

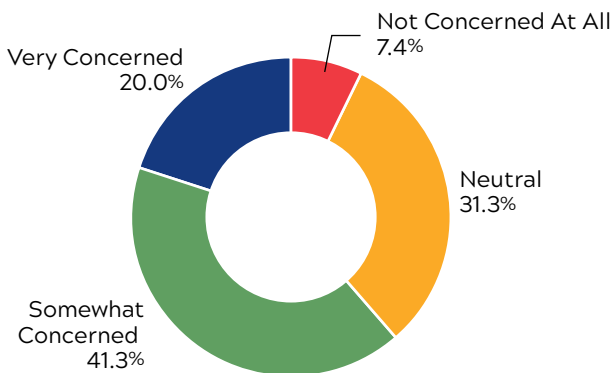
Plan Sponsor Policies on Cashouts, Missing Participants, and Uncashed Checks

October 2024

Executive Summary

When employees leave a company before retiring, they have choices about what to do with their retirement plan balances. Some plans allow them to keep their money in the plan regardless of the balance, and others force participants to move their money out of the plan, perhaps at different thresholds. What to do with small plan balances is a decision point for employers and though there are options, to be protected in event of a DOL audit, plan sponsors should have solid written policies and procedures about tracking down missing participants and distributing their balances.

Concern Level of Plan Sponsors Regarding Missing Participants



To determine how plan sponsors are currently handling these issues, PSCA conducted a brief survey, sponsored by Inspira, in September 2024. The survey received responses from 234 plan sponsors across a range of sizes and industries. Demographic data and the full data tables can be found in the appendix to this report.

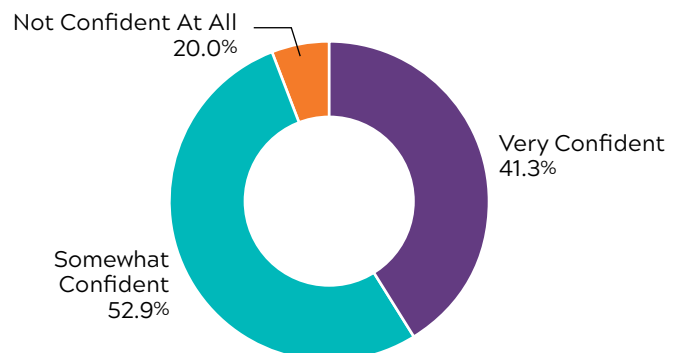
Forty percent of respondents stated they are very confident in their plan’s handling of missing participants and uncashed checks with 53 percent somewhat confident. Though most plans have some level of confidence in handling this issue, 60 percent of respondents are concerned about their ability to track down missing participants. Missing participants seems to be a bigger issue for larger companies – more than a third of large plans (more than 5,000 participants) said they are very concerned about this issue.

Cashout Policies

In 2001 EGTRRA increased the cashout limit from \$1,000 to \$5,000 stating that all balances between \$1,000 and \$5,000 must be rolled over to an IRA if no election is made rather than cashed out. In 2004 the DOL issued final guidance on this policy with a fiduciary safe harbor for automatic roll-overs and this was implemented in 2005. SECURE 2.0 gave plan sponsors the option to increase that limit from \$5,000 to \$7,000 and also allowed for the automatic transfers of balances from one employer to the next through auto-portability.

Plan sponsors have a choice in the cashout policy they adopt. Currently, a quarter of all respondents allow participants to remain in the plan regardless of the balance –

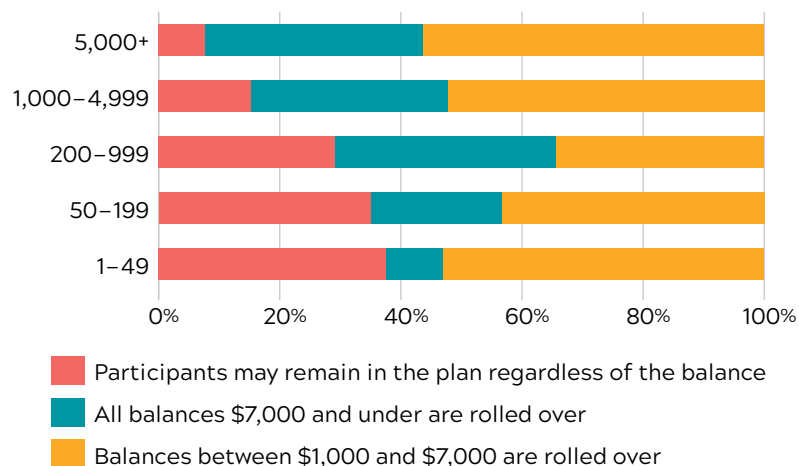
Confidence Level of Plan Sponsors Regarding Their Efforts to Handle Missing Participants and Uncashed Checks



though small plans are more likely to do so (40 percent of plans with 1–19 participants versus 7.7 percent of plans with 5,000 or more participants).

Though some employers clean up balances of terminated employees as the go, nearly half of employers audit balances annually with more than a third doing so quarterly. Larger plans are more likely to audit quarterly (likely due to a larger number of terminated vested accounts) and smaller plans more likely to do so annually.

Cashout Policy



We will be moving to the \$7,000 or more threshold January 1, 2025.

Auto-portability is the ability for plan sponsors to automatically transfer the account balance for terminated employees to their new employer. This relatively new concept has not yet taken hold as very few employers have adopted it and only a quarter of respondents are considering it. Large plans are more likely to be considering this option with nearly half of them currently evaluating options. One of the barriers to implementing auto-portability is that not all recordkeepers are part of the Portability Services Network (PSN) which is necessary before a plan can use this feature.

Frequency Employers Clean Up or Audit Balances of Terminated Employees

	Plan Size (Number of Eligible Participants)					All Plans
	1–49	50–199	200–999	1000–4,999	5,000+	
Annually	62.5%	62.7%	42.9%	33.3%	37.5%	47.8%
Monthly	6.3%	1.7%	8.9%	2.2%	5.0%	4.7%
Quarterly	21.9%	22.0%	33.9%	57.8%	55.0%	37.5%
Other	9.4%	13.6%	14.3%	6.6%	2.5%	9.9%
	100.1%	100.0%	100.0%	99.9%	100.0%	99.9%

Missing Participants

What happens when a participant leaves and a year later you audit the plan and try to cashout or rollover their balance, but the checks are returned in the mail, or perhaps worse, the check is just never cashed? Tracking down these “missing participants” can be a challenge, and drain time and resources, but as a plan sponsor its part of your fiduciary duty and if you don’t, it can be a point of concern in a DOL audit.

There isn’t a set of specific steps one must follow in handling missing participants, but having a prudent, documented policy (that you follow!) that shows the steps you take to try and get terminated employees their money will offer you protection during an audit. Only forty percent of plan sponsors have a formal written policy for handling missing participants and uncashed checks, including only thirty percent of small plans (whereas more than half of large plans do).

I think all plans should create a robust process to deal with small balances of terminated workers at least annually as well as to rollover uncashed checks to a third party. These processes will allow you to deal with the really difficult situations dealing with lost participants.

Percentage of Plans That Have a Written Policy for Handling Missing Participants

	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Percentage of Plans	30.8%	32.6%	36.6%	56.8%	56.8%	42.9%

Some recordkeepers will help track down missing participants, and there are also firms specializing in this that companies can hire to assist in finding missing participants. Currently, a third of plan sponsors use an outside search provider, though this is again size correlated with nearly half of large companies doing so and only 15 percent of small plans doing so.

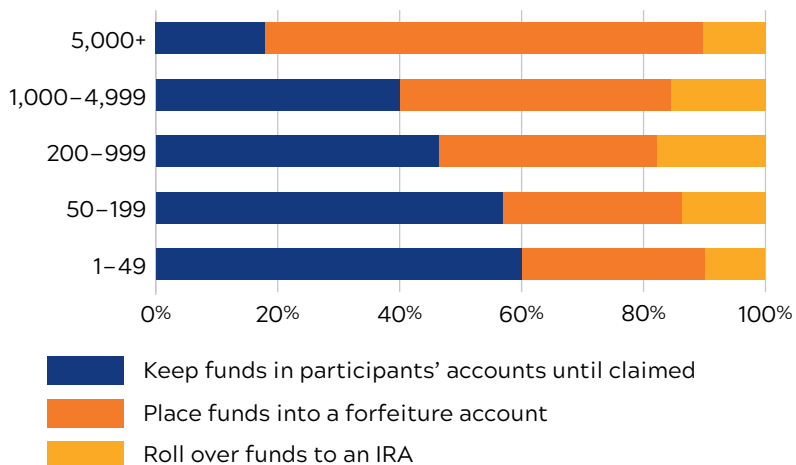
Percentage of Plans That Use a Search Provider Separate from the Recordkeeper to Find missing Participants

	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Percentage of Plans	14.8%	25.9%	35.4%	40.5%	47.5%	33.6%

Uncashed Checks

When it comes to uncashed checks, plan sponsors also have choices. They can keep the funds in the accounts until claimed — as chosen by 45 percent of respondents — place funds in a forfeiture accounts (41 percent of plans), or roll that money over to an IRA (14 percent of respondents). Small plan are much more likely to keep funds in the plan until claimed and large plans are more likely to put the money in a forfeiture accounts.

Policy for Uncashed Checks



Conclusion

Small balances in the plan from terminated employees can have an impact in multiple ways. It can become an enforcement issue with the DOL as they check to make sure plan sponsors are getting terminated vested participants their money. Plan sponsors should have good policy and procedures in place regarding these small balances and missing participants in case of a DOL audit.

Managing small balances also comes with increased costs — plan administration fees, searches, and more. Tracking down previous employees can drain resources and create an administrative burden as your team deals with tracking down these employees and dealing with returned mail.

Additionally, there are consequences for those previous employees and their future retirement security as it reduces their overall savings and potential account balance growth over time. Plan sponsors have a responsibility to get plan balances to previous employees, and they

have choices in the the policies put in place to do so. As more products come to market, and new services begin to take hold, plan sponsors will have additional choices in how to more effectively handle those small balances left in the plan by previous employees.

We (as an industry) need a better solution for people who refuse to cash small checks — we spend thousands of dollars and hours to keep asking people to act.

They don't.

We need to be able to have some small amount (<\$100?) that if it remains uncashed after two attempts it is permanently forfeited and we don't have to waste resources to find them.

Appendix

PSCA conducted an online survey of plan sponsors in September of 2024 that received 234 responses. Respondent plans represent a diverse range of organizations from a wide variety of plan sizes and industries. Demographic data of the respondents, and a detailed breakout of the data included in the summary follows.

Demographics

Respondents by Plan Size (Number of Eligible Participants)

	Plan Size by Number of Participants					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Number of Plans	33	61	56	46	40	236
Percentage of Plans	14.0%	25.8%	23.7%	19.5%	16.9%	99.9%

Respondents by Plan Size (Total Plan Assets)

Asset Range (MM=Millions)	Respondent Breakdown	
	Number of Plans	Percentage of Plans
Less Than \$1MM	6	2.5%
\$1MM - \$5M	32	13.6%
\$5M - \$10MM	37	15.7%
\$10MM - \$20MM	36	15.3%
\$20MM - \$50MM	26	11.0%
More Than \$50MM	99	41.9%
	236	100.0%

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Respondents by Industry

Industry	Respondent Breakdown	
	Number of Plans	Percentage of Plans
Construction and Engineering	21	8.9%
Durable Goods Manufacturing	28	11.9%
Financial, Insurance, Real Estate	31	13.1%
Healthcare	18	7.6%
Higher Education	6	2.5%
Non-Durable Goods Manufacturing	12	5.1%
Non-Profit Organization	24	10.2%
Retail Trade	19	8.1%
Services	29	12.3%
Technology, Telecom, Science	17	7.2%
Transportation	9	3.8%
Utility, Energy, Oil & Gas	8	3.4%
Wholesale Distribution	9	3.8%
Other Industries	5	2.1%
	236	99.9%

Data Tables

Table 1 | Distribution Policy When Employees Terminate Employment Prior to Retirement

Policy	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Participants may remain in the plan regardless of the balance.	37.5%	35.0%	29.1%	15.2%	7.7%	25.4%
All balances \$7,000 and under are rolled over.	9.4%	21.7%	36.4%	32.6%	35.9%	28.0%
Balances between \$1,000 and \$7,000 are rolled over.	53.1%	43.3%	34.5%	52.2%	56.4%	46.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 2 | Frequency Employers Clean Up or Audit Balances of Terminated Employees

Frequency	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Annually	62.5%	62.7%	42.9%	33.3%	37.5%	47.8%
Monthly	6.3%	1.7%	8.9%	2.2%	5.0%	4.7%
Quarterly	21.9%	22.0%	33.9%	57.8%	55.0%	37.5%
Ad hoc or ongoing	6.3%	1.7%	8.9%	2.2%	0.0%	3.9%
Recordkeeper handles	0.0%	5.1%	1.8%	4.4%	0.0%	2.6%
Other	3.1%	6.8%	3.6%	0.0%	2.5%	3.4%
	100.1%	100.0%	100.0%	99.9%	100.0%	99.9%

Table 3 | Concern Level of Plan Sponsors Regarding Tracking Down Missing Participants

Concern Level	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Not concerned at all	36.7%	3.3%	1.8%	6.8%	0.0%	7.4%
Somewhat concerned	30.0%	46.7%	28.6%	47.7%	52.5%	41.3%
Neutral	20.0%	31.7%	48.2%	31.8%	15.0%	31.3%
Very concerned	13.3%	18.3%	21.4%	13.6%	32.5%	20.0%
	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%

Table 4 | Percentage of Plans That Have a Written Policy for Handling Missing Participants

	Plan Size (Number of Eligible Participants)					
	1-49	50-199	200-999	1000-4,999	5,000+	All Plans
Percentage of Plans	30.8%	32.6%	36.6%	56.8%	56.8%	42.9%

Table 5 | Percentage of Plans That Use a Search Provider Separate From the Recordkeeper to Find Missing Participants

	Plan Size (Number of Eligible Participants)					
	1-49	50-199	200-999	1000-4,999	5,000+	All Plans
Percentage of Plans	14.8%	25.9%	35.4%	40.5%	47.5%	33.6%

Table 6 | Method Plan Sponsors Use for Uncashed Checks

Method	Plan Size (Number of Eligible Participants)					
	1-49	50-199	200-999	1000-4,999	5,000+	All Plans
Keep funds in participants' accounts until claimed	60.0%	56.9%	46.4%	40.0%	17.9%	44.7%
Place funds into a forfeiture account	30.0%	29.3%	35.7%	44.4%	71.8%	41.2%
Roll over funds to an IRA	10.0%	13.8%	17.9%	15.6%	10.3%	14.0%
	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%

Table 7 | Confidence Level of Plan Sponsors Regarding their Efforts to Handle Missing Participants and Uncashed Checks

Confidence Level	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Very confident	58.1%	36.8%	42.6%	32.6%	42.5%	41.3%
Somewhat confident	38.7%	54.4%	53.7%	55.8%	57.5%	52.9%
Not confident at all	3.2%	8.8%	3.7%	11.6%	0.0%	5.8%
	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%

Table 8 | Percentage of Plans That Are Using or Considering an Auto-portability Provider

Considering Auto-portability	Plan Size (Number of Eligible Participants)					All Plans
	1-49	50-199	200-999	1000-4,999	5,000+	
Have implemented or will implement soon	0.0%	1.7%	12.5%	8.7%	5.0%	6.0%
Considering it	6.3%	23.3%	19.6%	30.4%	47.5%	25.6%
No, and will not join this	43.8%	26.7%	28.6%	32.6%	22.5%	29.9%
Unsure	37.5%	33.3%	23.2%	19.6%	25.0%	27.4%
What is auto portability?	12.5%	15.0%	16.1%	8.7%	0.0%	11.1%
Total	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%