A 401(K) Market Simulation To Evaluate Auto Portability for Small Investors

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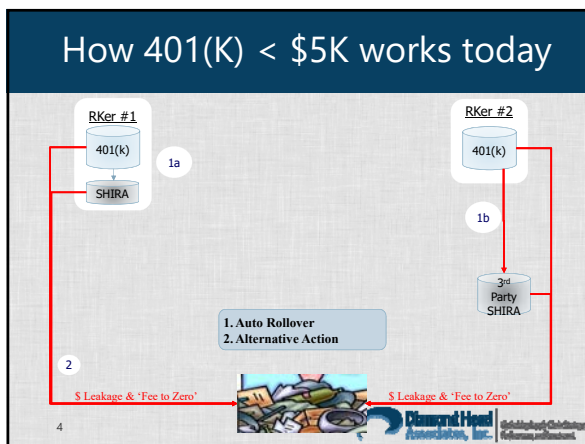
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What is the problem?

- Today's workforce is highly mobile.
- Over 5 million people with accounts less than $5,000 leave their jobs their each year.
- When a person leaves a job and their 401(K) account has a balance under $5,000, the company is not required to keep the account.
- These people who leave their jobs (called participants) receive little or no help with

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What is the problem?

- The money is either cashed out, put in a Safe Harbor IRA (SHIRA), transferred to an IRA, or transferred to a 401(K) at a new job.
- The "easy" thing to do is to cash out.
- As a result, approximately 60% of these individuals will cash out within a year and approximately 90% will cash out within 7 years.

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How 401(K) < $5K works today

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Why is this a bad thing?

- This means that millions of people will have a lot less money for retirement.

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What is the obvious answer?

- Make it easy – even the default – for a participant to move their 401(K) from their old employer to their new employer.

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The Retirement Clearinghouse Solution

- RCH has records-matching technology that locates the participant's new 401(K).
- RCH manages the movement of the participant's previous 401(K) to merge with the new 401(K).
- If the participant approves the transfer as they are leaving the company, then the new default path would be a merging of all of the participant's 401(K) funds into their latest 401(K) account.
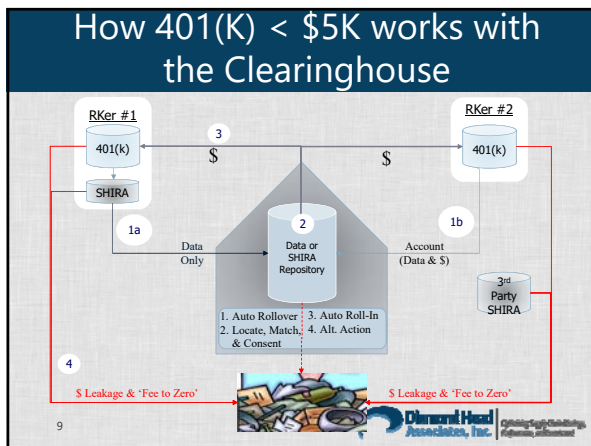
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The Retirement Clearinghouse Solution

- Both the technology change and consent result in *Auto Portability*.
- Auto Portability will yield a dramatic increases in retained savings, particularly among small-balance job changers.
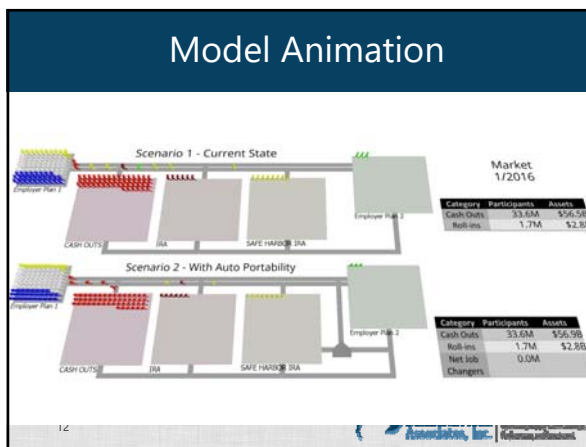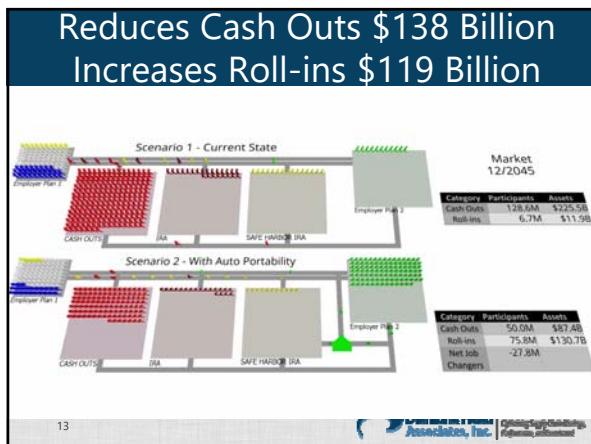
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How 401(K) < $5K works with the Clearinghouse

What are we trying to accomplish?

- Evaluate the impact of Auto Portability on the 401(K) market for accounts under $5,000.
- The change impacts:
  - The participants
  - The record keepers (A record keeper manages a 401(K) for an employer)
  - The third-party SHIRA companies
  - Retirement Clearinghouse

The 401(K) System and The Model

- The retirement system is a highly complex set of rules and regulations.
- These rules and regulations create processes that govern the holding, investing, and moving of retirement money.
- Our model only addresses the "holding" and "investing" of money at an aggregate level.
- The model focuses on the moving of money and information when a participant leaves a company and their account balance is under $5,000.

Model Animation

Reduces Cash Outs $138 Billion Increases Roll-ins $119 Billion

The Simulation Model

- Time Horizon: 40 years (a working lifetime)
  - First 10 years – as it is done today.
  - Years 10-20 – transition to autoportability
  - Years 20-40 – full autoportability
- Key Objects
  - The Market
  - The Clearinghouse
  - The Record Keeper
  - The Third Party SHIRA

The Market Object

- The Market Object manages the market level information and data collection for the entire model
- Key Processes
  - Market Adoption Changes
  - Statistics Collection Process
- Data
  - Market Size
  - Statistics Collection

The Clearinghouse Object

- The Clearinghouse Object performs the clearinghouse function.
- Interaction with the RecordKeepers who are part of the clearinghouse
  - Matching participants who leave to their new accounts
  - Processes for participant interaction in the process
- Serves as a SHIRA company and manages certain SHIRA accounts.
  - Account Fees and "Monthly Processing"
  - Receiving new accounts
  - Transferring participants who leave

The Clearinghouse Object

- Data Requirements
  - Data to support participants leaving a company or transferring to a new company
  - Data to support locate and match functionality
  - Data to support SHIRA business
- Collects clearinghouse statistics

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The RecordKeeper Object

- The RecordKeeper Object performs the function of the record keepers.
- Holds 401(K) accounts that are active.
- When a participant leaves
  - Sends participant information to Clearinghouse
  - If new 401(K) found, transfers participant funds to new account
  - If not, then either keep or send to SHIRA and waits for participant to make decision

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The RecordKeeper Object

- Serves as a SHIRA company and manages certain SHIRA accounts.
  - Account Fees and "Monthly Processing"
  - Receiving new accounts
  - Transferring participants who leave
- Data Requirements
  - Data to support participants leaving a company or transferring to a new company
  - Data to support SHIRA business
- Collects record keeper statistics

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The ThirdPartySHIRA Object

- The ThirdPartySHIRA object models the function of any third party SHIRA provider.
- Serves as a SHIRA company and manages certain SHIRA accounts.
  - Account Fees and "Monthly Processing"
  - Receiving new accounts
  - Transferring participants who leave
- Does not interact with the clearinghouse

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Simio Facility View

Questions?