



Selecting an Automatic Rollover Vendor for a Qualified Pension Plan

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Introduction

- Qualified retirement plans often include small accounts of former employees who have terminated employment.
- It is often in the interest of both the plan and the plan participant to transfer these assets out of the plan.
- Doing so can increase the likelihood of reuniting the participant with their retirement funds and can reduce fees incurred by the plan and/or the participant.
- The Internal Revenue Code permits plans to adopt a provision allowing them to automatically distribute small, vested account balances to participants.
- Participants must be notified before their funds are distributed, but do not need to provide consent.
- Accounts of less than \$1,000 can be distributed directly to participants after they have terminated employment.
- Accounts of \$1,000 - \$7,000 may not be distributed directly to participants. Instead, if the participant does not provide instructions, these amounts can be rolled over into an IRA opened on behalf of the participant.
- Accounts of \$7,000 or more are not eligible for automatic distribution.
- Plans commonly contract with a third-party IRA vendor to accept automatic rollovers.
- In this edition of Benefits Bullets, we present some key considerations for selecting an IRA vendor for automatic rollovers.



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Fiduciary Decision

- Perhaps most importantly, plan administrators should be aware that the selection of a rollover IRA vendor is a fiduciary decision that requires appropriate deliberation.
- If a plan administrator expresses interest in adopting an automatic rollover amendment, the recordkeeper might present the plan administrator with a contract to authorize the recordkeeper to administer the automatic rollover.
- However, the plan administrator should consider multiple rollover IRA vendors before making a selection.

Vendor Shortlist

- The list of potential rollover IRA vendors is relatively small - there are about a handful of major vendors in this space.
- However, some recordkeepers do not work with all rollover IRA vendors.
- For this reason, it is important to ensure from the outset of the RFP process that the plan's recordkeeper will work with any rollover IRA vendor that the plan administrator is considering.

Fees

- Fees are naturally one of the significant points of comparison between rollover IRA vendors.
- Among the fees that should be compared are account maintenance and closing fees, trading fees, and the expense ratio on the IRA's default investment.
- Some vendors do not charge maintenance fees.
- Some offer fee waivers in the first year and/or for low account balances.
- Plan administrators should specifically ask about third-party fees. These may apply, for example, when the plan recordkeeper contracts with a third-party to coordinate on its behalf with the rollover IRA vendor. Plan administrators should request upfront information about any fees between the third-party and other vendors so that this information is incorporated into the vendor selection process.

Participant Outreach

- Rollover IRA vendors vary by how frequently they attempt to notify participants of a pending or completed rollover, the methods they use to locate nonresponsive participants, and whether they charge fees for attempting contact.



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- Plan administrators may consider requesting data on the percent of participants who are successfully contacted both prior and after the rollover.
- Note that some recordkeepers may have a policy against funding rollovers for participants for whom the plan does not have a valid address. In such situations, rollover IRAs are established for non-responsive participants but not lost participants.

Investment Options

- The most important investment consideration is the rollover IRA's default investment.
- Plan administrators should consider the default investment's performance history and expense ratio.
- Plan administrators may also consider what other investment options are available to IRA owners, because these options can vary significantly between vendors.

Implementation

- It can often suffice for the plan committee to vote on the rollover IRA vendor selection by e-mail. This option is particularly practical if, along with the vendor-provided RFP materials, the committee receives a comparison chart of the various vendors prepared by one of the committee members, an independent consultant, or outside counsel.
- Rollover IRA vendors require varying degrees of involvement from the plan administrator but should ideally work directly with the recordkeeper to avoid imposing data collection or other administrative burdens.
- Once the rollover IRA vendor has received valid participant data, typical turnaround time for funding rollover IRAs can range between 1 and 7 business days, depending on the vendor.
- That said, automatic rollover funding also depends upon the recordkeeper, which may only process automatic rollovers during one or more pre-determined periods throughout the year.
- Plan administrators considering adding an automatic rollover feature should therefore plan ahead and ensure they are aware of any recordkeeper deadlines.