Revamping Retirement Episode 59

VO Artist: Hello, and welcome to Revamping Retirement, a podcast brought to you by CAPTRUST, where we explore the opportunities and challenges facing today's retirement plan sponsors and fiduciaries. Our hosts lead the employer-sponsored retirement plan practice at CAPTRUST, one of the largest registered investment advisors in the U.S., and a thought leader in the retirement plan, advisory, and consulting space. We hope you enjoy Revamping Retirement.

Jennifer: Welcome, everyone, to another episode of Revamping Retirement. I'm Jennifer Doss, co-host, and today I am joined by one of my favorite people to work with, Audrey Wheat. Audrey works on our vendor analysis team here at CAPTRUST, so Audrey, maybe just say hello and give the audience your 15-second spiel.

Audrey: Sure. Thanks, Jennifer. So I'm Audrey Wheat, and I am a leader on our vendor analysis team here at CAPTRUST, and my primary role is to lead the strategic vendor relations between our firm and our record-keeper partners.

Jennifer: Great. Thank you, Audrey. And then we have another very special guest with us today. We're going to be talking about auto-portability with Neal Ringquist. So Neal, I know you work at Retirement Clearinghouse, which deals with auto-portability, but maybe, for our folks, just to get us started, introduce yourself. Tell us what you do, what your organization does.

Neal: You bet. And thank you for having me on. I thought I was one of your favorite people to work with. So I was crushed when you started with Audrey.

Jennifer: So you're the other. Yeah.

Neal: Neal Ringquist, the Chief Revenue Officer for Retirement Clearinghouse. Think of us as a portability services specialist. We started out focusing on automatic rollovers, Safe-Harbor IRAs, and...came to the realization that there were more landfills for retirement dollars for participants—not great for participant outcomes. So we sought a better way to handle those. And so we started focusing on consolidation, and that's what we've been working on for 10 years—consolidating assets. We've consolidated about 14 consolidation and portability.

Jennifer: And then also to level set, I know auto-portability is something we've been talking about with our clients recently because of Secure 2.0. So what is auto-portability?

Neal: What auto-portability does is simply move those balances from plan A to plan B upon job change. It's basically a new plan default. But if you think of standard plan defaults today, that have been put in place to address participant behavior that hasn't been what a plan's wanted, from an opt-in perspective that can be improved when switching to an opt-out perspective, it's the same thing with portability.

There's a lot of friction in moving balances from one plan to another. And, for small plan balances, that's resulted in cash-out leakage, which we'll discuss in a bit. From the old employer plan to the new employer plan upon job change without participant affirmative consent, so on a negative consent basis. It's basically wrapping around existing automatic rollover or mandatory distribution rules, but adding. So we've got the force-out part through the mandatory distribution rules. It's simply adding the automated roll-in piece now.

Jennifer: So in simplest terms, somebody's at an employer, they terminate their employment there. They have, okay, $4,000 or something as a balance and they get ported out, into an automatic Safe-Harbor IRA. And then they start a new job at Employer B. You guys do the work to say, okay, you've popped up at Employer B now. So we will automatically roll that $4,000 into your new retirement plan, assuming that both parties are obviously partaking in the service.

Neal: That's right, Jennifer. So you need both record-keepers. So every record-keeper that is part of auto-portability is…we'll call it a sending record-keeper and a receiving record-keeper, meaning that they have terminated participants from plans that had signed up for auto whose data is going out through the network. And then roll-ins are occurring for active participants as plans that have signed up for it. So every record-keeper is both ascending and receiving.

Jennifer: And then auto-portability. You mentioned this a minute ago with leakage and getting a plan to where you want it to be. But maybe in a nutshell, how is auto-portability beneficial for the parties involved? For plan sponsors, for participants, and for the record-keepers—all those parties.

Neal: It's pretty egregious. So, if you look at overall balances, about a third of all accounts today are cashing out first year after job change. When you look at the very smallest balances. So those below five, those are cashing out first year at about 55%. And that's just the first year after job change. We call that fast leakage. When you look at those same job or cash-out leakage numbers in years two through seven, another 20 percent is cashing out.

So upwards of 75 percent of balance below $5,000 are disappearing over a period of time, after job change. Auto-portability is designed to plug that cash-out leakage. The issue also is not just that those account balances are cashing out. It's who's doing it. And it's the under-saved and under-served that are out at disproportionately higher levels. Low-income folks are cashing out at well over 50%. So a program of auto-portability that plugs cash out leakage disproportionately benefits the undersaved and underserved. So from the participant standpoint, it improves retirement outcomes. When you're adding those balances, or keeping or retaining those in the network or in the retirement system, that benefits the participant. It benefits them for the retirement outcomes. From a plan sponsor perspective, think about what you're doing is…

Audrey: You're eliminating accounts in the system, but retaining assets. So key plan metrics like your average account balance go up over time. You don't have as many accounts that are prone to go missing and that are subject to some of these other administrative hassles that plans are with. And then, of course, for advisors and record-keepers, when you're plugging leakage, there are more assets in the system to advise and administer, which benefits the entire ecosystem. EBRI did a study on this a couple of years ago, where just for the sub-$5,000 balance, if we had a program of perfect portability over a 40-year time horizon on a present value basis, $1.5 trillion in assets would be retained in the retirement system. We're talking about significant dollars that benefit all the parties involved. So let's zoom out a bit and talk about the structure here. So Neal, you work for Retirement Clearinghouse, but the auto-portability network is run by Portability Services Network. Can you distinguish the roles of the two organizations?

Neal: Yeah, absolutely. So, let me introduce first Portability Services Network. It is a consortium of record-keepers designed solely to manage an auto-portability program. And, the six record-keepers that are in the ownership group that are solely responsible for governance of auto-portability are Fidelity, Vanguard, Alight, Empower, TIAA, and Principal Financial. Today, PSN is 51 percent owned by Retirement Clearinghouse and 49 percent owned at equal shares by those six record-keepers. Over 10 years, the record-keepers will own 100 percent of PSN. PSN is designed to be run as a utility, solely for the benefit of participants.

So the record-keepers are not pulling a revenue share. They're not making any money off of PSN. In fact, when scale is achieved, and revenues exceed expenses, then the end charge to the participant, the one-time transaction fee, will come down. So it'll be run as a utility. So PSN is running the guts of auto-portability.

Now PSN, through a managed and shared services contract, has contracted with Retirement Clearinghouse for obviously software licensing, for all the individuals that are working on behalf of PSN, or Retirement Clearinghouse employees and so forth. So, PSN, while it's a separate entity, currently is in essence being run by employees of Retirement Clearinghouse.

Now, there's enabling regulation involved, with auto-portability. Today, it's in the form of guidance from the Department of Labor. One of those pieces of guidance is an advisory opinion that basically states that Retirement Clearinghouse is the fiduciary for every negative consent transaction, and that's the way the program has been architected. But each plan has to sign a contract with PSN for the auto-portability program, and also with Retirement Clearinghouse. I'll call these ancillary services, such as RCH being the fiduciary for these transactions.

The other thing the Department of Labor dictated is that every balance go through an RCH Conduit IRA. So even if it's only for a couple of days, it's flowing through this conduit. So there needs to be a service agreement for that sort of Department of Labor mandated structure, if you will. So Retirement Clearinghouse is providing what I'll call some of these ancillary services that make auto-portability work.

The bulk of the service is provided by portability services now.

Audrey: Okay. Makes sense. And you referenced the six record-keepers. Give us a sense of what those six, the coverage within the

Neal: It's a good question. So today, you look at it from a plan participant standpoint, right? Since that's who we're enabling auto-portability for. And those record-keepers based on their plans represent 63 percent market share today.

Audrey: Wow. That's huge. So for the future, 2024, how many record-keepers, how many new record-keepers do you project will join? Can you give any estimates there of coverage after 2024 is over?

Neal: Yeah, we're in discussions with another dozen-plus record-keepers about joining the network, and every record-keeper that signs up signs the same operating agreement with Portability Services Network, right? So that's owned by these six record-keepers.

There's the contracts there, but they signed an operating agreement. All record-keepers signed that same operating agreement. In 2024, we'll probably expect another, oh, three to four, maybe more, record-keepers to sign up. Just the way the industry landscape works. And competitive pressures take hold and you start seeing auto-portability appear in RFPs and so forth.

You know, I think that among the record-keepers that are competing for those plans to join, drive, I think, the bulk of the industry to sign up for…

Audrey: Absolutely. So once this is fully up and running, we've got assets flowing back and forth consistently. Give us a sense of the amount of participant assets flowing through PSN once it's really…

Neal: Yeah. So we do a lot of projection work here. We've got a very advanced auto-portability simulation that was written by our COO, Ricky Ingles, who's a PhD and probably one of the three or four experts in discrete event simulation. And when he was a consultant, he did this for us and it was vetted by the record-keepers that work with us.

And so we're able to sort of simulate the market. And we just completed a new run, for example to reflect the new $7,000 balance for mandatory distributions. So we're looking at annually at scale, you know, at least 3 million transactions per year. With the new average account balance post $7,000 limit of about 2,600. That's about $7.8 billion in assets flowing through auto-portability on an annual basis.

Audrey: That is absolutely mind-boggling, and really cool to think…

Neal: Yeah. And when you think that a big chunk of those assets would otherwise be cashing out, I think it gives you a sense of what this means for everybody in the industry. We're talking about real money here that'll flow through this…that'll be retained in the industry.

Audrey: So when we think of a PSN, Portability Services Network, it's primarily known for its ability to auto-port the small balances like we've been talking about, but what other applications could PSN be used for in the future that you've thought…?

Neal: So, all the plan sponsors seem to be dealing with issues with missing participants. One of the most reliable sources of current address information is the active participant record. So, the network and the ability to gain access to… Active participant address data is one potential application of this for use for addressing. Certainly there's restriction technology for handling larger balances, but right now, the record-keepers are looking at this solely for, you know, the balances up to the mandatory distribution level, but to the extent that there was interest in raising that for slightly higher balances, restrictions on the technology of the processes. And of course, think of the logistics of handling the logistics of some of Match that was in Secure 2.0 comes to mind. I mean, you could easily imagine the Portability Services Network, network of record-keepers, being leveraged to support a Savers Match program when it goes live in 2027. There's lots of applications for a network this expansive of all the record-keepers…

Audrey: We'll bring you on the podcast when that gets up and running.

Jennifer: So that was a lot and you guys have a lot of cool things and just so much in store for even just next year and things you talked about in the coming year. Just if you had to boil it down, what is Portability Services Network and Retirement Clearinghouse? What are you guys most excited about regarding the future of auto-portability? I think you're in really good naming camp anyway, right? You've got auto-enrollment, you've got auto-escalation, now you've got auto-portability. So it just seems like it all goes together.

Neal: Yeah. You know, first, if you think about it, with auto-portability, what the industry is able to deliver is a quantifiable way to address the minority wealth gap. That's what we're all excited about. I mean, the public policy benefit of this is enormous. And that's why we've had bipartisan support in Washington for auto-portability.

It's why we've had the support with the record-keepers that we have. It's a game-changer. It's a quantifiable way to help the undersaved and undeserved. Thank you. You know, that's what we're all excited about. And that's why we're all doing this. You know, if you think about it, when you bring the industry together, which has been so hard, it's the first time the industry's come together to solve a problem. There are other problems you could easily address just by coming together and talking about it.

Everything from standard security standards and so forth that you can come together as an industry to talk about, or anything along those lines that, to date, you know, because record-keepers have been there, in working on their own plans. And yeah, we have trade groups and so forth for this. But now we have a real consortium and working relationship of record-keepers where they're collaborating to address problems. And I think when you create that kind of forum and that kind of collaboration, the sky's the limit in what problems you can solve.

Jennifer: It's amazing what you guys were able to accomplish by getting all those players together and getting on similar data standards and sharing of information. You don't see that a lot. You're right. In our industry, it's really great that you guys did that.

Neal: Been a slog, Jennifer. It hasn't been an overnight…

Jennifer: That is true.... Neal, if plan sponsors want to learn more about auto-portability and whether they have access…where can they go? Where can they get more information?

Neal: It's to their record-keeper. Yeah, so their record-keeper is responsible for plan sponsor clients. And if their record-keeper, encourage if the plan sponsor is interested. And their record-keeper, if I'm happy certainly to talk to the rec but, uh, responsible for working with their plan clients to, uh, onboard.

Audrey: Awesome. Thank you so much, Neal. We do like to ask every guest on the podcast the same question at the end. So Neal, what does retirement look like to you?

Neal: Well, given I've got a birthday in a month, it should be top of mind given my age. Audrey, it's not. I'm pretty enthused about work these days. But I guess I'd take two paths. is the The give-back path. My wife and I are animal lovers, contribute to quite a few organizations. We've taken in more dogs and cats than I can count. My wife actually volunteers for a horse rescue called Angels for Minis in Walnut Creek in Northern California. I'll involve my is in those kinds of endeavors, I can see, um, so that's, that's one from a hobby perspective, um.

Being in Northern California, I love wine. I drink it. I collect it. And this year I just planted a small hillside Chardonnay vineyard and joined the local wine growers association. Our area is an agricultural viticulture, an American viticultural area, or AVA, for wine. It's just a new designation. So, I'm going to get more involved in at least the growing aspect of winemaking. I'm not sure I'll actually get into wine production. I'll work with a winemaker, but I'll see. I can see myself getting more involved in grape growing.

Audrey: I was going to suggest our next podcast in 2027 with you, Neal. We will come to you.

Neal: We'll cover the Savers Match over Chardonnay. How about that?

Jennifer: Yeah. Yeah. No, I love that path thing. You're going to help others and drink wine. And I just think that's fantastic. That's how I would sum that up. Neal, thank you so much for all of your insights, for being on our podcast today. Can't thank you enough.

A couple of things maybe I'd highlight from our conversation. I love what you said about the undersaved and underserved. I think that's so important. And I know a lot of our plan sponsors are very parental and they want to do the right thing for their employees and they want to help them keep retirement money in the system once they've saved. And then from a plan sponsor perspective, not just altruistically, but it also helps them keep average balances higher, helps with missing participants, and again, just keeps those assets within the system. A lot of major record-keepers already on board, more anticipated to come. Some really exciting applications for the Portability Services Network. Again, thank you so much, Neal, for being with us today.

Don't forget to like and subscribe wherever you do get your podcast, and stay tuned for our Minute with Mike.

Jennifer: And we'll see you next time. Take it away, Mike.

Mike Webb: This month, we will address a recent piece of guidance from the IRS regarding retirement plan eligibility for part-time employees. On November 24th, 2023, the IRS released a long-awaited proposed regulation regarding the SECURE Act.

SECURE 2.0, inclusion of long-term, part-time, or LTPT, employees. Beginning with the 2024 plan year, the most urgent plan sponsor action associated with the regulation will be for Safe-Harbor Plan. Plan sponsors need to review their 2024 notices to see if there are any updates that need to be made or if any notices need to be sent to newly eligible LTPT employees.

The deadline for sending a Safe-Harbor notice to such employees would typically be January 1st, 2024. Another action from the regulation will be a decision whether to redesign the retirement plan so that there are no LTPT employees in the first place. This is possible and would involve invoking more liberal eligibility provisions for elective deferral purposes.

Finally, it’s important to note that the regulation applies only to 401(k) plans, though 403(b) plans are also subject to the LTTT employee rules. The IRS will need to issue separate guidance in that regard, hopefully before these rules take effect for 403(b) plans in 2025.

VO Artist: The discussions and opinions expressed in this podcast are those of the speaker and are subject to change without notice. This podcast is intended to be informational only. Nothing in this podcast constitutes a solicitation, investment advice, or recommendation to invest in any securities. CAPTRUST Financial Advisors is an investment advisor registered under the Investment Advisors Act of 1940.

CAPTRUST does not render legal advice. Thank you for listening to Revamping Retirement.