

Prepared Statement – Recordkeeping in the Electronic Age

Hello. My name is Jamie Curcio and I'm the CEO of Curcio Webb. I have been in the recordkeeping consulting industry for over 30 years. The topic of this meeting is of utmost importance to me as these are issues our clients face daily.

I want to share that my perspective on this topic largely comes from working with clients and recordkeepers and administrators. Over the last 30 years, I have supported more than 1,000 projects related to 401(k) and pension administration. Most of these are for Fortune 500 organizations. Our largest client has over 300,000 participants. However, I have also supported several businesses that have fewer than 300 participants. The issues and solutions available at each end of this spectrum are very different. As I describe some of the common industry issues, I will address the differences between large clients and small clients. Since small organizations comprise most of the businesses in the U.S., it is important to consider their unique challenges. I will also point out differences between defined contribution and defined benefit plans as appropriate.

I will start by discussing the problems our clients are facing and their various causes, and close with some ways to potentially mitigate the challenges.

Looking at employee benefit programs from a simplistic perspective, most programs include rules that drive plan eligibility. Most of these rules involve HR information such as hire dates that get fed to recordkeepers. For small clients, eligibility might be calculated manually and sent to administrators on a spreadsheet or even in an email. In either case, there is an opportunity for error and the need to research information to fix problems. Sometimes errors can be fixed easily by correcting information in an HRIS system and passing the correct information to the recordkeeper – but only if the error is caught quickly. For clients where eligibility is manual, errors are often not discovered for some time.

Historical eligibility information can be difficult to recreate. For situations where participants question eligibility after several years, there may be considerable challenges created by a change in HRIS provider (some organizations have used 3 or more systems over the last 40 years). When

there is a change to the HRIS provider or platform, old data may not be converted or saved anywhere in a usable format – particularly for smaller clients. Large clients may manage HRIT internally and most do a good job of maintaining history. However, small clients are frequently dependent on HRIS/payroll outsourcing solutions and may interface with their retirement plan recordkeepers manually. Within HRIS/payroll outsourcing companies, there can be platform changes. Other times smaller organizations are forced to change their providers based on a number of factors like they may go out of business. In these situations, historic HR-related information that drive eligibility is frequently lost.

Eligibility becomes even more challenging to calculate in the case of acquired businesses. Participants that are part of an acquired business are sometime eligible immediately for benefits with the acquiring organization. The acquiring organization is highly dependent on receiving accurate information from the acquired organization. This doesn't always happen – especially when it comes to pension plan eligibility. It can be impossible to find information from an acquired company years after the acquisition closes.

Calculating eligibility can be tricky for some types of organizations such as health care – where a participant may work in several facilities. In these situations, eligibility may need to be determined by accumulating information from numerous facilities. Due to the complexities involved in these calculations, there is a need to maintain and preserve good records.

Lastly, eligibility is challenging when an individual transfers plans within their employer that sponsors more than one pension or 401k plan. Pension and 401(k) administration platforms need to be programmed well to manage these transfers. There have been numerous examples where these systems are not set up to handle individual plan to plan transfers well – creating data issues and the need to research history and sometimes recreate history which is not easy.

The next topic is service information which often drive benefit calculations such as pension benefits. Service calculations can be tricky because they rely on employment history. Again, employment history typically comes from an HRIS platform or manual records. If manual records don't exist, or it is

impossible to find old HRIS records (again because there could have been a system change), it is challenging to accurately calculate service history.

Some pension plans include grandfathered provisions that may be part of the plan due to an acquisition. Information from an acquisition can include errors and it is important for the plan sponsor to gather information from a prior recordkeeper, or internal records. Again, it may be impossible to find accurate information on employees of an acquired business.

Plan sponsors are challenged when there are 401(k) plan mergers and asset transfers. It is incumbent on plan sponsors to make sure that information coming into a plan is accurate prior to merging the data into the plan. Some plan sponsors have more resources to handle this than others. And this is managed unevenly across the industry.

One of the biggest challenges to both pension and 401(k) administration is the lack of records around old distributions. For lots of reasons, including participants receiving letters from the SSA saying they may have a benefit, there are frequent instances where a participant or their family members inquire about a benefits that may have already been paid out. Without accurate payment records, it is often challenging to prove that a participant received the benefit that they deserve. Sometimes this information is hard to find because there could have been a change in the pension payment provider (which is often the trustee) or recordkeeper making 401k payments. When proof of a payment cannot be found, many legal advisors recommend making a payment to the participant. When there are no good records, plans may be paying twice. I've interviewed several plan sponsors that believe they pay plan benefits twice in much larger numbers than they miss participants that are owed a payment.

Pension distributions can also take the form of de-risking activities, including annuity purchase programs. It is important to maintain the source data that was used to feed the event – calculating the annuities or lump sum distributions. When an annuity is purchased from a 3rd party, the servicing of that annuity is moved to a provider that never had to understand eligibility, service, or pension calculation details. Again, plan sponsors can find it difficult to navigate the source data when it frequently comes from an outside pension administrator.

When we talk about data, historical information can be in electronic files. However, many clients have paper, microfiche, or imaged documents. Paper can be lost or destroyed. Microfiche can become challenging to use over time as microfiche readers are hard to find. We have a client that has thousands of pages of microfiche that they would like to convert to imaged documents, but it is expensive. In the last few months, their microfiche reader broke and they had to get a used reader from eBay. For information that is imaged, sometimes this includes beneficiary forms and QDROs, it is sometimes challenging to move this information from one recordkeeper to another, depending on how the images are stored and the software used in the process. This also can be cost prohibitive.

Provider changes – 401(k), pension, payroll, HRIS – can all create missing data. There is no industry standard for saving off data when there is a provider change. Large clients generally manage this better because successor providers are willing to do more for a large client than small clients. Pension data history is typically converted from system to system as plan sponsors move from one provider to another. However, within the 401(k), payroll, and HRIS environment, detailed history is typically not moved into a successor system. There is no standardized way for incumbent providers to provide a usable dump of detailed data that can be referenced as needed by a plan sponsor or successor recordkeeper.

The recordkeeping industry has and will continue to undergo tremendous change. Administration providers get acquired, and some go out of business. There are many questions about if and how information is retained in these situations, and how do plan sponsors navigate to find missing historical information at the source.

Regardless of the reason that a plan sponsor chooses to move from one provider to another, there is a responsibility to ensure information converted is accurate. Large plan sponsors typically have resources to audit this information and ensure its accuracy. However, smaller plan sponsors typically do not.

Some side notes – I've been talking about situations that require research on the part of plan sponsors. The amount of time plan sponsors spend on

resolving issues related to historical data can be overwhelming, and ultimately costly when individuals can't focus on their daily responsibilities.

However, on the recordkeeping side, defined contribution and defined benefit providers are under constant financial pressure from their clients to lower fees – leaving them with few resources to assist clients with tasks such as managing data from prior recordkeepers.

Administration contracts are not generally adequate to help clients retain data at an incumbent recordkeeper after 7 years. At the end of a contract, for 401(k) administration, most administration providers will give data required to move to a new recordkeeper, but they don't generally offer a way to capture details of prior transactions. If a plan sponsor requires historical information from the prior recordkeeper, the prior recordkeeper no longer has a financial relationship with the plan sponsor and (in our experience), there is little incentive to prioritize this assistance. This is not generally the case for pension administration as historical details are necessary to convert to a new administration provider.

Transactions are now performed in lots of ways including via mobile technology and transactional AI. There are lots of questions related to how this data is retained, and the accuracy of new technologies.

As this committee considers future guidance recommendations, here are some ideas:

- Provide guidance on how plan sponsors ensure data is converted accurately between 401(k) providers and pension providers
- Provide guidance on what plan sponsors should do to ensure information is accurately moved into a new plan from an acquired business
- Provide guidance on what information needs to be retained especially for HRIS, payroll, and 401(k), along with ideas for storing this information in a usable format
- Provide guidance that will feed contract requirements related to the transition services – conversion out process – requiring recordkeepers to be responsive for some time after the conversion out