

MAKING THE RIGHT CHOICE THE EASIEST CHOICE

Eliminating Friction and Leaks in
America's Defined Contribution System

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BOSTON RESEARCH TECHNOLOGIES

CONTENTS

Executive Summary	03
Synopsis	03
Key Findings	03
Introduction	04
Behavioral Analysis & Implications	04
The Face of Friction.....	05
Why do Cash-Outs Occur?	06
The Mindset Behind the Cash-Out Decision.....	07
Changing Worker Behavior: Gen 1.....	07
Changing Worker Behavior: Gen 2.....	08
Auto Portability Initial Launch	09
Description of the Initial Launch.....	09
Summary Data	10
Conclusions	10
Appendix: Initial Launch Data, Analysis & Findings	11
Demographic Profile of Workers	11
Tenure.....	12
SHIRA Account Balance.....	12
Worker Age	14
Length of Time in SHIRA.....	15
Process 1: Locate Results	16
Process 2: Match & Verification Results	16
Process 3: Worker Notification, Response & Consent Results	17
Response Medium Utilized.....	18
Response Times.....	18
Worker Decisions	19
Process 4: Automatic Roll-In Results	20
Transaction Fees:	21
Future Value of Roll-Ins	22
Lost Appreciation for Non-Responders	23
Extrapolation of Results.....	24
About the Author	25

EXECUTIVE SUMMARY

SYNOPSIS

This paper continues the reporting of research, initially undertaken in 2013, to examine the nature and effects of friction encountered by employer-sponsored retirement plan participants at the time of a job-change, including an examination of the facts, circumstances and behaviors observed when a worker confronts the decision of what to do with their retirement account.

In July 2017, Retirement Clearinghouse implemented the Auto Portability Initial Launch (the Program) for small-balance safe harbor IRAs (SHIRAs) with a large employer plan in the hospital services industry. The Program generated substantial, measurable activity as workers were offered the opportunity to consolidate a pre-existing SHIRA into their current, active employer plan. The results, analysis and findings from the Auto Portability Initial Launch are documented herein.

KEY FINDINGS

Workers who responded to the offer overwhelmingly chose to give their consent to roll their orphaned SHIRA into their current-employer plan, indicating substantial pent-up demand. This evidence supports the hypothesis that removing friction, i.e. making the “right” decision easy and placing it on at least equal footing with the “wrong” decision, leads to significantly improved outcomes. Auto portability demonstrably converts demand into behavior.

The roll-in decision is driven by behavioral dynamics and not demographics, i.e. the decision at the time of a job-change is riddled with cognitive turmoil as evidenced from the gap between intent and action surrounding the cash-out decision. Furthermore, behavioral decisions were not influenced by demographics. Inspection and analysis of the demographic profiles of all SHIRA account-holders—those that responded and did not respond, and those who did and did not give consent—show that they are very similar, despite the groups’ widely disparate actions.

A “negative consent” mechanism, designed to enable the portability of small accounts held by participants who don’t respond to notices asking for roll-in consent, **is essential for optimizing retirement outcomes.** Although auto portability eliminates structural friction, other forms of friction persist. One such example is cognitive friction, evidenced by the fact that a majority of workers did not respond to the offer despite repeated notices. Incorporating a negative consent mechanism will overcome workers’ cognitive friction and yield more than five times the savings actually preserved in the Initial Launch.

The elimination of friction makes the roll-in decision easy and cost-effective for even the smallest account balances. Preservation of small accounts is an important building block in the system, as encouraging and reinforcing good behavior generates better retirement outcomes.

Workers who completed a roll-in saw their median plan account balance increase by 46%, reducing the probability of cashing out and creating a base for meaningful future asset appreciation.

Continuation of the common industry practice of automatically cashing out accounts with less than \$1,000 is not supported by the results, as a high percentage of Initial Launch roll-ins were under the \$1,000 threshold.

Extrapolation of the Initial Launch results across the industry, including a negative consent mechanism, would preserve tens of billions of dollars in future retirement savings just from existing small orphaned accounts. Further extrapolation incorporating future flows from job-changers indicates that trillions of dollars could be safeguarded from cash-outs.

INTRODUCTION

Four years ago, Boston Research Group wrote a white paper detailing the condition of the U.S. Defined Contribution (DC) system with regard to leakage, primarily in the form of cash-outs. In that white paper it was reported that “each year, 10,000,000 DC workers switch jobs, are laid off, quit or retire. Each time they do, they face a decision: what to do with the thousands—and sometimes tens or hundreds of thousands—of dollars they have saved in their DC plans.” Industry data shows that cash-out rates for all transitioning workers is more than 30%.¹ Taken collectively, cash-outs are projected to remove trillions of dollars from future retirement income streams. Furthermore, friction in the DC system makes rolling over into the next DC plan extremely difficult. The report also identified human behavior, driven in large part by friction, as the largest single driver of cash-outs.

What has happened to the leakage situation since 2013? We see that very little has changed: the cash-out rate among transitioning workers is more than 30% for all job changers. Crucially, industry statistics also show that cash-outs are disproportionately focused on lower-balance accounts, and by implication, lower wage earners, peaking at more than 80% for workers with less than \$5,000 in their plan account at the time of a job-change. But more importantly, friction remains, as does human behavior. Little has been done to reduce the bureaucracy and barriers that discourage rollovers. In fact, nothing will change as long as friction hampers account portability.

Because the issue of leakage occurs when a worker and his/her savings are “between plans,” no single organization can solve the portability dilemma alone. It will take the coordinated efforts of all record-keepers in the DC industry to eliminate friction. But even that effort will require the application of behavioral economic concepts to turn transitioning workers away from the temptation to receive a large sum of money at a time when they are not considering the long-term consequences of their decision.

At the center of organizing the retirement industry is a private-sector business (Retirement Clearinghouse, or RCH) that has applied technology to build the infrastructure necessary to significantly reduce friction through inter-record-keeper cooperation.² And just as importantly, they have combined their technology with behavioral finance and human intervention to cut the industry incidence of cash-outs (48%) in half for their clients (23%).

Analysis of how, specifically, these results were achieved starts with a fundamental truth about behavioral finance; behavioral finance, in itself, is not a program. It is the lens through which we view the world of, among other things, employee behavior. Not until we have transformed our observations of employee behavior into actual programs that will change adverse behaviors will the power of behavioral finance be released. Conversely, innovative technology, by itself, has repeatedly shown weak results in behavioral change, unless it is combined with behavioral finance.

BEHAVIORAL ANALYSIS & IMPLICATIONS

Let’s begin our detailed examination of how RCH transformed behavioral concepts into changed behavior by reviewing the portability problem. Clearly,

the DC system today has become very effective in facilitating the movement of payroll into DC accounts, but that is only half the job of a comprehensive retirement savings system. We have a remarkably mobile workforce. Unfortunately, the DC system is significantly less effective in moving assets between DC accounts of different employers than it is in accumulating assets. Both are critical. In fact, of the accounts with balances under

\$5,000 that did not cash out, more than 90% opted for the default safe harbor IRA option, which is a very low-friction transaction, versus the high-friction roll-in to their next employer plan.

**AVERAGE
AMERICAN
CHANGES JOBS
10x
OVER 40-YEAR
CAREER
EBRI data**

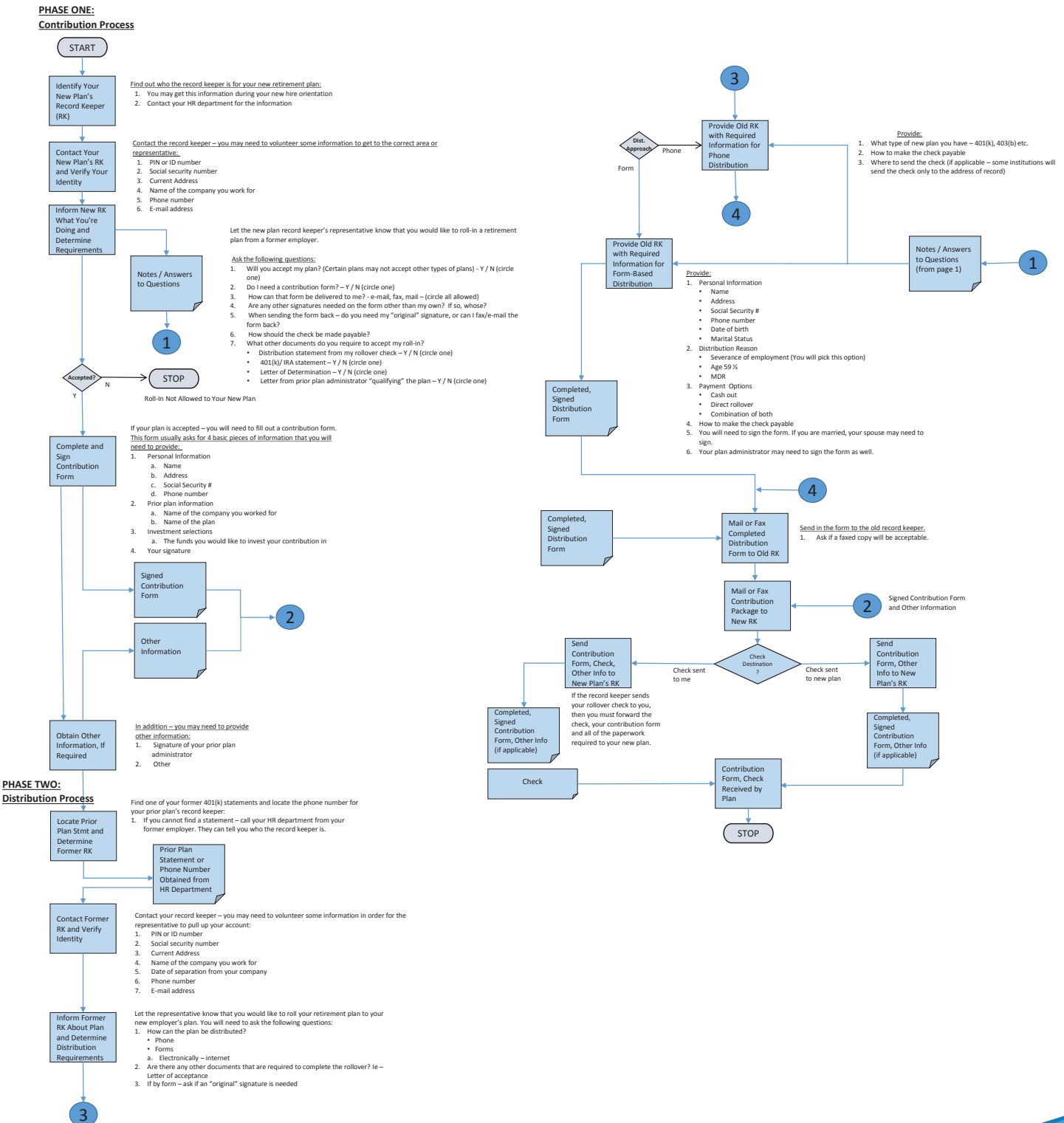
¹ Among workers with under \$5,000 in their account, the cash-out rate is 80%. Accounts in this balance range represent 28% of all DC accounts.

² Retirement Clearinghouse (RCH)

THE FACE OF FRICTION

Essentially, the job of building a private-sector retirement system is incomplete because there is too much friction surrounding the movement of money between accounts, as shown in the illustration below. This flow chart represents the actions and processes that are involved in moving an account from one employer plan to another.

DO-IT-YOURSELF PLAN-TO-PLAN PORTABILITY



Additional evidence of friction is the incidence of accounts that stay in a former-employer plan long after the worker has moved to a new employer.⁴ Imagine the turmoil if the U.S. banking system suffered from the same conditions. The subtle, but very real, problem with too much friction is that it is creating greater opportunity for DC assets to leak from the retirement system. The largest leak comes in the form of cash-outs, according to a 2009 Government Accountability Office (GAO) report, which reported that 89% of asset leakage from the U.S. retirement system is caused by cash-outs.

WHY DO CASH-OUTS OCCUR?

Interestingly, when we ask workers (while they are still actively employed) what they would hypothetically do with their account balances if they were to change jobs, only 2% say they would take the cash and spend it. So why do 45% actually do it? This is an enormous intent/action gap. According to an AARP/Boston Research Technologies (BRT) study, job change, loss of a job and retirement are among the most stressful and emotional inflection points one faces in life. When we are placed in highly charged, emotional situations, our logical thinking process is often suppressed. But clear, rational, long-term thinking is what is needed most at this time. Unfortunately, the DC industry does not provide effective (or any) logical-thinking assistance when transitioning workers need it most. Despite the fact that they are at a critical and highly emotional moment in their lives, transitioning workers often get little or no guidance about what to do, or the potential consequence of their decisions. Although employers might think their current record-keepers dispense such help, providers typically do not provide the one-on-one support that employees require to ensure optimal decision-making and administrative follow-through.

At this time in their lives, employees have a difficult time quieting their thoughts and reading a brochure. Unfortunately, written materials alone are typically not enough to stop such a tantalizing action, like a cash-out, with large amounts of money attached and no apparent downside consequence. Penalties don't work. Over 80% of people who cashed out said they were aware of the penalties. Without

human intervention that clearly communicates the consequences and need for prudence, employees can easily succumb to the temptation to use their 401(k)s as ATMs.

To better understand the cash-out decision, Boston Research Technologies, with the assistance of Retirement Clearinghouse, conducted a phone survey of 300 workers who recently left their jobs and were expressing an interest in cashing out their retirement account balances. Workers who made a final decision to cash out were asked why they did so, and what they intended to do with the money. The most cited reason was simply the allure of the availability of the money (30%), followed by a need for the money to cover household expenses (29%), or to pay off debt (23%). Interestingly, very few (10%) said it was due to an emergency.

Similar results were reported in a 2015 BRT/RCH study of America's mobile workforce, which noted that only 37% of workers that cashed out their retirement savings did so to meet an emergency need for cash.⁵

Arguably, none of these reasons (with the exception of an emergency) make logical sense. But again, transitioning workers at this inflection point are thinking less rationally. And in the absence of clear and effectively communicated guidance, accompanied by administrative services that reduce the friction and cost for the worker, the cash-out would seem to be the best choice, or at a minimum, an attractive choice.

⁴ Vanguard's "How America Saves 2016" reports that 30% of all accounts on their recordkeeping system belong to workers that no longer work at the company whose plan is holding their account.

⁵ Boston Research Technologies, April 2015

THE MINDSET BEHIND THE CASH-OUT DECISION

When making DC account decisions, the worker is in a highly emotionally-charged mindset. Studies by BRT and AARP have shown that they are making decisions in a suppressed cognitive state.⁶ In these times we find that people tend to move away from their reflective, deliberate decision-making processes (what Dr. Daniel Kahneman refers to as System 2 thinking) to a more intuitive, rapid, knee-jerk, uninformed decision-making process, referred to by Kahneman as System 1 thinking.⁷ Add to this the fact that a job-change is almost always treated cognitively as a “loss” in some way. It may be a loss of income, colleagues, familiar routines, etc. It is at this time in the job-changer’s life that a large lump-sum of cash is presented to them. Seeking to offset their sense of loss (which is 2.25 times as powerful as the celebration of a gain—referred to as “loss aversion”), and hyperbolically discounting the future gains of leaving the money in the system, the worker naturally finds the offer almost irresistible.

This is particularly true among lower-income, small-balance DC workers who value even a small amount of money in their account much more than high-income colleagues value the same amount.⁸ To say the least, the cash is an attractive offer in an emotionally turbulent time when logic is replaced by what “feels good” at the moment, as does deferring the decision indefinitely by doing nothing if that choice exists. Kahneman states, “It is now a well-established proposition that both self-control and cognitive effort are forms of mental work. Several psychological studies have shown that people who are simultaneously challenged by a demanding cognitive task and by a temptation are more likely to yield to the temptation.”⁹

There is another, more insidious force pushing the worker to cash out: the “default effect.” This effect falls into the general category of heuristics—mental shortcuts that allows people to make decisions and solve problems quickly, but often sub-optimally. The

default option in the small-balance case is the cash-out, if no other decision is made (or no action is taken in larger accounts). The unfortunate thing about some defaults is that, when set by a trusted source (i.e., the employer, who is often seen as paternalistic by employees), they can be viewed as the recommended and wisest choice. Consequently, the default increases the probability of choosing that option as opposed to the possibly superior alternatives.

Essentially, the emotional and financial deck is being stacked in favor of a worker’s simply taking the money (or doing nothing). Messaging that it is not wise to cash-out or strand an account is too simplistic, and obviously ineffective. Subtle nudges to roll the money over to another qualified account do not work either. It’s akin to the highly unsuccessful “Just Say No to Drugs” campaign. A greater, direct and personalized intervention is required: Automatic Rollover (ARO) with Human Intervention was RCH’s solution.

CHANGING WORKER BEHAVIOR: GEN 1

In 2007, a large nationwide hospital services corporation launched (with RCH) an Automatic Rollover (ARO) program for all terminating/terminated employees with less than \$5,000 in their 401(k) accounts.¹⁰ In this ARO program, all terminating employees were invited by letter to call RCH for assistance in making the transition. Upon calling, employees would speak with a live operator who provided advice and/or guidance regarding options, as well as the consequences of cashing out. Callers were also offered human assistance with an IRA rollover. Understanding consequences creates realistic regret aversion in a healthy way. In behavioral finance this is referred to as Enhanced Active Choice (EAC). EAC has been developed, refined, and proven effective by Dr. Punam Keller, Dean of Innovation at Dartmouth’s Tuck School of Business. RCH applied EAC to the problem of stemming the rampant practice of cashing out.

⁶ AARP and Boston Research Technologies, December 14, 2008

⁷ Thinking, Fast and Slow, Kahneman, Daniel (2011)

⁸ This is referred to as Prospect Theory, for which Dr. Daniel Kahneman was awarded the Nobel Prize.

⁹ Ibid, Kahneman, Thinking, Fast and Slow

¹⁰ The company has more than 200,000 employees across the country and has more than 200,000 active workers in their qualified plan.

RCH also leveraged one of the most powerful behavioral forces at their disposal—trust. Trust is primal. We look for signals of trust in every interaction. It is the bedrock of loyalty. But most importantly, trust allows people to take risks, to engage, and to behave in ways that are not natural or intuitive. RCH knew that they were an unknown entity to workers and consequently, their trust level among workers was very low. They also knew that employees' trust of their employer was four times greater than trust of an unknown financial institution. But, once endorsed by the employer, workers' trust of a third-party institution rises to the same level of trust in the employer. To leverage this dynamic, RCH required that the initial communication to the departing (or new) employee concerning cash-outs and rolling into the new plan come from the employer. Now, the trust link was established and the workers were free to take an action with RCH.

I had the opportunity to audit the results of the program. The audit showed that from 2007-2013, the ARO program resulted in substantial reduction in the percentage of former workers completing a cash-out as compared to industry statistics (48% versus 23%).

Furthermore, compared to industry statistics, the incidence of cash-outs was lower at all balance ranges due to the general emphasis of the case study's plan sponsor on avoiding cash-outs, and attempts to reach (by outbound telephone calls) all accounts with balances of \$10,000 or more.

CHANGING WORKER BEHAVIOR: GEN 2

Although the ARO program prevented a great deal of cash-outs, the friction was not entirely eliminated. Specifically, there was not an effective infrastructure for moving account balances between DC accounts at different employers. This friction alone creates millions of cash-outs across the DC system, since difficulty in rolling over to the next plan creates the frustration in workers that opens the door for cash-outs.

To remove the problem of friction, RCH devised an Automatic Portability¹¹ Program that proposes to link together all DC record-keepers so that all employees moving from one plan to another can be identified and offered the opportunity to have their previous-employer plan balances moved to the new account at the point of job-change, before there is a chance they may cash out. Essentially, the intent is to make it as easy to complete a roll-in to the next plan as it is to cash out. And in addition, auto portability adds the nudges (to invoke the term coined by Nobel Prize-winner Richard Thaler, PhD) of human intervention, Enhanced Active Choice, and loss aversion. By eliminating friction differentials between the two choices, it becomes more a matter of optimizing a financial decision and less about expediency.

¹¹ Auto Portability is the routine, standardized and automatic movement of an inactive worker's small balance retirement account from a former employer's retirement plan to an active account at a new employer's retirement plan, when a worker changes jobs.

AUTO PORTABILITY INITIAL LAUNCH

DESCRIPTION OF THE INITIAL LAUNCH

In June 2017, the full suite of technology and operational processes needed to execute auto portability was implemented for the same large company (the “Launch Plan”) that was studied in BRT’s 2013 report. Specifically, the technology was implemented by the company’s record-keeper, a provider of benefits outsourcing services whose clients are principally large employers.

To test the response to the RCH Auto Portability Program, beginning in July 2017 all account-holders who have a SHIRA account with RCH were matched to the Launch Plan’s current, active qualified plan register of workers. The Initial Launch period consisted of four cycles (one per month from July through October). Each cycle included the full registry of SHIRAs and active plan workers. Of note, RCH’s SHIRA registry included more than 10,000 new accounts established during the July-October period, and the Launch Plan registry included more than 20,000 new plan workers during the same period, demonstrating that the Initial Launch would mirror the dynamic nature of the broader mobile workforce. In other words, “new” account records are continuously entering the Program, even as “old” account records are systematically matched and consolidated in their active employer plan.

The Auto Portability Program is broken down into four processes that were repeated for each cycle:

1. **Process 1: Locate**—RCH SHIRA records are transmitted to the Launch Plan’s record-keeper. The record-keeper locates and reports back to RCH all Launch Plan workers that are potential Matches with RCH’s SHIRA account-holders.
2. **Process 2: Match & Verification**—All potential Match records are analyzed, and either confirmed as Matches or put through an exception process for additional verification.
3. **Process 3: Notification, Response & Consent**—All workers who are a confirmed Match are notified via U.S. Postal Mail and invited to either
 - a. Provide their affirmative consent to have their SHIRA consolidated into their active plan account,¹² or
 - b. Opt out of the program by taking an alternative action or taking no action.Workers were given a choice of response media: interactive voice response, website, or a call center representative. Program fees were disclosed to SHIRA account-holders on at least two separate occasions.
4. **Process 4: Automated Roll-In**—Workers who provided consent to the transaction had their SHIRA records flagged and their accounts were subsequently rolled into their active accounts in the Launch Plan.

Cycle 4 was completed on October 27, 2017, and results were tabulated and analyzed as illustrated below. The Program will be ongoing in nature, yielding additional results and opportunities for further analysis.

¹² In the Initial Launch, workers were required to provide affirmative consent.

SUMMARY DATA

	Number of Records	Total Account Value (000s)	Notes
All RCH SHIRAs	134,491	\$145,854	Total eligible records
Matches	3,361	\$4,337	2.5% of All RCH SHIRA records
Responders	502	\$855	15% of Matches
Roll-In to Launch Plan	455	\$701	91% of Responders
Opted Out of the Program	47	\$154	9% of Responders
Non-Responders	2,859	\$3,482	85% of Matches

A complete set of data, analysis and findings is included in the Appendix to this report.

CONCLUSIONS

Boston Research Technologies and the NARPP (National Association of Retirement Plan Workers) have repeatedly seen behavioral finance-based programs achieve astounding improvements in participation, deferral increases, and investment selection. There is no doubt they are effective in changing behavior. The RCH experience again confirms that position.

Fixing the DC system to reduce friction and leakage is an extraordinary task that requires extraordinary actions. RCH has provided the thought leadership necessary to begin this undertaking by identifying best practices and solutions to the problem, and has taken a major step in that direction by combining behavioral finance with technology and human intervention. However, RCH cannot complete the job on its own.

Finishing the job will require a collaborative effort by both government and private-sector players. The government's role is essential to providing the legal and regulatory guidance needed to help workers stop adverse behaviors such as cashing out or allowing cognitive friction to overcome taking an action that is clearly in their own best interest.

Record-keepers, plan sponsors, advisors, and consultants may want to examine leakage from their perspective and decide the role in minimizing its harmful long-term impact on retirement-readiness.

Each of these players can contribute to lighting the spark needed to create a more effective U.S. retirement system.

APPENDIX: INITIAL LAUNCH DATA, ANALYSIS & FINDINGS

DEMOGRAPHIC PROFILE OF WORKERS

The Initial Launch population was separated into two main groups: All SHIRAs and Matched Records. Matched Records were further divided between workers that responded (Responders) and those that did not respond (Non-Responders).

Each SHIRA record and each active plan worker record contained three common data elements—SHIRA Account Balance, Age, and the Length of Time the SHIRA had been open. In addition, Matched Records for both Responders and Non-Responders included the Date of Hire, enabling calculation of any Matched worker's length of employment with the Launch Plan. Access to this data made possible a comparison of these demographic characteristics across the population, as well as statistical analysis to determine correlations, if any, between demographic characteristics.

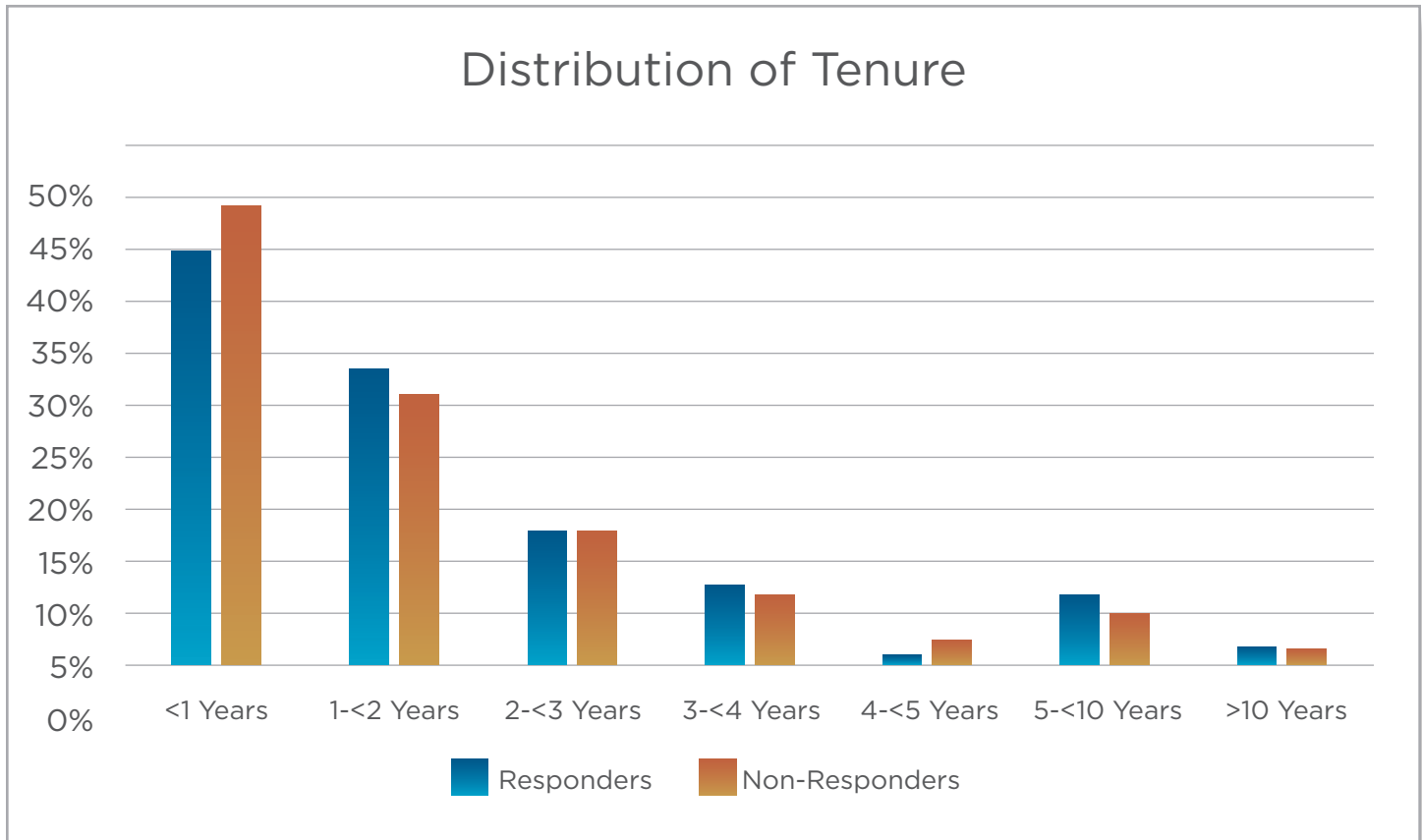
KEY FINDING

Advanced statistical analysis shows a significant positive correlation between balances of less-than-\$5,000 SHIRAs and the probability of the worker consenting to roll their SHIRA account forward into their active employer plan.

No other demographic data showed meaningful correlation. Demographic data is illustrated in the tables and graphs that follow.

Tenure¹³

	Longest (Years)	Average (Years)	Median (Years)	Shortest (Months)
Responders	22	2.1	1.2	<1
Non-Responders	37	1.9	1.3	<2



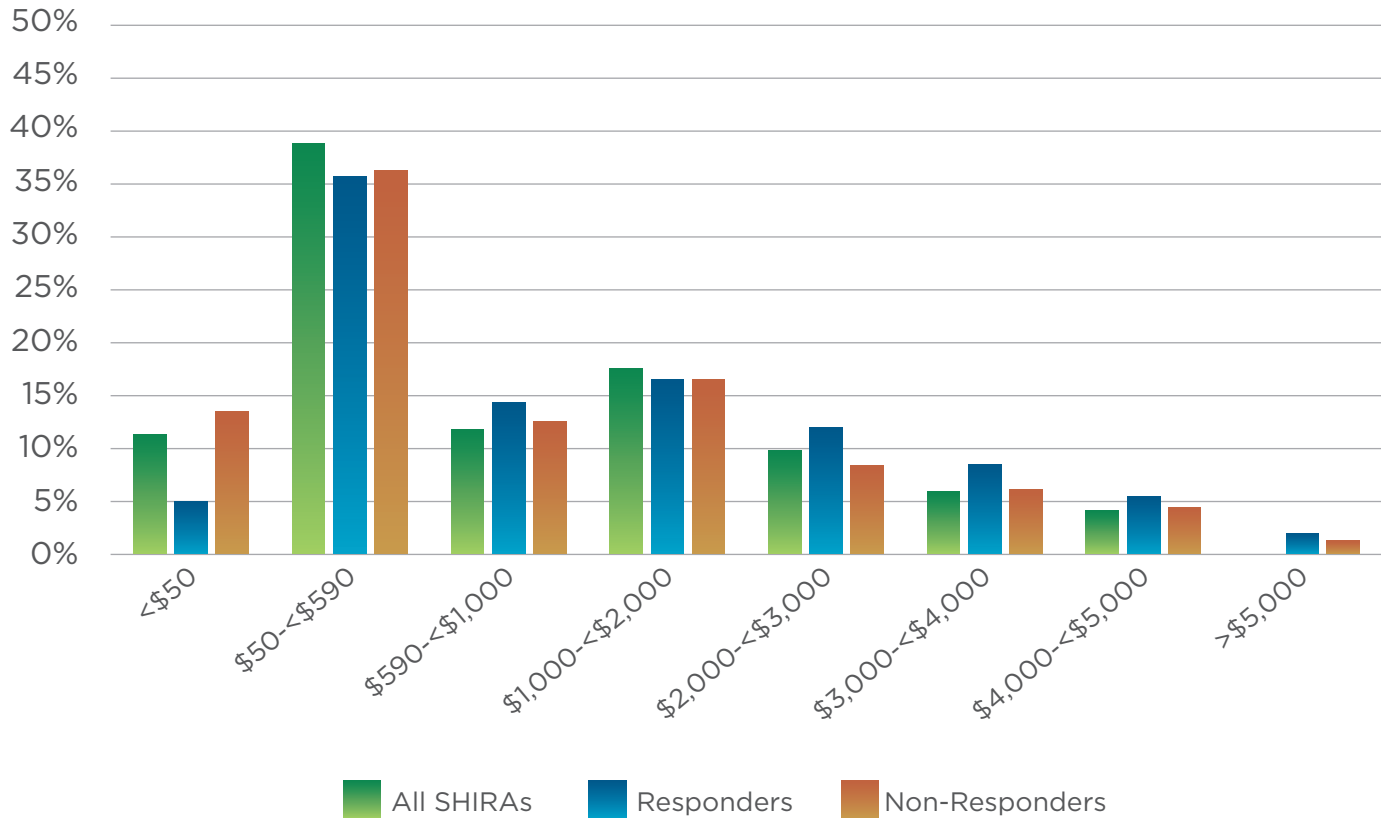
SHIRA Account Balance

Although account balances of all sizes were eligible for the Program, 99% of the accounts had a balance under \$5,000, the current limit for mandatory distribution from an employer plan to a SHIRA. SHIRA balances above \$5,000 were the result of Retirement Clearinghouse’s terminated plan services.

¹³ Tenure data was not available for All RCH SHIRA records, only for records that Matched.

	Largest	Average	Median	Smallest ¹⁴	Total (000s)
All RCH SHIRAs¹⁵	\$5,000	\$1,084	\$578	\$0.01	\$145,853
Responders	\$87,181	\$1,703	\$816	\$0.01	\$855
Non-Responders	\$116,908	\$1,218	\$592	\$0.01	\$3,482

Distribution of Account Balances

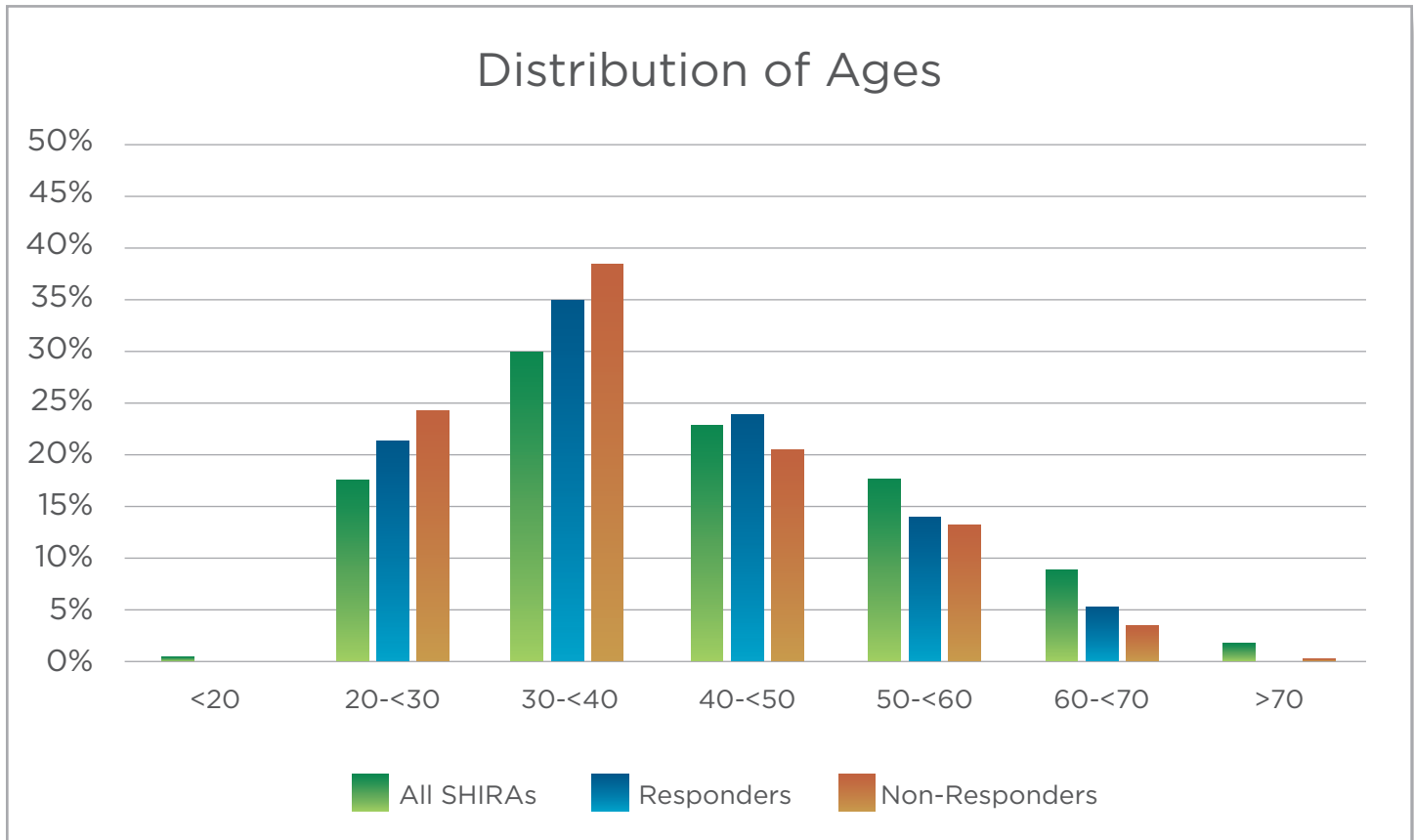


¹⁴ As a service to the plan sponsor, i.e. to help them keep their plan records "clean," the RCH Auto Portability Program accepts SHIRA accounts for all terminated worker balances <\$5,000. There were more than 46 accounts with <\$5,000—likely due to a dividend posted to a worker account subsequent to closing the account.

¹⁵ Excludes accounts with balances >\$5,000.

Worker Age

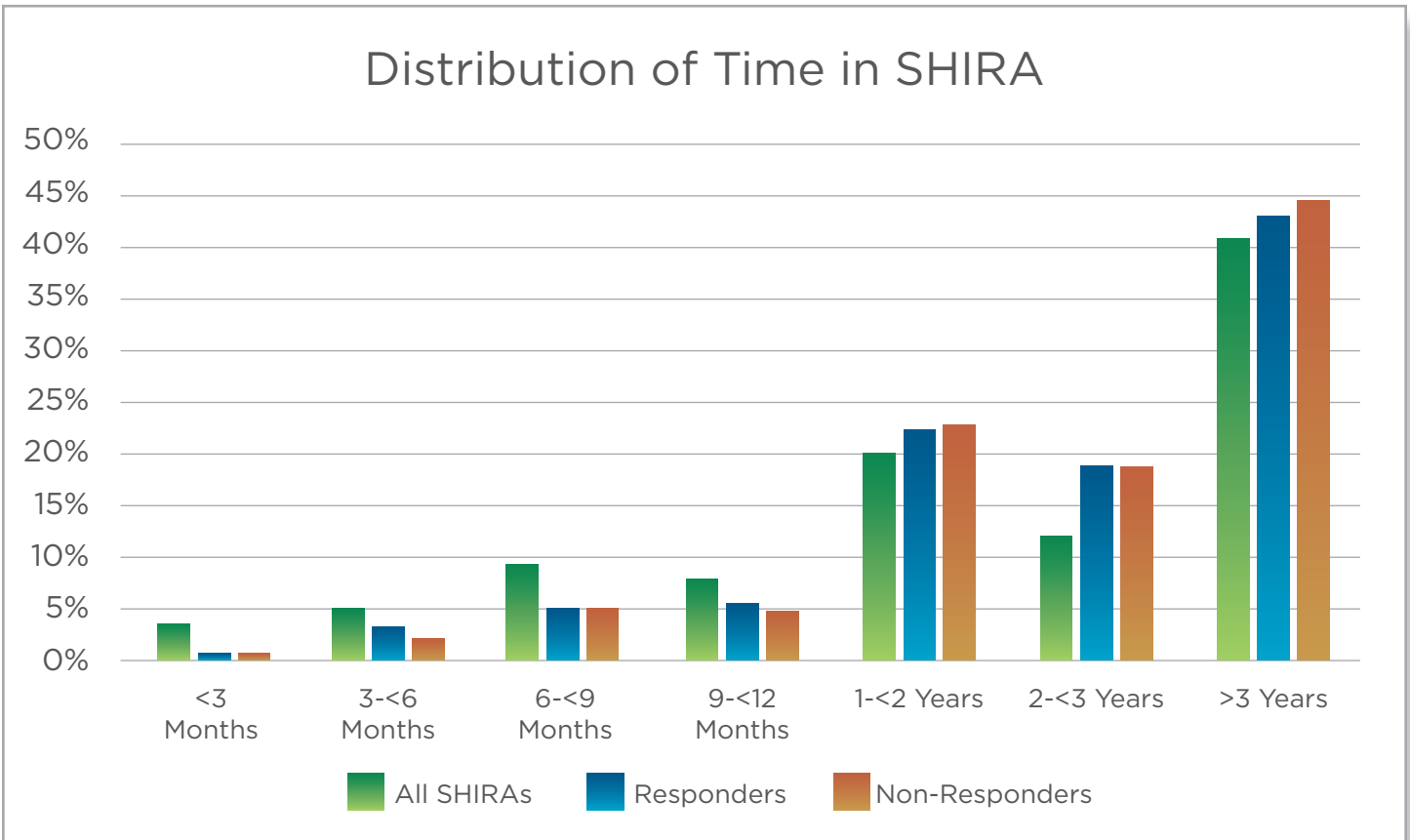
	Oldest	Average	Median	Shortest
All RCH SHIRAs¹⁶	85	42	40	18
Responders	67	39	37	20
Non-Responders	85	38	36	20



¹⁶ Dates of Birth for SHIRAs provided by the Launch Plan's record-keeper may contain inaccurate data.

Length of Time in SHIRA

	Longest (Years)	Average (Years)	Median (Years)	Shortest (Months)
All RCH SHIRAs	9.9	3.2	2.2	<1
Responders	7.3	3.0	2.6	<2
Non-Responders	9.9	3.1	2.7	<2



PROCESS 1: LOCATE RESULTS

To make an initial determination of how many RCH SHIRA account-holders were also active workers in the Launch Plan, eligible SHIRA records were transmitted to the Launch Plan's record-keeper.

	Total Eligible Records
All RCH SHIRAs	134,491

PROCESS 2: MATCH & VERIFICATION RESULTS

3,361 records, representing 2.5% of all eligible RCH SHIRAs, were Matched to worker accounts in the Launch Plan.

	Total Records	Average Account Balance	Median Account Balance	Total \$ Value of Matched Accounts (000s)
Matched	3,361	\$1,291	\$622	\$4,337

2 records required additional verification.¹⁷

KEY FINDING

RCH's Matching algorithm performed as expected, a result of the Program's inclusion of up-to-date data available from the Launch Plan.

The Initial Launch covered the full range of conditions for Matching the holder of two accounts. As reported in the table below, Matched records included both SHIRAs and active plan accounts established both before and during the Initial Launch.

	SHIRAs Established Before July 10, 2017	SHIRAs Established On or After July 10, 2017	% SHIRAs Established Before July 10, 2017	% SHIRAs Established On or After July 10, 2017
Workers with a New Hire Date Before July 10, 2017	2,871	3	85%	<1%
Workers with a New Hire Date On or After July 10, 2017	447	40	13%	1%

Matched records also included RCH SHIRAs that were originally sourced from both the Launch Plan¹⁸ as well as other plans that are customers of RCH's ARO service.

¹⁷ Verification means the Matching process for those records required additional information before the record was flagged as a Match.

¹⁸ The Launch Plan played a unique role in the Initial Launch as it is the only plan that both sends its small-balance terminated accounts to RCH (SHIRAs) and receives Matched SHIRAs back as Roll-Ins. The Launch Plan has an active body of employees.

Origin of RCH SHIRA				
	Launch Plan ¹⁹	Other Plan	% Originated from Launch Plan	% Originated from Other Plan
Responders	461	41	14%	1%
Non-Responders	2,680	179	80%	5%

KEY FINDING

The Initial Launch covered all possible circumstances relative to the mobile workforce, i.e. locating both “old” and “new” SHIRAs and plan accounts.

PROCESS 3: WORKER NOTIFICATION, RESPONSE & CONSENT RESULTS

Once two accounts for the same worker are Matched, RCH notifies the worker of the Program, and their options. For the Initial Launch, RCH sent multiple notices to Non-Responding workers, including a letter and a reminder postcard.

KEY FINDING

Cognitive frictions remain in the process, such as difficulty getting workers to open U.S. Postal Service mail that may appear to be “junk.” If they don’t throw out the mailed notice, there is additional friction resulting from difficulty to make workers understand the necessity of taking a proactive action, i.e. responding to the notice. These frictions resulted in significant potential lost value for Non-Responding workers.

Conclusion

A negative consent mechanism is needed overcome the cost of the remaining, largely cognitive, frictions in the Notification, Response & Consent process.

	Total Eligible Records	% of Total Matches
Responders	502	15%
Non-Responders	2,859	85%

¹⁹ These workers are largely “re-hires,” i.e. they worked for the Launch Plan, changed jobs and their plan account was terminated and distributed to an RCH SHIRA. At a subsequent date they were re-hired into the Launch Plan.

KEY FINDING

There is pent-up demand for rolling accounts from a former plan into the next plan, as evidenced by the almost unanimous (90%) giving of consent for rolling into the next-plan 401(k). This conclusion is further supported by the fact that the tenure in the RCH SHIRA is long-term in virtually all cases. That is, the SHIRA is not a short-term placement for the money. Auto portability clearly opens the gates to convert this pent-up demand into positive behavior.

Response Medium Utilized

	Interactive Voice Response	Website	Call Center Representative
Number of Workers	251	175	76
Percentage of Workers	50%	35%	15%

KEY FINDING

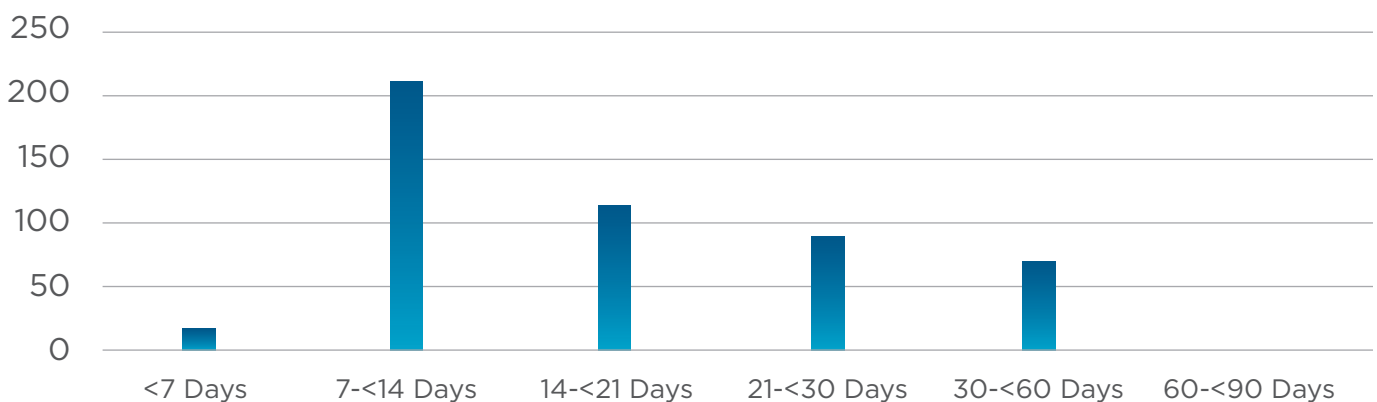
Workers that responded favored the use of an electronic medium (IVR or Website) by more than 5:1, with only 15% choosing to utilize a call center representative.

Electronic media are preferred due to lower friction compared to the extra effort required to engage with a call center representative.

Response Times

	Longest (Days)	Average (Days)	Median (Days)	Shortest (Days)
Responders	50	18	14	2

Distribution of Response Times



Worker Decisions

	Consented to Roll-In	Opted Out of the Program
Number of Responders	455	47
Percentage of Responders	91%	9%

KEY FINDINGS

The use of the Opt Out feature indicates that choice is an essential element of Program design. The median SHIRA value for workers that Responded was 25% higher than the median value for all Matched SHIRA accounts.

	All Responders				
	Largest	Average	Median	Smallest	Total \$ Value (000s)
SHIRA Account Balance	\$87,182	\$1,703	\$816	\$0.14	\$855

KEY FINDING

Among workers that Opted Out, the largest percentage elected to cash out their SHIRA.

	Opted Out of the Program			
	Rollover ²⁰	Cash-Out ²¹	No Action ²²	Total
Number of Workers	5	23	19	47
Percentage of Workers	11%	49%	40%	100%
SHIRA Account Balance (000s)	\$91	\$41	\$21	\$153

²⁰ 5 workers elected to rollover to an existing IRA.

²¹ Cash-outs require that the worker pay taxes and a 10% early withdrawal penalty on their account balance.

²² Workers who kept their savings in an RCH SHIRA.

PROCESS 4: AUTOMATIC ROLL-IN RESULTS

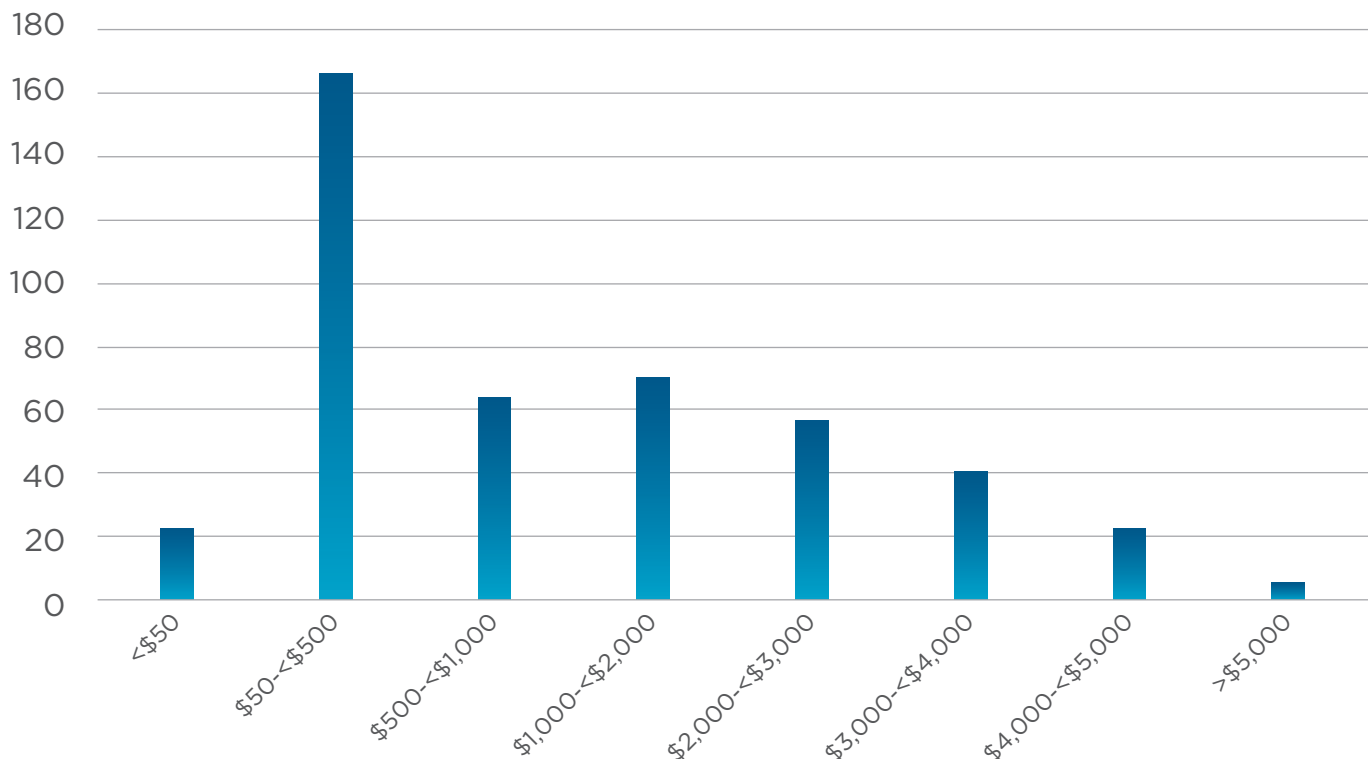
KEY FINDING

455 workers consented to the consolidation of their accounts and had their SHIRA rolled into their active account at the Launch Plan.

The median SHIRA Roll-In increased the median worker’s Launch Plan value by \$759, or 46%, from \$1,631 to \$2,390, reducing the risk of a future cash-out.

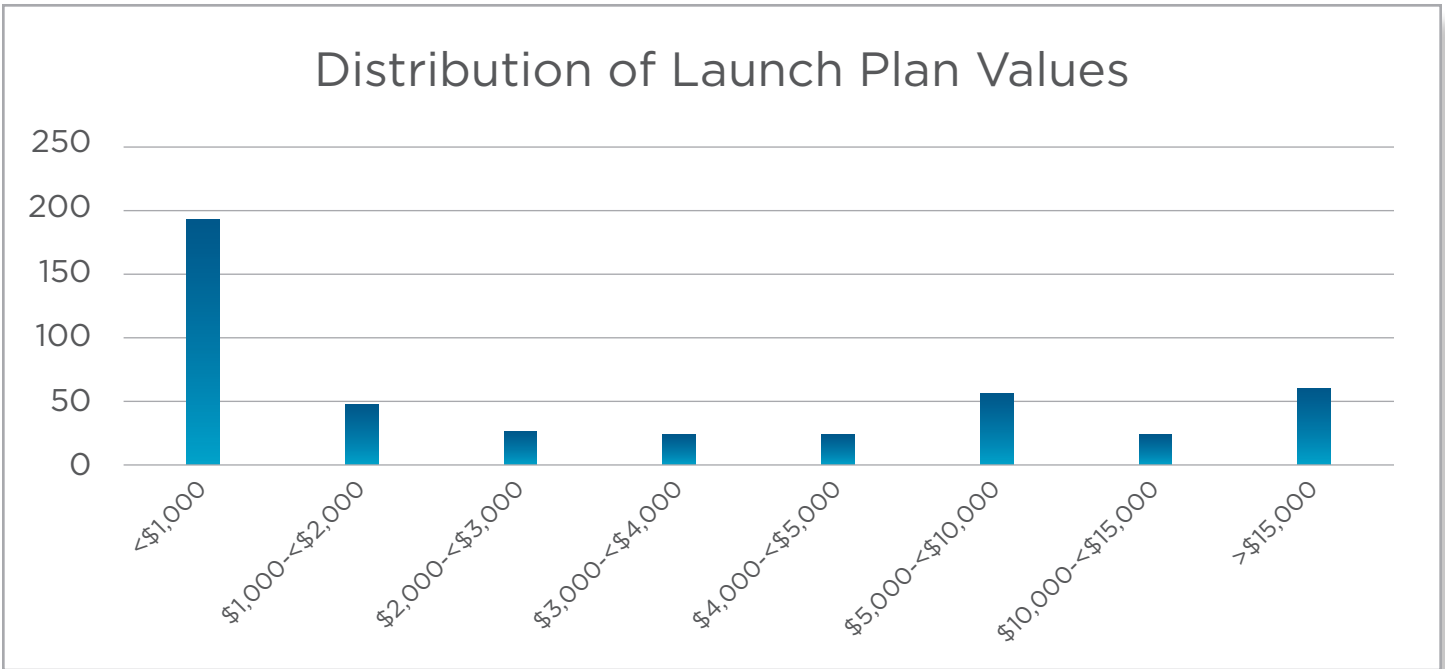
	Roll-In to Launch Plan				
	Largest ²³	Average	Median	Smallest	Total (000s)
SHIRA Account Balance	\$68,855	\$1,542	\$759	\$0.14	\$701
Launch Plan Balance	\$862,867	\$15,015	\$1,631	\$0	\$6,832

Distribution of Roll-In Account Values



²³ Large account balance likely originated from a terminated plan.

Distribution of Launch Plan Values

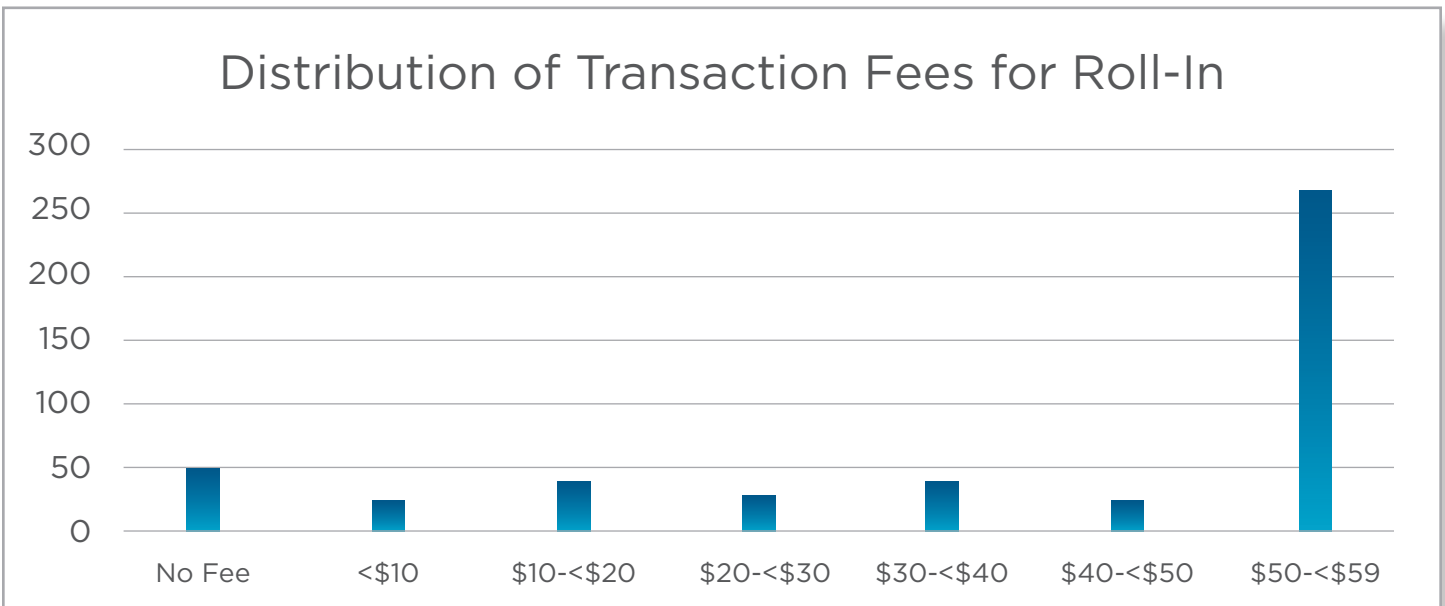


Transaction Fees:

The Auto Portability Program utilizes a progressive fee schedule based on the SHIRA account balance. SHIRA account-holders were notified of the transaction fee at multiple points in the process. Each account-holder that consented to the roll-in transaction also consented to pay the fee.

	Transaction Fee
Account Balance <\$50	No Fee
Account Balance >\$50 and <\$590	10%
Account Balance >\$590	\$59

Distribution of Transaction Fees for Roll-In



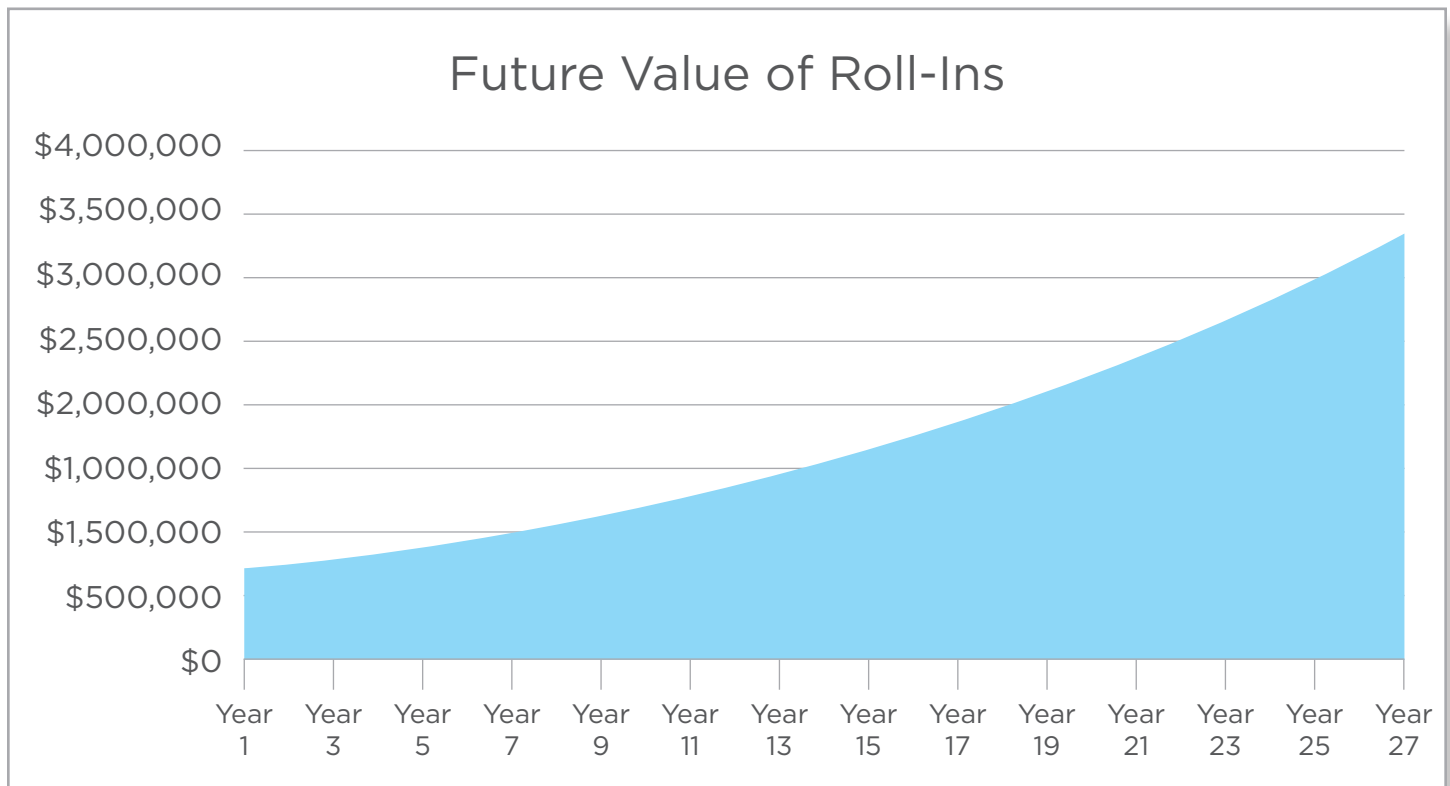
Future Value of Roll-Ins

It is a well-documented fact that workers cash out small accounts at rates approaching 80% over time. Workers that responded to the Auto Portability Program notice benefited from the preservation and consolidation of their savings into their active employer plan. Key benefits included expense savings via the reduction of fees paid for multiple accounts and changing their investment options from short-term money market instruments to more appropriate long-term investment vehicles. The graph below illustrates the future value that will accrue to those workers.

Based on the average worker's age (38), years to normal retirement date (27) and an assumed 6% annual return, the future value of Roll-Ins to the Launch Plan is nearly \$3.4 million—dollars that otherwise would not be available in retirement.

KEY FINDING

Small amounts matter to overall retirement-readiness and can produce substantially better outcomes for workers.

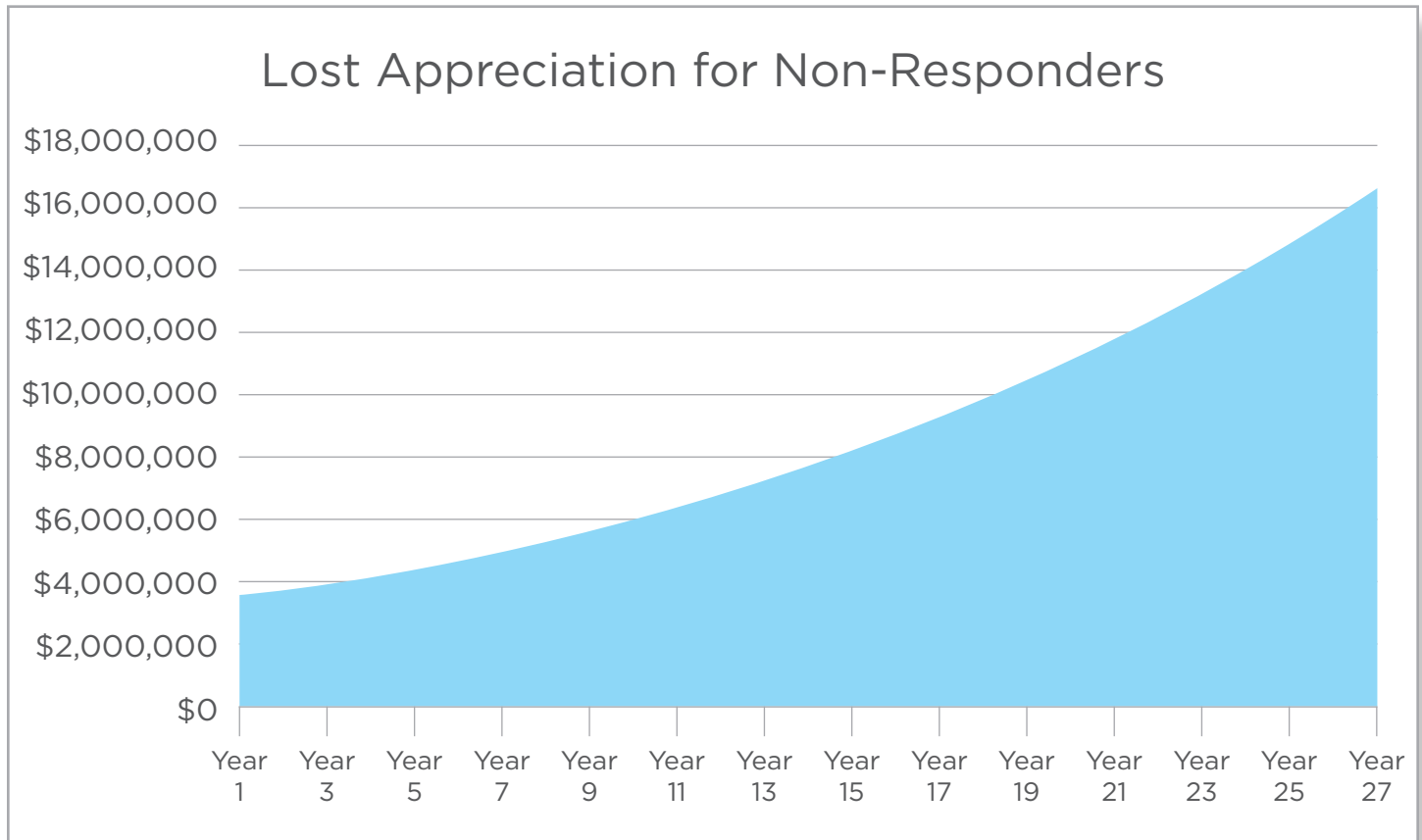


Lost Appreciation for Non-Responders

Similarly, based on the same inputs and assumptions, the lost value for workers that did not respond is an estimated \$16.8 million.

KEY FINDING

Absent a negative consent mechanism, a majority of workers will experience severe loss of retirement savings.



Extrapolation of Results

The results of the Auto Portability Initial Launch can be extrapolated across the entire U.S. retirement system to illustrate the potential to preserve billions of dollars in savings that are at significant risk of premature cash-outs, and to further appreciate those savings to normal retirement age, as illustrated in the table below.²⁴

KEY FINDING

The retirement system is currently sub-optimizing the value of small accounts and leaving them at extreme risk of being cashed out.

	Affirmative Consent Only		With Negative Consent	
	SHIRAs (000s)	In-Plan Terminated Accounts <\$5,000 (000s)	SHIRAs (000s)	In-Plan Terminated Accounts <\$5,000 (000s)
Number of Existing Accounts²⁵	5,224	7,432	5,224	7,432
Number of Potential Roll-Ins²⁶	572	812	1.2	<1
Current Value of Roll-Ins (Billions)²⁷	\$1.0	\$1.4	\$6.4	\$9.1
Future Value of Roll-Ins (Billions)²⁸	\$4.3	\$6.6	\$30.8	\$43.8

²⁴ The results illustrated represent the potential from accounts that exist today and do not include flows from workers that will change jobs in the future.

²⁵ From the Auto Portability Simulation, a robust quantitative model developed by Dr. Ricki Ingalls of Texas State University and Diamond Head Associates, using data provided by EBRI and Retirement Clearinghouse.

²⁶ Based on Response and Affirmative Consent rates experienced in the Initial Launch.

²⁷ Based on EBRI average account balance of \$1,679 for all accounts <\$5,000.

²⁸ Based on average worker's Age at Initial Launch and 6% Annual Appreciation.

ABOUT THE AUTHOR

Warren Cormier is CEO and Co-Founder of Boston Research Technologies (BRT). He is a financial services industry veteran, with more than 30 years of quantitative and qualitative experience in conducting financial services research for investment companies (both retail and institutional clients), banks, and insurance companies. Cormier also has extensive experience in the areas of workplace culture, employee engagement, and employee benefits. Recognized as a market research leader in the defined contribution plan sector, he has been voted year after year by DC professionals into the Top 50 Most Influential People in the Industry.²⁹

Cormier is also the Co-Founder of the Behavioral Finance Forum with Dr. Shlomo Benartzi. The mission of the forum is to foster collaboration between the world's leading behavioral finance academics and leading financial institutions to help consumers make better financial decisions.

In addition, Cormier co-founded the breakthrough non-profit National Association of Retirement Plan Participants³⁰ (NARPP), where he serves as Chief Behavioral Officer.

²⁹ Annual industry survey published by the 401kWire.

³⁰ NARPP is a San Francisco-based 501(c)(3) non-profit organization whose mission is to advocate for individual savers. Through pioneering research, independent coalition building, and innovative educational programs, NARPP is making financial information transparent and universally accessible for the 145 million working Americans saving for retirement.