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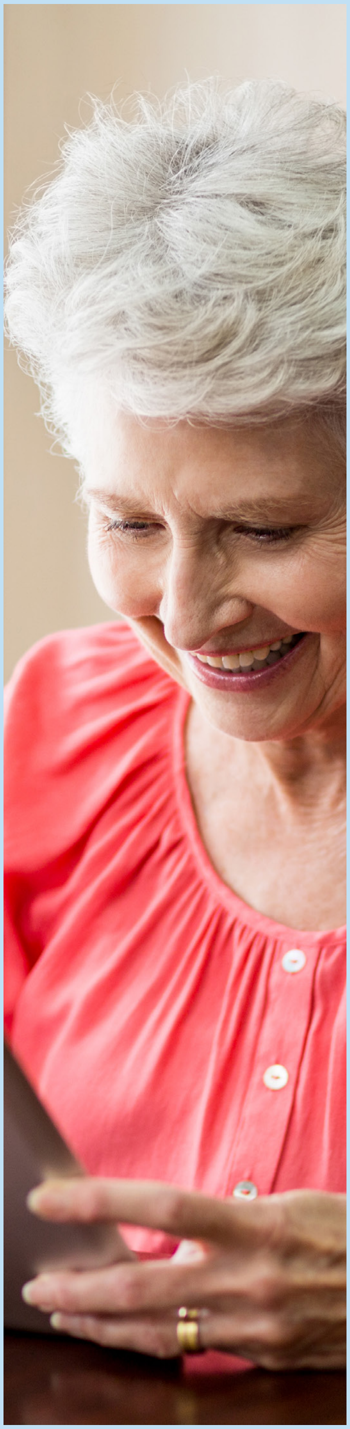

SOLVING THE ENIGMA OF UNCASHED CHECKS

Abstract

The retirement industry continues to struggle with ever-increasing number of uncashed checks running into billions of dollars in value, the situation compounded by the challenge of having to track plan participants who have gone off the grid. This paper discusses the reasons for checks going uncashed and lays out a set of recommendations, best practices, and solutions to help plan sponsors, administrators, and recordkeepers fulfill their obligations towards participants.

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The ecosystem of uncashed checks in the retirement industry

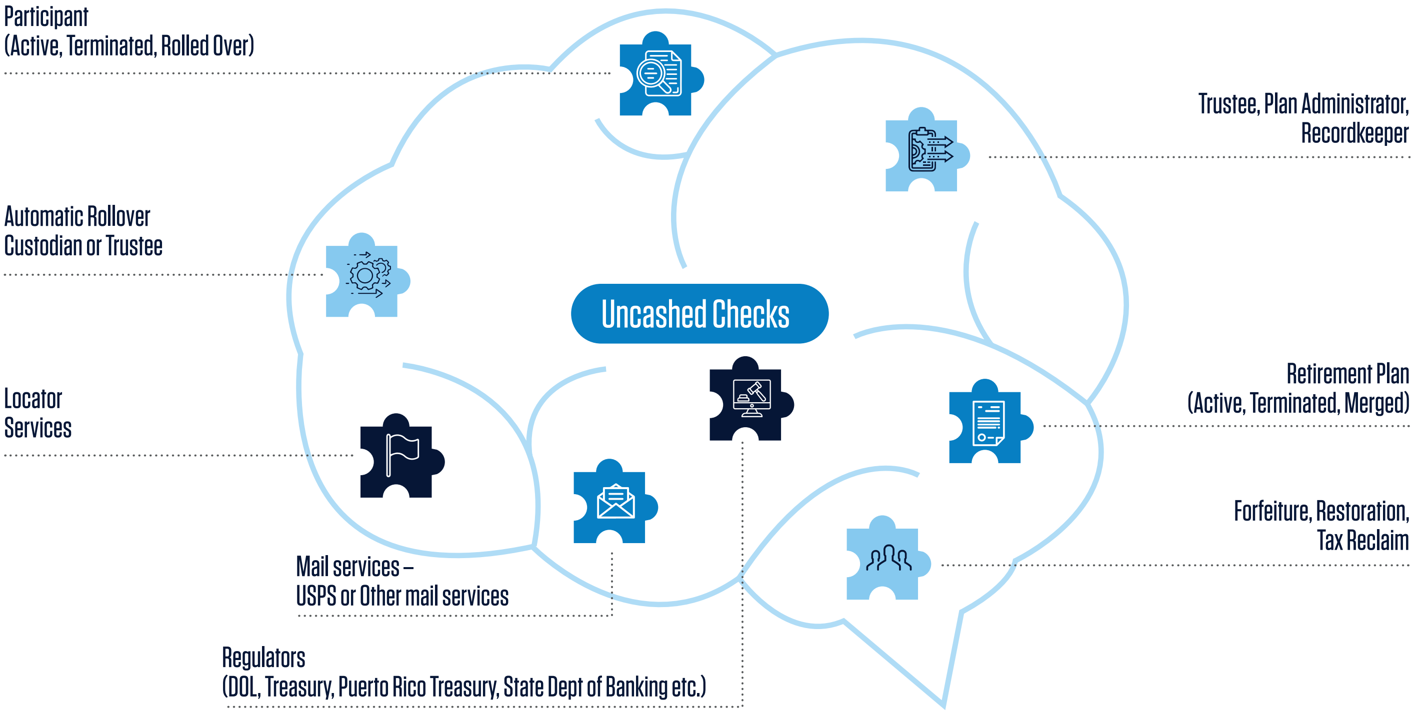
Retirement funds are the fruit of years of labor by plan participants who hope to meet post-retirement needs — both for themselves and their loved ones — with these funds. Plan participants also exercise enormous faith in trustees by allowing them to manage their money. As a result, plan administrators and recordkeepers have a huge responsibility in ensuring that funds distributed from a retirement plan upon retirement or earlier, reach the participant or the designated beneficiary. Getting those funds delivered when requested, needed, or when they become due is the ultimate purpose of the retirement plans. Also, plan administrators are monitored by regulatory authorities such as the Department of Labor (DOL), Internal Revenue Service (IRS), State Department of Banking, and other regulatory bodies.

Here is how the system works. Upon receipt of good order instruction from plan administrators or participants, the trustee and recordkeeper will process the participant or beneficiary's request for a distribution. The funds are usually delivered through a direct deposit into a designated bank account or through a check mailed to the participant or beneficiary. Sometimes, distributions to the plan participant can happen without the participant's knowledge or request – and become a major cause for the growing number of uncashed checks.

Once a check is issued and mailed, the recordkeeper monitors all outstanding checks that have not been cashed or deposited within a reasonable duration. While checks are generally live for a period of 180 days, the plan administrators or recordkeepers should not wait for that long before starting to investigate any uncashed check.

A prudent practice for monitoring distributed checks is, if a check remains outstanding and uncashed for 90 days by an active participant, the recordkeeper should notify the plan administrator to ensure that the participant has received the check, and should send a communication encouraging the participant to cash it. If the participant is no longer active, the plan administrator and record keeper should reach the participant or beneficiary directly.

However, as the saying goes – the devil is in the details. The puzzle, that is the uncashed check ecosystem, a puzzle that needs to be solved, keeping a number of stakeholders and determinants in mind, can be depicted as below:



The Uncashed Checks Puzzle

As shown above, the inter-dependencies and connectedness among stakeholders, regulations, as well as various decision points pose a challenge for the recordkeepers, which cannot be resolved with a straight-line approach.

How big is the problem?

As per a recent report, in FY'20 alone, EBSA's (Employee Benefits Security Administration) investigators helped to reunite missing and non-responsive participants with benefits, with a present value of over $1.4 billion[1]. Roughly, 5% of all issued checks from defined contribution plans are neither cashed nor deposited, as per an estimate taken for a sample of recordkeepers by SPARK Institute [2].The report also mentions that for ~97.8% of the checks, the value is generally below $1000, and checks with value greater than $100,000 is 0.02% of the uncashed checks.

The total value of uncashed checks currently across all retirement plan administrators or recordkeepers could run into billions of dollars and this amount is bound to keep swelling as time passes by. It is not a surprise that DOL and various states are now aggressively working to identify, investigate and resolve this issue.

Understanding the enigma of uncashed checks

Often when amounts due are mailed in paper check forms to the participants, they get returned from post office (RPO) as either undeliverable, or the checks do not get deposited or cashed after being received by the participant. The checks remain uncashed due to multiple reasons, such as:

1. When a participant is unaware that the check is on its way:
   a. Participants unknowingly repaid more than the amount due
   b. Dividend distribution received by the plan after the full and final distribution has been paid out to a participant
   c. Company corrective contribution (QNEC or QMAC) after the participant has received full and final distribution
2. When participants do not know that there is a residual balance in their retirement plan account, or what steps to take to obtain the remaining balance, or when the residual balance is subject to a forced cash out:
   a. IRS regulations permit the following treatment of participant account balances:
      - Account balances for terminated participants that are less than $1,000, to be paid in cash as a mandatory cash out.
        - For amounts up to $200, no tax withholding required, and generally paid along with the final balance amount to a separating employee. This doesn't usually lead to any uncashed check scenario.
        - For amounts between $201 and $1,000, if participants terminate employment, the account balance may be paid out to them at the time of payroll settlement. This is a major part of the problem if the participant is not expecting to receive the small cash out.
      - Account balances between $1,000 and $5,000 are to remain in the plan, or paid based on participant plan direction. Upon absent participant direction, these balances may be automatically rolled over to an IRA selected by the plan administrator. When the accounts are rolled over, the participants are generally not aware, and do not know that they have an IRA and whom to contact about it. Additionally, at times when the participants receive communication about the IRA, they may tend to think it as a fraud or phishing attempt.

   For active plans, where a terminated participants' plan account balance is more than $5,000, the assets remain in the plan until receipt of distribution directions or retirement age, whichever occurs first. At the minimum retirement age of 72, an RMD (Required Minimum Distribution) needs to be made and a check needs to be mailed out to the participant. If the participants do not update their current address, this may lead to undeliverable payments and an RPO situation.

   b. Plan sponsor changes the legal name of the retirement plan due to activities such as merger, acquisition, and closure of the firm, and then the participant receives the check with a new plan, company logo, etc., creating confusion whether the check is valid
   c. When a plan is terminated and the plan administrator has to distribute all assets from the plan
3. Missing participants – when the participants move across cities/states without notifying the plan administrator or recordkeeper on the new or updated location, mailing address, or contact details, leading to the check reaching to the last notified address which does not exist
4. Unresponsive participants - when the participants receive check but take no action, and also do not respond to the communications requesting to update their contact information, due to reasons such as:
   a. Check getting misplaced
   b. Participant not taking any action for personal reasons
   c. Participant ignoring the check due the amount being very small

It is imperative for the recordkeeper or plan administrator to follow up on these and ensure that the uncashed checks get cashed or deposited by the participant. There is a fiduciary duty under ERISA to ensure that benefits are received by the eligible participant or beneficiary.

Proactive action plans for plan administrators and recordkeepers

In January 2021, an advisory committee submitted a list of recommendations to the DOL for consideration in establishing a set of best practices for the plan administrators and recordkeepers [5]. These best practices can be leveraged along with practical experience of plan administrators and recordkeepers to come up with an objective approach to handling uncashed checks.

Recommendations for plan administrators/ recordkeepers

Census Information

1. Maintain database for the participant, beneficiaries and emergency contacts
   a. Home and business addresses
   b. Telephone numbers (including cell phone numbers)
   c. Social media contact information
2. Maintain an online platform for the plan sponsor and participants
   a. Enable self-update of census data by the participants
   b. Provide prompts for participants and beneficiaries to confirm contact information upon login
3. Regularly audit census information and rectify incorrect data

Missing Participant Searches

1. Check related plans and employer records of other plans , such as a group health plan, club memberships, while conforming to all HIPAA regulations
2. Check with the beneficiaries and emergency contacts
3. Reach out to friends and colleagues of the participants
4. Check social media and use free online public databases (such as those for licenses, mortgages and real estate taxes, obituaries etc.
5. Use a commercial locator service, a credit-reporting agency, or a proprietary internet search tool
6. Use US Postal Service certified mail with tracking option, or any other private delivery service to send out mail to the last known mailing address
7. Publish a list of all missing participants on the Plan Participant portal
8. Connect with the local office of the unions for unionized employees
9. Register with public and private pension registries (if the plan allows it)
10. Increase the search frequency for missing participants

Documenting Procedures

1. Clearly call out specific steps and actions to be taken when a participant goes missing or does not respond
2. Agreement on whether to use locator services or automatic rollover services of certain third-party service providers, and assess fees associated with any services to ensure they are reasonable for the services being provided
3. Fees that can be charged for mailing, re-issuance of checks, out calls etc.
4. Agreement on when the plan administrator will report the uncashed checks to the plan sponsor or trustees
5. Agreement on what type of investment fund the rolling asset will be invested in (Target date funds, Money Market funds etc.)

Communication Strategies

1. During plan enrollment process and exit process, build steps that will update the census data
2. Educate the joining, separating, and retiring employees on the importance of ensuring to have accurate contact information
3. Clearly mark envelopes and all correspondences with the original plan or sponsor name for participants who separated before the plan or sponsor name changed, e.g. during a corporate merger, and indicate that the communication relates to pension benefit rights.
4. Include reminders on all mail communications to the participants to keep their addresses current or self-certify their census data on record. Also include the Unclaimed Benefit Form, so that participants can request for their checks to be reissued
5. Request a personal email address and cell phone number during the exit process, and emphasize that change of address must be reported to the employer

Additional services that recordkeepers can offer to plan administrators

Follow a procedure for returned/ uncashed checks

- Notify the plan administrator to start a locator search when a check is returned
- Send a reminder through certified mail if the check is uncashed within 90 days of mailing
- Send a reminder and initiate a missing participant search once the check reaches the 180-day deadline

Make it easier for participant

- Alerts participants about uncashed checks through the participant self-service portal
- Allow participants to modify details and select a mode of payment for reissued checks on the portal
- Use training aids to encourage new participants to enroll in electronic fund transfer

Provide supporting services

- Create monthly reports of dated uncashed checks on the portal and send email reminders to the plan administrator
- Monitor account balances for terminated plan participants
- Reconcile the disbursement account and IRA accounts each month against the checks issued, deposited, outstanding, and so on
- Cash-out account balances less than $1000 if required by the plan
- De Minimis amount - decide on minimum check amounts in agreement with the DOL to determine priority for follow up
- Clean up checks of aged, outstanding, and inactive plans with remaining checks escheated to the states after DOL authorization, though 'up front' implementation of procedure is preferred to avoid the need for a clean up after a plan becomes inactive.

Reach out through Contact Center

- Make a phone call to the missing participant when the value of the uncashed check is high
- Document all attempts made to reach the missing participant
- Partner with the client to create and lead a participant outreach program

Using technology as an enabler

At various touchpoints, there are numerous possibilities for operational slips and errors that technology can help resolve to a large extent. For example, the process of identifying checks that have been returned or reached a certain age (90 days or 180 days) can be automated, allowing recordkeepers to take timely action. Similarly, time and effort can be reduced by setting files to automatically generate and transmit to the mailing vendor; common search functionalities can also be automated with predefined parameters. Recordkeepers can be enabled to efficiently reach out to participants by equipping them with a rule-based system for letter generation. Besides, technology can also create solutions that help track, report, and reconcile uncashed checks.

The way forward

Plan administrators must constantly strive to minimize the number of uncashed checks and ensure that accrued benefits reach the intended participant. At the same time, it is the recordkeeper's role to support plan administrators by providing the information, tools, and services that can help them meet their fiduciary obligations. By enabling plan administrators and recordkeepers with the right technology, tools, and practices, the problem of uncashed checks can be prevented from getting any bigger.

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Sanjeev has over 2 decades of experience in capital markets, in various roles including consulting, solution design and delivery management. He has supported clients across firms in asset management, investment banking, wealth management, as well as retirement services, spanning across US, EMEA, and APAC regions. He has been with Infosys BPM for over 8 years now.

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