

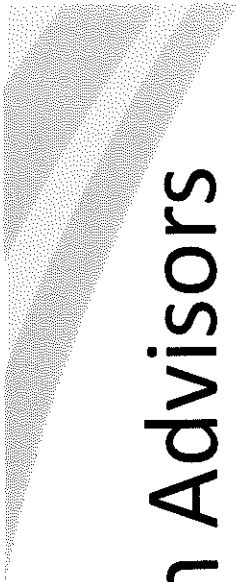
Fiduciary Rule Re-proposal Could Put Rollovers at Risk

Brian H. Graff, Esq, APM, Executive Director
Judy A. Miller, MSPA, Director of Retirement Policy

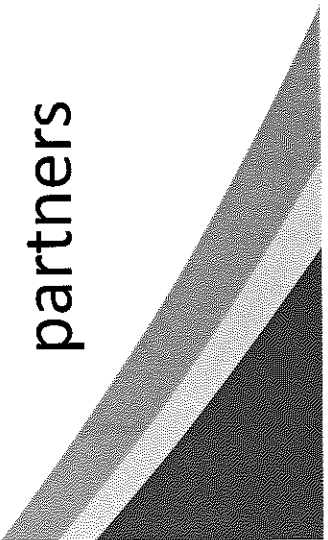
March 19, 2015

About NAPA





National Association of Plan Advisors

- 10,000 members; 80% are retirement plan advisors
 - 150 firm partners, including all major DCIOs, broker-dealers and recordkeepers
 - More than **40 million participants** are covered by the defined contribution plans with which NAPA members work
 - More than **\$4 trillion** in defined contribution plan assets under management with members and firm partners
- 

Definition of Fiduciary Impact on Rollovers

Leakage

- Per Aon Hewitt, 43% of participants terminating employment in 2012 took cash distributions*
- Early distributions from a 401(k) account as a result of a job change amounted to \$74 billion in 2006.**

* Aon Hewitt, 2013 Universe Benchmarks Highlights

** United State Government Accountability Office. *401(k) PLANS. Policy Changes Could Reduce the Long-term Effects of Leakage on Workers' Retirement Savings*. GAO-09-715, August 2009.

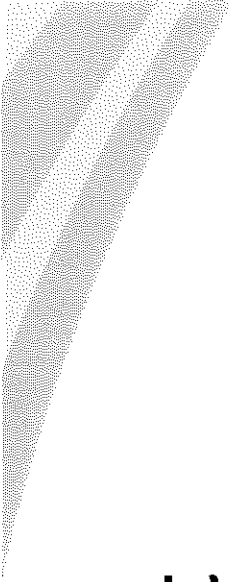
IRA Rollovers Fight Leakage

- Many terminated employees simply don't want to leave money with a previous employer, but *many others have no choice but to take the money out of their previous employer's plan as a lump sum or rollover.*
- Transfers to a new plan are not common: "One plan sponsor told us that only 10 to 15 percent of participants who separate from the plan move their savings to a new employer's plan because of barriers in the process..."*
- Rollover to an IRA is the practical alternative to a cash out.

* United States Government Accountability Office. *401(K) PLANS. Labor and IRS Could Improve the Rollover Process for Participants.* GAO-13-30, March 2013

Pre-Retirement

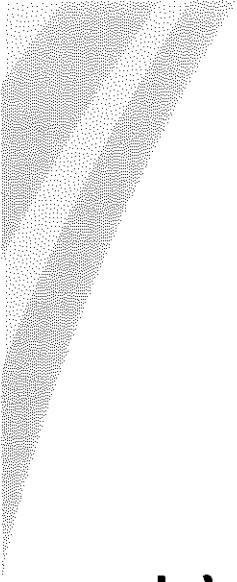
- With a balance of under \$5,000, more than half of terminated employees must either cash out or rollover.
- Per the 2010 PSCA Annual Survey of Profit Sharing and 401(k) Plans:
 - Only 8% of plans allow balances of less than \$1,000 to remain in the plan
 - 43% of plans allow balances of over \$1,000 but less than \$5,000 to remain in the plan



Post-Retirement

- Vanguard study: DC plan participants terminating at age 60 and over in 2004 had about 50 percent of their plan savings still in employer plans 1 year after separating, but only about 20 percent in the plans 5 years^{*} after separating.

^{*} Stephen P. Utkus and Jean A. Young, Distribution Decisions Among Retirement-age Defined Contribution Plan Participants, The Vanguard Group, Inc. (December 2010)



Post-Retirement

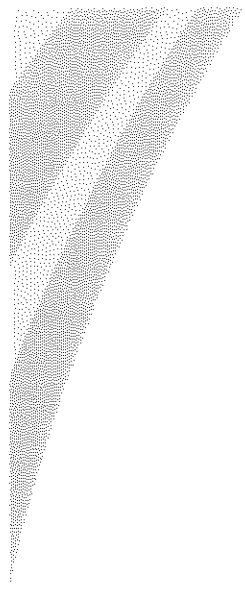
- After retirement, many are forced to take a full distribution because of limited plan options.
- Per the 2010 PSCA survey:
 - Less than 17% of DC plans offered annuities
 - Only 60% offered installments
- *IRA rollovers can be the only alternative to cashing out altogether*

Fiduciary Definition and Rollovers

- If the new rules subject rollover conversations between a plan advisor and a plan participant to a fiduciary standard, the prohibited transaction rules would preclude plan advisors from working with plan participants on the rollover because of a different fee structure with the IRA as compared to the plan.
- Different fee structures are completely reasonable given that a common reason for the rollover is to take advantage of completely different investment products, like annuities, that require more complicated servicing.

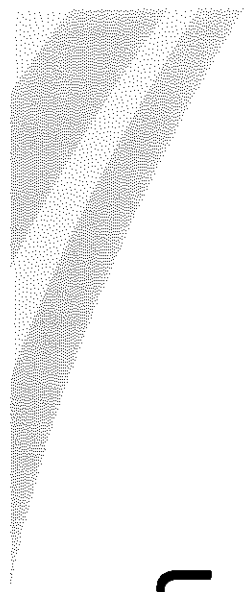
Where is the conflict?

- The plan advisor has the *least* conflict with regard to discussing a rollover because he or she will benefit whether the participant leaves assets in the plan or rolls over to an IRA with the plan advisor.
- This prohibition would exist even if the 401(k) plan advisor's IRA is the most competitive product on the market.



On their own

- If rollover conversations between plan advisors and participants are subject to a fiduciary standard, plan participants who are asked to make a decision about their benefits upon terminating employment would be forced to find another provider on their own.
- The result is likely to be increased leakage due to a decline in rollovers.



A Better Solution

- 401(k) plan participants should not be precluded from working with their 401(k) plan's advisor.
- Instead, the plan's advisor should be required to disclose any differences in fees if participants roll their 401(k) plan accounts into an IRA offered by the advisor.
- Similar disclosures required of unrelated IRA providers would lead to the best outcomes.



NAPA

National Association of Plan Advisors

Part of the American Retirement Association

