401(K)PLANS

Labor and IRS Could Improve the Rollover Process for Participants

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What GAO Found

The current rollover process favors distributions to individual retirement accounts (IRA). Waiting periods to roll into a new employer plan, complex verification procedures to ensure savings are tax-qualified, wide divergences in plans' paperwork, and inefficient practices for processing rollovers make IRA rollovers an easier and faster choice, especially given that IRA providers often offer assistance to plan participants when they roll their savings into an IRA. The Department of Labor (Labor) and the Internal Revenue Service (IRS) provide oversight and guidance for this process generally and can take steps to make plan-to-plan rollovers more efficient, such as reducing the waiting period to roll over into a 401(k) plan and improving the asset verification process. Such actions could help make staying in the 401(k) plan environment a more viable option, allowing participants to make distribution decisions based on their financial circumstances rather than on convenience.

Plan participants often receive guidance and marketing favoring IRAs when seeking assistance regarding what to do with their 401(k) plan savings when they separate from their employers. GAO found that service providers' call center representatives encouraged rolling 401(k) plan savings into an IRA even with only minimal knowledge of a caller's financial situation. Participants may also interpret information about their plans' service providers' retail investment products contained in their plans' educational materials as suggestions to choose those products. Labor's current requirements do not sufficiently assist participants in understanding the financial interests that service providers may have in participants' distribution and investment decisions.

In addition to being subject to inefficient rollover processes and the marketing of IRAs, 401(k) plan participants separating from their employers may find it difficult to understand and compare all their distribution options. Information participants currently receive is either too generic and without detail, leaving participants without understanding of the key factors they need to know to make decisions about their savings, or too long and technical, leaving participants overwhelmed and confused. Labor regulations do not ensure that 401(k) plans provide complete and timely information to participants on all their distribution options. Industry experts told GAO that participants could benefit from simplified, concise, and standardized information.

Why GAO Did This Study

401(k) plan participants separating from their employers must decide what to do with their plan savings. Many roll over their plan savings to IRAs. As GAO previously reported, there is concern that participants may be encouraged to choose rollovers to IRAs in lieu of options that could be more in their interests. Because little attention has been paid to the distribution process, GAO was asked to identify challenges separating plan participants may face in (1) implementing rollovers; (2) obtaining clear information about which option to choose; and (3) understanding distribution options. To answer these questions, GAO reviewed relevant federal laws and regulations, interviewed federal officials and industry experts, conducted a nongeneralizable survey of plan sponsors, and made undercover calls to 401(k) plan service providers to determine what information is provided to plan participants.

What GAO Recommends

Among other things, GAO recommends that Labor and IRS should take certain steps to reduce obstacles and disincentives to planto- plan rollovers. Labor should also ensure that participants receive complete and timely information, including enhanced disclosures, about the distribution options for their 401(k) plan savings when separating from an employer. In response, Labor and Treasury generally agreed with the findings and will explore ways to implement these recommendations.

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Recommendations for Executive Action

Recommendation: To help ensure that when plan participants separate from an employer and are deciding what to do with their retirement plan savings they receive adequate, timely, and balanced information, the Secretary of Labor should finalize the agency's initiative to clarify the Employee Benefits Security Administration (ERISA) definition of fiduciary, and, in doing so, require plan service providers, when assisting participants with distribution options, to disclose any financial interests they may have in the outcome of those decisions in a clear, consistent, and prominent manner; the conditions under which they are subject to any regulatory standards (such as ERISA fiduciary standards, SEC standards, or others) and what those standards mean for the participant.

Agency Affected: Department of Labor

Status: Review Pending

Comments: When we confirm what actions the agency has taken in response to this recommendation, we will provide updated information.

Recommendation: To help ensure that when plan participants separate from an employer and are deciding what to do with their retirement plan savings they receive adequate, timely, and balanced information, the Secretary of Labor should develop a concise written summary explaining a participant's four distribution options and listing key factors a participant should consider when comparing possible investments, and require sponsors to provide that summary to a participant upon separation from an employer. Should Labor conclude that additional statutory authority is needed to take this action, it should seek that authority from the Congress.

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Recommendation: To help reduce obstacles and disincentives to keeping retirement savings in the 401(k) plan environment, the Commissioner of Internal Revenue and Secretary of Labor should review policies that affect separating employees leaving retirement savings in an employer's plan and, for those who choose to roll their distributions into another 401(k) plan, the process of plan-to-plan rollovers. As part of such a review, the Commissioner of Internal Revenue should revise rules that allow plans and providers to send direct-rollover distribution checks to individuals rather than to the receiving entities to which the checks are written.

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