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How Account Balance Size Affects Retirement Plan Rollovers

WASHINGTON—When a worker changes jobs and receives a lump-sum distribution from his or her employer's retirement plan, does the amount of the distribution affect whether the recipient will roll over the entire amount to another tax-qualified savings vehicle? Or will the retirement savings be spent?

In short, the answer is that the larger the distribution, the more likely it will be kept entirely in tax-qualified savings. Thus, among recipients with distributions of \$1–\$499 (in 2006 dollars), 17.0 percent rolled over their distributions exclusively to tax-qualified savings, compared with 72.4 percent of those with distributions of \$50,000 or more, according to a recent report by the nonpartisan Employee Benefit Research Institute.

As the January 2009 *EBRI Notes* points out (www.ebri.org/pdf/notespdf/EBRI_Notes_Jan09_Rollovers.pdf), workers' future financial adequacy in retirement can be profoundly affected by whether their lump-sum distributions are cashed out or retained in another savings vehicle. The numbers below provide a breakdown of the proportion of lump-sum recipients using the *entire portion* of their most recent distribution through 2006 for tax-qualified financial savings, such as individual retirement accounts (IRAs), individual annuities, and other employment-based retirement plans. The breakdowns are by distribution size (in 2006 dollars) at the time of the most recent distribution, and show a clear trend: The bigger the lump-sum distribution, the more is saved.

<u>Distribution Size</u>	<u>Portion Rolled Over</u>
\$1–\$499	17.0 percent
\$500–\$999	19.5 percent
\$1,000–\$2,499	23.7 percent
\$2,500–\$4,999	32.8 percent
\$5,000–\$9,999	43.9 percent
\$10,000–\$19,999	46.5 percent
\$20,000–\$49,999	52.5 percent
\$50,000 or more	72.4 percent

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