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SUCCESSFUL RETIREMENT PLANS NEED TO WORK FOR JOB-CHANGERS (THAT'S MOST OF US)

Auto-portability is essential for shoring up the US retirement system.

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In early April 2019, I participated in the Aspen Leadership Forum on Retirement Savings, the Defined Contribution Institutional Investment Association (DCIIA) Public Policy Forum, and the ERISA Industry Committee (ERIC) 2019 Spring Policy Conference.

These conferences covered the usual panel topics, including lifetime income, open Multiple Employer Plans (open MEPs), state savings initiatives, and financial wellness (including student loans). I noticed, however, that more time was devoted to questions around portability or the ability to move retirement assets when one changes jobs—much more so than at past retirement-groupie gatherings.

The reality is that the majority of us do not work for 40 years with a single employer. I have been working for 31 years (scary) and this is only my third job. Employee Benefits Research Institute (EBRI) reports that the median tenure in private sector jobs is around five years.[1] Contrary to popular belief, this number has not changed materially over the past 35 years. Even if the US retirement system successfully ignores projections of the "future of work," which typically include notions of increased job turnover, more contract workers/gig employees, and more workers with side hustles, it nevertheless must take into account that a lifetime job with a single employer is extremely unlikely to describe the majority of today's workers.

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For this reason, auto-portability —defined as "the routine, standardized, and automated movement of an inactive participant's retirement account from a former employer's retirement plan to their new employer's retirement account"[2]—comes into play. While there is no reason why retirement assets cannot be consolidated outside of a plan, this article focuses on auto-portability from one qualified plan to another.

FREQUENT JOB-CHANGERS CREATE ADMINISTRATIVE AND PORTABILITY CHALLENGES

Here are some of the key areas to consider.

- Small balances held in multiple accounts lead to higher fees. If participants could easily consolidate all small balances into a single account, they could reduce their costs and potentially improve net returns.

- Small balances can be automatically transferred, but to where? If participants don't claim their balances when leaving a job, their balances may be transferred to an account that could charge fees in excess of the returns, such as an IRA or other secure account. By regulation, these accounts must invest in low interest-bearing accounts. In this scenario, the savings could run down to zero.
- Small balances tend to be cashed in prematurely. Research has shown that, given the opportunity, vested amounts below $10,000 tend to be cashed in, but when balances rise above $10,000, qualified accounts are far more likely to be preserved.[3] If only these mobile workers had consolidated smaller account balances, they might have crossed that $10,000 threshold sooner.

If we are successful in increasing the number of Americans covered by the US retirement system, there likely will be more people with small balances.

AUTO-PORTABILITY MIGHT BE THE SOLUTION TO LESS EFFICIENT SMALL-BALANCE ACCOUNTS

The focus of the auto-portability initiative has been to help America's small savers preserve their retirement benefits by sending their savings directly onto their new employer's plan. The Australian superannuation system is a bit different, as employer contributions are mandatory, but plans are typically not sponsored by the employer. In the early 2000s, Australia noted the prevalence of many smaller, and potentially lost balances, and began to consider how to make it easy for individuals to consolidate their retirement balances.

There have been several initiatives to address auto-consolidation in Australia over the past 15 years, but the private sector by and large has not been able to solve this issue on its own. The Australian government has now stepped in with the following:

- If an individual DC savings account is inactive for 16 months and the balance is below AUD $6,000, then the balance will transfer to the government; and
- Through tax records, the government can identify an individual's new DC account and will then transfer the balance to the individual's new DC account.

A challenge for the US retirement system is how to more efficiently and more quickly develop an auto-portability solution for small savers. We do not want to take 15+ years to correct an issue that we know is a problem today.

SO, WHAT DOES AUTO-PORTABILITY HAVE TO DO WITH THE LIFETIME INCOME ISSUE?

In 2008, I made a presentation to the ERISA Advisory Council when it was first looking at lifetime income options (yes, this issue really is not new). As I said then, and continue to believe, the system should "… strongly encourage consolidation of retirement assets; hence, rather than having many rollover accounts, encourage consolidation of rollover accounts or transfers to the new plan the member participates in."

Auto-portability is one way to help participants consolidate their retirement balances, at least their smaller balances. I and others have been concerned that if every participant has seven jobs, she or he is likely to have seven different retirement accounts. As a practical matter, having seven different retirement accounts is woefully inefficient, seriously complicates retirement planning, and diminishes the value of in-plan retirement options. Without consolidation or auto-portability, the most current retirement account may have a paucity of retirement assets from which to draw sustainable income.

THE WAY FORWARD: MAKING PORTABILITY A LEGISLATIVE PRIORITY

Mercer agrees that the current legislative priority should be to get the freshly reconstituted Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act, H.R. 1994) to the finishing line and signed into law. While the bills grind through the legislative process, work is being done on preparing SECURE ACT 2. In our view, SECURE ACT 2 will be vastly improved if provisions further supporting auto-portability are included.

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1 "A look at Employee Tenure: The Career Job Fallacy and the Impact of Low Unemployment," EBRI, March 7, 2019
2 "Auto Portability Portfolio," Retirement Clearing House, March 2019
3 "The $10,000 Hurdle," Sabrina M. Bailey and Gaobo Pang, February 2019