



# Defined Contribution Plan Distributions in the New Age

October 2018

Over the past year, there have been many developments in information technology and security within the financial services industry. In light of new and emerging threats, retirement service providers have had to re-evaluate distribution methods for retirement plan assets to protect participant accounts. Below is a summary of the BPAS position on electronic distributions.

## Background Factors

For years, defined contribution (DC) plans operated in a fairly mundane environment: loans, hardships, and distributions were made to participants every day either by check or electronically (ACH), with little news or fanfare.

In late 2017, things started to change. A number of well-publicized data breaches made headlines when the personal financial information of more than 160 million Americans was divulged to the outside world (by a major credit reporting agency, retailers, healthcare providers, and payroll firms). Then, new data aggregation firms began emerging that combined personal information with inputs harvested from social media. As a result, fraudsters had more data than ever before with which to operate—changing the game for the retirement plan industry.

## Threats Directed Toward DC Plans

As part of general business planning, BPAS collaborates with other retirement service providers to share information on current trends and emerging issues. Several months after the 2017 breaches were announced, firms began to see a sharp rise in fraud-related attempts across their platforms. “Bad actors” would use a variety of techniques attempting to access participant accounts and have funds distributed. The speed and sophistication of this activity was unprecedented.

## Check vs ACH Payment: What’s the Difference?

Simply stated, ACH payments present ideal opportunities for fraudsters for two key reasons:

- Many banks allow checking accounts to be opened online, with only basic financial information and without the applicant appearing in person. (Fraudsters often open the account in the name of a real person.)
- When funds are deposited into the account, they can be quickly wired elsewhere—making it difficult to track or recapture assets later in the event of fraud.

Traditional checks offer a dramatically higher level of protection compared with electronic payments:

- Checks are physically delivered to the recipient’s home address via mail or overnight courier.
- The receiving bank is legally responsible to verify the participant’s identity before honoring the check.
- Because the receiving bank is generally on the hook for honoring payment, the level of inter-bank cooperation/investigation is often higher.

Not only have checks been a viable solution for decades, they have been the only option at BPAS for amounts over \$25,000.

**At BPAS, there are no higher priorities than protecting data and account security.**





## The Employer Position on ACH

It is worth noting that ACH payments were offered as a second option for the sake of convenience – for example, if a participant faced a “cash crunch” and needed funds quickly. When industry factors began to unfold, we suspended outgoing loans and distributions via ACH so we could further examine the issue. During this time, we talked to dozens of plan sponsors to get their opinions.

While employer verification of ACH distribution requests could be an option, the employers we surveyed were emphatically opposed to accepting the added liability and opted to support distributions by check. We listened.

**Questions? Reach out  
to your BPAS representative.**

## The BPAS Solution

Considering all factors and our commitment to protect qualified plan assets, BPAS is taking a prudent approach to distributions:

- We are incorporating a number of additional security measures to deliver value to all parties and guard against unauthorized access to accounts; our specific initiatives will remain proprietary and confidential.
- We will issue checks only for loan, hardship, and distribution requests from participants. Participants may pay an additional fee to have the check overnighted to their home address.
- We are working on technology to further streamline distribution forms and the submission process through e-signature and web-based applications. These enhancements will create additional efficiencies in the distribution process.

At BPAS, there are no higher priorities than protecting data and account security. We will continue to monitor security issues related to our customers and may make additional changes as warranted.

As always, we urge participants to guard their financial information, make sure they have a current working email address at [bpas.com](http://bpas.com) (and other financial sites), use and update strong passwords, and pay attention to all emails and correspondence regarding their accounts. Please see our Participant Education Center ([pec.bpas.com](http://pec.bpas.com)) for more information on this critical topic.

**Let's work together and keep retirement plan assets for their intended purpose:  
helping participants retire with dignity.**



**P 866-401-5272 E TrustSales@bpas.com W bpas.com**



BPAS Services: Plan Administration & Recordkeeping | Actuarial & Pension | TPA | Fiduciary | Healthcare Consulting | VEBA & HRA/HSA  
AutoRollovers & MyPlanLoan | Transfer Agency | Fund Administration | Custody | Collective Investment Trusts

BPAS Subsidiaries: Hand Benefits & Trust | BPAS Trust Company of Puerto Rico | NRS Trust Product Administration | Global Trust Company

BPAS Offices in Rochester, Syracuse, Utica & New York, NY | Philadelphia & Pittsburgh, PA | Houston, TX | Boston, MA | E. Hanover, NJ | San Juan, PR