

# Lost Participants: Staying a Step Ahead

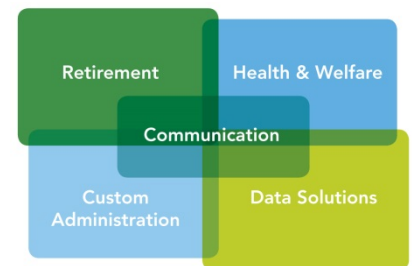


**There have been many recent articles about the Department of Labor’s audit initiative regarding plan compliance with mandatory payments. This article is focused on lost participants and the steps plan sponsors can take to maintain contact with participants in their retirement plans.**

## HOW DO PARTICIPANTS OF RETIREMENT PLANS BECOME LOST PARTICIPANTS?

The majority of lost participants are terminated vested participants, retirees, beneficiaries or alternate payees who have lost contact with their retirement account. This is normally because the lost participant no longer lives at the address the plan has on record, the address information is incomplete (e.g. beneficiary election form) or the lost participant is deceased and the beneficiary/ estate has not contacted the plan to report the death. In some circumstances, the beneficiary/estate is unaware of the retirement benefit.

Early indications of lost participants are sometimes detected when retirement checks go uncashed or plan mailings are returned as undeliverable. While returned mail is a first clue of a lost participant, the potential to have a much larger population is very real. Administrative procedures to take action on returned mail is a good approach and is common for most retirement plans. However, there are many other proactive approaches to address and prevent lost participants that plan sponsors should consider.



### The client-defined experience

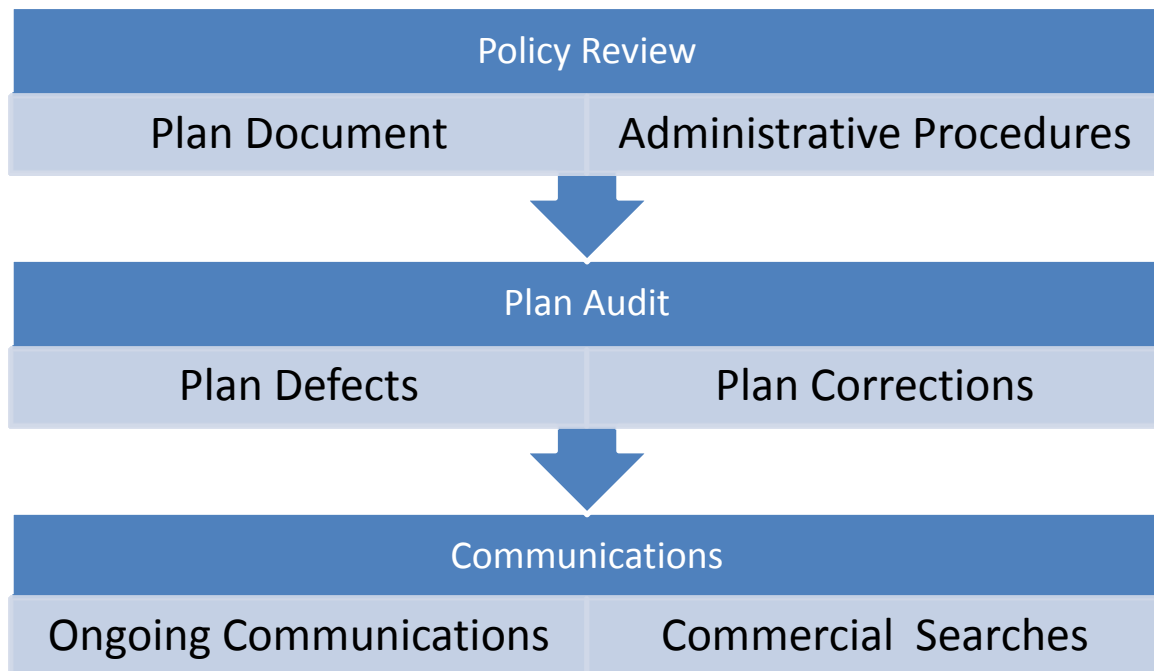
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First, let's touch on a few implications of lost participants and how they may impact your plan. Two of the more common issues plan sponsors are facing is locating participants when they are trying to deliver required plan notices and distributing mandatory payments (e.g. the year the participant attains age 70 ½ ). Coupled with the complications of outdated addresses and unreported death events is the possibility that a few retirement accounts may also have missing or inaccurate date of birth or other important plan information. Failing to distribute required minimum distributions may result in an excise tax of 50%. In addition to the excise tax, the cost of your legal guidance and administrative project work to correct these accounts can become very costly and administratively burdensome.

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## RECOMMENDED BEST PRACTICES:

Plan Sponsors may want to consider a review of the plan policies and procedures as well as conduct an audit of their plan. As a fiduciary, you should document your efforts to fulfill your administrative duties. Below are the typical components of a lost participant plan review:



## 1) Policy Review

Review or establish lost participant policies and procedures for your plan, validate the procedures are being followed in practice, document how often they are executed and record the results. In addition to reviewing returned mail reporting, consider reviewing other administrative reports as part of your administrative routine such as an uncashed check report to help detect a potential lost participant and examine plan records to see if any “gaps” in the participant data exist, such as a missing or “defaulted” birth date. Attempting to contact participants at the early stages of detection is generally more successful than deferring to later points in time (e.g. 70 ½ payment). Also ensure your policy is robust enough to include how the plan ultimately resolves participant accounts that are truly lost.

## 2) Plan Audit

For a more in-depth review, consider a comprehensive lost participant audit of your plan(s). In addition to the policy review, the audit should focus on the current state of the plan. Determine if your plan already has lost participants and if any of these participants have missed a required mandatory payment. Typical examples of missed required mandatory payments are minimum required distributions (MRDs) and beneficiary payments. If a problem is detected during your plan audit, create an action plan for correcting the plan exceptions and ensure that the ongoing plan procedures cover the situation.

## 3) Communications

When communicating to participants, regularly request that the participants review and update their contact information. This is a very simple and cost effective way of reminding participants to keep their contact information up-to-date. For your next plan mailing, consider utilizing a mail vendor who utilizes the National Change of Address (NCOA) services which helps reduce undeliverable mail by identifying and updating the mailing addresses of participants who have moved. Reviewing your vendors NCOA reporting is another simple and cost effective way of detecting participants who have moved and not yet updated their plan address. This provides you with the population that requires a follow-up communication requesting that their contact information be validated with the plan. Additionally, consider capturing other means of contact information such as a phone number or email address and

ensure accurate beneficiary records are maintained on the account. Having more than one contact option helps tremendously when trying to locate a lost participant.

If your plan already has lost participants or you are trying to minimize the situation from occurring all together, consider having a vendor perform an annual commercial address and life status search on your terminated vested, in-pay, contingent annuitant and beneficiary/alternate payee populations. While these services would incur a small expense, the services would provide you with information on which participants have different addresses than your retirement plan and identify participants who are now deceased. Once these populations are known, you could proactively reach out to these participants to validate their mailing address or contact their beneficiary/estate to review any survivor benefits due.

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## SUMMARY

As plan sponsors review their lost participant policies and procedures, they should consider evaluating all aspects of a lost participant. For larger plan populations, consider the cost and benefits of your current approach and understand the role your HR team may need to play in searching and communicating to lost participants versus outsourcing the search effort. Finally, take into consideration implementing policy and procedural changes that may help your plan mitigate the risk of a future lost participant.

For more information and support to help you navigate through your lost participant policies, administrative procedures, performing a commercial address and life search or perform a plan audit, contact your Fidelity Representative to arrange a meeting with Fidelity Benefits Consulting or email Fidelity Benefits Consulting at [fidelitybenefitsconsulting@fmr.com](mailto:fidelitybenefitsconsulting@fmr.com).