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Revamping Retirement Episode 81

Intro: Covering the ever evolving retirement plan landscape to help identify the biggest opportunities for plan sponsors, CAPTRUST presents Revamping Retirement.

Audrey Wheat: Hello and welcome to Revamping Retirement. This is Audrey Wheat and I'm here today with Pete Ruffle. Pete, how we doing?

Peter Ruffel: Yeah, hey Audrey. I'm doing great. You know someone, it's October, but someone's already told me happy holidays already and I'm just not ready for that whatsoever.

Audrey Wheat: Maybe they're just very excited about Halloween. Pete, the first time we hosted together was August, and here we are back in October. So I love that we're keeping our street going, so I.

Audrey Wheat: Awesome. so today we are joined by the only second time guest we've ever had on revamping retirement Neil Renquist. He is Executive Vice President and Chief Revenue Officer for Retirement Clearinghouse, which is the company whose technology powers. The Portability Services Network, which you also will hear referred to as PSN.

Just for those who are listening. Neil, welcome back to the podcast

Neal Ringquist: thanks for having me back. I feel honored to be the first repeat podcast guest. So much appreciated.

Audrey Wheat: Neil, when we were prepping, I told you we have laid out, our episodes for the year. We do it in January, and it was in the plan the whole year for you to be our guest again. But I didn't reach out to you till the very last minute and I said, you didn't know this, Neil, but we've been planning this all year.

I should have reached out before. But thank you so much for coming on in October. It's been almost exactly. Since you've been a guest

Peter Ruffel: Neil, it is a treat. we did miss the mark on one thing, which Audrey mentioned. The next time we would have you, we might come out and visit you in Northern California. So we'll have to make due on that promise. Not this time, unfortunately. but for the sake of. new listeners who didn't catch the first podcast that we had you on.

Love to do a quick, brief overview of, the Portability Services Network. would love to learn a little bit about what it's designed to do, and then certainly would love to do a little catch up of where we were then two years ago and where we are today.

Neal Ringquist: so let's start with the concept of auto portability, it's really helping an individual move a balance from a former employer's plan to a new employer's plan on a negative consent basis. On a default basis, Without requiring the participant to affirmatively elect that rollover.

You need some enabling regulation to, enable auto portability. And, we're leveraging two pieces of legislation. We're piggybacking off existing. Mandatory distribution regulation that allows the balance to move out of the former employer plan on a negative consent basis. So that was passed in extra way back in.

2001. and those regs went into effect in oh four. safe harbors were published. Oh five went into effect. So the ability for a balance to move out of a plan without a participant consent has been on the books for quite some time. The new stuff is the roll into the new employer plan,

So that's without affirmative participant consent. that's the new stuff. And the original enabling regulation there was in the form of an advisory opinion in, 2018 and a pre transaction exemption in 2019 issued by the Department of Labor to Retirement Clearinghouse. while the advisory opinion still holds.

the permitted transaction exemption has been since replaced by an auto portability provision in secure two. Oh. so that's the enabling regulation that you need a permitted transaction exemption to move these balances. There is a fee involved, a one-time fee, and of course, when you're pulling a fee from an account.

That's, moved on a negative consent basis. That's a pri transaction for what you need an exemption. The reason why the advisory opinion was so important, 'cause it said that the fiduciary for such a transaction is retirement clearinghouse. It's not the participant, it's not the plan sponsor, it's not the record keeper, but it's a separate independent fiduciary.

In that instance, it was retirement Clearinghouse. So that's, auto portability. We subsequently formed a consortium called Portability Services Network with six of the largest record keepers. that's, fidelity, Vanguard, alight, empower, TIAA and Principle Financial. together those six make up, 63% of the market in terms of participant market share.

Uh,good head start To auto portability. those six are in essence today creating the initial clearinghouse to move these small balances via auto portability through the Portability Services Network Auto Portability program. So a press pause there and hopefully that's a good overview of what we talked about last time.

Peter Ruffel: Definitely is. and maybe we could talk a little bit about, I think it was 2023 when PSN was launched, and give us a sense of where we are today.

Neal Ringquist: very pleased with in just two years that you think,before we got on the air, we talked stories about retirement and we always talk about, initiatives that seem to move at the speed of retirement. And,two years though, we've seen, some serious adoption and we have over 21,000 plan sponsors that have enrolled.

I look at indicators of success in two ways. There are what I'll call leading indicators and lagging indicators and leading indicators. Certainly, plan sponsors enrolled is one leading indicator, and I say that's leading is 'cause oftentimes plan sign up. Yet they don't go live.

For many months after that, there's usually an implementation date, set by their record keeper, that's forward looking. And then after a plan goes live, they need to go through their first monthly located match cycle with auto portability. And then an individual, has to be a potential match, goes through a, a match process to confirm the match that starts the consent process.

The consent process can last. 60 plus days. And then there's a money movement process that waits a couple weeks. So while, number of plans enrolled as a leading indicator completed transactions is a key lagging indicator. And we've completed now 16,700 transactions.

that might not seem like a lot. but that's. 16,700 folks that, weren't otherwise, receiving or completing these transactions, that, were having their balances either sit in a former employer plan or, back in a safe harbor. IRA, for example. and there's now 24,000.

Transactions in motion, the match rates are still in the single digits, but keep in mind, we still only have four of the original six record keepers.

Live. So we still have two record keepers yet to go live that have signed up for auto portability. So I think we're just hitting our stride and I'm gonna see adoption really take off here over the next couple years,

Audrey Wheat: so Neil, thinking of those four of six, let's say two are separate plan, sponsor plan is on of those record keeper platforms, they go live and that previous employee that came over to that new employer, their plan has also signed up.

Peter Ruffel: PS add a different record keeper of one of these golis. That experience of when they go live is that potential opportunity for that balance to then come over to their new employers plan. is that a fair way to characterize it?

Neal Ringquist: Absolutely. There's, a lot built into this system, but you're absolutely right. First, both record keepers have to have signed up for auto portability, the former employer record keeper, and the new employer record keeper, both plans. Have to have signed up for auto portability.

The former employer plan sponsor, as well as where the, individual has an active account. And then there's rules of reciprocity that are built into this. there's a level playing field here where, all record keepers sign the same operating agreement to join auto portability.

There's no. Most favored nations. There's no record keeper that gets, beneficial treatment at all. It's a completely level playing field. And the same thing with sponsor agreements. there's some negotiation on, non-material provisions, but, the law within Secure two oh about auto portability is pretty clear that auto portability needs to be offered.

On the same terms across plans. that makes for interesting contract negotiations and so forth, but we get through it. what happens is, and this could throw out matches, and this is why, 16,700 transactions is a darn good number. You could have a plan, for example, today that cashes out balances.

Below, a thousand dollars and they keep balances above a thousand dollars, 1000 to 7,000 in the plan. And they wanna sign up for auto portability 'cause they're tired of the uncashed check issue with those under 1000 cash outs. So they sign up for auto portability. but only for balances under a thousand.

That's the thing. You can't tilt the playing field. So if they're only sending balances below a thousand through the network, they can only receive. Balances of a thousand are below in as a roll in contribution, So let's say there's a potential match that's found in a system, to go into that plan from another plan, yet that balance is 2000.

That potential match will be disqualified 'cause of those reciprocity rules

those kinds of checks and balances occur across the system. constantly. and that's the kind of automated complexity that's built into the process.

Audrey Wheat: thank you so much for sharing those metrics with us, Neil, and congratulations on those numbers.

super impressive and I would imagine they're just gonna continue to snowball from here. as more plans sign up, as more record keepers sign on. You mentioned you had six members in the consortium. Where do you stand on bringing on more members and how has that been going the past two years?

Neal Ringquist: it's interesting, we talked about Secure two Oh, and it was certainly a blessing, in the sense that it codified The pri to transaction exemption, if you will, for auto portability, which was a big deal because the original PTE issued retirement clearinghouse had a five year renewal process.

And, anything can happen with the Department of Labor when you have a renewal process where the legislation codified it. the legislation was a bit of a curse as well, there was a, many mandatory provisions that were built into Secure 2.0.

That require a lot of work for these record keepers to implement.

And two years on, a lot of the technology and product development queues are still full with many of these mandatory provisions, so optional provisions like auto portability if taken a vaccine. And so I think that's kept enrollment. from other record keepers down a bit. we're just fighting our way up that priority queue.

I don't think there's a record keeper in the top 25, maybe one or two that we haven't had a discussion with, all remain interested. They realize the benefit, the public policy benefit auto portability. And I think certainly over the next two years as we flush those priority queues of these mandatory provisions, we'll start to see, more record keepers enroll in, PSN Auto Portability.

Audrey Wheat: that's great to hear. And just for our plan sponsor listeners, if your record keeper is not currently in the consortium, talk to your relationship manager about getting signed up and for them to, escalate that within their firm because the more firms and more record keepers that are a part of this, the better it's going to work and the more money that is going to stay within the system.

Peter Ruffel: to that point, Audrey, I know, in our RFP questions where we're soliciting potential bids for a record keeper to work with a plan that is often one of the questions that we're asking is where you are with this, what you're offering in this regard. we see that as an issue and we hope that it continues to smooth out that participant experience and to that regard, Neil, it really is no small feat what you guys have done to bring record keeping service providers together in a uniform manner.

And I'll double score that uniform manner to commit to solving an issue on the retirement plan participant side. as you look forward. and certainly look ahead. what are the other applications of PSN outside of this auto portability? Is there anything that's coming down the pike from a regulatory perspective that you see has parallel application for the PS?

Neal Ringquist: once people understand that we've in essence created a first of its kind clearinghouse in the retirement industry, there's a potential bunch of uses for that clearinghouse. what are those potential uses?

some things you've seen in the press and. none of this has been, voted on by the PSN Board, but certainly these sorts of things come up. But a good example, is we get asked about, deferral percentages. you think of an issue where we as an industry have, Spent so much time trying to get people to save more,

And even through automatic deferral, increases up their deferral rate over time. And then when they change jobs and they're automatically enrolled in their plan, that thing gets ratcheted back down to 3%. what if you can pass your deferral rate is somebody changes jobs? I'm not saying that's right around the corner, but that's a great example of how a clearinghouse. Of data in the retirement industry could be, put to good use. another potential use of the clearinghouse, and this was also insecure 2.0 and when it was passed in 23, it

seemed like a long way off When you look at development cycles. it's knocking on the door and that's the saver's match,

So the SRS match that was built into secure two o to replace the SR'S credit where money actually moves from the treasury into the retirement system. And, you need to identify, where,an individual that's qualified for the savers match where they have an account, And if you look at research on the SRS match to date, Morningstar's put out some research on this.

We've done our own, 90% of eligible participants will be eligible through contributions in their retirement plan as opposed to an IRA. so having a clearinghouse with the ability to. Find that account and validate that it's one in the same individual is incredibly valuable potentially for something like the Savers match.

So that's a good application of a retirement industry clearinghouse to facilitate, another public policy program like Auto Portability designed to, help address the wealth gap using the retirement industry. the underserved and underserved that are impacted by things like cash out leakage and so forth.

savers match is right there as a tremendous public policy initiative that could do that. And a clearinghouse is an excellent way to facilitate processing of those match dollars.

Peter Ruffel: Neil, you mentioned the PSN Board. what is that?

Neal Ringquist: the Portability Services Network is run by this consortium of six record keepers. Each have a spot on the board. and then retirement Clearinghouse has, the chairman, slot and the CEO slot on the board. So all decisions. Related to the operations of PSN, any new applications of PSN, any changes in security protocols and so forth.

those are all run through the board of directors of the Portability Services Network, which consists of retirement, clearinghouse, and the six member record keepers.

Peter Ruffel: So it's like a community effort, all stakeholders are at the table making a concurrent thought process of how to use it.

Neal Ringquist: Absolutely. And,if you're a plan sponsor listening, you can go on the PSN one.com website. You could see who the board members are, from, your record keeper if you want. again, there's rules built into the consortium.

it took us six to eight months to form the consortium and there's rules built in to how decisions are made, super majority vote requirements and so forth. so some serious thought went into creating this consortium, and people on the board certainly take their role seriously.

Audrey Wheat: Awesome. we'll look forward to the other applications, as they start coming out. if we pivot back to auto portability usage, I can imagine the past two years have been very busy for you. clearing up some misconceptions that exist about auto portability. So for our plan sponsors that may be on the fence about, utilizing it, if you are with one of the record keepers that offer it, what misconceptions can you clear up for them?

Neil?

Neal Ringquist: first what comes to mind? and I hear this It's the advisor's role to bring value to their plan sponsor client and we've heard, certainly, from some advisors on this issue. And that's the proposed regulations for auto portability.

So let me bring us back to the legislation for a minute. That was passed in Secure two oh in 2023. that legislation required the Department of Labor, to issue final regulations for auto portability. the department 2022 that was passed, secure two oh in January, 2024.

The department issued some proposed regulations and to get comment and so forth Portability Services Network. Submitted a comment letter, certainly, and all the comment letters and requests are public. There were items in the proposed, regulations that didn't conform as neatly as the original PRI transaction exemption.

The original PRI transaction exemption created the operational guardrails that run PSN Auto Portability today. So we had to build it using guardrails, and we use the guardrails from the pri transaction exemption. for example, the private transaction spoke to the notion of a configuration, which goes to where, an individual's balance is sitting from their former employer plan,

So it could be sitting still in their former employer plan. it could be sitting in a safe harbor, IRA, in other words, the. Balance was forced out by that plan via an automatic rollover independent of auto portability to retirement, clearing out safe harbor IRA or similar process. That balance could be sitting in a, safe harbor, IRA from the record keeper and the permitted transaction exemption was specific about those configurations, and that's how the program was architected.

The legislation itself was silent to that, and the, proposed regulations were silent to that. Really didn't look into some of the things that were in that permitted transaction exemption, as well as there was some ambiguous language around under 1000 cash outs and so forth.

So stuff like that that we ask the Department of Labor for clarification on in our letter. Since then, the Portability Services Network, all six record keepers in retirement Clearinghouse submitted a letter, to the Department of Labor asking them to pull the proposed regulations and not issue final regulations.

auto portability seems to be running well, as it is, at least the PSN version of it. And, that seemed to be a receptive audience to that approach. right now, obviously with the government shutdown, not a lot's going on, in Washington in regard to these sorts of things, but we think that's a more likely than not scenario.

and I think that will help clear up some of the misconceptions. Audrey that you had asked about, out there and one of 'em is around, should you be adhering to proposed regulations? no. 'cause they're just that the proposed regulations, they're not final regulations and there's a very real probability, that what's in the proposed regulations won't be final.

another. Interesting. development. Is how auto portability has been adopted. And, you guys have been in the industry and you know, oftentimes new innovative services get adopted by large plans first and then work their way down to small plans.

Auto portability has been the exact opposite, which is interesting as, record keepers have, gone out on mass, what I call bulk plan adoption to many of their small plans. That are on prototype plans, for example, and just among a bunch of other changes, oh, by the way, we're adding a new service called auto portability.

Just, sign here electronically and you're off and running. so we saw the initial average, plan size pretty small as a result of that, but it's growing now, with large plans. They go through a committee process. There's a security assessment process, cybersecurity assessment process with them.

Oftentimes a contract negotiation and so forth. So it just takes a while for, the larger plan population to work through to a new service.

but that's been an interesting development. the small plans first followed by the large plans.

Peter Ruffel: on that vein, Neil, I'm sure you're often used as a resource for the PSN consortium as we credit plan sponsors these days for being very in tune with what's going on with retirement plans, asking smart questions. So can you highlight some of the common questions that you're answering these days as it relates to auto portability and PS.

Neal Ringquist: the number one is just how it works. and basic questions like that are typically clemen through the record keepers. I get what would ultimately come to me are questions around, fiduciary liability, for example. that's obviously top of mind for many plan sponsors offering a service.

and certainly. the contracts explain that to some extent, but that retirement clearing house is the fiduciary for the negative consent transaction. And of course, the plan sponsor is always the fiduciary around any new service added. but as it relates to the transaction itself, that's retirement clearinghouse, but that question comes up, certainly the question around contract structure that, Is a fairly regular question, the nature of the communications. how will this impact my participant in the sense that, what will they see So explaining, the consent process that sort of thing.

those are, fairly common questions Up either directly from plan sponsors or through their advisors.

Audrey Wheat: So What's next for the network and for Retirement Clearing House? Why are you doing what you're doing is basically what I'm getting to.

Neal Ringquist: we're doing it, Audrey, for the mission. the public policy benefit of this. So just, for the audience that the chairman of PSN and of Retirement Clearinghouse is Bob Johnson, the founder of Black Entertainment Television, views the retirement system as a great, way to help address the wealth gap.

And when you look at. the public policy benefits of auto portability, it can make such a huge difference. So what do I mean by that? We're doing this to plug cash out leakage, which is particularly acute for small balances. the statistics I cite, about a third of all balances cash out for a variety of reasons.

But when you look at the cash out specifically for small balances, those that are subject to the mandatory distribution provisions. That cash out percentage

ratchets up to 55%. it's a big issue. But then when you break it down by demographics, the under saved and underserved, so that's your minority participants, but your low income and so forth, they're cashing out at even higher rates. So if you plug cash out leakage, and most of them are doing it because it's the easiest thing to do, they can just get a check. what we're trying to do is make. The right decision. Have that balance, stay in the retirement system and incubated being the automatic decision. that's the goal behind, auto portability.

and, Morningstar did a great, research, report on this, several years ago where they looked okay if we plugged cash out leakage, there was automatic portability that plugged cash out leakage just for those small balances. Over a generation, it retained \$1.5 trillion in the retirement system with most of that, accruing to the underserved and underserved.

while these are small balances, it's a huge potential impact. it, the other small public policy benefit, and I say this even despite the fact that we're in the safe harbor, IRA business, but, safe Harbor IRAs. are just not an optimal retirement tool for participants.

they were passed in 2001 before the Pension Protection Act. made the target date fund the primary default vehicle and plans. Yet. Safe Harbor IRAs are still required to be defaulted to principal protected vehicles not optimal for long-term retirement growth. if you can have balances.

Instead of ending up in a safe harbor, IRA landfill, going to a new employer plan where the majority of plans have a default option, that's a target date fund, that's just a better long-term retirement oriented investment, for the individual. So that's a secondary but very real public policy benefit also for auto portability.

we just wanna see this. Come to fruition and see these benefits manifest themselves in the market. And we're getting there, one plan at a time. We're up to 21,000, but we're getting there and we feel pretty good about the direction we're heading in.

Audrey Wheat: I'm booking you right now for a two year check-in at the end of 2027. I can't wait to hear that number. What is it gonna be?

Neal Ringquist: Well, I'm not spring chicken.

Audrey Wheat: Have to predict here.

Peter Ruffel: it is. Which the question you're familiar with, Neil. like we do with every one of our guests at the end of the podcast, we like to ask 'em about what does retirement look like for you? Last time we had you on, you talked a little bit about, the charitable stuff, the volunteering that you would do, and then gave us a little insight on a hobby that you might pursue a little bit more, which is, on the wine side of things, which is cool.

Any of those plans change? Any new hobbies in the past two years that have surfaced that you're gonna pursue?

Neal Ringquist: I wish I, I could say yes. but, auto portability has got me a little busy these days, the way I look at it, Pete, is, there's, things to occupy your time from a, hobby, relaxation standpoint, and then the give back portion of retirement and,

I guess the only thing different, it's, back then we talked about, my wife and I are our family's love of animals and we've taken in more animals in the last two years, so that's certainly grown. But my wife volunteers, a rescue for many horses, and that's quite rewarding for her.

and I could see us doing, more of that, but we've got a household full of rescue cats and dogs that, keep us occupied. But, yeah, on the hobby side, I grow grapes. I like wine. I grow chardonnay grapes. I haven't started producing wine from them yet.

This is just their third growing season. But, I belong to the local Wine Growers Association, which is fun going to those meetings I live, in Northern California. great growing and wine making country. And even though, I'm very close to the city, about 15 minutes outside and what's called the East Bay, our own little three town areas, its own unique American Viticultural area, a VA.

Designated about three years ago, our little neighborhood's, a good climate for chardonnay grapes and hope to make some, sometime soon. So maybe when we talk in 2027, that could be what we talk about is the first wine from those grapes.

Audrey Wheat: you've convinced me even further that we need to come out there. We've got wine and a house full of animals for us to come and hang out with. I'm gonna book my ticket now. So. Well, Neil, thank you so much. Thank you to the audience for listening in. reminder, just please like and subscribe to the podcast on all the regular channels and we will catch you next month.

See ya.

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