



# *Using Default and Missing Participant IRAs to Improve Plan Performance*

2013 EXPERT SERIES



# Our Path

- 1 Introductions
- 2 What's the problem?
- 3 Solving the problem
- 4 Avoiding the problem

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# Introduction

# What's the Problem?



# Implications of former employee accounts

- They've left the company but not the plan
- So...
  - Costs based on numbers or average balance of accounts
  - Administrative hassles
  - On-going fiduciary responsibility

# Solving the Problem

## What can you do about it?

- **Large accounts:** not much, since participants must consent to distribution
- **Small accounts:** \$5,000 or less – mandatory cash out distributions
  - Consent isn't required
- Exception for plan termination
  - Can establish a rollover option even without consent...with proper notice



## Legal guidance -- IRS

- Code permits mandatory cashouts of small accounts
  - Accounts up to \$5,000
  - Plan must provide for
  - Automatic rollover if > \$1,000, though sponsor can elect even if smaller
  - SPD must describe
  - Conduct a search for missing participants

## Legal guidance -- IRS

- Code permits mandatory cashouts on plan termination
  - Accounts of any amount
  - Rule where there is another defined contribution plan

## Legal Requirements – DOL

- **Bad news:** selecting the provider and investment for rollover IRAs is a fiduciary function
- **Good news:** DOL has established a safe harbor
  - Rollover to bank, insurance company, mutual fund
  - Product must preserve principal and provide reasonable return
  - Fees same as for comparable IRAs
  - Arrangement is described in SPD

# Avoiding the Problem

## Plan sponsor steps

- Establish a program to make mandatory cashouts
- Select an IRA provider for auto rollovers
- Update the SPD
- Conduct the missing participant search now...and periodically

## Value added services

- Advisors can help create and implement an on-going program
- Select an IRA provider that will take over the process...and add value later on when it holds the money

# Concluding Thoughts



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