Defined Contribution Institutional Investment Association

The Pros and Cons of Keeping Assets in DC Plans

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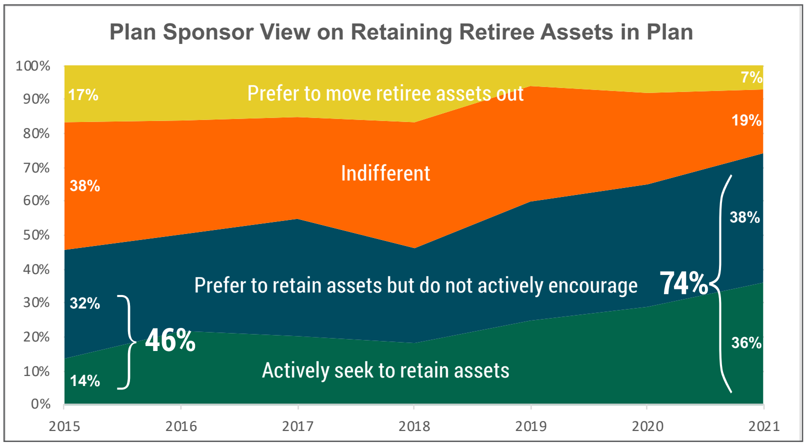
These days, it is hard to scroll through news headlines without seeing something about the Great Resignation. As record numbers of workers say, "I quit," more and more people are faced with the question of what to do with their defined contribution (DC) plan account when they leave their employer. Should they take their money out of the DC plan or leave it in? And if you are a plan sponsor, do you want those employees to take their money out or leave it in?

Historically, people tend to take their money and roll it out of the plan. According to the Investment Company Institute's ongoing study of retirement account trends, the amount of total money held in IRAs typically exceeds the amount in DC plans,[1] even when IRA annual contribution limits remain far lower than DC plan limits.

As plan sponsors recognize that the DC plan is becoming the primary source of retirement income for many employees, there is an evolving change in attitude. As seen in **Exhibit 1**, the percentage of plan sponsors that prefer that participants move their assets upon termination has declined from 17% in 2015 to 7% in 2021.

Exhibit 1

Consultants report more sponsors now actively seeking to retain retiree's assets



SOURCE: PIMCO, 2021 Defined Contribution Consulting Study

Making the decision to stay in or move out of the plan is complex and highly individual, which is why DCIIA compiled the following list of pros and cons to help guide plan sponsors and participants alike. We also included tips for plan sponsors on how to encourage participants to remain invested as well as compiling a "how to" partner with your recordkeeper.

PLAN SPONSOR:
Should you actively encourage participants to stay in your DC plan?

Pros:

1. **Achieve scale.** Sponsors with more assets in their plan have access to lower fund fees through asset share classes that might not be available on the retail side and can improve their ability to add more sophisticated institutional investments and solutions.

2. **Maintain brand.** You probably spent years touting the benefits of saving in your plan to employees. It is important that employees understand the importance of decumulation and the benefits of remaining in the plan. Offering a strong accumulation and decumulation program will enhance your company's reputation for offering a prime retirement savings program.

3. **Continue financial wellbeing assistance to and through retirement.** When more people keep money in the plan, employers are better equipped to offer robust options for retirees, including income and planning. That could be attractive to your potential hires and current employees. Additionally, having tools to help workers understand their retirement benefits can aid with workforce planning as employees who feel financially comfortable are more likely to retire.

4. **Uphold fiduciary standard.** DC plan fiduciaries are duty-bound to act in participants' best interests, regardless of whether the participants are actively employed. Plan sponsors that firmly believe their plan provides a valuable savings vehicle may wish to retain the assets of former employees to remain consistent with the duty of loyalty.

Cons:

1. **It takes effort to tailor and update DC plans.** Former employees – especially retirees – might have different needs than actively-employed participants. As such, employers might need to revise or create new tools, communications, distribution options and plan investments to meet their unique needs.

2. **Increased potential for missing participants.** While you have contact information for your employee participants now, will you be able to reach them after they leave? The potential for losing track of former employees may rise, as does the energy it takes to find them again.

3. **Potential for higher administrative fees.** Increasingly, plan administration fees are based on headcounts. If the plan sponsor pays the administrative fees instead of participants, the more participants in the plan, the more fees the sponsor will pay.

PARTICIPANT:
Should you keep or withdraw your DC plan balance?

Pros:

1. **Fiduciary protection.** DC plans require fiduciary oversight to ensure that investments and management are performed solely in participants' best interests. IRAs, by contrast, generally don't have the same fiduciary requirement.

2. **Lower cost.** DC plans with institutional investments generally have lower fund fees than many people can find on the open market, which in turn, benefits all participants.

3. **Familiarity.** Because you probably have years, if not decades, of experience with your plan, you are comfortably familiar with the investment options and user experience.

4. **Additional protections.** DC plans often have a higher level of fraud protection than other accounts. DC balances also are shielded from creditors in the event of bankruptcy

5. **Simplified monitoring of one DC account.** You may benefit from having your retirement assets in a single location, from an administrative perspective and ease of review, as well as consistency of assumptions, asset allocation and rebalancing.

What Typical Participants Think About Their DC Plans

In AllianceBernstein's 2021 Inside the Minds of Plan Participants survey, 1,200 U.S. employees were asked the following questions about DC retirement savings:

Question: As far as you know, does your current employer allow you to leave your money in the workplace retirement savings account if you leave the company?

- Yes: **45%**
- No: **10%**
- Don't Know: **45%**

Question: If you were to switch jobs today, what would you be most likely to do with the money in your current workplace retirement savings account?

- Leave it in the account: **25%**
- Roll it over to a similar plan with my new employer: **43%**
- Roll it into an IRA: **27%**
- Take the money out of the account and put it into your checking account **6%**

Cons:

1. **Streamlined investment choices.** You might want to invest in funds or sectors not offered by your DC plan.

2. **Limited tools and education.** There may not be as many tools and educational services to help figure out the best way to withdraw one's assets from the plan, although plan sponsors and their service providers are working to increase these programs.

3. **Potential for multiple accounts.** Individuals who always leave balances with former employers could end up with several accounts. This can make it difficult to track balances, rebalance and spend down the accounts.

PARTNERING WITH YOUR RECORDKEEPER:
How to retain participants

As a plan sponsor, if you decide to encourage your DC participants to stay invested through retirement, you and your recordkeeper will need to collaborate on strong retention strategies and review the plan distribution options. This also is a good time to revisit the concept of supporting auto-portability and participant-assisted "roll-ins" to the plan so participants can aggregate their retirement assets in one location. A March 2021 Retirement Clearinghouse (RCH) case study found that a facilitated roll-in program at a mega plan sponsor (250k+ participants) resulted in 34,855 roll-in transactions, totaling $834.8 million – an average of $23,931 per transaction – over a 10-year period.

How to partner with your recordkeeper:

1. Communicate clearly to your recordkeeper that the priority is keeping participants in plan (i.e., don't encourage retail IRA rollovers).

2. Evaluate services offered by your recordkeeper, which should include:
    a. Benchmarking assets leaving the plan and where the money is going.
    b. Analyzing participant demographics (how old are your employees and how much of the assets do they control)
    c. Revisiting the separation package and/or the messaging sent to participants at retirement (i.e., do participants interpret receipt of such paperwork as a cue they are required to do something?).

3. Share the benefits of staying in plan for all parties (plan, participant and recordkeeper).

4. Review current materials – forms, tools, presentations, flyers, webcasts, etc. – and insert content about the benefits of staying in plan.

5. Create a holistic strategy with multiple participant touch points across the full work cycle and ensure that staying in plan is a part of each of these stages.

6. Track engagement and measure success.

For additional resources, see the DCIIA Retirement Tier and Managed Account papers. Also see Design Matters: Plan Distribution Options - Taking Money Out for Retirement and the "Plan Design Matters" topic in our Resource Library.

Endnotes

[1] IRAs had $12.2T versus $9.6T in DC plans. Investment Company Institute, The 2021 Fact Book, Figure 8.5, US Retirement Market Assets

Also referenced for this paper:

- Alight Solutions, *Hot Topics in Retirement and Financial Wellbeing*, 2022

- T. Rowe Price, *What DC Plan Sponsors Prefer Retiring Participants Do and Why It Matters*, 2021

ABOUT DCIIA

The Defined Contribution Institutional Investment Association (DCIIA) is a nonprofit association dedicated to enhancing the retirement security of America's workers. To do this, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, recordkeepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: www.dciia.org.

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