# A 401(K) MARKET SIMULATION TO EVALUATE AUTOPORTABILITY FOR SMALL INVESTORS

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## ABSTRACT

One of the most pressing issues in the current 401(k) retirement system is the problem of employees cashing out their accounts when they leave a job. This is especially true for accounts less than $5,000. After leaving a job, approximately 60% of these individuals will cash out within a year and approximately 90% will cash out within 7 years. Retirement Clearinghouse, LLC (RCH) has proposed changes to the retirement system where a clearinghouse will find an employee's new 401(k) through records matching technology and automatically merge the previous 401(k) with the new 401(k). The name for this new process is *autoportability.* This simulation evaluated the impact of autoportability on the retirement market and it demonstrates that on a cumulative basis over the 40-year time horizon, cash outs decline from $320 billion to $164 billion, while Roll-Ins increase from $15 billion to nearly $130 billion, helping millions to preserve their retirement.

## 1    INTRODUCTION

America's workforce is highly mobile. As part of the data collection for this project and as outlined in Copeland and Johnson 2016, we learned that over 5 million people per year with accounts less than $5,000 leave their jobs. When these 5 million people leave their jobs, approximate 60% will cash out in the first year and approximately 90% will cash out within 7 years. These people who leave their jobs (called participants) receive little or no help with transferring accounts between employer-sponsored plans; the lack of assistance is even more acute for small accountholders.

Retirement Clearinghouse, LLC (RCH) has developed technology to address this problem. RCH's records-matching technology can locate the participant's new 401(k) and facilitate a move of the participant's previous 401(k) to merge with the new 401(k). In addition to the technology, the process will be fully automated when negative consent is utilized to authorize the movement of the old account to the new employer 401(k). In the current system, the participant must give *positive consent* to the moving of their money. Due to fiduciary concerns, RCH has asked the Department of Labor to confirm its opinion regarding the legal precedents for the use of negative consent. If the policy were change to allow *negative consent* for the participant to move their money to the new 401(k), then the new default path would be a merging of all of the participant's 401(k) funds into their latest 401(k) account. Both the technology change and negative consent result in *auto portability.* Auto portability will yield a dramatic increases in retained savings, particularly among small-balance job changers.

The retirement system is a highly complex set of rules and regulations. The model created by Diamond Head Associates, Inc. (DHA) for RCH is being used to evaluate what happens to the retirement market if these autoportability changes are implemented. The simulation has confirmed the massive impact of the autoportability changes for accounts with less than $5,000.

## 2 THE AUTOPORTABILITY MODEL

The autoportability model is built in Simio and utilizes Simio's object-oriented modeling technology to capture the behavior of participants in the retirement system who leave a job. In the model, we have several key object types that allow for the flexible modeling of this part of the retirement system. The key objects in the model include the market object, the clearinghouse object, the record keeper object, the third party SHIRA object and the account entity object.

The first object is the market. The market object has two primary functions. First, to respond to data that changes at the market level. Second, to manage the data collection as the model is running.

The second object is the clearinghouse object. The clearinghouse has two primary functions. First, it is a company that has safe harbor IRA capabilities (discussed below). The second function is the *locate and match* function that allows the clearinghouse to match an old 401(k) account to a new 401(k) account and facilitate the movement of the funds to the new account.

The third object is the record keeper object. In the retirement industry, record keepers are companies that manage the 401(k) accounts for clients, such as Fidelity, Empower, Aon-Hewitt, TIAA-CREF and Voya. Each record keeper has a set of retirement accounts, of which is a subset of accounts whose value is less that $5,000. Second, the record keeper is where the participant leaves a company and starts making decisions about his previous 401(k) account. If the participant chooses to put his account in a SHIRA, the record keeper directs that money to either and in-house SHIRA, a SHIRA located at a third party SHIRA company, or the SHIRA located at the clearinghouse. In addition, the record keeper object collects accounts that are being transferred into the record keeper. Those accounts can be transfers direct from another record keeper immediately after a participant leaves a job, transfers from SHIRA accounts, and transfers from the clearinghouse *locate and match* function.

The third party SHIRA object is a company that only handles SHIRA accounts. It does not own any active 401(k) accounts, nor does it have the *locate and match* capability of the clearinghouse object.

The last object in the model is the account entity object. The account entity moves through the model and handles the decisions and delays that are present in the existing market and the market after autoportability is implemented. Each account entity represents a group of participant accounts that are moving through the process together.

The results of the simulation showed that, over a 40-year time horizon, the implementation of autoportability in the retirement market for accounts under $5,000 would decrease cash outs from $320 billion to $164 billion. Money rolled in to an employee's new 401(k) would increase from $15 billion to nearly $130 billion, helping millions to preserve their retirement.

## REFERENCES

Copeland, C. and T. Johnson, 2016. Auto Portability Research & Simulation: Automating Plan-To-Plan Transfers For Small Accounts. June 8, 2016. https://www.dol.gov/ebsa/pdf/copeland-written-statement-060816.pdf.

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