401(k) plans are required to report annually on plan design, finances, and other topics to DOL, IRS, and PBGC via the Form 5500 Series[54] and a number of other forms required by the IRS,[55] the information reported may not always result in a clear record or trail of employer or plan changes. For instance, DOL officials told us that many small plans fail to file an updated or final Form 5500, which would include a valuable piece of information, an employer identification number, which can be used to track a new plan resulting from a merger.[56] In the event of a plan termination, the plan administrator may file Form 5310, a request for a determination letter on a plan's qualified status, with the IRS, but must provide participants an "Notice to Interested Parties" notifying them of their right to comment on the plan termination. In certain instances of a company spinoff, only the plan that was in existence before the spinoff is required to file a Form 5310-A, making it difficult to trace the new plan back to the original plan. We recently reported that this notice confuses participants and it is difficult for the average pension plan participant to exercise their right to comment.[57] In addition, participants may receive a

[52] GAO, *Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved*, GAO-14-92, (Washington, D.C., Nov. 21, 2013).

[53] GAO-14-92.

[54] 29 U.S.C. § 1023. The Form 5500 Series Report is the primary source of information for both the federal government and the private sector regarding the operation, funding, assets, and investments of private pension plans and other employee benefit plans. DOL, IRS, and PBGC jointly developed the Form 5500 so employee benefit plans could satisfy annual reporting requirements under ERISA and the IRC.

[55] For a more complete description of plan reporting and disclosure requirements, see GAO-14-92.

[56] In addition, DOL officials told us that employer identification numbers are often reported incorrectly. Questions on the Form 5500, 5500-SF, and schedules H and I require sponsors to provide information on plan termination and transfers to other plans.

[57] GAO-14-92.

Notice of Plan Termination that includes information on their account balance, distribution options, and information about making an election and providing instructions to the plan.

Federal agency officials told us that inactive participants can fail to find their accounts with former employers and do not always know where to go to seek assistance or find information about their accounts. (See table 4 for descriptions of the role of federal agencies and other entities in helping participants find their plan accounts). Even with the information participants received while still active in plans or at separation, they then have to figure out which agencies and private sector entities to contact to find their accounts. Former employers and record keepers have information participants may need, but participants will need to have stayed in contact with their former employers to get that information. Federal agencies may also have some of the information that participants may need. However, the information that agencies provide is not designed to help participants keep track of multiple accounts or to find lost accounts. Consequently, participants searching for their accounts from former employers may have incomplete information. Moreover, if participants kept the notices and statements sent to them, the information they need may be out of date and located in multiple documents. As a result of such information challenges, even those who obtain assistance from benefits advisors with government or non-profit programs may be unable to locate all of their retirement savings.

**Table 4: Federal Agencies or Entities That Can Help Former Participants Locate 401(k) Accounts**

| | |
|---|---|
| **DOL's Office of Outreach, Education, and Assistance (OEA)** | OEA is charged with assisting the public locate information about their retirement benefits from employers. OEA has direct contact with participants through benefits advisors that field calls to answer questions related to retirement savings. To assist the public, benefits advisors determine whether a participant's former employer is still in existence, and whether it has a new address. OEA conducts a search to determine when the employer may have filed an IRS Form 5500, looks for fiduciaries or service providers, uses an internal database to track changes recorded from previous calls, and references an informal list of mergers and acquisitions that has been developed to help reconnect individuals with their benefits. In some instances, OEA will contact a plan to see if benefits have been paid out and they encourage participants to check their own records for IRS 1099 forms that would signify a benefit distribution. OEA benefits advisors respond to requests for assistance, so participants have to know to reach out to DOL for assistance. DOL officials told us that about 60 percent of the benefit inquiries they receive originate from individuals who had received a notice of Potential Private Retirement Benefit Information—signifying retirement savings left behind in a plan—from SSA. DOL officials told us they helped 2,800 people to reclaim about $130 million in retirement savings. But industry professionals estimate there could be billions more in forced-transfer IRAs and uncashed plan distribution checks. |
| **Pension Benefit Guaranty Corporation (PBGC)** | PBGC offers a publication titled *Finding a Lost Pension* to help participants, and suggests documents participants may need while searching as well as sources of information and assistance, including other federal agencies and federally funded pension assistance centers. Some of the information that the publication says participants may need comes from the plan that the participant is trying to find. The publication acknowledges that it is hard to tell which source will provide participants with the information they need, that there are no guarantees of success, and that experienced pension counselors sometimes cannot find a lost pension. The publication suggests a search include: (1) trying to find the plan sponsor on the internet, (2) searching bankruptcy court filings if the employer went bankrupt, (3) asking former co-workers what happened to the company, (4) contacting any unions representing workers there, and (5) contacting the Chamber of Commerce in the town where the company was located. The publication suggests participants may be able to research corporate merger or buyout information at a specialized business library, contact one of the corporate officers listed in annual reports corporations submitted to state governments, or contact the plan's accountant, actuary, trustee, or attorney listed on the plan's annual report. |
| **Health and Human Services' Administration on Aging** | The Administration on Aging assists individuals with issues related to their retirement security and funds non-profit pension counseling programs operated by organizations such as the Pension Rights Center and the Pension Action Center. At these centers, counselors assist callers find their pension benefits, often conducting searches for employers that are difficult to find due to bankruptcy or business restructuring. In some cases, benefit advisors cannot locate plans due to plans' changes in name, location, or other identifying information. One federally subsidized consumer advocacy group we interviewed helps about 200 people each year to find lost accounts. A representative of the organization said they serve only a small number of those who need help because many people are unaware of their services. |

Source: GAO review of agency information and interviews with agency personnel. | GAO-15-73

## SSA Can Help Participants Locate Accounts by Providing Information Earlier

The Social Security Administration (SSA) provides information that can help participants locate retirement savings left with a former employer. The Potential Private Retirement Benefit Information (Notice) includes information that could be beneficial to individuals looking for missing accounts, including: the name of the plan where a participant may have savings, the plan administrator's name and address, the participant's savings balance,[58] and the year that the plan reported savings left behind (see fig. 7).

**Figure 7: Contents of the Notice of Potential Private Retirement Benefit Information That Could Be Helpful to Individuals Looking for Missing Retirement Accounts**

**If You Want to Apply for These Benefits**

If you want to apply for these retirement benefits or have any questions, you should contact the Plan Administrator shown below. The Plan Administrator provided the information as of the date in the "Year Reported" field below. If you or the worker has already filed a claim and received payment from the plan below, you may not be eligible for any additional benefits. Include a copy of this notice when you contact the Plan Administrator.

| | | |
|---|---|---|
| Plan Name | Plan Number | |
| | Identification Number | |
| | Year Reported | Estimated Amount |
| Plan Administrator and Address | Type of Benefit | Payment Frequency |
| | Units or Shares | Value of Account |

**IMPORTANT:** See the other side of this page for an explanation of this information.

Source: GAO selected portion of Potential Private Retirement Benefit Information, SSA-L99-C1, Social Security Administration. | GAO-15-73

SSA sends the Notice when an individual files for Social Security benefits, which can occur as early as age 62, unless the notice is requested earlier.[59] Individuals appear to be generally unaware that this personal

[58] If the Notice is regarding a defined benefit plan it will include information about the estimated benefit due to the participant at the time that they separated from their employer.

[59] According to SSA, individuals who apply for Title II disability benefits will receive the Notice at the time of filing that application, which may be earlier than age 62.

financial information exists or that they may request it from SSA, since few individuals request the form prior to retirement. SSA officials said that they only received about 760 requests for the form in 2013, though according to data provided by SSA the agency has records of potential benefits for over 33 million people. Agency officials told us that they were not aware of any potential advertising or effort on the agency's website (www.ssa.gov) for promoting the availability of the Notices or informing people about their ability to request the notices.[60] Officials also said that approximately 70,000 Notices are generated for new Social Security beneficiaries every month.

Individuals may receive multiple Notices at retirement if they have left savings in more than one employer plan over their career. Although the same information is reported on each form and SSA houses the data for years, the data are not compiled for ease of use by the recipient or for efficiency and cost-savings by the agency. Agency officials explained that in the past people worked for one company for most of their lives and were more likely to have had a traditional defined benefit pension plan, and consequently the format of the Notice only allows for data from one employer. Because the Notice is not currently formatted to display consolidated data on potential benefits from multiple employers, information on benefits from each employer must be sent separately to the participant. Given that many individuals will change jobs often throughout their working life, they can therefore expect to receive several different Notices, adding to the number of disclosures, communications, and notices they are expected to review, understand, and consider in managing their retirement savings. Combining multiple Notices could simplify the process of managing multiple forms for people with more than one account and reduce the costs to SSA.

More widely known, SSA also sends individuals a Social Security Statement (Statement) that estimates Social Security retirement benefits—at different claiming ages, and displays a worker's earnings

[60] Advertising efforts can be effective in routing an interested public toward otherwise underused federal resources and websites. Officials at PBGC told us that when one retiree advocacy organization published information about PBGC's registry of lost accounts the agency saw a surge in online hits to the registry.

history.[61] SSA suspended the mailing of paper copies of the Statement in 2011, but in 2014 resumed mailing the Statements to individuals every 5 years, starting at age 25.[62] This information is also available online to anyone who establishes an account. Similar to the Notice, the Statement contains important information about an individual's potential retirement income. Together these documents give individuals a more complete understanding of their income in retirement. SSA also has earnings recorded by employer, which is available upon request, but it is not mailed to individuals or available online. The earnings record for each year could provide clues as to when certain periods of employment occurred, which is key information that industry professionals suggest individuals looking for their lost 401(k) plan accounts should have when conducting a search.

Given the multiple Notices individuals can receive from SSA, in addition to the Statement, finding a way to reduce duplication can help individuals keep track of their accounts and locate missing accounts. SSA has a process in place to review and revise the Statement and the agency already stores all of the data published in the Notice. As suggested in figure 8, providing the Notice at the same time as and with the Statement is one way to give individuals a consolidated, timely resource and reduce the volume of paperwork they need to keep track of over time.

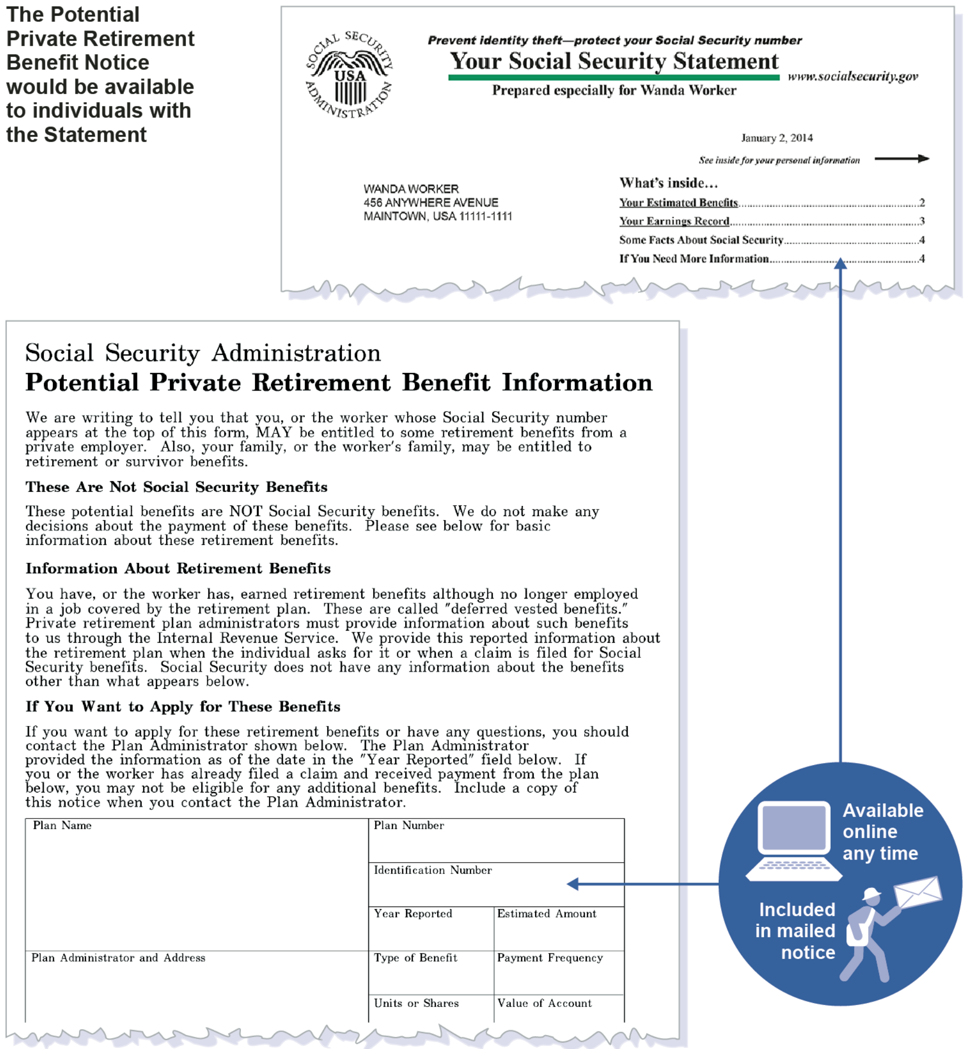
As noted earlier, when plans lose track of participants due to outdated mailing addresses, participants fail to receive critical plan communications about their accounts and about any changes to the plan name or administrator that will be vital when they want to communicate with the plan and claim their benefits. An industry professional we interviewed suggested that participants receive some type of reminder to notify plans of address changes. If participants are reminded of their inactive 401(k) plan accounts via the Notice and prompted to inform plans of updated

[61] 42 U.S.C. § 1320b-13. The Statement also explains how benefits are estimated. See GAO, *Social Security Statements: Observations on SSA's Plans for the Social Security Statement*, GAO-11-787T, (Washington, D.C., July 8, 2011). The earnings history shows an individual's income subject to Social Security tax. Not all earnings are subject to Social Security tax. The law also requires each statement to contain the following: an estimate of the potential monthly Social Security retirement, disability, survivor, and auxiliary benefits and a description of the benefits under Medicare; and the amount of wages paid to the employee and income from self-employment, among other things.

[62] The mailings will be sent to workers aged 25, 30, 35, 40, 45, 50, 55, 60, or older, who have not created an online account with SSA.

address information, the accounts may be less likely to become lost. Making the information available online or mailing it every 5 years can remind participants of the multiple accounts they have. Providing the combined information on inactive accounts from multiple employers can also give individuals needed information to keep track of their multiple accounts and provide the opportunity to correct inaccurate account information. In addition, having a reminder of the accounts they left behind may increase the likelihood that participants pay attention to other plan communications.

Figure 8: Consolidating Multiple Notices of Potential Private Retirement Benefit Information with the Social Security Statement Can Consolidate Information Critical to Individuals for Tracking Multiple Accounts




Social Security Administration

**Potential Private Retirement Benefit Information**

We are writing to tell you that you, or the worker whose Social Security number appears at the top of this form, MAY be entitled to some retirement benefits from a private employer. Also, your family, or the worker's family, may be entitled to retirement or survivor benefits.

**These Are Not Social Security Benefits**

These potential benefits are NOT Social Security benefits. We do not make any decisions about the payment of these benefits. Please see below for basic information about these retirement benefits.

**Information About Retirement Benefits**

You have, or the worker has, earned retirement benefits although no longer employed in a job covered by the retirement plan. These are called "deferred vested benefits." Private retirement plan administrators must provide information about such benefits to us through the Internal Revenue Service. We provide this reported information about the retirement plan when the individual asks for it or when a claim is filed for Social Security benefits. Social Security does not have any information about the benefits other than what appears below.

**If You Want to Apply for These Benefits**

If you want to apply for these retirement benefits or have any questions, you should contact the Plan Administrator shown below. The Plan Administrator provided the information as of the date in the "Year Reported" field below. If you or the worker has already filed a claim and received payment from the plan below, you may not be eligible for any additional benefits. Include a copy of this notice when you contact the Plan Administrator.

| Plan Name | Plan Number | |
|---|---|---|
| | Identification Number | |
| | Year Reported | Estimated Amount |
| Plan Administrator and Address | Type of Benefit | Payment Frequency |
| | Units or Shares | Value of Account |

Source: Social Security Administration, Social Security Statement, Form SSA-7005-SM, and Potential Private Retirement Benefit Information, SSA-L99-C1 | GAO-15-73

## Other Countries Have Taken Actions to Protect Forced Transfers and Track Retirement Accounts

To manage inactive workplace retirement accounts, officials in the countries in our study told us that the United Kingdom (U.K.), Switzerland, and Australia use forced transfers and Australia, Denmark, Belgium and the Netherlands use tracking tools. Like the forced-transfer IRAs of the United States, the forced transfers we were told about in these countries transfer account balances without participant consent. In the countries we studied with forced transfers, those accounts follow participants changing jobs, are efficiently managed in a single fund, or are free from fees at a government agency. Each of these approaches helps to preserve the real value of the account for the participant, and generally ensures workplace plans will not be left with the expenses of administering small, inactive retirement accounts. Although the models employed vary by country, the three countries with tracking tools we studied allow participants online access to consolidated information on their workplace retirement accounts, referred to as "pension registries" in this report. Approaches include both databases and "service bus" interfaces connecting providers to participants in real time.[63] Roles for government in these countries range from holding the data and analyzing it for tax and social policy purposes to collaborating with an industry-created pension registry, allowing for information on national pension benefits to be provided in the registry.

### Forced Transfers in Other Countries Benefit Participants

According to officials we interviewed in the three countries that use forced transfers, they have legislation that (1) consolidates transferred accounts, either in a participant's new plan or with other forcibly-transferred accounts, and (2) enables these accounts to grow, either at a rate comparable to participants' current retirement accounts or at least in pace with inflation (see table 5).

[63] A service bus is technology that manages access to applications and services to present a simple, consistent interface to end users online.

**Table 5: Characteristics of Forced Transfers in Three Countries and in the United States**

| | United Kingdom | Switzerland | Australia | United States |
|---|---|---|---|---|
| When was legislation enacted? | 2014 | 1993 | 2012[a] | 2001 |
| Under what circumstances are accounts forcibly transferred? | When an employee's new plan identifies an eligible balance | When they have been inactive between 6 and 24 months[b] | 12 months of inactivity | Plans meeting legal requirements may transfer eligible balances at their discretion and at plan termination. |
| What is the maximum account size that can be forcibly transferred? | £10,000 (about $17,000)[c] | Any amount | AUD 2,000 (currently about $1,860)[d] | $5,000[e] |
| Where are forced transfers sent? | Consolidated into the employee's current plan[f] | Consolidated into a single fund[g] | Consolidated at the Australian Tax Office | Used to open a forced-transfer IRA |
| Over time, what happens to forced-transfer balances? | Balances grow according to returns on investments in the employee's current plan | Balances grow according to returns on central fund investments, which are similar to returns in workplace plans | Balances keep pace with inflation | Balances often decrease |

Source: GAO analysis of documents discussing retirement policies in these countries and interviews with government officials. | GAO-15-73

[a] A 2009 law required accounts under AUD 200 to be transferred after 5 years of inactivity. In 2012, that legislation was amended to reflect the content shown here.

[b] Plans must allow participants 6 months to initiate a transfer to a new plan or an individual account or policy with a bank or insurer. While plans can forcibly transfer participants after 6 months, they must forcibly transfer participants after 24.

[c] In the United Kingdom, regulations implementing the forced-transfer law have not yet been finalized. However, the U.K. Department for Work and Pensions has tested different account sizes and determined the size of account it plans to include.

[d] 2014 legislation contemplates further raising the accounts size eligible for forced transfer to AUD 4,000 at the end of 2015 and AUD 6,000 at the end of 2016.

[e] While $5,000 is the cap on forced transfers of new vested plan balances, because the law permits plans to disregard rollovers and their earnings from previous plans when calculating the vested balances, in the absence of any participant instructions, much larger balances can be transferred. There is no limit on the size of a participant balance that may be transferred to a forced-transfer IRA by a terminating plan.

[f] U.K. employers must choose a plan for their employees working in the United Kingdom under a 2008 U.K. law. To ensure employers have an easy, low-cost option available, that law created the National Employment Savings Trust, a non-profit, workplace plan available to any employer in the United Kingdom. Mandatory automatic enrollment began in 2012 and will include all employers beginning in 2018.

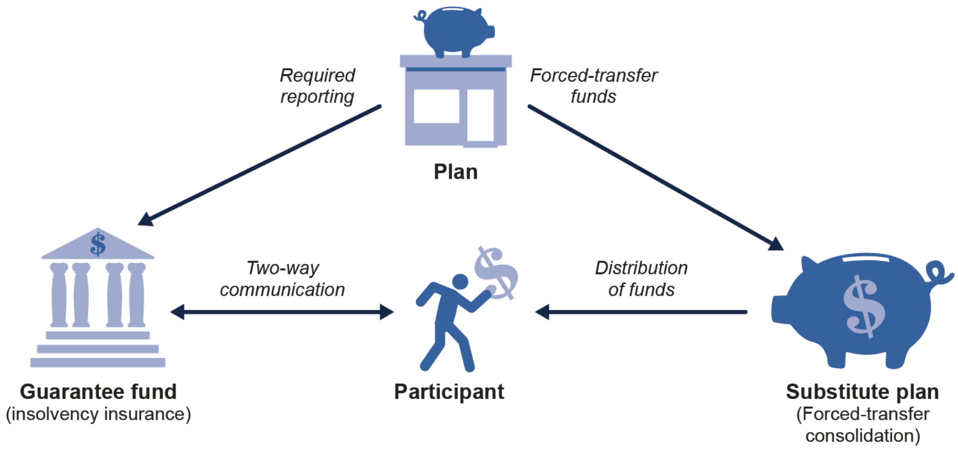
[g] The Swiss Substitute Occupational Benefits Institution (Substitute Plan) also serves as a means for employers who do not offer their own plan but are required to provide their employees retirement benefits to do so, and for the self-employed to participate in a retirement plan if they wish.

**Switzerland**—According to Swiss officials, forced transfers in Switzerland are consolidated in a single fund, the Substitute Plan, administered by a non-profit foundation and invested until claimed by participants (see fig. 9). The Substitute Plan serves as a back-up in those instances when participants fail to roll their money over to their new plan, as they are required to do by law, according to Swiss Federal Social Insurance Office officials.

Plans report information on inactive accounts to the Guarantee Fund, the Swiss organization insuring insolvent workplace plans. After 2 years of inactivity, those accounts must be transferred to the Substitute Plan. Officials said the Guarantee Fund is responsible for returning the retirement savings of participants to them in retirement.[64] According to officials at the Swiss Federal Social Insurance Office, the Substitute Plan held about $5.5 to $6.6 billion in 2014. They said its investments have outperformed those in workplace plans in recent years, and compared to most workplace plans, its administrative costs are low, in part because the board manages the investments itself. According to a Substitute Plan board member, the board receives investment guidance from financial experts who counsel its investment committee.

[64] To contact retirees, the Swiss use the address where retirees receive their public pension, much like SSA sends U.S. retirees a Potential Private Retirement Benefit Information notice.

**Figure 9: Inactive Retirement Accounts in Switzerland Are Invested in a Central Fund**




Source: GAO analysis of documents describing Swiss transfer policy and statements from Swiss officials. | GAO-15-73

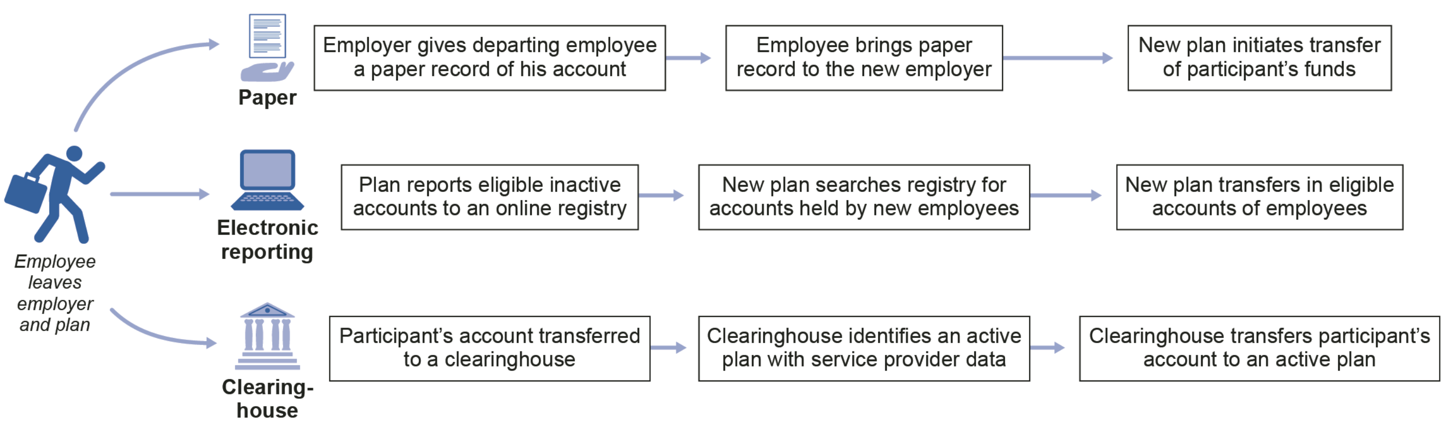
Note: The Swiss use a foundation entrusted by law with special tasks, the Substitute Occupational Benefits Institution (Substitute Plan) to hold accounts in workplace plans that were inactive and thus transferred. Plans report information on inactive accounts to the Guarantee Fund, the Swiss organization insuring insolvent workplace plans, and send accounts within two years of inactivity to the Substitute Plan. The Guarantee Fund notifies participants of any accounts they have in the Substitute Plan when they retire, and upon request.

**The United Kingdom**—Officials said that the United Kingdom "pot-follows-member" law is designed to make workplace retirement accounts move with participants throughout their career, or at least until the balances are large enough that they could be used to buy an annuity.[65] Transfers of participants' savings from a former employer are initiated by the new employer when it is notified, likely through information

[65] Officials said while these transfers move accounts without affirmative participant consent, if participants explicitly request that their account not follow them from job to job, they are permitted to opt-out of the process and leave their account behind in their previous employer's plan.

technology, of an eligible account.[66] Although every employer in the United Kingdom must automatically enroll workers between age 22 and retirement age who earn more than about $17,000 a year, U.K. officials are still considering how they will implement the law when no new plan exists to transfer money to. They said one benefit of putting the responsibility on the new plan is that the trigger for the transfer does not occur until a new plan exists. Once implemented, the pot-follows-member law will automate the plan-to-plan rollover process for participants, keep transferred assets under participant direction, and generally ensure plans do not manage small, inactive accounts. Figure 10 depicts three ways workplace retirement accounts can follow job-changing participants.[67]

**Figure 10: Three Possible Ways Workplace Retirement Accounts Can Follow Job-Changing Participants**




Source: GAO interviews with relevant officials and account transfer policy documents. | GAO-15-73

[66] Although regulations implementing the 2014 Pensions Act are not final, the U.K. Department for Work and Pensions consulted with stakeholders who suggested that once an individual leaves a job, that employer might upload information about their account there to a database. The employee's new employer would search the database for details of the old account, inform the individual of the transfer process, and if the employee does not opt-out, contact the employee's old plan to request the transfer. Stakeholders thought that a combination of full name, National Insurance Number, and date of birth could be used to successfully match members with their accounts in the United Kingdom.

[67] To learn of industry efforts in the United States to help plan accounts follow participants, we spoke with a forced-transfer IRA provider who markets itself as a clearinghouse that will find the participant and their current plan, and consolidate their forced-transfer into it. The forced-transfer IRA provider has used data from service providers to identify participants' current plans, and has successfully transferred thousands of accounts to the current plans of participants.

Note: Swiss plan participants are required by law to pass a paper record of their workplace retirement account information to their new employer, and ensure it happens in most circumstances by requiring them to do so by law. One solution contemplated by 2014 legislation in the United Kingdom is a database of inactive accounts eligible for transfer to a new employer which a new employer can use to initiate a transfer. The clearinghouse method is one beginning to be used in the United States, where service provider data allows a clearinghouse to find a participant's account in their active 401(k) plan and transfer an account that was forcibly transferred from a prior plan into their new one.

**Australia**—Rather than invest forcibly transferred accounts for long-term growth, officials told us the Australian government preserves value while taking proactive steps to reconnect participants with their accounts. Accounts inactive for 1 year are transferred to the Australian Tax Office (ATO), which holds them in a no-fee-environment and pays returns equal to inflation when they are claimed.[68] When participants access the ATO website to submit their taxes or change their address, they are provided a link to view any account they have that is held by the ATO, and they can consolidate it with another account online. Unlike the United Kingdom and Switzerland, the Australian approach requires participants to take action to invest their transferred accounts for long-term growth, although it provides a tool to help them do so.

## Other Countries Provide Pension Registries to Help Participants Track Accounts while the United States Does Not Have a Similar Approach

European Commission officials we talked to said that the most basic form of centralized information on plans should help participants find providers, allow them to view which plans serve which employers, and provide relevant plan contact information. All of the approaches we reviewed in the selected countries went further. The Netherlands, Australia, and Denmark provide consolidated, online information—called pension registries—to participants on all of their workplace retirement accounts, and Belgium is scheduled to do the same by 2016. The pension registry designs in the four countries we studied with such registries share some common elements that make them useful for participants.

- *Active and inactive accounts:* All include data on both active and inactive accounts, including account balances and plan or insurer contact information.
- *Website accessibility:* All include the identity authentication necessary to securely allow online access to individual participants.

[68] The amount of interest paid, which has been equal to inflation since July 1st 2013, is set by regulation.

- *Workplace account information:* All include information on workplace retirement accounts.

While various benefits to participants were cited as the impetus for creating registries in each of these countries, pension registries can be used by plans as well. A representative of one workplace plan in Belgium said they use pension registry data to find missing participants, make payments to the participant as planned, and eliminate liabilities for those payments.[69] The representative also added that when the pension registry goes live to participants the plan may spend less time answering questions from participants who do not have a clear understanding of their rights to benefits. Instead, they will refer participants to the pension registry for answers.[70] Plans in Australia also use the pension registry to identify inactive accounts their participants have in other plans and to talk to participants about consolidating their accounts. Table 6 shows various attributes of the pension registries in the countries we included in our study. Further details on these pension registries can be found in appendix VII.

[69] While the Belgian pension registry is not scheduled to be operational for participants until 2016, plans already have some access to the data.

[70] A representative of a plan in Belgium said the plan shares each participant's terms of benefit contract with the pension registry. As a result, an individual who disagrees with their retirement benefit has the opportunity to access the actual contract, which, according to one Belgian plan, resolves the vast majority of disputes.

**Table 6: Attributes of Pension Registries Used in Four Countries in 2014**

| | Denmark | The Netherlands | Belgium | Australia |
|---|---|---|---|---|
| Does it include broad information to facilitate retirement planning? | Yes | Planned | No | No |
| Does it include information on national, workplace, and personal retirement income sources? | All | Workplace and national | Workplace and national[a] | Workplace only |
| How is it financed? | By pension providers voluntarily | Per-participant fee paid by pension providers | Government general revenue | Government general revenue and pension industry tax |
| What was the impetus for the creation of the registry? | To help individuals track multiple accounts, locate lost ones, and plan for retirement | To help individuals track multiple accounts, locate lost ones and plan for retirement[b] | To give government information for tax and social policy purposes and find lost accounts. | To help individuals track multiple accounts and locate lost ones, and encourage consolidation |

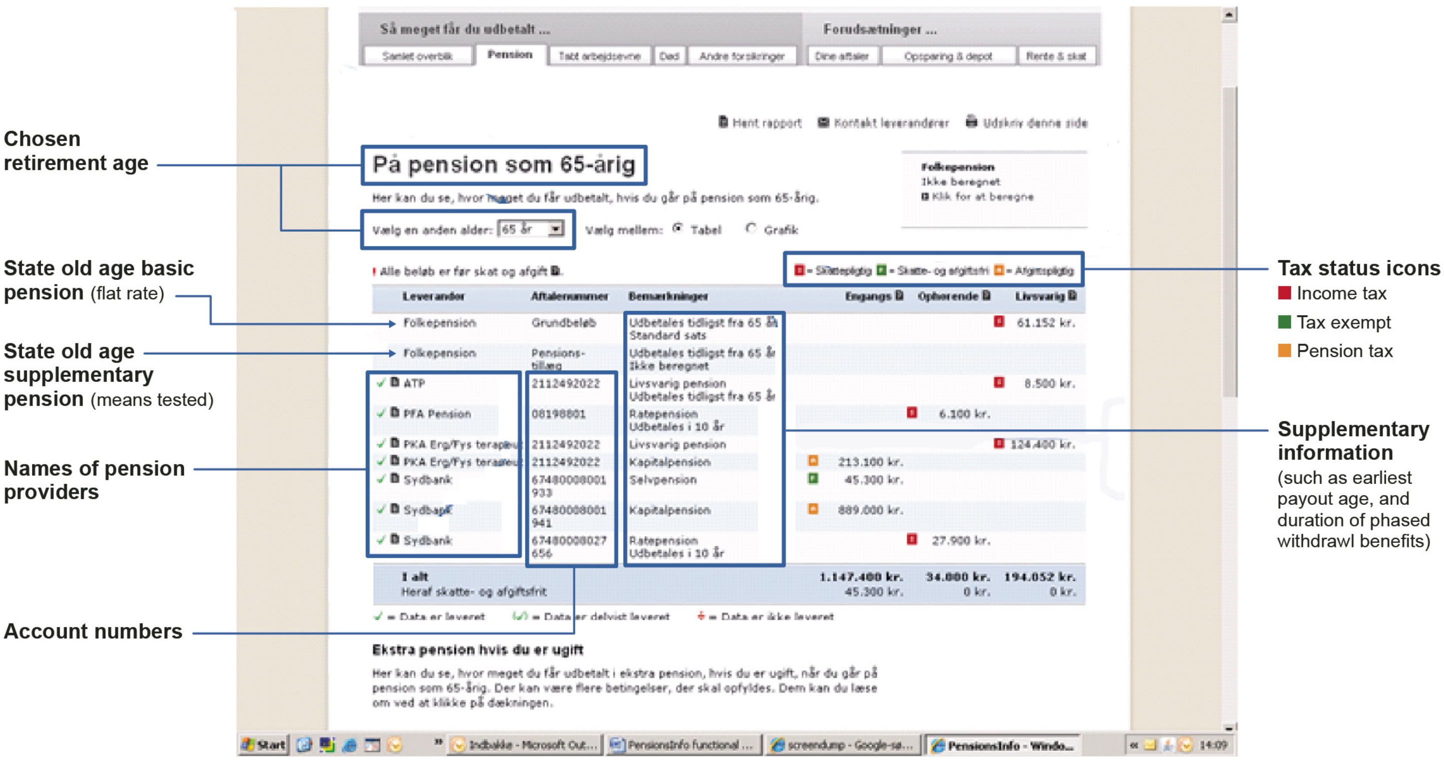
Source: GAO analysis of documentation of pension registries in other countries and interviews with government officials and other stakeholders in the listed countries. | GAO-15-73

[a]A representative of one Belgian plan said information on national retirement benefits (equivalent to Social Security in the United States) are planned to be incorporated into Belgium's pension registry in 2016.

[b]Representatives of the Dutch industry association said their pension registry can give participants a clearer understanding of their finances in retirement, and helps manage their expectations. They said many Dutch citizens believe their pension income will be 70 percent of their working income, when it will actually be just 40 or 50 percent.

**Denmark**—Denmark's pension registry incorporates personal retirement accounts similar to IRAs in the United States, and facilitates retirement planning by allowing participants to see how their financial security in retirement varies with factors like retirement age and spend-down option, according to documentation provided by Danish officials.[71] Although the Danish pension registry is a private non-profit organization financed by participating pension providers, it also works with the government to provide data on public retirement benefits (see fig. 11).[72]

**Figure 11: Danish Pension Registry Screenshot**




Source: GAO analysis of The Danish Pension Registry PensionsInfo, https://www.pensionsinfo.dk. | GAO-15-73

Note: The Danish pension registry provides Danes with current, consolidated, retirement account information on their workplace plans, individual plans, and government retirement benefits online. This screenshot shows some of the information accessible to participants.

[71] Providing the functionality to view and analyze such comprehensive information in the United States could overlap with private sector financial planning tools which analyze information provided by individuals.

[72] The pension registry (PensionsInfo) in Denmark did not require legislation. Danish University Professors said initial discussions centered on leading people to an understanding of their retirement benefits, but to understand them, people had to know what they were.

**The Netherlands**—Participants have had access to the pension registry since 2011 using a national digital ID, following the enactment of legislation in 2006 and 2008. The Dutch Social Insurance Bank worked for years with the largest pension plans to develop the registry, though the pension industry in general—including insurance companies and smaller pension funds—provided input into the registry, according to industry representatives we interviewed. The pension industry's web portal collects and consolidates pension information from funds and insurers when a participant logs in to the system. Participants can also access national, or government, pension information. The pension registry does not store the information in a central location because of security concerns over participants' private information, according to representatives of the pension registry we interviewed. The government plans to expand the pension registry into a pension dashboard that will project retirement benefits under various life events and allow participants to view their entire financial situation to facilitate retirement planning. The aim of the expansion is to increase financial literacy but also affect behavior.

**Australia**—Participants can access the pension registry, the SuperSeeker, online using a unique electronic government ID. Participants can also use a phone service or smart phone application to get the information, according to the SuperSeeker website. With SuperSeeker, participants can view all of their workplace retirement accounts on the web, including active and inactive accounts, and any lost accounts held by ATO. SuperSeeker can also be used to locate lost accounts not held by ATO. The content of the registry is generated by plans, as they are required to report the details of all lost accounts twice each year to the ATO, in addition to active accounts.

**Belgium**—Officials told us individual participant access is planned for 2016 using a national digital signature. They said the law creating the workplace pension registry was passed in 2006. Pension providers are required by law to submit workplace pension information to the registry. An electronic database of national pensions (similar to Social Security in the United States) already existed for private sector workers and in 2011, the government included public sector workers in the database to create a unified national and workplace pension registry. Starting in 2016, all participants will be able to securely access the integrated data on both national and workplace retirement plans, according to Belgian government officials.

## The European Commission Is Developing a Pan-European Pension Registry

European Commission officials told us Denmark has the most advanced pension registry and, as such, is a model for an international registry accessible by participants across the European Union. With a population of over 500 million in 28 member states, the European Union is more similar to the United States in terms of population and geographic size than the individual countries we included in our study, thus the challenges the European Union faces in setting up a pension registry may be particularly relevant for the United States. By creating a pan-European pension registry, European Commission officials said they aim to ensure that workers moving across borders do not lose portions of their retirement entitlements accrued in different jobs and countries. According to European Union data, more European workers are internationally mobile in the labor market, with the number of economically active European Union citizens working across borders having increased from 5 million in 2005 to 8 million in 2013. Their accumulated retirement benefits are scattered over several countries, making it difficult for participants to keep track of them, and for providers to locate missing participants.

Because some countries in Europe already have pension registries, European Commission officials said a European registry may involve linking existing registries together.[73] To this end, the European Commission has hired a consortium of six experienced pension providers from the Netherlands, Denmark, and Finland to study possible approaches and come up with a pilot project on cross-border pension tracking. This Track and Trace Your Pension in Europe project presented its initial findings in support of a European Tracking Service to the European Commission. The track and trace project found no uniform approach to pension tracking in the European Union. Although 16 countries report having a national pension tracking service, according to track and trace project documentation, these vary substantially in terms of functionality, coverage, service level, and complexity.

The European Commission expects to face challenges implementing a pension registry in the European Union because tax laws and languages vary from country to country. European Commission officials said they

[73] According to European Commission officials, the Netherlands, Latvia, Bulgaria, France, and Austria all provide part consolidated online retirement account information to participants on a secure website. In addition to the one in Denmark, European Commission officials said pension registries in Sweden, Finland, and Norway also analyzed the data for participants for financial planning purposes.

face several challenges: the standardization required for all plans in all European Union countries to interface with the same system, the data security required for all those involved to trust the system, and questions about how the system would be financed. For example, according to the track and trace project's initial findings, few countries have a standardized format on pension communication, though most report having legal requirements for providers to inform participants on a regular basis. These differences across countries reflect the different levels of maturity of the pension systems across Europe. European Commission officials noted it is likely to take many years to standardize data. However, as representatives of the Dutch Association of Insurers pointed out, unless the trend of increasingly frequent job changes reverses, a pension registry will only become more important in the future.

## The United States Lacks a Pension Registry That Can Provide New Opportunities for Participants

Currently, there is no national pension registry in the United States. No single agency or group of agencies have responsibility for developing a pension registry for participants looking for their accounts, and no coalition of financial firms in the retirement industry has acted alone in lieu of government involvement. While projects to provide access to current, consolidated information on workplace retirement accounts are complete or in the final stages in other countries, the United States has not undertaken a coordinated effort to determine how to provide the same to Americans. The current piecemeal approach involving the Department of Labor (DOL), the Pension Benefit Guaranty Corporation (PBGC), Health and Human Services (HHS), and the Social Security Administration (SSA) is largely reactive. Participants often turn to DOL, HHS, or PBGC for assistance once their accounts are lost, and SSA generally only provides information once participants have reached retirement age. The current approach also requires a high level of participant engagement with complex financial information. The current state of financial literacy in the United States and the field of behavioral economics suggest that this kind of participant engagement should not be expected. As discussed earlier, the task of tracking down retirement savings is a substantial challenge for participants who may lack information that would allow other entities to help them find accounts. Similarly, the inactive account information SSA provides pertains to "potential" benefits, leaving the participant to determine whether they exist or not.

The pension registries in the countries we reviewed are relatively proactive, and rely less on participant engagement. Their approach of providing access to current, consolidated information on all workplace retirement accounts may help prevent an account from being lost, and the need for a participant to work with government to find it. That approach also relies less on participants, as they need not keep records or update their address with plans to ensure they can later receive their benefits. For example, Australia was able to develop a registry that allows a participant to consolidate their benefits online on a single website, without engaging directly with either plan or calling a government funded assistance program.

Congress is aware of the problem participants have tracking accounts, and the Pension Protection Act of 2006 expanded PBGC's Missing Participant Program.[74] Two industry associations have also suggested that a central database be created that participants can check to determine whether they have a lost account in any ongoing plan in addition to any from terminated plans. Some of the groundwork for consolidating various pieces of information is already in place in the United States through large service providers that manage data on thousands of plans and millions of account holders. For example, information on retirement savings in many IRAs, workplace plans, and Social Security is already accessed online. While the U.S. retirement system is different from those in the countries with pension registries we studied, and the appropriate scope, oversight, and financing method for a pension registry in the United States have not been determined, the variety of examples in place in the countries we reviewed provide ideas to consider. Currently, DOL and other federal agencies do not have any ongoing efforts to develop such a registry. Until there is a concerted effort to determine the potential for a U.S. pension registry, it may be premature to say whether U.S. workers can benefit from the same information as participants in some other countries.

## Conclusions

The United States has a highly mobile labor force and an economy marked by frequent business formations and failures. The accessibility and portability of the U.S. account-based 401(k) plan system presumably allow participants to retain and manage their retirement assets throughout their careers, even with multiple job changes. However, there are some significant limitations with regard to portability and information access as a result of the current structure and rules of the 401(k) plan system. Given the expected continued growth of this system and the expansion of automatic enrollment, the number of inactive participants and inactive accounts—and the associated challenges—will almost certainly grow,

[74] According to PBGC officials, the agency is working with DOL and IRS to develop a proposal to implement the expansion.

exacerbating inefficiency and eroding the retirement security of U.S. workers.

Under current law, there is no mechanism in place that would allow plans or regulators to develop or consider additional default destinations when employees are forced out of 401(k) plans. Although other countries' approaches pose implementation challenges within the United States, there may be ways that DOL and Treasury, if given the authority to do so, can revise the current forced-transfer model to help achieve better financial outcomes for participants while still providing plans with administrative relief.

Another way to protect participants' 401(k) plan savings is by ensuring that all accounts with balances over $5,000 may remain in the plan environment, even when portions of those balances are from rollovers. Current law addresses the needs of plans and participants by alleviating the burden on plans of maintaining small, inactive accounts, while protecting participants with large balances from forced transfer. Changing the law so that active plans can no longer force-transfer accounts with balances over $5,000 by disregarding rollovers can extend current protections to all accounts of that size, while at the same time continuing to provide plans relief from maintaining small, inactive accounts. Regardless of the size of the balance that is transferred into a forced-transfer IRA, one way to partially mitigate the problems with these accounts is to broaden the investment options for these accounts from the limited conservative menu currently available. DOL can take steps to expand the menu of investment options available under its safe harbor regulations, to include alternatives similar to those available to automatically enrolled 401(k) plan participants. This would enable forced-transfer IRAs to be better protected from erosion by fees and inflation and provide better long-term outcomes for participants.

Workforce mobility and frequent changes in corporate structure can result in forgotten accounts, missing participants, and ultimately, lost retirement savings. Participants often have difficulty locating accounts in plans with former employers, especially those employers that have undergone some type of corporate restructuring. SSA holds critical information on accounts left in former employers' plans, but individuals rarely see that information before retirement and may be unaware that the information exists. As time passes, the information can become outdated and, therefore, less useful to participants trying to locate their retirement savings. Making this information easier to access and available sooner—such as by using the online system for Social Security earnings and benefit statements—can provide participants with a timelier reminder of accounts left in former employers' plans and provide them better opportunities for keeping track of accounts and improving their retirement security.

The lack of a simple way for participants to access information about their retirement accounts is a central problem of our current workplace retirement system. We found that other countries with robust private account-based retirement systems have been grappling with this challenge and have determined that pension registries can provide a meaningful long-term solution. Creating an accurate, easy to access, and easy to use pension registry in the United States would need to take into account important design challenges, including the scope of the data to be included, the entity that would oversee the registry, and how it would be financed. Designing a registry would also require serious discussions among the key stakeholders, including industry professionals, plan sponsor representatives, consumer representatives, and federal government stakeholders on what such a system should look like in the American context. However, the creation of a viable, effective registry in the United States could provide vital information regarding retirement security in a single location to millions of American workers.

## Matters for Congressional Consideration

To better protect the retirement savings of individuals who change jobs, while retaining policies that provide 401(k) plans relief from maintaining small, inactive accounts, Congress should consider amending current law to:

1. Permit the Secretary of Labor and the Secretary of the Treasury to identify and designate alternative default destinations for forced transfers greater than $1,000, should they deem them more advantageous for participants.
2. Repeal the provision that allows plans to disregard amounts attributable to rollovers when determining if a participant's plan balance is small enough to forcibly transfer it.

## Recommendations for Executive Action

To ensure that 401(k) plan participants have timely and adequate information to keep track of all their workplace retirement accounts, we recommend that the Social Security Administration's Acting Commissioner make information on potential vested plan benefits more accessible to individuals before retirement. For example, the agency could consolidate information on potential vested benefits, currently sent in the Potential Private Retirement Benefit Information notice, with the information provided in the Social Security earnings and benefits statement.

To prevent forced-transfer IRA balances from decreasing due to the low returns of the investment options currently permitted under the Department of Labor's safe harbor regulation, we recommend that the Secretary of Labor expand the investment alternatives available. For example, the forced-transfer IRA safe harbor regulations could be revised to include investment options currently under the qualified default investment alternatives regulation applicable to automatic enrollment, and permit forced-transfer IRA providers to change the investments for IRAs already established.

To ensure that individuals have access to consolidated online information about their multiple 401(k) plan accounts, we recommend that the Secretary of Labor convene a taskforce to consider establishing a national pension registry. The taskforce could include industry professionals, plan sponsor representatives, consumer representatives, and relevant federal government stakeholders, such as representatives from SSA, PBGC, and IRS, who could identify areas to be addressed through the regulatory process, as well as those that may require legislative action.

## Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Labor, the Social Security Administration, the Department of the Treasury, the Internal Revenue Service, the Pension Benefit Guaranty Corporation, the Securities and Exchange Commission, and the Consumer Financial Protection Bureau. DOL, SSA, Treasury and IRS, PBGC, and SEC provided technical comments, which we have incorporated where appropriate. DOL and SSA also provided formal comments, which are reproduced in appendices VIII and IX, respectively. CFPB did not have any comments.

### GAO Response to DOL Comments

DOL agreed to evaluate the possibility of convening a taskforce to consider the establishment of a national pension registry. We appreciate that DOL shares our concerns and agrees that there is need for a comprehensive solution to problems related to missing and unresponsive participants. DOL stated, however, that it does not have the authority to establish or fund a registry. Specifically, DOL noted that it does not have authority to require reporting of the information needed for a registry or to arrange for the consolidation of retirement account information from multiple agencies. We reached the same conclusion and for that reason recommended a taskforce as a starting point for the development of a national pension registry. In fact, our recommendation noted that one role for the taskforce would be identifying areas that could be addressed through the regulatory process and those requiring legislative action. DOL also noted that an expansion of PBGC's missing participant program to include defined contribution plans could address some of these issues. It is our view that there may be a number of policies or programs that could address these problems and we agree that an expansion of PBGC's program could ultimately be part of a comprehensive solution. Should the taskforce determine that the most appropriate option or options require additional authority for DOL or other agencies, such options should be given careful congressional consideration.

DOL disagreed with our recommendation to expand the investment alternatives available under the safe harbor for plan sponsors using forced transfers. While DOL characterized our recommendation as calling for the safe harbor to include qualified default investment alternatives, our recommendation is to "expand the investment options available" and we noted that qualified default investment alternatives could be one option. DOL stated that the limited investments under the safe harbor are appropriate because Congress' intent for the safe harbor was to preserve principal transferred out of plans. Particularly, DOL noted that given the small balances and the inability of absent participants to monitor investments, the current conservative investment options are a more appropriate way to preserve principal.

However, as we show in the report on pages 9-13, the current forced-transfer IRA investment options like money market funds can protect principal from investment risk, but not from the risk that fees (no matter how reasonable) and inflation can result in decreased account balances due to returns on these small balance accounts not keeping pace with fees. Consequently, as our analysis shows and as several forced-transfer IRA providers told us, the reality has been that many forced-transfer IRAs have experienced very large and even complete declines in principal.

Regarding our analysis, DOL stated that the performance information that we used to illustrate the effects of low returns on forced-transfer IRAs on pages 9-13 and 20-21 covers too short a period and does not reflect the periodic higher returns earned by money market funds in the more distant past. Our projection in figure 2, p.13, showing the effect of returns from a money market investment versus a target date fund investment on a small balance over 30 years used 10-year mean returns for these investments. Given that the safe harbor for these accounts was issued 10 years ago in 2004, we feel a 10-year average is more appropriate and accurately reflects the returns earned. However, using a longer time period does not materially change our conclusions. A similar calculation using a 15-year mean return shows that these forced-transfer IRA accounts would still not be preserved. (See notes under fig. 2, p.13, and fig 5, p.20-21.)

In any case, our recommendation did not aim to eliminate money market funds from investments covered by the safe harbor but to expand the investment alternatives available so that plans and providers that want to operate under the safe harbor have the opportunity to choose the most suitable investment. We stand by our recommendation and encourage DOL to expand the safe harbor to include investment alternatives more likely to preserve principal and even increase it over time. Qualified default investment alternatives could be one option, although certainly not the only one, that could be considered.

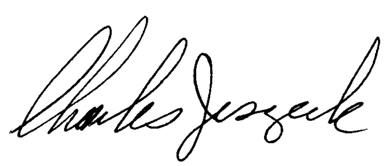
## GAO Response to SSA Comments

SSA disagreed with our recommendation to make information on potential private retirement benefits more accessible to individuals before retirement. SSA was concerned that our recommendation would place the agency in the position of having to respond to public queries about ERISA. SSA noted that the agency has no firsthand legal or operational knowledge of pension plans or the private pension system and should not be in a position of responding to questions of that nature or about ERISA, which it considered to be outside the scope of SSA's mission. We agree with SSA's view about providing information or advice about private pension plans generally. However, as SSA noted, the Notice of Potential Private Retirement Benefit Information (referred to as the "ERISA notice" in SSA's letter) already directs recipients to contact DOL with any questions. We would expect that any changes made to make information on potential vested plan benefits more accessible to individuals before retirement would continue to direct recipients to contact DOL with questions about ERISA policy.

SSA stated that it will seek legal guidance to determine if it is permissible to include a general statement encouraging potential beneficiaries to pursue any external pension benefits in its benefit Statement. As noted in our report on pages 30-31, individuals may be unaware of the availability of information on potential retirement benefits, therefore we support SSA's initiative to include language in the Statement encouraging potential beneficiaries to pursue external pension benefits. SSA also stated that there is no interface between potential private retirement information and Social Security benefits. However, as noted in our report on page 31, SSA already stores the potential vested benefits data and provides the information in the Statement. Consolidating the two types of information and making it available every 5 years can provide participants with timely and adequate information to keep track of all of their work place retirement accounts and could possibly lead to administrative efficiencies. Therefore, it may be appropriate for SSA to explore its concern about its legal authority to expend appropriated funds to disclose information that it already provides to the relevant beneficiary, on a more frequent basis and in a more consolidated manner. We continue to believe that this recommendation could enhance the retirement security of millions of Americans, who would benefit from the assistance in keeping track of their multiple accounts from multiple employers and becoming more knowledgeable about funds they may be due in retirement. Should SSA determine that they have authority to implement this legislation, we would strongly urge the agency's action. However, should SSA decide that it does not have the authority to move ahead on this recommendation, we would urge the agency to seek the necessary statutory authority.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretary of Labor, Acting Commissioner of the Social Security Administration, Secretary of the Treasury, Commissioner of Internal Revenue, Acting Director of the Pension Benefit Guaranty Corporation, Chair of the Securities and Exchange Commission, Director of the Consumer Financial Protection Bureau, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or jeszeckc@gao.gov Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix X.



Charles Jeszeck, Director
Education, Workforce, and Income Security Issues

# Appendix I: Objectives, Scope, and Methodology

This report examines (1) what happens to forced-transfer individual retirement accounts (IRA) over time; (2) the challenges 401(k) plan participants face keeping track of their retirement savings and what, if anything, is being done to help them; and (3) how other countries address the challenges of inactive accounts.

To understand what happens to forced-transfer IRAs over time, as well as challenges 401(k) plan participants face keeping track of multiple 401(k) plan accounts, we reviewed relevant data from government, research, and industry sources. Because we found no comprehensive data on the number of IRA accounts opened as a result of forced transfers or other data relevant to their use and management, we collected data from a non-generalizeable group of 10 providers of forced-transfer IRAs about their practices and outcomes, including three of the largest IRA providers. There is no comprehensive list of all forced-transfer IRA providers. For this reason, we built a list of forced-transfer IRA providers through interviews with industry professionals, a review of IRA market data, and online searches. Our objective was to create a group that would cover a large share of assets in the forced-transfer IRA market and represent both small and large forced-transfer IRA providers in terms of company size. We reached out to the largest IRA providers by assets under management, as well as all small forced-transfer IRA providers on our list. We obtained forced-transfer IRA account data from 10 forced-transfer IRA providers that represent this mix of characteristics. We also interviewed plan sponsor groups, 401(k) plan industry groups, research entities, consumer groups, and six federal agencies (Consumer Financial Protection Bureau, Department of Labor, Department of the Treasury, Pension Benefit Guaranty Corporation, Securities and Exchange Commission, and Social Security Administration) about plans' use of forced-transfer IRAs and what challenges individuals and plans face related to inactive accounts and multiple accounts in the United States. We also reviewed research and industry literature, relevant laws and regulations, 2013 ERISA Advisory Council[1] testimony on missing participants, industry whitepapers on a proposed default roll-in system, and submissions to the 2013 Pension Benefit Guaranty Corporation

[1] In 2013, the Advisory Council on Employee Welfare and Pension Benefit Plans, also known as the ERISA Advisory Council, held 2 days of public hearings on June 4, 2013, and August 28, 2013, to hear testimony about "Lost Participant" issues from a number of constituencies. See *Advisory Council on Employee Welfare and Pension Benefit Plans, Locating Missing and Lost Participants*, (Washington, D.C.: November 2013).

request for information related to a tracking system for distributions from terminating plans.

To understand what happens to forced-transfer IRA accounts over time, we constructed projections of what would happen to an account balance year to year, given certain assumptions. We drew those assumptions from the actual forced-transfer IRA account terms provided by providers we interviewed and on which we collected data. We used the account opening fee, annual fee, search fees, and rate of investment return to project how long it would take for a $1,000 balance to decrease to zero. While the range of average balances transferred into forced-transfer IRAs reported by providers we interviewed was $1,850 to $3,900, we used a $1,000 balance for our projection to make it easier to observe the difference in values over time shown in the projection.[2] Appendix III shows the projected outcome for a $1,000 balance given the fee and return information reported by the forced-transfer IRA providers we contacted.

To determine how forced-transfer IRAs are used, as described in appendix II, we projected the balance of a typical low-wage worker at the end of a typical tenure given certain assumptions about savings, investment returns, and employer matching and vesting policies. Specifically, we wanted to see if the projected balance would fall below the $5,000 cap used to determine eligibility for forced transfers. The projections assume the annual mean wage in 2013 for the service sector occupation with the most workers, specifically “food preparation and serving related occupations,” including an annual raise equal to the average annual increase in wage over 15 years (1999-2013). For these assumptions, we referred to the U.S. Bureau of Labor Statistics’ (BLS) Occupational Employment Statistics, National Employment and Wage Estimates. The Occupational Employment Statistics survey covers all full-time and part-time wage and salary workers in nonfarm industries. The survey does not cover the self-employed, owners and partners in unincorporated firms, household workers, or unpaid family workers. We assumed the 2014 median tenure for employed workers in the food preparation- and serving-related occupations, according to BLS data. We also assumed that employer contributions, when there were any, were

[2] As described in the report, plans must transfer forced out balances of $1,000-$5,000 to forced-transfer IRAs and have the option, but are not required, to transfer smaller forced-out balances into forced-transfer IRAs.

made concurrently with employer contributions, rather than on a separate periodic or annual basis. These projected savings also reflect a 6.3 percent investment return, which is the geometric mean of 10-year returns for all target date funds according to our analysis of data from Morningstar.com. Target date funds are the most common default investment for individuals automatically enrolled into 401(k) plans, according to the Plan Sponsor Council of America's (55th) Annual Survey of Profit Sharing and 401(k) Plans, which reflects the 2011 plan experience. We used optimistic, moderate, and pessimistic assumptions to project vested balances (see appendix IV for additional details on our assumptions). To estimate the number and the value of accounts that could potentially be—but were not already—transferred to forced-transfer IRAs, we collected Social Security Administration (SSA) data from the form 8955-SSA. Data on the form 8955-SSA include deferred vested benefits in all defined contribution plans, including 401(k) plans, as well as in defined benefit plans, which are not subject to forced transfers. We assessed the reliability of the data and found that it met our standards, given our use of the data. We previously reported that data from the form 8955-SSA on potential private sector pension benefits retirees may be owed by former employers are not always updated or verified over time and may not reflect later distributions from plans, such as rollovers to a new plan or cash-outs. We also asked PLANSPONSOR.com to include questions about plan sponsors' use of forced transfers in its newsletter, which is distributed to online subscribers. Respondents to the query included 14 plan sponsors and 4 third-party administrators/record keepers. To assess the reliability of the data we analyzed, we reviewed IRA market data and interviewed IRA providers familiar with forced-transfer IRAs. We determined that these data were sufficiently reliable for the purposes of this report.

To better understand forced-transfer IRAs, as well as the challenges people face in keeping track of multiple 401(k) plan accounts, we also interviewed plan sponsor groups, 401(k) plan industry groups, research entities, consumer groups, and six federal agencies (Department of Labor, Department of the Treasury, Social Security Administration, Pension Benefit Guaranty Corporation (PBGC), Securities and Exchange Commission, and Consumer Financial Protection Bureau) about plans' use of forced-transfer IRAs and what challenges individuals and plans face related to multiple accounts and inactive accounts in the United States. We also reviewed research and industry literature, relevant laws and regulations, 2013 Employee Retirement Income Security Act Advisory Council testimony on missing participants, industry whitepapers on a proposed default roll-in system, and submissions to the 2013 PBGC request for information related to a tracking system for distributions from terminating plans.

To examine how other countries are addressing challenges of inactive accounts, we selected six countries to study. We considered countries with extensive workplace retirement systems to include populations that might face challenges similar to those of U.S. participants. To make our selections, we reviewed publicly available research and interviewed researchers, consumer groups, industry groups, and government agencies. We considered the extent to which countries appeared to have implemented innovative policies to help individuals keep track of their retirement savings accounts over their careers, reduce the number of forgotten or lost accounts, make such accounts easier to find, and improve outcomes for those with lost accounts. We also considered how recently legislated or implemented solutions were adopted given the increasingly powerful role information technology can play in connecting individuals with information. On the basis of this initial review, we selected six countries—Australia, Belgium, Denmark, the Netherlands, Switzerland, and the United Kingdom—that could potentially provide lessons for the United States. We interviewed government officials and industry representatives from all the selected countries. We did not conduct independent legal analyses to verify information provided about the laws or regulations in the countries selected for this study. Instead, we relied on appropriate secondary sources, interviews, and other sources to support our work. We submitted key report excerpts to agency officials in each country for their review and verification, and we incorporated their technical corrections as necessary.

We conducted this performance audit from May 2013 to November 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for findings and conclusions based on our audit objectives.

# Appendix II: Use of Forced-Transfer IRAs

Active plans force out separated participants primarily to reduce plan costs, administrative burden, and liability. In response to a poll conducted by PLANSPONSOR.com through its newsletter, some respondents (made up of both plans and third party administrators) indicated that plans chose to use forced transfers for balances of $5,000 or less because they wanted to reduce costs from having additional participants who have small accounts.[1] Specifically, plans pay fees based on the total number of participants or on the average plan balance. The administrative burden on plans is another incentive to force out participants with inactive accounts, absent participant instruction, into forced-transfer IRAs. Other respondents to PLANSPONSOR.com's query reported that they used forced transfers because they wanted to reduce the complexity and administrative responsibilities associated with locating separated, non cashed-out participants. Also, small plans may wish to avoid the additional disclosure requirements and expenses associated with separated employees. In addition, active plans may opt to force out separated participants with eligible balances to reduce the plans' legal liability related to those individuals. Lastly, plans also use forced-transfer IRAs to help reduce their ongoing responsibility with regard to uncashed checks.[2]

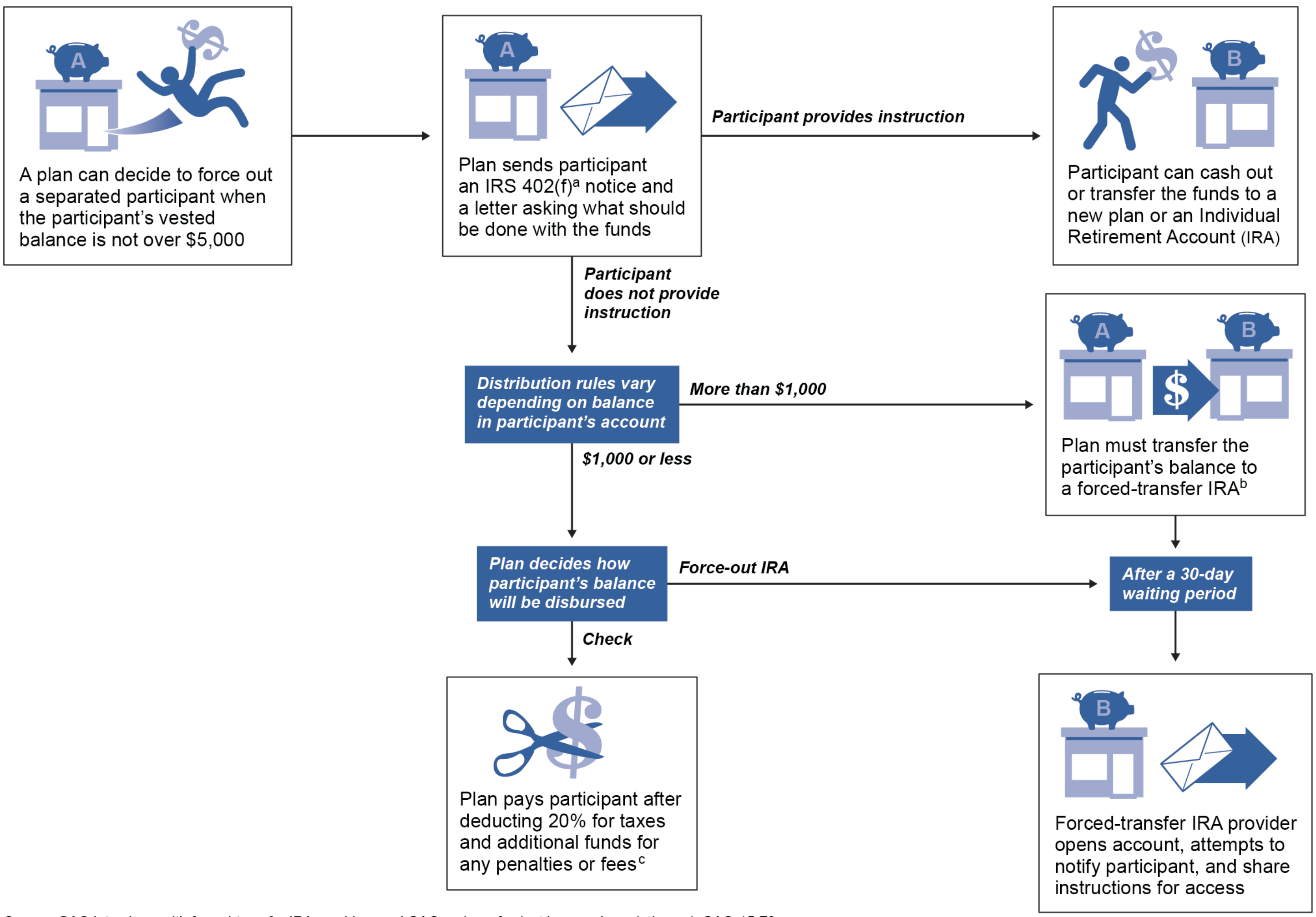
When transferring an account into a forced-transfer IRA, a plan must first notify the participant of its intention to forcibly transfer the account and that if the participant does not instruct otherwise, the account will be

[1] We asked PLANSPONSOR.com to include questions about plan sponsors' use of forced transfers in its newsletter, which is distributed to online subscribers. Respondents to the query included 14 plan sponsors and 4 third-party administrators/record keepers.

[2] When a plan issues a distribution check, either at the request of the separated participant or after the forced transfer of a participant with a balance below $1,000 when the participant has given no instructions, the check often remains uncashed. The funds represented by uncashed checks could be very significant. Several industry professionals have estimated that uncashed distribution checks may represent billions in retirement savings. Checks may remain uncashed because the mailing address is out of date and the check is undeliverable or the recipient either forgets or opts not to cash the check. Uncashed checks leave plans in a difficult and ambiguous position. By transferring balances to a forced-transfer IRA, plans can complete the forced-transfer of participants with these small accounts and conclude their relationship to the former participant consistent with their fiduciary standard of care. Some plans that would like to use forced-transfer IRAs for this purpose may have difficulty finding a provider willing to accept balances under $1,000, perhaps because—as indicated by several providers we interviewed—providing the accounts is not very profitable. However, for some force-out IRA providers, filling this gap in service by providing force-out IRAs for small balances is part of their business model. Two providers we interviewed accept transfers down to $1.

transferred into a forced-transfer IRA.[3] An example of such a notice is shown in appendix V. See figure 12 for an example of how the forced-transfer IRA process works for active 401(k) plans.

**Figure 12: Forced-Transfer IRA Process for Active 401(k) Plans**




Source: GAO interviews with forced-transfer IRA providers and GAO review of select laws and regulations. | GAO-15-73

[a] Plans are required by statute to provide participants with a written explanation of various tax consequences resulting from a distribution to the participant of funds from the plan prior to any such distribution. 26 U.S.C. § 402(f).

[3] 26 U.S.C. 401(a)(31)(B)(i) and IRS Notice 2005-5, 2015-1 C.B. 337.

[b] The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) amended the law to require plans forcing out participants with balances of more than $1,000 to transfer those balances to individual retirement accounts. 26 U.S.C. § 401(a)(31)(B). The Department of Labor promulgated safe harbor regulations for such a transfer that describe the characteristics of a forced-transfer IRA. 29 C.F.R. § 2550.404a-2.

[c] The Internal Revenue Code applies a 10 percent penalty on individuals who take a taxable distribution from their plan or IRA prior to turning age of 59½. 26 U.S.C. § 72(t).

Although a plan must try to locate a missing participant before seeking to force the participant out of the plan, actually forcing such a participant out of the plan and initiating the forced transfer to an IRA does not require any additional last-ditch efforts to locate the participant.[4] For example, a plan might get back some returned plan communications mailed to a separated participant and search unsuccessfully for an updated address. Later, when that plan sweeps out the balances of separated participants, the plan is not required to search again for the missing participant. Instead, efforts to locate the missing participant are at the discretion of the provider and generally at the expense of the individual participant's balance.[5]

## Active 401(k) Plans Forcibly Transfer Billions of Dollars in Separated Participants' Savings

One industry survey shows that about half of active 401(k) plans force out separated participants with balances of $1,000 to $5,000.[6] We collected forced-transfer IRA account data from 10 IRA providers that have, together, opened more than 1.8 million forced-transfer IRA accounts totaling $3.4 billion in retirement savings, as of 2013.[7] One of the largest

[4] While there is no stated regulatory requirement, prudence under section 404(a) of ERISA dictates that a plan search for participants before distributing benefits when it is known that a participant is missing, e.g., the plan receives a returned 402(f) notice or other disclosure notice. Plans could use the search steps in FAB 2014-01 for terminating plans as a guide to searching for missing participants in ongoing plans.

[5] Among the forced-transfer IRA provider data we reviewed, the median annual fee was $42, although the highest was $115 plus a small percentage of assets. Annual fees sometimes include address search services, but sometimes extra search fees are applied to the account.

[6] PSCA's *55th Annual Survey of Profit Sharing and 401(k) Plans*. Another 42 percent simply cash out balances less than $1,000 and let larger balances remain in the plan, while 7 percent allow balances of any size to remain in the plan after a participant separates. There are no comprehensive federal or private industry data on the number of forced-transfer IRAs created or the amount of employer-based retirement savings transferred into them.

[7] One provider did not provide the number and value of accounts opened, so these totals reflect data for 9 of the 10 companies for which we collected account fee and return data.

forced-transfer IRA providers has projected that more than 600,000 new forced-transfer IRAs could be created each year, given attrition rates, the percentage of vested balances under $5,000, and the rate of non-responsiveness among separating participants faced with making a distribution choice. Based on that estimate and assuming an average account balance of $2,500 (half of the $5,000 cap), a total of $1.5 billion would be transferred into these accounts each year.

Data provided by SSA are consistent with those estimates. From 2004 to 2013, separated participants left more than 16 million accounts of $5,000 or less in workplace retirement plans, with an aggregate value of $8.5 billion.[8] Those data reflect both defined contribution and defined benefit plans, but even if a portion of the accounts are in defined contribution plans, it suggests that there are millions of accounts and billions in savings that could be transferred to IRAs if those plans choose to retroactively force transfer eligible accounts.[9]

Although the plans reflected in SSA's data had not yet forcibly transferred these small accounts, the defined contribution plans may still do so. For example, a plan may choose to sweep out eligible accounts once a year or on some periodic basis.

Plans' use of forced-transfer IRAs is also increasing. Some forced-transfer IRA providers have seen the number of new forced-transfer IRAs increase each year. In addition, the largest of the specialty providers we interviewed said that the number of new forced-transfer IRAs that they administered increased nearly 300 percent over 5 years, from 26,011 new

[8] SSA analysis of Form 8955-SSA data. SSA data include vested benefits in all defined contribution plans, not just those from 401(k) plans, as well as defined benefit plans. We previously reported that data from the form 8955-SSA on potential benefits that retirees may be owed by former employers are not always updated or verified over time. GAO, *Private Pensions: Clarity of Required Reports and Disclosures Could be Improved*, GAO-14-92 (Washington, D.C., Nov. 21, 2013). Because defined benefit plans do not use forced transfers, those accounts are not subject to these rules. We determined that the data provided were reliable for our purposes.

[9] Accounts of less than $1,000 could also be transferred to IRAs, absent participant instruction.

accounts in 2008 to 103,229 in 2012.[10] They expect that upward trend to continue. Industry professionals also said that the wider use of automatic enrollment has the potential to result in greater use of forced-transfer IRAs, as participants who are relatively unengaged, and thus less likely to make a choice about where to transfer their savings, are forced out by plans when they separate.

Finally, some plans do not yet force out participants because their plan documents do not, as required,[11] include provisions for forcing them out and transferring their eligible 401(k) plan accounts into forced-transfer IRAs. The PSCA survey of 401(k) plans stated that about 40 percent of plans do not currently force out participants with balances of $1,000 to $5,000.[12] If these plans begin to use forced transfers, they can force out participants with eligible balances going forward and go back and sweep out participants who left small accounts years ago. Thus, anyone with a small balance left with a past employer's 401(k) plan could find themselves notified of the plan's intention to force them out—no matter how long ago their separation—and of a potential transfer to an forced-transfer IRA.

## Forced-Transfer IRAs Are Used to a Lesser Extent by Terminating Plans

Several forced-transfer IRA providers we spoke with said that forced transfers from terminating plans represent a small part of their forced-transfer IRA business. For example, one provider said that terminated plan transfers constitute 9 percent of the provider's forced-transfer IRAs. Some providers do not offer forced-transfer IRAs to terminating plans. One of the largest providers told us that it offers forced-transfer IRAs as an accommodation to ongoing plan sponsor clients, but typically does not offer them if the plan is terminating.[13] In some cases, forced-transfer IRA

[10] We identified the largest forced-transfer IRA provider among those we interviewed based on total forced-transfer IRAs under management. We identified forced-transfer IRA providers through interviews with experts, government officials, other forced-transfer IRA and general IRA providers, and a literature review.

[11] Plans cannot use forced-transfer IRAs unless their summary plan description or a summary of material modifications to the plan reflects such a policy and communicates it to plan participants as prescribed by regulation. 29 C.F.R. § 2550.404a-2(c)(4).

[12] PSCA's *55th Annual Survey of Profit Sharing and 401(k) Plans*, table 132, "Pre-retirement distributions options offered." Data reflect 2011 plan experiences.

[13] The forced-transfer IRA accounts are not profitable for the company so they only offer them as a service to ongoing clients with an active plan looking to transfer eligible balances.

providers will provide the accounts for terminating plans that cannot secure a contract with a larger service provider.

Despite the limited use of forced-transfer IRAs by terminating plans, they have prescriptive requirements[14] for notifying participants prior to the forced transfer of balances, which include using certified mail, reviewing other employee benefit plan records for more up-to-date information, and contacting the designated beneficiary to get more accurate contact information. As a result, participants in terminating plans are more likely to have an opportunity to select a distribution destination other than a forced-transfer IRA or individual retirement annuity.

[14] U.S. Dept. of Labor, Field Assistance Bulletin 2014-01 (Aug. 14, 2014).

# Appendix III: Projected Outcome of a $1,000 Balance Left in a Forced-Transfer IRA for 30 Years

Through interviews, data requests, and web research we collected forced-transfer IRA terms for 10 forced-transfer IRA providers. Almost all providers offer varying account terms for different forced-transfer IRAs. In all, there were 19 different account terms from the 10 providers for which we collected data. We collected data on account opening fees, initial address search fees, ongoing account fees, ongoing address search fees, and investment returns. Some forced-transfer IRA providers also charge fees for certain transactions, including distributions and account closings, but we did not incorporate them into our projections, which show the effect of the account terms if the account holder takes no action and the balance remains in the forced-transfer IRA. While not all forced-transfer IRA terms result in the balance decreasing to $0 over 30 years, the growth of those account balances is less than would have resulted had the funds been invested in a typical target date fund. In contrast to the projected outcomes shown in table 7, the projected balance of $1,000 in a forced-transfer IRA with a $6.75 set-up fee, a $42 annual fee (the median fees among the combinations we reviewed), and a 6.30 percent average target date return,[1] would be $2,708 after 30 years or growth of 173 percent.

**Table 7: The Projected Balance of a $1,000 Forced-Transfer IRA after 30 years, Given 19 Combinations of Account Fees and Investment Returns for 10 Providers**

| Time to decrease to $0 | …or, the balance remaining after 30 years | Terms of the Forced-Transfer IRA, including fees | Investment returns |
|---:|---:|---|---:|
| 9 years | $0 | $50 set up fee; $50 annual fee; $65 annual search fee, 0.01 % of assets | 0.11% |
| 9 years | $0 | $50 set up fee; $50 annual fee; $65 annual search fee; 0.01 % of assets | 0.04% |
| 9 years | $0 | $50 set up fee; $50 annual fee; $65 annual search fee, 0.01 % of assets | 1.5% |
| 9 years | $0 | $50 set up fee; $50 annual fee; $65 annual search fee, 0.01 % of assets | 0.15% |
| 15 years | $0 | No set up fee; $60 annual fee; $18 annual search fee; 0.35% assets fee | 2.05% |
| 20 years | $0 | 20% balance set up fee, $45 annual fee | 1.0% |
| 22 years | $0 | $30 set up fee; $45 annual fee | 0.05% |

[1] The geometric mean of the 10-year average return for all target date funds ending July 31, 2014, according to our analysis of data from Morningstar.com.

| Time to decrease to $0 | …or, the balance remaining after 30 years | Terms of the Forced-Transfer IRA, including fees | Investment returns |
|---|---|---|---|
| 24 years | $0 | No set up fee; $3.50 per month ($42 per year) account fee | 0.05% |
| 24 years | $0 | No set up fee; $45 annual fee | 0.01% |
| 25 years | $0 | No set up fee, $35 initial search fee, $45 annual fee | 1.0% |
| 29 years | $0 | $10 set up fee, $35 annual fee | 0.05% |
| 29 years | $0 | No set up fee, $35 annual fee | 0.01% |
| 29 years | $0 | No set up fee, $35 annual fee | 0.05% |
| | $422 | No set up fee, $20 annual fee | 0.1% |
| | $553 | $25 set up fee, $15 annual fee | 0.12% |
| | $572 | $25 set up fee, $15 annual fee | 0.2% |
| | ($996.50) [a] | No set up fee, $3.50 initial search fee, $35 annual fee or capped at return | 0.5% |
| | $1,006 | No set up fee; no annual fee | 0.02% |
| | $1,678 | No set up fee; no annual fee | 1.74% |

Source: GAO analysis of forced-transfer IRA account fee and return data collected for ten providers. | GAO-15-73

Notes: Percentage is shown by the sign '%'. The gray line distinguishes those 17 combinations of fees and investment returns that resulted in a decreased value over time versus those 2 that resulted in some increase in value over time. Actual annual returns would not remain the same for 30 years, they could go up or down, but these projections reflect what could happen given the most recent returns reported by providers.

[a] In this scenario the balance neither increases nor decreases over time because—unless the return exceeds the $35 annual fee—the fee is capped at the return, which is just $4.98 each year on a $996.50 balance.

# Appendix IV: Projected Vested Retirement Savings of a Low-Wage 401(k) Plan Participant Given Pessimistic, Moderate, and Optimistic Assumptions (Table)

| **Vested balance after 2.2 year tenure assuming a policy of…** | Immediate vesting | 3-year cliff vesting[d] | 5-year graduated vesting[d] | 6-year graduated vesting[d] |
|---|---|---|---|---|
| Pessimistic[a]<br>3% employee contribution,<br>no employer match (so vesting is not relevant),<br>6-month service requirement | $1,282 | $1,282 | $1,282 | $1,282 |
| Moderate[b]<br>3% employee contribution,<br>50% employer match up to 6% of salary,<br>3-month service requirement | $2,214 | $1,476 | $1,661 | $1,624 |
| Optimistic[c]<br>5.2% employee contribution,<br>50% employer match<br>up to 6% of salary,<br>no service requirement | $4,344 | $2,896 | $3,258 | $3,185 |

Source: GAO projections based on analysis of industry and government data. | GAO-15-73

Notes: The projections assume the annual mean wage in 2013 ($21,580) for the service sector occupation with the most workers, specifically “food preparation and serving related occupations,” including an annual raise of 2.36 percent, which is the average annual increase in wage over 15 years (1999-2013). For these assumptions, we referred to the U.S. Bureau of Labor Statistics’ (BLS) Occupational Employment Statistics, National Employment and Wage Estimates. We assumed a 2.2 year tenure, which is the 2014 median tenure for employed workers in the food preparation- and serving-related occupations, according to BLS data. We also assumed that employer contributions, when there were any, were made concurrently with employer contributions, rather than on a separate periodic or annual basis. More than half of defined contribution plans (such as 401(k) plans) are in the service sector and about 40 percent of defined contribution plan participants work in the service sector, according to 2011 data published by the Employee Benefits Security Administration. These projected savings also reflect a 6.3 percent investment return, which is the geometric mean of 10 year returns for all target date funds according to our analysis of data from Morningstar.com. Target date funds are the most popular default investment for individuals automatically enrolled into 401(k) plans, according to the PSCA’s *55th Annual Survey of Profit Sharing and 401(k) Plans*, which reflects the 2011 plan experience.

[a] Pessimistic assumptions: This projection assumes a 3 percent employee contribution, no employer match, and a 6-month service requirement. About 54 percent of plans that automatically enroll employees in a retirement savings plan set a default deferral of 3 percent of salary and 30 percent of plans offer no matching employer contribution, according to the PSCA’s *55th Annual Survey of Profit Sharing and 401(k) Plans*. According to the same source, about 20 percent of plans have a service requirement of 6 months or more. The pessimistic projections do not vary depending on the vesting schedule because there is no employer contribution assumed in this scenario and only employer contributions, and investment returns thereon, are affected by vesting rules. Employee contributions are always immediately vested.

[b] Moderate assumptions: This projection assumes a 3 percent employee contribution, a 50 percent employer match, and a 3-month service requirement. About 54 percent of plans that automatically enroll employees in a plan set a default deferral of 3 percent of salary and 48 percent of plans offer a 50 percent match, according to data from the PSCA’s *55th Annual Survey of Profit Sharing and 401(k) Plans*. According to the same source, 16.6 percent of plans reported a service requirement of 3 months.

[c] Optimistic assumptions: We assumed a 5.2 percent employee contribution, a 50 percent match, and no service requirement. The average pre-tax salary deferral among non-highly compensated workers in 2011 was 5.2 percent. A 50 percent match is used by 48 percent of plans, according to data from the PSCA's *55th Annual Survey of Profit Sharing and 401(k) Plans*. The same source shows that 60 percent of plans have no service requirement.

[d] Vesting schedules:

- Under 3-year cliff vesting, the employer's contribution and investment returns thereon are 100 percent vested after 3 years of service.
- Under graduated vesting, the employer's contribution and investment returns thereon are partially vested after each year of service, depending on how long the graduated vesting period is. In our projections, we used:
    - for a 5-year vesting schedule: 0, 25, 50, 75, 100 percent and the ends of years 2 through 5; and
    - for a 6-year gradated vesting schedule:0, 20, 40, 60, 80, and 100 percent at the end of years 2 through 6.

# Appendix V: Example Notification of Plan Forced-Transfer Policy

[redacted]

ENV#MIN000001
CUSTOMER SAMPLE
400 PURITAN WAY
CAMPBELLSBURG KY 40011

**Action Deadline: 05/25/2012**
**Cash Distribution Limit: $ 5,000.00**

04/05/2012

RE: NAME OF CLIENT
99999

Dear CUSTOMER SAMPLE:

**IMPORTANT NOTICE: ACTION MAY BE REQUIRED BY 4PM EASTERN TIME 05/25/2012**
We are writing in respect to your retirement account in the Plan listed above. As part of a periodic review, **your account has been identified as having a vested market value equal to or less than your Plan's minimum required balance** of $5000.

**Vested Account Balance (subject to distribution): $.77**

In accordance with Plan provisions your vested account balance will be distributed from the Plan. No action is required unless you would like to elect a different distribution option than what is outlined below. If you do not elect to receive a distribution prior to the action deadline listed above, your account will be distributed as follows:

If you have attained the later of age 62 or your Plan's normal retirement age, your account will be liquidated and a cash distribution will be made to you in the form of a check. As required by federal tax law, 20% of the taxable portion of your distribution will be withheld (state tax withholding may also apply).
If you have not yet attained the later of age 62 or your Plan's normal retirement age, your account will be distributed as follows:

> If your balance is less than or equal to $1,000, a cash distribution will be made to you in the form of a check. As required by federal tax law, 20% of the taxable portion of your distribution will be withheld (state tax withholding may also apply).
> If your balance is greater than $1,000, the Plan provides that your vested account balance be rolled over to an Individual Retirement Account (IRA) at . Your rollover will be placed in the fund until you provide other direction. Important additional information for participants with Roth and non-Roth balances (Roth may not be offered by your plan):
>
> > The $1,000 rollover limit is applied separately to the Roth and non-Roth balances. If either your Roth balance or your non-Roth balance is equal to or less than $1,000, you will receive a check for that balance.
> >
> > > Example 1) if your account has a $2,000 balance comprised of $1,500 of non-Roth money and $500 of Roth money, you will receive a check for the $500 of Roth money, and the $1,500 of non-Roth money will be rolled over to an IRA.
> > > Example 2) if your account has a $900 balance comprised of $400 of non-Roth money and $500 of Roth money, then you would receive two checks as each falls under the $1,000 limit to be automatically rolled over.
> > > Example 3) if your account has a $1,500 Roth balance and a $1,500 non-Roth balance, $1,500 will be rolled over to a traditional IRA and $1,500 will be rolled over to a Roth IRA.

Because the value of your account can fluctuate, changes in value prior to payment may change how your account is handled. The account balance on the "automatic distribution date" will determine if your account is to be cashed out or (if it exceeds the Plan's minimum) remain in the Plan - not the value of the vested account balance when this letter was issued.

If you will be age 70 1/2 on or before December 31st, a portion of your distribution is required to be taken as cash and is not eligible to be rolled into another retirement account. This amount satisfies the Minimum Required Distribution (MRD) mandated by the IRS. If you elect to rollover a portion of your funds, a service representative will inform you of your MRD amount that is not rollover eligible.

Enclosed you will find a Special Tax Notice regarding plan payments for your reference. You may contact [redacted] to request a distribution prior to the action deadline noted above. You may log onto your account at netbenefits.com to review and select distribution options. For additional service you may call 1-800-[redacted] between service hours Weekdays 8:30 a.m. - Midnight ET. Please be sure to understand the tax consequences of any distributions from the Plan. In the event of a discrepancy between the process outlined in this letter and the terms of the Plan document, the Plan document shall control.

Company, Inc.

*0000099999000002*

Page 1 of 1

# Appendix VI: Selected Reporting and Disclosure Requirements at Participant Separation and Certain Plan Events (Table)

| | Sending entity | Receiving entity | Form | Summary description of form contents |
|---|---|---|---|---|
| Cash-out[a] at separation | Plan | Internal Revenue Service (IRS) and Participant | 1099-R,<br>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc,<br>26 U.S.C. § 6047(d).<br>26 C.F.R. § 31.3405(c)-1. | Reports distributions made from retirement plans and Individual Retirement Accounts (IRA). (*Note: The form specifies if the distribution was a direct rollover,[b] including those from forced transfers, but it does not specify if the distribution went to a plan or IRA, or to a forced-transfer IRA.)*<br>Due to participant by January 31st following the calendar year of the distribution and to IRS by February 28th of the year following the calendar year of the distribution. |
| | Plan | Participant | 402(f) Special Tax Notice<br>*(or Rollover Notice),*<br>26 U.S.C. § 402(f)(1) | Explains the tax implications of the different distribution options, including explanation of the rollover rules, the special tax treatment for cash-outs (also called lump-sum distributions), and the mandatory withholding of 20 percent of distributions (including those that result in an indirect rollover).[c] |
| | Plan | Participant<br>**Only required for balances over $5,000.* | Notice of Right to Defer Distribution<br>*(Or Participant Consent Notice),*<br>26 C.F.R. § 1.411(a)-11(c) . | Notifies participant of right to defer receipt of an immediately distributable benefit. To obtain participant's consent to distribution in excess of $5,000 prior to plan's normal retirement age (NRA), participant must be given a description of the plan's distribution options and be informed of right to defer distribution and the consequences of failing to defer.[d] |
| Remains in plan at separation | Plan | IRS | 8955-SSA,<br>Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits,<br>26 U.S.C. § 6057(a). | Reports separated participants with deferred vested benefits remaining in the plan and includes name of plan and plan contact information as well as the value of the account.<br>*(Note: The plan sends the 8955-SSA to IRS, IRS then sends it to SSA.)* |
| | Plan | Participant | Individual Statement of Deferred Vested Retirement Benefit | Includes same information as the 8955-SSA; plan name, name and address of plan administrator, name of participant, nature, amount and form of the deferred vested benefit. |
| Transferred to forced-transfer IRA at separation | Plan | IRS and Participant | 1099-R,<br>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc,<br>26 U.S.C. § 6047(d).<br>26 C.F.R. § 31.3405(c)-1. | Reports distributions made from retirement plans and IRAs. *(Note: The form specifies if the distribution was a direct rollover,[b] including those from forced transfers, but it does not specify if the distribution went to a plan or IRA, or to a forced-transfer IRA.)*<br>Due to participant by January 31st following the calendar year of the distribution and to IRS by February 28th of the year following the calendar year of the distribution. |

| | Sending entity | Receiving entity | Form | Summary description of form contents |
|---|---|---|---|---|
| | Plan | Participant | 402(f) Special Tax Notice *(or Rollover Notice),* 26 U.S.C. § 402(f)(1) | Explains the tax implications of the different distribution options, including explanation of the rollover rules, the special tax treatment for cash-outs (also called lump-sum distributions), and the mandatory withholding of 20 percent of distributions (including those that result in an indirect rollover).[c] |
| | Plan | Participant | Automatic Rollover Notice | Notifies participant that, absent any participant instructions, a distribution will be paid to an individual retirement plan.[e] |
| | IRA | IRS and Participant | 5498, IRA Contribution Information | Reports contributions, rollovers, transfers, and recharacterizations, as well as the fair market value and whether a required minimum distribution is required. |
| Rollover to new plan | Plan | IRS and Participant | 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc, 26 U.S.C. § 6047(d). 26 C.F.R. § 31.3405(c)-1. | Reports distributions made from retirement plans and IRAs. *(Note: The form specifies if the distribution was a direct rollover,[b] including those from forced transfers, but it does not specify if the distribution went to a plan or IRA, or to a forced-transfer IRA.)* Due to participant by January 31st following the calendar year of the distribution and to IRS by February 28th of the year following the calendar year of the distribution. |
| | Plan | Participant | 402(f) Special Tax Notice *(or Rollover Notice),* 26 U.S.C. § 402(f)(1) | Explains the tax implications of the different distribution options, including explanation of the rollover rules, the special tax treatment for cash-outs (also called lump-sum distributions), and the mandatory withholding of 20 percent of distributions (including those that result in an indirect rollover).[c] |
| | Plan | Participant **Only required for balances over $5,000.* | Notice of Right to Defer Distribution *(Or Participant Consent Notice),* 26 C.F.R. § 1.411(a)-11(c) (2012). | Notifies participant of right to defer receipt of an immediately distributable benefit. To obtain participant's consent to distribution in excess of $5,000 prior to plan's NRA, participant must be given a description of the plan's distribution options and be informed of right to defer distribution and the consequences of failing to defer.[d] |
| Rollover to IRA | Plan | IRS and Participant | 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc, 26 U.S.C. § 6047(d). 26 C.F.R. § 31.3405(c)-1. | Reports distributions made from retirement plans and IRAs. *(Note: The form specifies if the distribution was a direct rollover,[b] including those from forced transfers, but it does not specify if the distribution went to a plan or IRA, or to a forced-transfer IRA.)* Due to participant by January 31st following the calendar year of the distribution and to IRS by February 28th of the year following the calendar year of the distribution. |

| | Sending entity | Receiving entity | Form | Summary description of form contents |
|---|---|---|---|---|
| | Plan | Participant | 402(f) Special Tax Notice *(or Rollover Notice),* 26 U.S.C. § 402(f)(1) | Explains the tax implications of the different distribution options, including explanation of the rollover rules, the special tax treatment for cash-outs (also called lump-sum distributions), and the mandatory withholding of 20 percent of distributions (including those that result in an indirect rollover).[c] |
| | Plan | Participant **Only required for balances over $5,000.* | Notice of Right to Defer Distribution (*Or Participant Consent Notice)*, 26 C.F.R. § 1.411(a)-11(c) (2012). | Notifies participant of right to defer receipt of an immediately distributable benefit. To obtain participant's consent to distribution in excess of $5,000 prior to plan's NRA, participant must be given a description of the plan's distribution options and be informed of right to defer distribution and the consequences of failing to defer.[d] |
| | IRA | IRS and Participant | Form 5498, IRA Contribution Information | Reports contributions, rollovers, transfers, and recharacterizations, as well as the fair market value and whether a required minimum distribution is required. |
| Plan termination | Plan | IRS | 5310, Application for Determination for Terminating Plans | Optional request for a determination on the plan's qualification status at the time of the plan's termination. |
| | Plan | Participant | Notice to Interested Parties Rev. Proc. 2013-6, 2013-1 I.R.B. 198, corrected by Ann. 2013-13, 2013-9 I.R.B. 532 | Notifies employees, participants and beneficiaries that an application for determination is being submitted to the IRS and of their right to comment on the plan. Notice must be posted or sent (electronic media permissible) before the application is submitted to the IRS—between 10 and 24 days of the application date. |
| | Plan | Participant | Notice of Plan Termination | Notifies participants and beneficiaries of the plan's termination and distribution options and procedures to make an election. In addition, the notice must provide information about the account balance; explain, if known, what fees, if any, will be paid from the participant or beneficiary's retirement plan; and provide the name, address and telephone number of the individual retirement plan provider, if known, and of the plan administrator or other fiduciary from whom information about the termination may be obtained. See 29 C.F.R. § 2550.404a-3. The notice will be given during the winding up process of the plan termination. Participants and beneficiaries have 30 days from the receipt of the notice to elect a form of distribution. |

| | Sending entity | Receiving entity | Form | Summary description of form contents |
|---|---|---|---|---|
| | Plan | Department of Labor (DOL), IRS, Pension Benefit Guaranty Corporation (PBGC) | Final Form 5500, Annual Return/Report of Employee Benefit Plan<br>(including any applicable schedules)<br>26 U.S.C. § 6058(a).<br>29 U.S.C. § 1024. | Indicates when all assets under the plan have been distributed when "final return/report" box on the form 5500 is checked. Indicates that all assets were distributed and current value of assets at the date of distribution via schedule H (for plans with 100 or more participants) and schedule I (plans with less than 100 participants). |
| Plan merger, etc | Plan | IRS | 5310-A,<br>Notice of Plan Merger or Consolidation, Spinoff, or Transfer of Plan Assets or Liabilities; Notice of Qualified Separate Lines of Business | Gives notice of certain plan mergers, consolidations, spinoffs or transfers of assets or liabilities from one plan to another. Each plan with a separate EIN and plan number involved in merger or transfer of assets or liabilities must file. For spinoffs, only plan in existence before spinoff must file.[f]<br>Form must be filed at least 30 days prior to a merger, consolidation, spinoff, or transfers of plan assets or liabilities to another plan. |
| | Plan<br>*(a plan that is terminated as a result of a merger)* | DOL, IRS, and PBGC | Final Form 5500, Annual Return/Report of Employee Benefit Plan<br>(including any applicable schedules)<br>26 U.S.C. § 6058(a).<br>29 U.S.C. § 1024. | Indicates when all assets under the plan have been distributed when "final return/report" box on the form 5500 is checked. Indicates that all assets were distributed and current value of assets at the date of distribution via schedule H (for plans with 100 or more participants) and schedule I (plans with less than 100 participants), Schedules H and I also provide the net value of all assets transferred to and from the plan, including those resulting from mergers and spinoffs. |
| | Plan<br>*(New Plan)* | Participant | Notification | Includes the new plan sponsor's name and address. |

Source: GAO analysis of laws and regulations. | GAO-15-73

[a] We use the term "cash out" to refer to a lump-sum distribution made to an employee at job separation that is not subsequently rolled over into a qualified employer plan or IRA.

[b] The Internal Revenue Code (IRC) requires that participants with an eligible rollover distribution have the option to roll their distributions into an IRA or another employer's tax-qualified plan in the form of a direct rollover. 26 U.S.C. § 401(a)(31)(A).

[c] IRS regulations generally require plans to provide the notice no less than 30 and no more than 90 days before the date of distribution. 26 C.F.R. § 1.402(f)-1, Q/A-2, Q/A-5) (2012). The Pension Protection Act of 2006 (PPA) directed the regulations be changed to "no more than 180 days" (Pub. L. No. 109-280, § 1102(a)(1)(B), 120 Stat. 780, 1056) but the rule IRS proposed (73 Fed. Reg. 59,575 (Oct. 9, 2008)), per PPA, has not been finalized.

[d] IRS regulations generally require plans to also provide this information to participants no less than 30 and no more than 90 days before the date of distribution. PPA directed the regulations be changed to "no more than 180 days" (Pub. L. No. 109-280, § 1102(a)(1)(B), 120 Stat. 780, 1056.), but the rule IRS proposed (73 Fed. Reg. 59,575 (Oct. 9, 2008)), per PPA, has not been finalized. The same proposed rule modifies the regulations under section 411(a)(11) of the IRC to provide that the description of a participant's right, if any, to defer receipt of a distribution shall also describe the consequences of failing to defer such receipt. (73 Fed. Reg. 59,576) Additionally, under the proposed regulation plans would be required to include in the information provided, among other things, statements that: "some currently available investment options in the plan may not be generally available on similar terms outside the plan and contact information for obtaining additional information on the general availability outside the plan of currently available investment options in the plan," and

“fees and expenses (including administrative or investment-related fees) outside the plan may be different from fees and expenses that apply to the participant’s account and contact information for obtaining information on such fees.” 73 Fed. Reg.

[e] The Economic Growth and Tax Relief Reconciliation Act of 2001 added the notice provision and required the plan administrator notify the distributee in writing (either separately or as part of the § 402(f) notice). Pub. L. No. 107-16, § 657, 115 Stat.38, 135 (codified at 26 U.S.C. §§ 401(a)(31)(B) and 402(f)(1)(A)). In addition, to meet the conditions of DOL’s safe harbor and therefore, be deemed to have satisfied their fiduciary duties with regard to mandatory distributions, plans must provide participants with a summary plan description, or a summary of material modifications, meeting certain requirements. Specifically, it must describe the plan’s forced-transfer IRA provisions (including an explanation that the forced-transfer IRA will be invested in an investment product designed to preserve principal and provide a reasonable rate of return and liquidity), a description of how fees and expense attendant to the individual retirement plan will be allocated (i.e., the extent to which expenses will be borne by the account holder alone or shared with the distributing plan or plan sponsor), and the name, address and phone number of a plan contact (to the extent not otherwise provided). 29 C.F.R. § 2550.404a-2.

[f] Exceptions: Form should not be filed for eligible rollover distributions paid directly to an eligible retirement plan, or for mergers, consolidations, or spinoffs meeting certain requirements (See IRS instructions for Form 5310-A).

# Appendix VII: Relevant Features of Pension Systems in the Six Countries Selected for This Report

This appendix provides additional details on the six countries we studied and their approach to managing challenges posed by inactive retirement accounts. In making our selection we considered countries with extensive workplace retirement systems to include populations that might face challenges similar to those of U.S. participants, and considered the extent to which such countries had recent or innovative approaches to address the challenges posed by inactive retirement accounts. We determined that six countries could potentially provide lessons for the United States. Information on each of the following countries is included in this appendix.

- **Australia**
- **Belgium**
- **Denmark**
- **The Netherlands**
- **Switzerland**
- **The United Kingdom**

## At a glance

Since 2005, individuals in Australia have been able to select a plan (super) of their choosing to which employers they have throughout their career will contribute. However, workers not actively choosing a plan may accumulate accounts in multiple plans selected by their employers. According to Australian Treasury officials, many Australians lose track of their accounts, especially when they change jobs, names, and addresses. Small balances may be eaten away by fees, necessitating forced-transfers to preserve their value.

## Forced transfers

Since 2012, all small lost accounts under AUD 2,000 are transferred to the ATO where they become part of consolidated revenues but are credited a return equal to inflation to preserve value, when claimed. ATO officials said they plan to increase the small lost account threshold to AUD 4,000 in 2015 and AUD 6,000 in 2016. ATO officials noted that this policy is in place because the ATO has the capability to find people and match them with lost accounts through updated tax data and can prevent lost accounts from being reduced by fees. Lost accounts are transferred to the ATO when they meet certain criteria, but the most common reasons, in addition to a balance below AUD 2,000, is when the missing participant turns 65, according to Australian government officials.



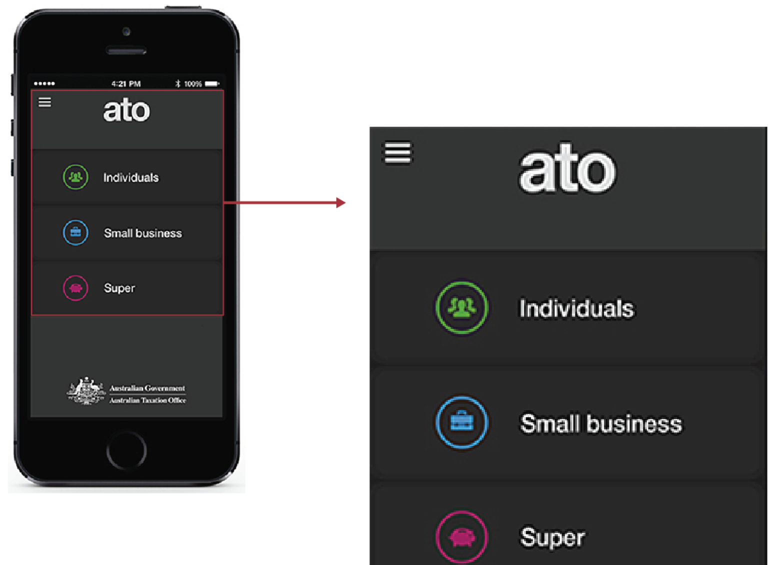
# Australia

## Pension registry

The Australian Tax Office (ATO) has established an online tool called SuperSeeker that individuals can use to find lost retirement accounts, via the governmental portal myGov. A smart phone application is also available for accessing the information.

**Figure 13: Screenshot of the Australian Tax Office (ATO) Mobile Phone Application**

*The ATO helps participants use a mobile phone to find any retirement accounts they may have lost*




Source: The ATO Website. | GAO-15-73

Information provided to participants can be used for retirement planning purposes, including consolidation, in order to improve participant retirement security. However, The SuperSeeker does not perform analytical tasks, such as showing retirement outcomes under various scenarios, according to government officials we interviewed. Participants who find lost accounts upon searching for them are able to consolidate them online in a plan of their choice generally within 3 working days. The SuperSeeker now allows paperless “point and click” consolidation. According to ATO, nearly 155,000 accounts were consolidated in 2013-14 with a total value of about AUD 765 million. In addition, the number of lost accounts went down by 30 percent between June 2013 and June 2014.

The pension registry is primarily financed through a tax on the superannuation sector, and in some cases such as funding the letter campaign to raise awareness, from general revenue. The tax has fluctuated between AUD 2.4 million in 2002 and AUD 7.3 million in 2011, according to the ATO.

## Appendix VII

# Belgium

## At a glance

Officials told us participants changing jobs can leave their pension account behind or roll it over (1) to the plan of the new employer, (2) to a “welcome-structure” for outgoing workers often taking the form of a group insurance, or (3) to a qualified individual insurance contract. Sectoral industry plans, negotiated in collective bargaining agreements, allow participants who change jobs but stay in the same industry to keep one retirement account, according to officials. With defined benefit plans, vested benefits in dormant accounts are frozen ( i.e. not subject to further cost of living or wage increases) officials told us, whereas with defined contribution plans, separated participants’ dormant accounts receive the same return as active accounts but the minimum return obligation that the plan sponsor must meet, currently set at 3.25 percent of account balances per year, is frozen.

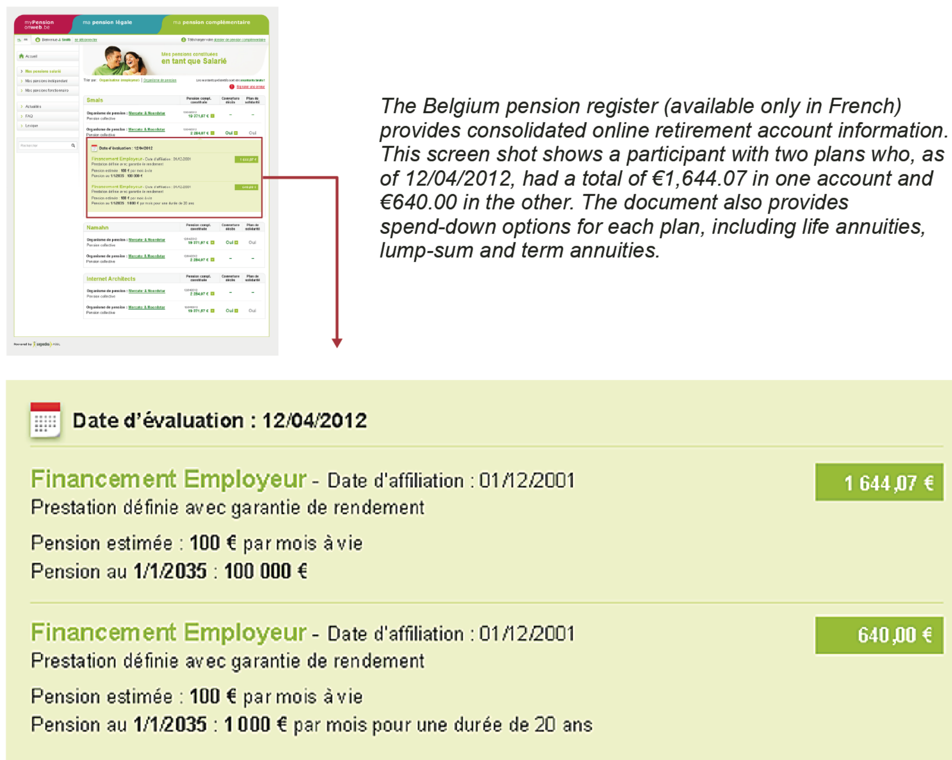
## Forced transfers

There are no forced-transfers in Belgium, officials said. When an individual separates from a plan, his or her account is kept dormant in the plan by default, according to Belgian officials; plans are required to accept transfers of inactive accounts if a participant requests it but these are kept separately from the active account.

## Pension registry

The pension registry in Belgium has two components, according to officials: a database of national pensions (similar to Social Security) and one covering workplace retirement accounts, which includes both active and inactive accounts. The pension registry does not have information on personal retirement savings. Since the enactment of legislation in 2006, the Belgian government has been collecting data on workplace accounts for private sector participants and the self-employed, according to officials. The pension registry extracts some information from existing databases (such as the registry of individuals and employers), and data from service providers, officials said. The registry stores some of the information in its database.

**Figure 14: Screenshot from Belgium Pension Registry**




*The Belgium pension register (available only in French) provides consolidated online retirement account information. This screen shot shows a participant with two plans who, as of 12/04/2012, had a total of €1,644.07 in one account and €640.00 in the other. The document also provides spend-down options for each plan, including life annuities, lump-sum and term annuities.*

Source: Sigedis. | GAO-15-73

From 2016, the new pension registry will take over the provision of information on inactive accounts, as indicated in the law adopted in May 2014, according to Belgian officials, and workers with inactive accounts will no longer receive statements from plan sponsors or pension institutions but will be able to consult the registry online. Officials also told us the registry will help the government gather up-to-date information on retirement plans. The government finances the pension registry from general revenue, officials said. Once fully functional, the annual cost of running the registry will be around 3.5 million euro, according to Belgian pension registry officials we interviewed.

# Denmark

## At a glance

Multi-employer industry plans (one plan covers all workers in an industry) allow participants who change jobs but stay in the same industry to use just one retirement account. When individuals change industries, the account remains inactive in the plan, unless the participant takes action to roll it in to the new industry plan, according to Danish officials. Plans sign agreements requiring them to accept transfers requested by participants.

Danish officials said small inactive accounts are sometimes reduced and eliminated by fees.

If participants never take action to consolidate accounts, plans will eventually use a participant's designated "easy access" bank account to make distribution payments at the participant's retirement age, according to Danish officials.

## Forced transfers

There is not yet a forced-transfer mechanism that consolidates inactive accounts. However, the government is considering one for small accounts to prevent them from being reduced by fees, according to Danish officials.

## Pension registry

The Danish Insurance Association's pension registry called PensionsInfo collects and consolidates retirement savings information from plans and insurers when a participant logs-in, according to materials provided by Danish Insurance Association representatives we interviewed. It stores only the government-issued identification numbers of participants in each plan.

**Figure 15: PensionsInfo Screenshot Showing Lump Sums Available at Various Retirement Ages.**

*PensionsInfo, the Danish pension register, provides current online retirement account information. The left column ("Din pension" means "your pension") shows retirement amounts starting at age 60 and continuing through age 67. The column on the right shows the corresponding lump sum payment (or "Engangsudbetaling") the user is entitled to for each retirement age. In this example, the participant retiring at age 60 would be entitled to a lump sum of 52.000 kr., or about $9,000.*

| Din pension | Engangsudbetaling |
|---|---|
| 60 år - du går på pension som 60-årig | 52.000 kr. |
| 61 år - du går på pension som 61-årig | 53.300 kr. |
| 62 år - du går på pension som 62-årig | 54.700 kr. |
| 63 år - du går på pension som 63-årig | 56.000 kr. |
| 64 år - du går på pension som 64-årig | 57.400 kr. |
| 65 år - du går på pension som 65-årig | 58.900 kr. |
| 66 år - du går på pension som 66-årig | 60.400 kr. |
| 67 år - du går på pension som 67-årig | 61.900 kr. |

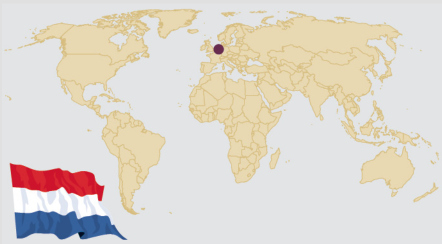
Source: PensionsInfo website (www.pensionsinfo.dk). | GAO-15-73

Individuals can view contact information for each plan or insurer, which they can use to consolidate accounts. It is voluntary for providers to allow access to their records, but virtually all do, including government authorities who provide information on national (Social-Security-like) retirement benefits. PensionsInfo provides current account balances and projected future distribution amounts for public, workplace and private retirement benefits under various scenarios, for example, comparing lump-sum withdrawals, phased withdrawals and whole life annuities at different retirement ages. Inactive accounts can be flagged for participants in a pop-up window recommending consolidation, according to officials at the Danish Insurance Association. Participants can print or save the consolidated account information for their records, share it with a personal financial advisor, or use it in conjunction with retirement planning software designed to work with it. Insurers and plans voluntarily pay for the pension registry. The fee paid by each is calculated on the basis of the number of participants requesting to view data from them.

Recent data from the European Actuarial Consultative Group indicate that the number of unique visitors to the registry has increased from 512,218 in 2010 to 742,426 in 2011 to reach 1,132,488 in 2012. The annual cost of maintaining the pension registry is estimated at 1.5 million euro.

Appendix VII

# The Netherlands



## At a glance

Multi-employer industry plans, in which a single plan generally covers employees in one industry, allow participants who change jobs but stay in the same industry to keep one pension account. According to an Organization for Economic Co-operation and Development Working Paper, about three quarters of workers belong to industry wide multi-employer plans.

Participants changing jobs can leave their retirement account behind or roll it over to the plan of the new employer, according to Dutch officials, although in recent years, the transfer of many defined benefit pensions has been frozen due to underfunding in those plans.

Participants receive an annual Uniform Pension Statement (UPS) from the pension provider of the current employer. The standardized layout of the UPSs made it easier to provide uniform consolidated online information.

## Forced transfers

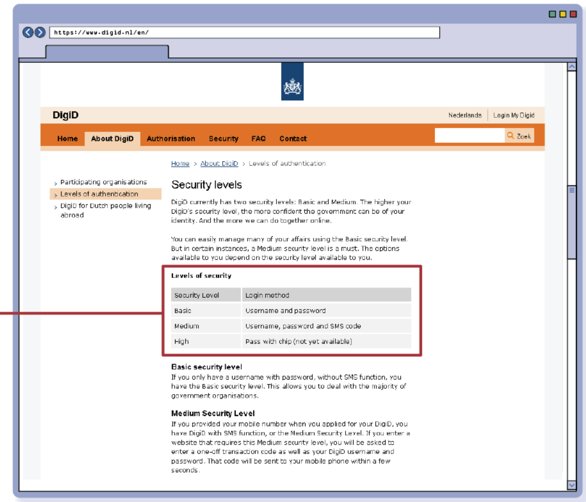
Officials told us there are no forced transfers in the Netherlands. Rather, accounts that participants changing jobs do not transfer to a new plan stay in their old plan, but the annual indexation of benefits differ: inactive accounts are indexed to price inflation, whereas active accounts are indexed to wage inflation.

## Pension registry

The Netherlands launched the online pension registry in January 2011. The decision to establish the registry was part of the 2006 Pension Act.

**Figure 16: Security Levels for the National Digital Signature**

*The digital signature in the Netherlands provides a way for citizens to securely access the pension register and other government agencies. The level of identity authentication required depends upon the information an individual is attempting to access and may include a username and password, responding to a text message, or, in the future, using an identity card with an electronic chip.*




**Levels of security**

| Security Level | Login method |
|---|---|
| Basic | Username and password |
| Medium | Username, password and SMS code |
| High | Pass with chip (not yet available) |

Source: The Netherland's DigiID website (https://www.digid.nl/en/). | GAO-15-73

Participant can see up-to-date pension information on active and also inactive accounts associated with previous employers, including account balances, account numbers and plan contact information. Active account information has to be mailed to participants on an annual basis and inactive account information every 5 years, according to Dutch officials. Recent data from the European Actuarial Consultative Group shows that the number of unique visitors to the registry was 1,500,000 in 2011 and 1,100,000 in 2012.

Pension providers, not the government, finance the pension registry at an annual cost of 2.3 million euro or .49 euro per active participant. Officials also said the cost of developing the pension registry was split between the pension fund industry and the insurance schemes industry, based on their share of the workplace retirement plan market. It took about 3 years and cost about 10 million euro to develop the new pension registry, according to Dutch government officials we interviewed.

# Switzerland

## At a glance

The Swiss system is an example of how a retirement account can follow a participant as they move from job to job. Participants are required to transfer inactive workplace retirement accounts left with previous employers, according to Swiss government officials we interviewed. There are a variety of defined benefit and defined contribution plan types in Switzerland. As accounts move from plan to plan, conversion rules established in law govern the value of transferred assets.

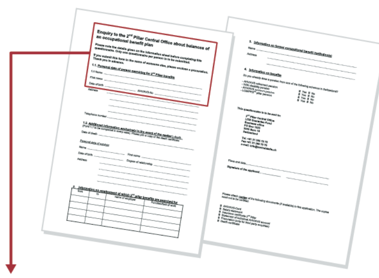
## Forced transfers

The assets of inactive accounts in workplace plans are transferred to the Substitute Plan, which is a foundation, according to a Swiss insurer insuring 40 percent of the companies in Switzerland. There, they remain invested until the participant reaches retirement age or transfers the account to their active plan or vested benefits account, according to Swiss officials. At retirement age, officials at the institution providing plans insolvency insurance, the Guarantee Fund, contact participants and inform them of their forcibly-transferred account. The address these officials use is the address where participants receive their government (Social Security equivalent) retirement benefits. While plans must hold onto inactive accounts for at least 6 months after contributions have stopped, after 2 years, they must transfer them.

## Pension registry

There is no pension registry providing consolidated current online workplace retirement account information in Switzerland, according to Swiss government officials. Swiss Officials said when participants need information on a workplace retirement account started at a past employer, they refer to information provided by the employer or plan or contact the Guarantee Fund, which provides insolvency insurance to plans in Switzerland. Participants can contact officials at the Guarantee Fund by phone or e-mail to identify accounts that were forced out of their plan because they were inactive, according to Swiss officials and the Guarantee Fund's 2013 annual report.

**Figure 17: A Portion of a Swiss Form for Participants with Lost Accounts**



*In Switzerland, participants who have lost track of an account in a retirement plan of a past employer can request information on it from a national-level agency*

**Enquiry to the 2nd Pillar Central Office about balances of an occupational benefit plan**

**Please note the details given on the information sheet before completing this questionnaire. Only one questionnaire per person is to be submitted.**

**If you submit this form in the name of someone else, please enclose a procuration. Thank you in advance.**

**1.1. <u>Personal data of person searching for 2nd Pillar benefits</u>**

**1.1** Name ..............................................................................................................................

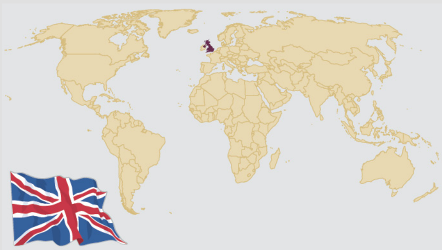
First name ..............................................................................................................................

Date of birth ......................................... AHV/AVS-No ...............................................................

Source: Swiss 2nd Pillar Central Office Website. | GAO-15-73

Note: In Switzerland, participants who have lost track of an account in a retirement plan of a past employer can request information on it from a Swiss agency.

Swiss officials said participants can use information on their inactive accounts to roll them over to the plan of their new employer. They said participants are required by Swiss law to transfer their retirement account when they change jobs, and because enrollment is generally mandatory, officials said employers will often help employees roll their money from their old plan to their new plan. Individuals without a new plan are required to purchase a vested benefit account at a bank or insurance company.



## At a glance

Parliament of the United Kingdom adopted The Pensions Act 2014 which will transfer small inactive workplace retirement accounts to an individual's active plan. Before the legislation, plans had ultimate discretion over whether or not to accept a transfer, according to a U.K. government report, and the onus for pursuing a transfer rested on individuals. Regulations will now be made to automatically transfer workplace retirement benefits, according to a U.K. official, preventing a plan from declining to accept such transfers. That process generally applies to defined contribution plans most U.K. participants are automatically enrolled in. Before the Pensions Act 2014, small, inactive retirement accounts were being reduced by fees and managed separately, and in an inefficient manner.

## Forced transfers

Once the Pensions Act 2014 is fully implemented, according to reports from the U.K. government, inactive 401(k)-type retirement accounts under £10,000 will be transferred into an account the employee actively contributes to by default if the employee does not opt out of the process. The legislation allows for the creation of a database to keep track transferrable accounts for that purpose.

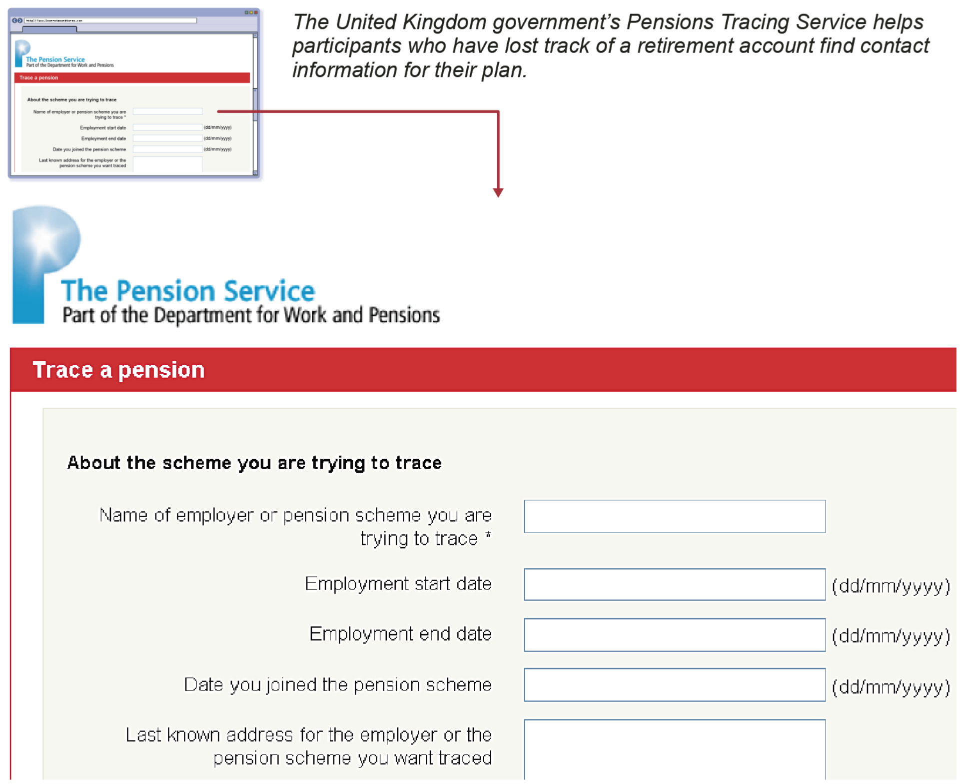


# The United Kingdom

## Pension registry

There is no pension registry in the United Kingdom providing direct access to consolidated retirement account information online, according to U.K. government officials. Individuals get information on lost accounts through a government service called the Pensions Tracing Service. Participants use the service to trace lost workplace or private retirement account based on information the participant supplies. The Pensions Tracing Service requests information from participants on their workplace or personal pension plan, such as names, addresses, dates of employment or participation in the plan, job title, and industry.

**Figure 18: Screenshot of a Pension Tracing Service Form**




Source: Pension Tracing Service Website. | GAO-15-73

Individuals use the contact information of the plan administrator to determine their eligibility for retirement benefits, and if eligible, to claim them, according to a U.K. government research report. If the trace is successful, the Pensions Tracing Service provides the current name or contact details of the plan administrator to the individual. Participants can access the Pensions Tracing Service online, or by phone or mail.

The Pensions Tracing Service is a free service available to the general public in the United Kingdom provided by the U.K. Department for Work and Pensions.

# Appendix VIII: Comments from the U.S. Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employee Benefits Security Administration
Washington, D.C. 20210

NOV 05 2014

Charles A. Jeszeck
Director, Education, Workforce, and Income Security
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Jeszeck:

Thank you for the opportunity to review the Government Accountability Office's (GAO) draft report entitled "Greater Protections Needed for Forced Transfer and Inactive Accounts." We share your concerns regarding participants who fail to make decisions regarding benefit distributions and may have lost investment opportunities that would help them with their retirement security.

Plan participants who change employers face important decisions affecting their retirement security. When participants fail to provide distribution instructions to plans that provide for mandatory distributions of certain vested benefits, section 401(a)(31) of the Internal Revenue Code, as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), requires that such a distribution be directly transferred into an individual retirement plan (IRA). Congress, in EGTRRA section 657(c)(2)(A), also directed the Department of Labor to prescribe regulations providing safe harbors under which the plan administrator's designation of an institution to receive the funds and the initial investment choice for the forced-transfer funds are deemed to satisfy the fiduciary duties under ERISA. In 2004, the Department created a regulatory safe harbor for transfers to individual retirement plans pertaining to the selection of the IRA provider and the initial investment of transferred funds. The principal conditions of the regulation relate to the amount of distributions, the qualifications of retirement plan providers, permissible investment products, limits on fees and expenses, disclosure of information to participants and prohibited transactions. This regulation, we believe, is consistent with Congress' concerns about preserving principal for retirement purposes as evidenced by section 657(c)(2)(B) of EGTRRA, which calls for consideration of individual retirement plans "that promote the preservation of assets for retirement income purposes." The GAO found that, because fees have outpaced returns in most of the safe-harbor IRAs it examined, the account balances tend to decrease over time. The Employee Benefits Security Administration (EBSA) has a long history of trying to help plan fiduciaries with missing participant problems and with attempting to preserve the retirement funds of those participants. EBSA has made efforts to re-unite former participants with their retirement savings from both ongoing and terminated plans. In line with these efforts, EBSA recently published guidance in Field Assistance Bulletin 2014-01 (FAB 2014-01) on missing participants in terminated defined contribution plans. The FAB encourages plans to use more modern electronic search tools for reuniting missing participants with their retirement savings.

EBSA is also studying the recommendations contained in the November 2013 report of the ERISA Advisory Council regarding industry best practices concerning lost participants. EBSA currently maintains many publications that provide workers information on what they should do if they leave their current employers, and what to do if an employer goes bankrupt.[1] EBSA also posted a factsheet on its website "FAQs About Social Security Administration (SSA) Potential Private Benefit Information Notice." The factsheet explains to participants why they received a notice from SSA reminding them about private employer retirement benefits that they have earned when they file a claim for benefits.[2] Under the Department's Abandoned Plan Program, which facilitates the termination of, and distribution of benefits from, individual account pension plans that have been abandoned by their sponsoring employers, participants and others can use a search tool on the Department's web site to find out whether a plan is in the process of being, or has been, terminated and the name of the Qualified Termination Administrator winding-up the plan under the Program.[3]

With respect to your specific recommendations for executive action at this time, however, we submit the following:

**Expand the Investment Alternatives Available Under the Safe Harbor**

The Department disagrees with the draft report's first recommendation. Specifically, the draft report called for the Department of Labor to expand the regulatory safe harbor to include the "qualified default investment alternatives" (QDIAs) among the investment alternative available to plan sponsors in forced transfers. The QDIA regulation provides relief to plan fiduciaries who select investment alternatives for participants who fail to direct the investment of their own plan accounts.[4]

Consistent with Congress's intent to preserve retirement assets for participants with small account balances, the Department limited the investment alternatives available pursuant to its safe harbor regulation to investments that are designed to minimize risk and maintain liquidity. At the time the regulation was published, some public commenters similarly argued that more balanced or diversified investments should be permitted because they would help retirement savings grow over time.[5] However, in responding to the comments, the Department believed that these investments were not necessarily appropriate in the context of an automatic rollover, particularly because of the absent participant and the relatively small account balances typically covered by the safe harbor. We appreciate your concern about the fees that may be charged to these accounts, but fees are not unique to capital preservation vehicles. Under the safe-harbor regulation, the plan's fiduciary is responsible, at the time an account is rolled over, to ensure that fees and expenses will not exceed those charged by the IRA provider for comparable non-rollover IRAs.

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[1] http://www.dol.gov/ebsa/publications/wyskapr.html
[2] www.dol.gov/ebsa/SSAPotentialPrivateRetirement/SSAPotentialPrivateRetirement.html
[3] http://askebsa.dol.gov/AbandonedPlanSearch/
[4] 29 C.F.R. § 2550.404c-5.
[5] *See* 69 FR 58018, at 58021 (Sept. 28, 2004).

2

Further, we believe the performance information that GAO uses to illustrate the impact of fees on forced-transfers covers too short a period. During much of this time, the returns on capital preservation vehicles were unusually low, reflecting the Federal Reserve Board's policy to keep interest rates low. Use of longer term data may show that capital preservation vehicles generally earn returns commensurate with their purpose. Further, as opposed to an automatic rollover IRA, the participant in a QDIA investment will be receiving account statements as to the performance of and effect of fees on his or her account. Participant contributions to a QDIA generally continue to be made into the accounts of participants whose accounts are invested in a QDIA account and may increase over time. A plan fiduciary, subject to ERISA's fiduciary responsibilities, will continue to monitor the management and performance of a QDIA to ensure, for example, that its associated fees are reasonable and that the investments of the QDIA are appropriate. In this context, the Department determined that the greater variability associated with QDIAs was an acceptable trade-off for higher potential returns. Accordingly, the categories of investments permitted as QDIAs must include a mix of fixed income and equity exposures designed to provide varying degrees of long-term appreciation and capital preservation.[6]

A participant in an automatic rollover (forced transfer) IRA situation is dramatically different. Such individuals are not in a position to monitor their accounts, and there is no fiduciary who will monitor their accounts for them. For these reasons, the Department continues to believe that the goal of preservation is appropriate in forced-transfer IRAs, to better ensure the stability and liquidity of the account (when or if) it is claimed by its owner, who may then direct its investment as appropriate.

**DOL Task Force to Consider a National Registry**

The Department will evaluate the possibility of convening a task force and initiating a dialogue among the various stakeholders regarding the need to establish an online national pension registry and the parameters of the registry. We share GAO's concerns as to the persistence of missing participant issues across all types of pension plans and the need for a comprehensive solution to the problems faced by both missing and unresponsive participants. However, we do not believe we have the authority to establish such a registry and provide sufficient funding. For such a database to be useful there would also be a need for (1) a mandate requiring the reporting of the information to the agency maintaining the registry, and (2) authority to arrange for the consolidation of retirement account information that is currently spread across more than one agency.

Moreover, for participants in terminated plans, some of these issues may be addressed by expansion of the Pension Benefit Guaranty Corporation (PBGC)'s missing participant program. As you know, the PBGC recently published a Request for Information (RFI) seeking public comments about implementing a new program pursuant to section 4050 of ERISA, as amended by the Pension Protection Act of 2006, to deal with benefits of missing participants in terminating individual account plans. Including defined contribution assets in PBGC's online searchable database, which is currently available for transferred defined benefit assets, could make it useful to many more individuals. This PBGC listing contains names and last-known

[6] 29 C.F.R § 2550.404c-5(e)(4).

3

addresses, companies where missing people earned their pensions, and the dates their pension plans ended. It is premature to speculate on results because as of this date a proposed regulation has not been issued.

In conclusion, we appreciate GAO's interest in helping participants with their retirement savings as they transition from one job to the next during their employment years and re-uniting them with their hard-earned savings as they face their retirement years. EBSA is committed to protecting the retirement benefits of workers, retirees, and their families. We appreciate the opportunity to review and comment on the draft report. Please do not hesitate to contact us if you have questions concerning this response or if we can be of further assistance.

Sincerely,

Phyllis C. Borzi
Assistant Secretary

4

# Appendix IX: Comments from the Social Security Administration

SOCIAL SECURITY

Office of the Commissioner

November 6, 2014

Mr. Charles A. Jeszeck
Director, Education, Workforce,
and Income Security Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Jeszeck:

Thank you for the opportunity to review the draft report, "401(K) PLANS: Greater Protections Needed for Forced Transfers and Inactive Accounts" (GAO-15-73). We have enclosed our response to the audit report contents.

If you have any questions, please contact me at (410) 966-9014. Your staff may contact Gary S. Hatcher, our Senior Advisor for Records Management and Audit Liaison Staff, at (410) 965-0680.

Sincerely,

Katherine Thornton

Katherine Thornton
Deputy Chief of Staff

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

**COMMENTS ON THE GOVERNMENT ACCOUNTABILITY OFFICE DRAFT REPORT, "401(K) PLANS: GREATER PROTECTIONS NEEDED FOR FORCED TRANSFERS AND INACTIVE ACCOUNTS" GAO-15-73**

**General Comment**

We appreciate the Government Accountability Office's (GAO) study on 401(k) plans and its desire to help individuals access information about their retirement accounts. Social Security benefits play a very important role in the financial security of the public, and we strive every day to ensure that we provide accurate, objective, easy to understand information about Social Security benefits, thereby helping to ensure that the public understands the benefits available to them, and can make educated decisions about when to apply for those benefits.

**Recommendation**

To ensure that 401(k) plan participants have timely and adequate information to keep track of all their work place retirement accounts, we recommend that the Social Security Administration's Acting Commissioner make information on potential vested plan benefits more accessible to individuals before retirement. For example, the agency could consolidate information on potential vested benefits, currently sent in the Potential Private Pension Benefits Information notice, with the information provided in the Social Security earnings and benefit statement.

**Response**

We disagree. As required by the Social Security Act, we disclose the Internal Revenue Service's pension information automatically upon an individual applying for certain benefits or upon an individual making a specific request for the information. We will seek legal guidance to determine if it is permissible to include a general statement encouraging potential beneficiaries to pursue any external pension benefits in our benefit Statement. Even if we can provide information on potential vested benefits, including unverified, external third-party retirement income information in our Social Security Statement or in an individual's personal *my* Social Security account, as GAO suggests, may place SSA in a position of responding to questions about Employment Retirement Income Security Act (ERISA) policy from the public. The ERISA notice directs the recipient to contact U.S. Department of Labor's Employee Benefits Security Administration. SSA cannot respond to recipients' ERISA inquires because we have no firsthand knowledge of the private pension information involved. This is outside the scope of our mission, and it would increase workloads, including additional written correspondence and undeliverable mail. In addition, there is no interface between potential private retirement information and Social Security benefits. Requiring SSA to provide information on potential entitlement to private retirement funds could create the belief that private retirement and Social Security benefits are somehow connected. Furthermore, we may not have authority to expend appropriated funds to complete this work or disclose the requested information.

# Appendix X: GAO Contact and Staff Acknowledgments

## GAO Contact

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## Staff Acknowledgments

In addition to the contact named above, Tamara Cross (Assistant Director), Mindy Bowman and Angie Jacobs (Analysts-in-Charge), Ted Leslie, Najeema Washington, and Seyda Wentworth made key contributions to this report. James Bennett, Jennifer Gregory, Kathy Leslie, Frank Todisco, Walter Vance, Kathleen van Gelder, and Craig Winslow also provided support.

## Related GAO Products

*Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved.* GAO-14-92. Washington, D.C., November 21, 2013.

*401(k) Plans: Labor and IRS Could Improve the Rollover Process for Participants.* GAO-13-30. Washington, D.C.: March 7, 2013.

*Social Security Statements: Observations on SSA's Plans for the Social Security Statement.* GAO-11-787T. Washington, D.C., July 8, 2011.

*Defined Contribution Plans: Key Information on Target Date Funds as Default Investments Should Be Provided to Plan Sponsors and Participants.* GAO-11-118. Washington, D.C.: January 31, 2011.

*Individual Retirement Accounts: Government Actions Could Encourage More Employers to Offer IRAs to Employees.* GAO-08-590. Washington, D.C.: June 4, 2008.

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