

Retirement Plan Auto-Portability

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Retirement plan auto-portability has been popular in retirement media lately, due in large part to the firm that has pioneered the concept, [Retirement Clearinghouse \(RCH\)](#). But what exactly is auto-portability and does its effectiveness live up to the hype?

WHAT IS AUTO-PORTABILITY?

Auto-portability offers a novel solution to a problem that exists in many retirement plans: participants leaving one employer to move to a new employer and forgetting about the retirement plan account balances they left behind. It is a very real problem that we come across frequently, as most employees do not remain with a single employer throughout the course of their working careers. As years pass and addresses and names change, former employees can go missing; which, as we highlighted in a recent [Top of Mind blog post](#), can be the scourge of retirement plans - dragging down average account balances, resulting in higher recordkeeping fees and creating a myriad of compliance issues.

Unfortunately, even when a former employee remembers his/her retirement account at a prior employer, the process of moving money from one retirement plan account to another can be daunting, due to paperwork and recordkeeper requirements.

Auto-portability attempts to overcome these issues, as RCH works with the recordkeepers to ensure the smooth and automatic transition of the account balance from one employer to the next. Both the previous and new plan sponsors stand to benefit: the previous from eliminating a potentially missing participant and/or a small account balance; and the new from having a larger account balance in their plan from the start, ultimately increasing their average account balance. The participant benefits tremendously as well, as all of his/her qualified retirement plan money is in a single account and he/she avoids the hassles of manually rolling over funds from one plan to another. Finally, the recordkeepers stand to benefit from having to administer fewer small accounts, which can be a drag on their bottom line.

IS IT EFFECTIVE?

While the concept appears to be a no-brainer, the program is still in its infancy. According to an [Employee Benefit News](#) article, only 700 participants have used the service thus far. And while [RCH's website](#) indicates that it has engaged in auto-portability discussions with a number of large vendors, [Pensions and Investments](#) reported that RCH was still "working on getting recordkeepers to participate in the network." Without

somewhat broad recordkeeper participation, the plan cannot be fully operational.

Additionally, even when auto-portability is fully up and running, the program will only address small balance cashouts, which are balances of less than \$5,000. Thus, it will not solve the retirement plan portability problem in its entirety.

Finally, and not surprisingly, fees for this particular program are high, since there are no economies of scale as of yet. The standard fee is estimated to be \$40 to \$45 per transaction, which, even at the maximum rollover amount of \$4,999, amounts to a significant 80 to 90 basis points per rollover. But RCH offers discounts once scale is achieved and it could be expected that prices will decrease as the market becomes more mature.

CONCLUSION

As employees continue to move from one employer to another throughout their careers, the need for a solution such as auto-portability continues to be significant. While RCH's concept is a long-overdue solution that could alleviate some of the issues that plan sponsors face, at this junction, the product is still quite new and relatively untested. For the sake of plan sponsors, participants and recordkeepers alike, we hope to see continued developments in this area.

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