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Notes

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E X E C U T I V E   S U M M A R Y

Lump-Sum Distributions at Job Change

GROWING NUMBER OF WORKERS FACED WITH ASSET DECISIONS AT JOB CHANGE: With 401(k)-type retirement plans now dominant and "traditional" pensions offering lump-sum distributions at retirement, a growing number of workers are faced with making decisions about what to do with the assets they have earned in their employment-based plans when they change jobs. After leaving employment with a retirement plan sponsor, the worker has three choices for his or her retirement account: Leave the money in the plan, roll it over to another tax-qualified savings vehicle, or cash it out.

RETAINING RETIREMENT ASSETS AT JOB CHANGE A MAJOR ISSUE: Workers' future financial adequacy in retirement can be profoundly affected by whether their lump-sum distributions at job change are cashed out or retained in another savings vehicle. This is particularly the case for younger workers and those with large balances. This article uses 2006 data (the latest available) from the Census Bureau's Survey of Income and Program Participation (SIPP) to analyze the decisions made by workers at job change when they receive a lump-sum payment from an employment-based retirement plan.

AVERAGE AND MEAN DISTRIBUTIONS: About 16.2 million working-age Americans reported ever having received a lump-sum distribution from a retirement plan when changing jobs, through April of 2006. The average amount of these distributions was $32,219 (in 2006 dollars) and the median (mid-point) amount was $10,000.

MOST DISTRIBUTIONS GENERALLY SMALL: For the most part, the amounts of the lump-sum distributions were relatively small—just over 21 percent of the distributions were less than $2,500. Just over 16 percent were $50,000 or more. The rest of the distributions (about 63 percent) were between $2,500 and $50,000.

ROLLOVER TRENDS ARE MIXED: The data show that an increasing percentage of retirement plan participants are rolling over all of their lump-sum distributions on job change, and fewer are spending any of their distributions on consumption. However, the data also show that approximately 60 percent of those who took a lump-sum payment did not roll *all of it* into tax-qualified savings, although not all of those distributions were spent exclusively on consumption but instead were used for home purchases, starting a business, or paying down debt. This behavior varied significantly across participants' ages and the amount of the distribution, with older individuals (up to age 65) and those with higher balances more likely to roll over their assets.

YOUNGER WORKERS MOST AT RISK OF SPENDING THEIR LUMP-SUM DISTRIBUTIONS: The data suggest that many workers, particularly younger ones, do not understand or value the fact that a small amount of savings can make a significant impact on retirement assets due to compound interest. By cashing out even small amounts, younger participants are sacrificing a potentially important asset for their retirement.

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Lump-Sum Distributions at Job Change

By Craig Copeland, EBRI

As more workers are participating in defined contribution plans (typified by the 401(k) plan) and are in defined benefit (pension) plans that allow a lump-sum distribution, an increasing number of them are faced with making decisions about what to do with the assets they have earned in these plans when they change jobs.[1]

After leaving employment with a retirement plan sponsor, the worker has three choices for his or her retirement account:

- Leave the money in the plan.
- Roll it over to another tax-qualified savings vehicle (another employment-based plan or an individual retirement account (IRA)).
- Cash it out (to spend it or to invest/save it in another manner than through a tax-qualified savings vehicle).

This choice can profoundly affect participants' financial resources in retirement, particularly in the case of younger workers and those with large balances.[2] Consequently, to determine whether individuals are accumulating and retaining the assets they will need for financial adequacy in retirement, it is important to understand what they do with their retirement plan assets when leaving a job.

This article focuses on the decisions that workers at job change make on receipt of a lump-sum payment from an employment-based retirement plan: whether to roll the account balance over to another tax-qualified savings vehicle, spend the assets, or invest/save the assets in another manner. The number and amounts of lump-sum distributions are estimated, followed by a discussion of what individuals are doing with these distributions and an analysis of important determinants of the decision to roll over the distribution versus using the assets for other reasons. These results are derived from recently released data from the U.S. Census Bureau—The Pension and Retirement Plan Coverage Topical Module 7 of the 2004 Survey of Income and Program Participation (SIPP)—which includes lump-sum data for individuals through 2006.[3] This research updates prior studies on lump-sum distributions done by the Employee Benefit Research Institute.[4]

Lump-Sum Distributions: An Overview

In the 2004 Panel of SIPP, approximately 16.2 million Americans age 21 and over reported ever having received a lump-sum distribution from a retirement plan on a previously held job (when changing jobs) through April of 2006.[5] Respondents were asked further questions about their distribution or, if they had more than one, their most recent distribution, to better understand the uses (rollover, spending on consumption, education expenses, housing purchase/improvement, starting a business, or some other investment) and the size of these distributions. The size or amount of the distribution was reported in the survey in terms of its value at the time of the distribution. However, since some of these distributions were taken many years ago, the distributions' relative value to current prices is not the same. Consequently, the amount of the distributions is presented with respect to both the value when the distribution was received and in 2006 dollars, by adjusting the reported values by the consumer price index so that values are in the same dollar terms.

The mean (average) amount of these distributions *in 2006 dollars* was $32,219, with a median (mid-point) amount of $10,000 (Figure 1). In terms of the value *at the time of the distributions,* the mean amount was $23,880 and the median amount was $7,500. For distributions taken in 1980 or after, the average and median amounts declined with time. For example, for distributions taken from 1980–1986, the average distribution in 2006 dollars was $47,679, compared with $22,166 for distributions taken between 2004–2006. The median also declined, from $15,107 to $7,497. (For the value of the distribution when taken, the average distribution increased from $23,410 for those taken during 1980–1986 to $27,673 during 1994–1998, then decreased to $21,927 during 2004–2006.)

The amounts of the lump-sum distributions for the most part were relatively small, with 5.0 percent of recipients reporting a distribution of less than $500 (in 2006 dollars), 4.4 percent reporting from $500 to less than $1,000, and 11.9 percent reporting from $1,000 to less than $2,500—for a total of 21.3 percent of the distributions being less than $2,500 (Figure 2). The rest of the distributions, except for the 16.2 percent that were $50,000 or more, were between $2,500 and $50,000, with those distributions being somewhat equally divided (in the 12–18 percent range of the total) among the $2,500–$4,999, $5,000–$9,999, $10,000–$19,999, and $20,000–$49,999 distribution categories.

Approximately 23 percent of the lump-sum distribution recipients reported having received their most recent distribution from 2004–2006, and another 34 percent from 1999–2003, whereas only 4.0 percent received their most recent distribution before 1980 (Figure 3). Consequently, more than 55 percent of the distributions in this study took place after 1998. As for the age at which the recipients received these most recent distributions, just over 50 percent were between the ages of 21 and 40 (Figure 4).

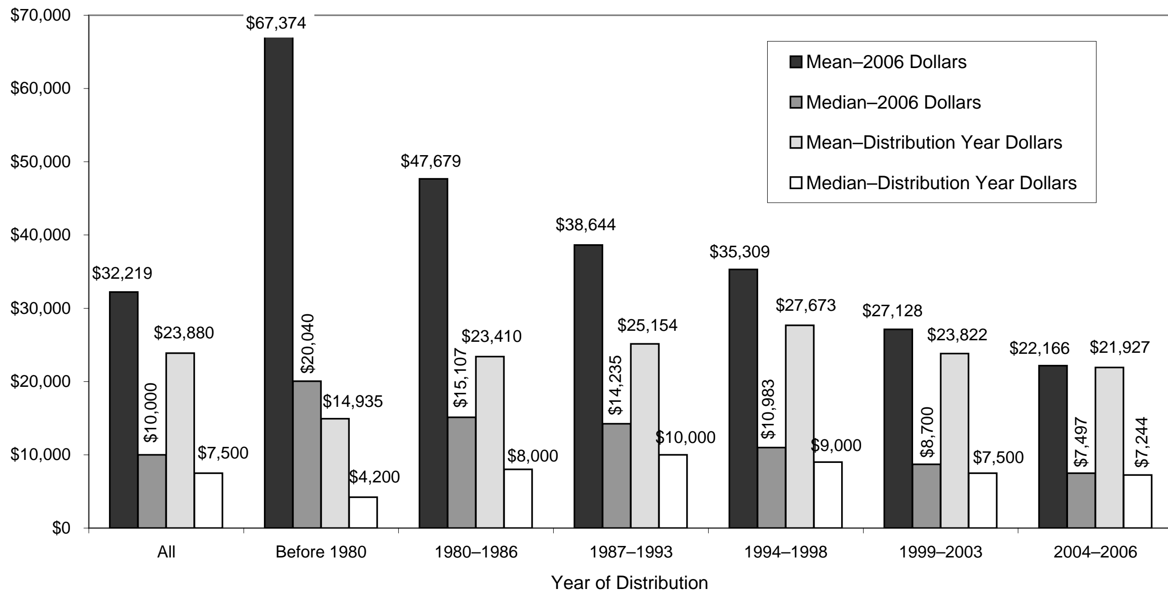


Figure 1
Mean and Median Amounts of Lump-Sum Distributions, by Year of Most Recent Distribution Received, Workers[a] Age 21 and Over, Through 2006
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
Mean–2006 Dollars
Median–2006 Dollars
Mean–Distribution Year Dollars
Median–Distribution Year Dollars
$32,219
$10,000
$23,880
$7,500
$67,374
$20,040
$14,935
$4,200
$47,679
$15,107
$23,410
$8,000
$38,644
$14,235
$25,154
$10,000
$35,309
$10,983
$27,673
$9,000
$27,128
$8,700
$23,822
$7,500
$22,166
$7,497
$21,927
$7,244
All
Before 1980
1980–1986
1987–1993
1994–1998
1999–2003
2004–2006
Year of Distribution
Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Workers who had left a job but not retired.

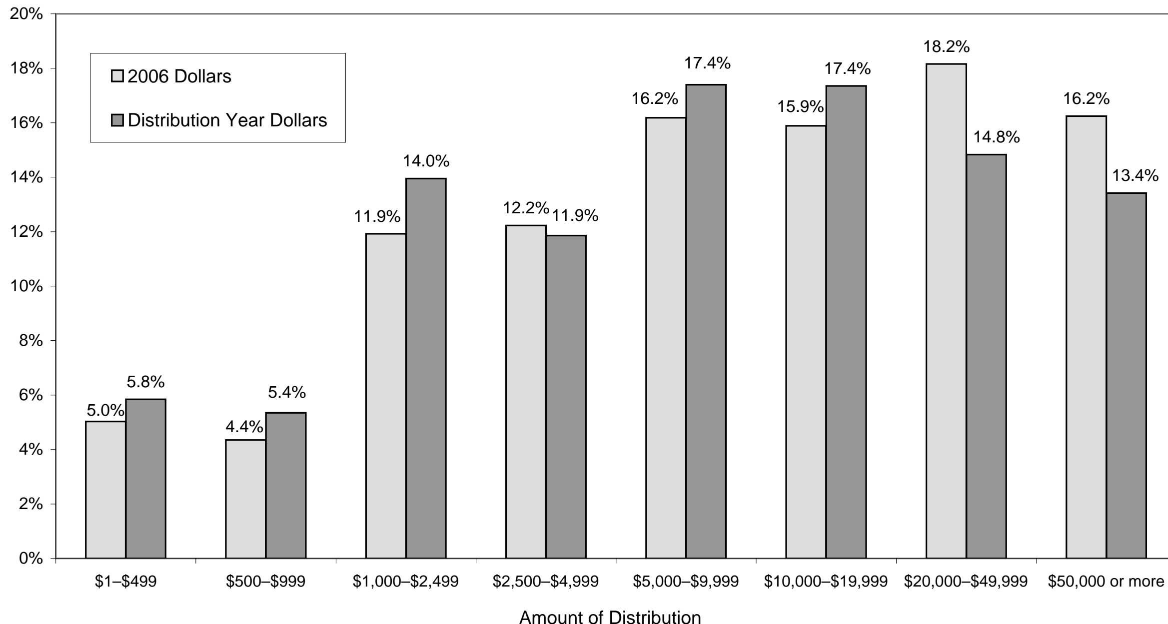
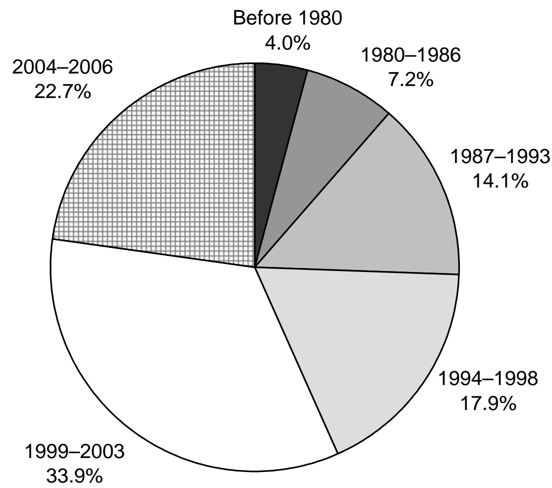


Figure 2
Share of Lump-Sum Recipients, by Amount of Most Recent Distribution of Workers[a] Age 21 and Over, 2006
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
2006 Dollars
Distribution Year Dollars
5.0%
5.8%
4.4%
5.4%
11.9%
14.0%
12.2%
11.9%
16.2%
17.4%
15.9%
17.4%
18.2%
14.8%
16.2%
13.4%
$1–$499
$500–$999
$1,000–$2,499
$2,500–$4,999
$5,000–$9,999
$10,000–$19,999
$20,000–$49,999
$50,000 or more
Amount of Distribution
Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Workers who had left a job but not retired.

Figure 3

Percentage of Lump-Sum Recipients by Year of Most Recent Distribution Received, Workers[a] Age 21 and Over, 2006

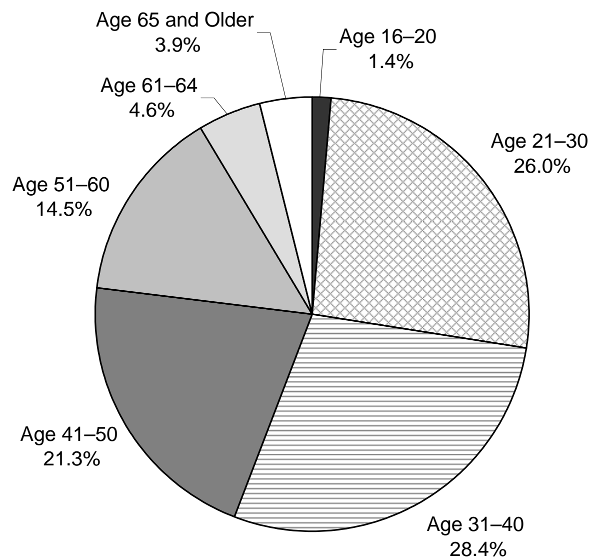


Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.

[a] Workers who had left a job but not retired.

Figure 4

Proportion of the Most Recent Lump-Sum Distribution, by the Receipent's Age at the Time of the Distribution, 2006



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.

Benefit Preservation Trends

The goal of retirement savings plans such as a 401(k) plan is to provide income for individuals in their retirement. For this to happen, participants in these plans must preserve their benefits until retirement by retaining any existing plan balance on job termination. This section looks at the percentage of lump-sum recipients who roll over their assets to a tax-qualified plan (an IRA or another employment-based retirement plan), thereby preserving their benefits, at least initially, rather than cashing them out.

Among those who reported in 2006 ever having received a distribution, 47.3 percent reported rolling over at least some of their most recent distribution to tax-qualified savings[6] (Figure 5). This is higher than the amount reported for workers receiving distributions most recently through 2003.[7] Furthermore, among those who received their most recent distributions through 2006, the percentage who used any portion of it for consumption[8] was also lower, at 16.9 percent (compared with 25.2 percent of those whose most recent distributions were received through 2003 and 38.3 percent through 1993). However, there was an uptick in the percentage of recipients through 2006 who used their lump sum for debts, business, and home expenses, and a decrease in the percentage saving in nontax-qualified vehicles relative to distributions through 2003.

The percentage of lump-sum recipients who used the entire amount of their most recent distribution for tax-qualified savings increased sharply since 1993, to 44.3 percent of those who received their most recent distribution through 2006, compared with 19.3 percent of those who received their most recent distribution through 1993 (Figure 6). Furthermore, the percentage of recipients whose most recently received distribution was entirely spent on consumption was 9.2 percent for those whose distributions were received through 2006, compared with 22.7 percent for those who received distributions through 1993.

An important factor in the change in the relative percentages between the 1993 and 2006 data is the percentage of lump sums that were used for only one purpose. Among individuals who received their most recent distributions through 2006, 93.7 percent of those who rolled over at least some of their most recent distribution rolled over the entire amount, whereas only 46.5 percent of those who rolled over at least some of their most recent distribution through 1993 did so.[9,10] Therefore, while a trend to more benefit preservation does not look promising when analyzing the use of *any portion* of the lump-sum distribution, a trend for more preservation is revealed to be quite substantial on an *entire-use* basis, as virtually all of those who rolled over their lump sum rolled over the entire amount. In addition, the decline in the use of an entire distribution for consumption accelerated 2006.

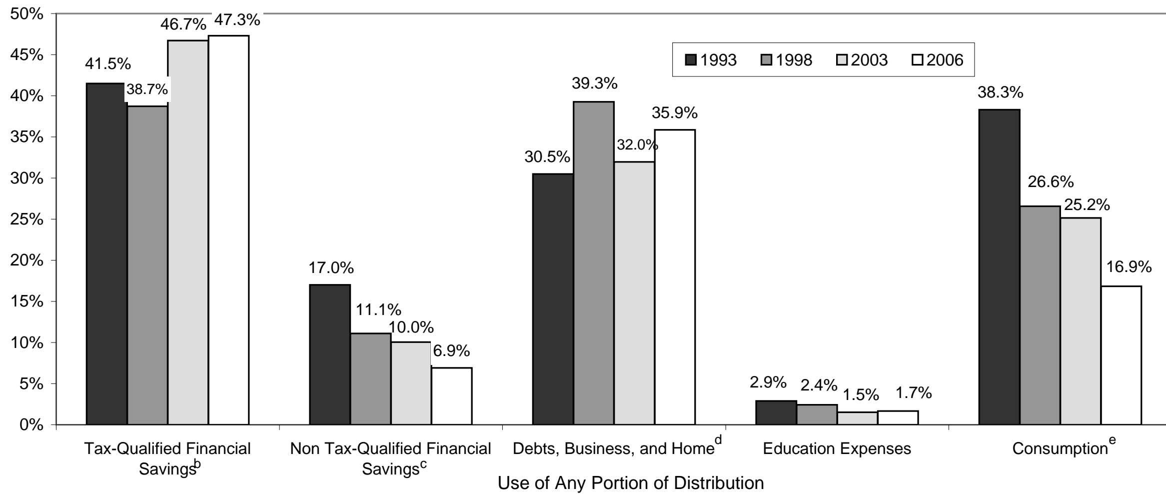
Another technique to check the trend in the percentage of workers who roll over their assets relative to cashing them out is to use the 2004 SIPP Topical Module 7 data to examine when the most recent distributions were received *within* the dataset, instead of *across* datasets. The most recent distributions from these data are broken down into six categories: before 1980, 1980–1986, 1987–1993, 1994–1998, 1999–2003, and 2004–2006. In this analysis, the likelihood of any of the most recent distributions going to tax-qualified savings increased with time before declining for the most recent distributions (Figure 7).[11] Among workers who received their most recent distributions between 1994 and 1998, 51.8 percent used some portion for tax-qualified savings, whereas only 17.8 percent of those who received their distributions before 1980 used some portion for tax-qualified savings. However, this percentage was lower (46.0 percent) for those who received a distribution from 2004 to 2006.

The percentage of recipients using any portion of their most recent lump-sum distribution for consumption followed the opposite pattern, except for the increase in the most recent distributions. Among those who received distributions before 1980, 33.4 percent used some proportion for consumption, compared with only 14.3 percent of those who received distributions from 1999–2003 and 16.6 percent of recipients from 2004–2006 (Figure 8). Both analysis techniques show that the percentage of lump-sum recipients using some portion of their most recent distribution for tax-qualified savings was significantly higher in 2006 than it was in 1993, despite a decline for the most recent (2004–2006) distributions within the 2004 SIPP. Furthermore, the percentage who used any portion of their distribution for consumption has significantly decreased, even taking into account the small rise in the most recent distributions. Consequently, the preservation of benefits appears to have improved from 1993 to 2006. Moreover, recipients who did not use their lump sum for tax-qualified savings were more likely to use it to improve their financial condition by paying down debt or buying a home rather than spending it on additional consumption. A possible major driver of the trend to roll over the entire distribution was the federal government's establishment of a 20 percent withholding rate on distributions not directly rolled over after 1993. Other reasons include better education and the likelihood that the plan was the worker's only retirement savings vehicle. However, the decrease in benefit preservation of the most recent distributions indicated in recent data may be due to the need to pay down debts or to use for downpayments on home purchases, which became increasingly expensive in many areas of the country during 2004–2006.

Determinants of Benefit Preservation

Two important factors in the use of lump-sum distributions exclusively for tax-qualified savings appear to be the age of the recipient and the size of the distribution. The likelihood of the distribution being rolled over entirely to tax-qualified savings increased with the age of the recipient at the time of receipt until age 65, after which a substantial decline began for the oldest recipients. Among those receiving distributions when they were ages 61–64, 64.0 percent

Figure 5
Proportion of Lump-Sum Recipients Reporting Various Uses for Any Portion of Their Most Recent Distribution, Workers[a] Who Changed Jobs Age 21 and Over, 1993, 1998, 2003, and 2006



Source: Employee Benefit Research Institute estimates from the 1996, 2001, and 2004 Panels of the Survey of Income and Program Participation Topical Module 7 and April 1993 Employee Benefits Supplement to the Current Population Survey.

[a] Workers who had left a job but not retired.

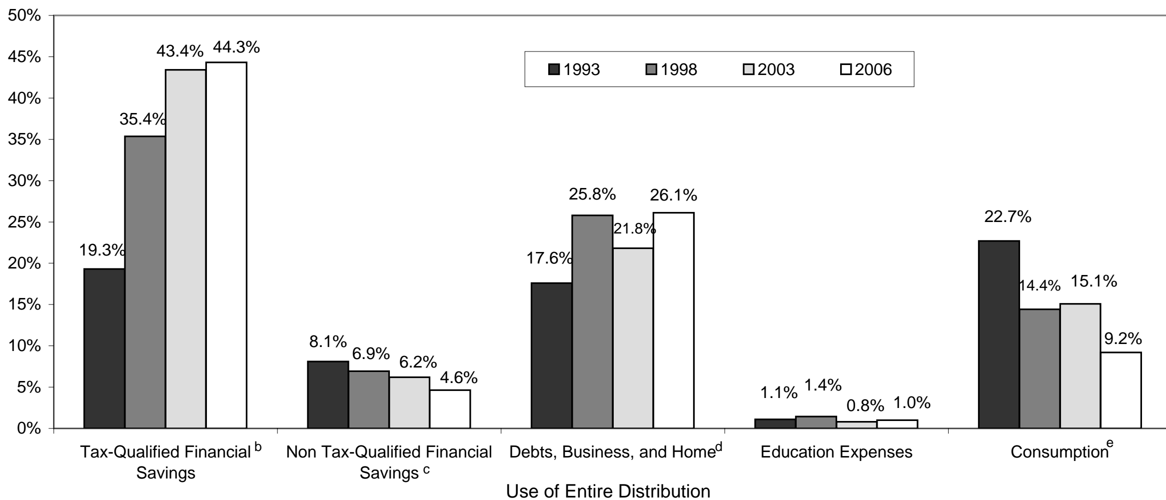
[b] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[c] Includes savings accounts, other financial investments, and other savings.

[d] Includes purchase of home, start or purchase of a business, payments toward debt, bills, loans, or mortgage.

[e] Includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

Figure 6
Proportion of Lump-Sum Recipients Reporting Using Entire Portion of Their Most Recent Distribution for Each Use, Workers[a] Who Changed Jobs Age 21 and Over, 1993, 1998, 2003, and 2006



Source: Employee Benefit Research Institute estimates from the 1996, 2001, and 2004 Panels of the Survey of Income and Program Participation Topical Module 7 and April 1993 Employee Benefits Supplement to the Current Population Survey.

[a] Workers who had left a job but not retired.

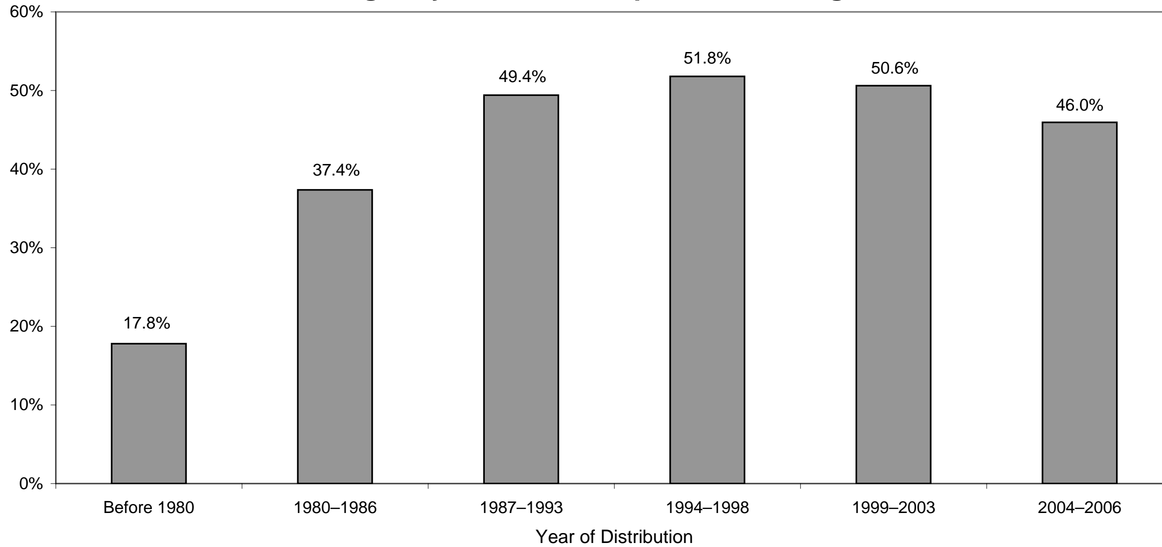
[b] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[d] Includes savings accounts, other financial invesments, and other savings.

[d] Includes purchase of home, start or purchase of a business, payments toward debt, bills, loans, or mortgage.

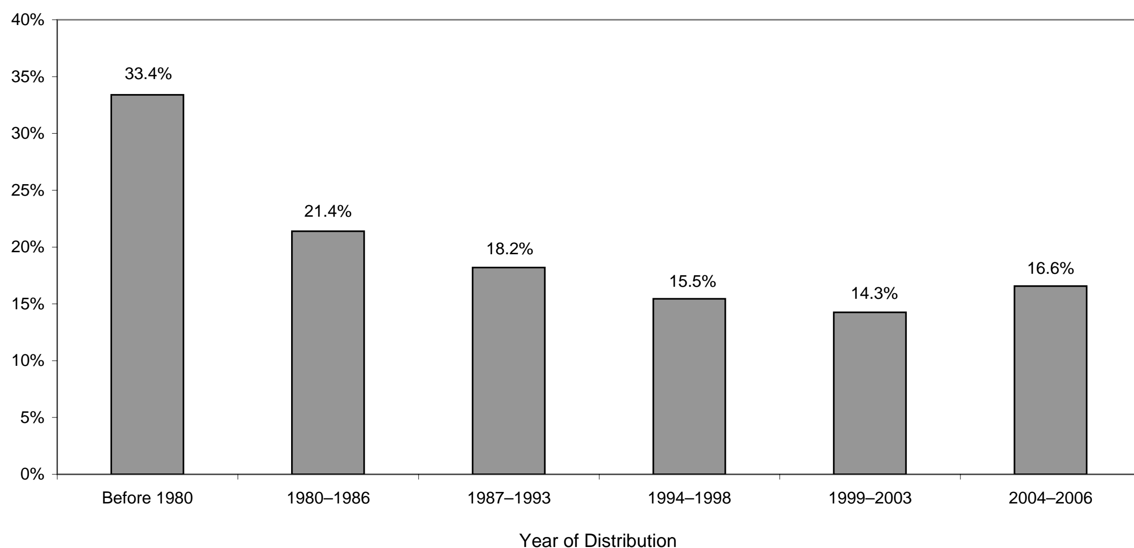
[e] Includes purchase of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

Figure 7
Proportion of Lump-Sum Recipients Reporting Using Any Portion of Their Most Recent Distribution Through 2006 for Tax-Qualified Financial Savings[a] by Year of Receipt, Workers[b] Age 21 and Over



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.
[b] Workers who had left a job but not retired.

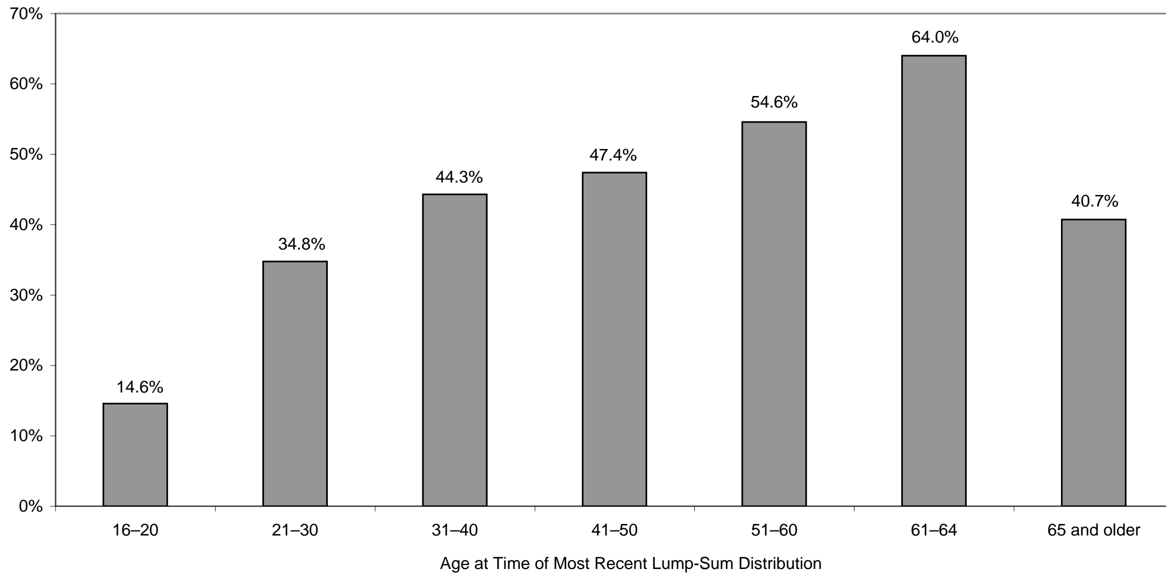
Figure 8
Proportion of Lump-Sum Recipients Reporting Using Any Portion of Their Most Recent Distribution Through 2006 for Consumption,[a] by Year of Receipt, Workers[b] Age 21 and Over



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.
[b] Workers who had left a job but not retired.

Figure 9

Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution Through 2006 for Tax-Qualified Financial Savings[a] by Age at Time of Most Recent Distribution, Workers[b] Age 21 and Over



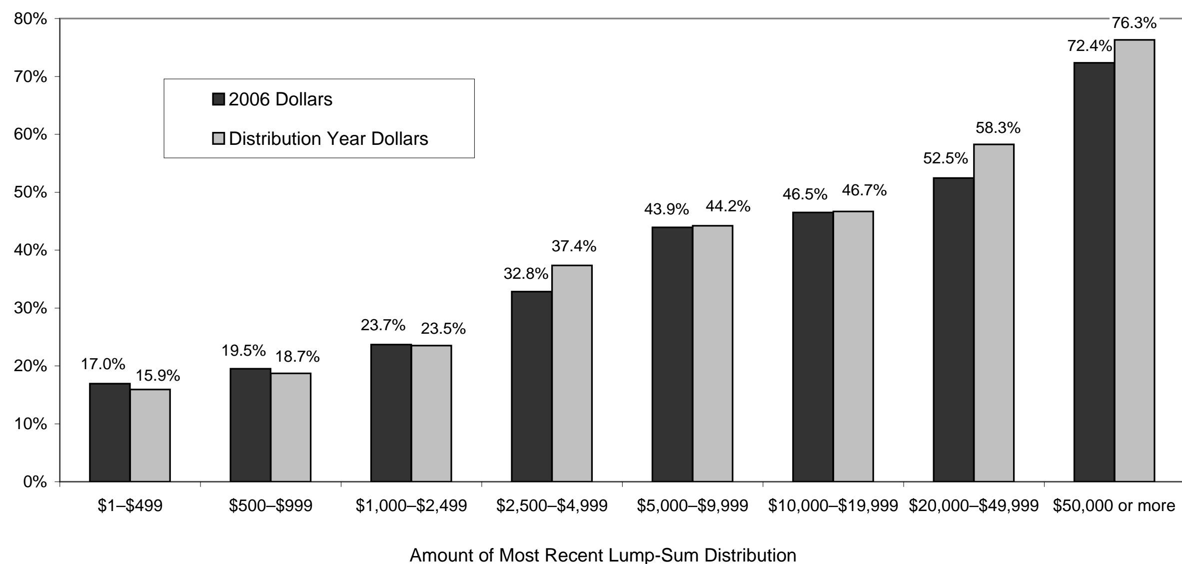
Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.

[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[b] Workers who had left a job but not retired

Figure 10

Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution Through 2006 for Tax-Qualified Financial Savings,[a] by the Amount of the Most Recent Distribution, Workers[b] Age 21 and Over



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.

[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[b] Workers who had left a job but not retired.

used their distribution entirely for tax-qualified savings, compared with 34.8 percent of those who were ages 21–30 (Figure 9).[12]

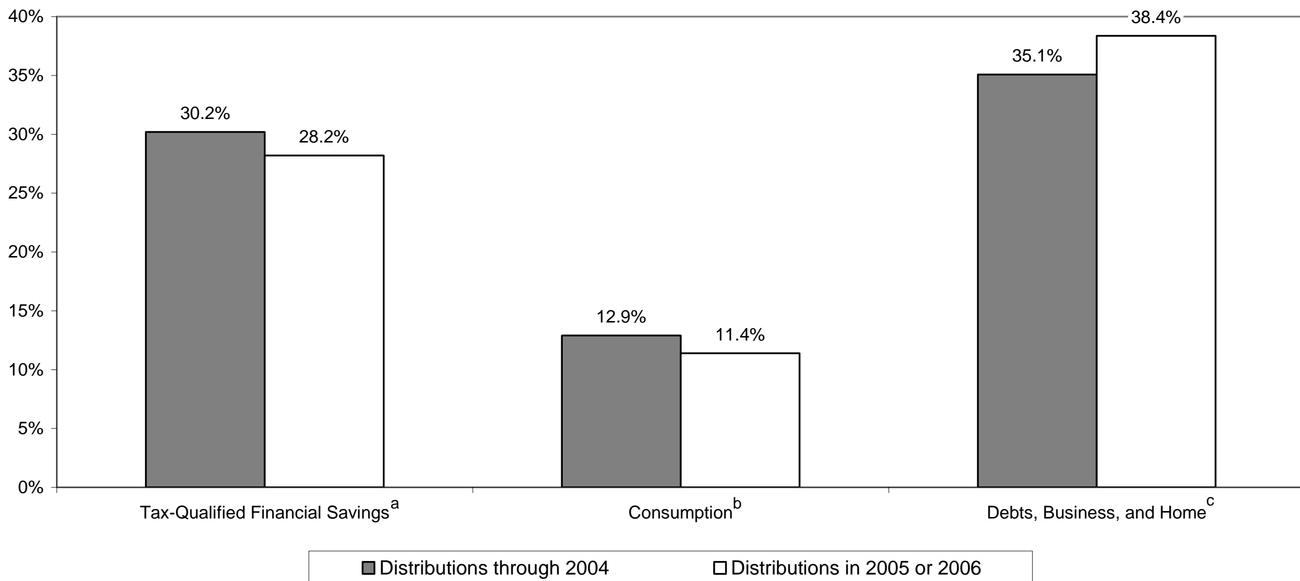
Similarly, the larger the distribution, the more likely it was kept entirely in tax-qualified savings. Among recipients with distributions of $1–$499 (in 2006 dollars), 17.0 percent rolled over their distributions exclusively to tax-qualified savings, compared with 72.4 percent of those with distributions of $50,000 or more (Figure 10).

Conclusion

Because of their portability, benefits in defined contribution retirement plans have the advantage of potentially experiencing real growth—rather than only nominal growth—through investment returns when individuals change jobs. This is in contrast to defined benefit (pension) plans, in which the benefits are based on the participants' years of participation and wage history at the time of job termination and remain at that relative value until distributions commence. However, the advantage of defined contribution plans can be compromised if plan participants cash out their benefits prior to retirement instead of preserving them.[13] This article assesses the likelihood that lump-sum recipients will cash out or retain benefits from employment-based retirement plans once the decision is made to take a distribution from a plan.

The data show that an increasing percentage of employment-based retirement plan participants are rolling over all of their lump-sum distributions on job change, and fewer are spending any of their distributions on consumption. However, the data also show that approximately 60 percent of those who took a lump-sum payment did not roll *all of it* into tax-qualified savings (Figure 5), although not all of those distributions were spent exclusively on consumption but instead were used for home purchases, starting a business, or paying down debt. This behavior varied significantly across participants' ages at the time of the distribution and the amount of the distribution, with older individuals (up to age 65) and those with higher balances more likely to roll over their assets. This suggests that some individuals, particularly younger ones, do not understand or value the fact that a small amount of savings can make a significant impact on retirement assets due to compound interest. By cashing out even small amounts, younger participants are sacrificing a potentially important asset for their retirement.[14]

Figure 11
Percentage of Lump-Sum Distribution Recipients of $1,000 to $5,000 at the Time of the Distribution Who Used the Entire Distribution For Various Uses, by Time of the Distribution, 2006



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.
[b] Includes purchase of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.
[c] Includes purchase of home, start or purchase of a business, payments towards debt, bills, loans, or mortgage.

One possible reason that a large percentage of small balances are being cashed out is the ability of private-sector plan sponsors to require individuals to take a lump sum if their balance is less than $5,000. Consequently, many individuals with small balances may be unaware of the tax implications and cash the check they receive from the plan sponsor after job termination. A provision in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) established a rollover IRA as the default option for lump-sum distributions of less than $5,000 but no less than $1,000. This provision, which became effective March 28, 2005, was introduced to increase the likelihood of rollovers among those with the balances in this range. Using data from the 2004 SIPP panel on the portion of recipients of distributions between $1,000 and $5,000 at the time of the distribution who roll over all of their distribution to tax-qualified savings, the percentage of those receiving these distributions in 2004 or before can be compared with the percentage of those receiving the distributions in 2005 or 2006. The result does not show a statistically significant difference: 30.2 percent of those who took a distribution through 2004 rolled over all of it, while 28.2 percent of those who took a distribution in 2005 or 2006 did so (Figure 11). Furthermore, the percentage who used the distribution only for consumption also remained unchanged statistically.

While EGTRRA has the potential to help increase the percentage of those choosing a rollover, it will not prevent many individuals from taking the money and spending it when they leave a job. Therefore, to significantly reduce the number of retirement plan participants who cash out their lump-sum distributions, more education or possibly incentives are needed to help them understand the importance of retaining these assets for retirement. Otherwise, the advantage of retirement plan asset portability will be lost, possibly forcing many workers to rely only on the funds that have accumulated during their last job before retiring––if they participated in a plan—or solely on Social Security to provide their retirement income. This could result in the government (taxpayers) being called upon to provide retirees with retirement income protection at a time when both Social Security and Medicare are projected to be unable to fund the benefits now established by law.

Endnotes

[1] According to an unpublished analysis of the 2004 Panel of Survey and Income Program Participation Retirement and Pension Plan Coverage Topical Module 7, 67.1 percent of employment-based retirement plan participants considered a defined contribution plan to be their primary retirement plan, compared with 25.8 percent in 1988. Furthermore, for those participating in a defined benefit plan, lump-sum distributions are increasingly available. See, for example, U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2005 Bulletin* (2007), www.bls.gov/ncs/ebs/sp/ebbl0022.pdf and *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2002–2003* (2005). www.bls.gov/ncs/ebs/sp/ebbl0020.pdf/ The percentage of all private industry employees eligible for a lump-sum distribution increased from 48 percent in 2002 to 52 percent in 2005, compared with 23 percent and 15 percent of full-time workers participating in a defined benefit plan in a medium or large establishment that were offered a lump-sum distribution in 1997 and 1995, respectively (U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments, 1997* (1999), www.bls.gov/ncs/ebs/sp/ebbl0017.pdf and *Employee Benefits in Medium and Large Private Establishments, 1995* (1998), www.bls.gov/ncs/ebs/sp/ebbl0015.pdf

[2] For example, a 25-year-old who leaves an employer after accumulating a $5,000 account balance would have approximately $24,600 at age 65, assuming a constant 4 percent annual rate of return compounded monthly.

[3] The 2004 Panel of the Survey of Income and Program Participation (SIPP), conducted by the U.S Census Bureau, follows the same households for a two-and-one-half-year period, asking various questions on their economic and demographic status. The survey participants are interviewed at four-month intervals about a core set of demographic and economic issues. In addition, topical modules that ask more specific questions about important economic issues are asked. The Retirement and Pension Plan Coverage Topical Module 7 was fielded in January–April 2006 and asked questions about workers' participation in retirement and/or pension plans in addition to the questions on lump-sum distributions. For more information about SIPP, see www.census.gov/sipp/

[4] See Craig Copeland, "Lump-Sum Distributions," *EBRI Notes, no. 12* (Employee Benefit Research Institute, December 2005): 7–17; Craig Copeland, "Lump-Sum Distributions: An Update," *EBRI Notes, no. 7* (Employee Benefit Research Institute, July 2002): 1–8, and the citations therein from both academic studies and service-provider studies on lump-sum distribution decisions. Also see Craig Copeland, "Retirement Plan Participation and Retirees' Perception of Their Standard of Living," *EBRI Issue Brief*, no. 289 (Employee Benefit Research Institute, January 2006) for more results from the 2001 Panel of SIPP. Other research on lump-sum distributions includes a recent study by the Investment Company Institute that examines distribution choices at just retirement (not preretirement) and finds a small amount spent at the time of the distribution. See John Sablehaus, Michael Bogdan, and Sarah Holden, "Defined Contribution Plans Choices at Retirement: A Survey of Employees Retiring Between 2002 and 2007," *Investment Company Institute Research Series*, December 5, 2008 (Investment Company Institute, Fall 2008), http://ici.org/home/rpt_08_dcdd.pdf. In addition, a plan administer study done by Hewitt Associates found that 45 percent of 401(k) participants who left their jobs in 2005 cashed out their lump sum, 32 percent left

it in the plan, and 23 percent rolled it over to another tax-qualified plan. They were not able to determine what the individuals who cashed out their lump sum did with it (spent it, invested it, paid down debt, etc.). Furthermore, a study by researchers at Vanguard found that 27 percent of defined benefit plan participants from two large plans who were eligible for a lump-sum distribution chose to take annuity as the payout option, while 17 percent did so from cash balance plans (Gary R. Mottla and Stephan P. Utkus, *Lump Sum or Annuity? An Analysis of Choice in DB Pension Payouts*, Vanguard Center for Retirement Research, Vol. 30, November 2007, https://institutional.vanguard.com/iam/pdf/CRRLSA.pdf)

[5] This includes individuals who were participants in the plan along with any survivors of those who were in a plan. This does not factor in the participants who left their assets behind in the plan. The percentage of individuals who left their assets in a previous employers' plan has been estimated to be approximately one-third; see Hewitt study from footnote 4 and Copeland (2006), op. cit.

[6] This includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[7] The results for the lump-sum distributions most recently received through 1993 are tabulated from the April 1993 Employment Benefits Supplement to the Current Population. See Employee Benefit Research Institute, "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey," *EBRI Issue Brief,* no. 153 (Employee Benefit Research Institute, September 1994), for further information and results from this survey. The results for the most recent distributions through 1998 are from the 1996 Panel of the Survey of Income and Program Participation Retirement and Pension Plan Coverage Topical Module 7; see Copeland (2002), op. cit., for further results from this dataset. The results for the most recent distributions through 2003 are from the 2001 Panel of the Survey of Income and Program Participation Retirement and Pension Plan Coverage Topical Module 7, see Craig Copeland (2005), op. cit., for further results from this dataset. It is possible that some individuals could have had a lump-sum distribution before 1993, between 1994 and 1998, between 1999 and 2003, and between 2004 and 2006. Where the 1996 SIPP only asked about the most recent distribution that occurred through 1998, the 2001 SIPP asked about the most recent through 2003, while the 2004 SIPP asked about the most recent through 2006. Therefore, the change could result both because some individuals chose to do something different with their distribution the next time as well as additional individuals having a lump-sum distribution. The next section will examine only those distributions occurring most recently through 2006 or only results from the 2004 SIPP.

[8] This includes purchases of consumer items (e.g., car, boat), medical and dental expenses, general everyday expenses, and other spending.

[9] This is calculated by taking the percentage of those using the entire portion of their lump-sum distribution for tax-qualified savings and dividing it by the percentage that used at least some portion of their lump-sum distribution for tax-qualified savings for the respective year.

[10] This increase in the percentage of the entire use of the distribution being used for one purpose correlates with the introduction of the 20 percent withholding requirement for any lump-sum distribution from an employment-based retirement plan not directly rolled over to another tax-qualified savings vehicle established in the 1992 Unemployment Compensation Amendments.

[11] These results are only from the 2004 SIPP concerning their most recent distribution through 2006, so there is no replacement issue similar to those in the earlier results.

[12] Starting at age 59-1/2, retirement plan participants can take tax-penalty-free account withdrawals.

[13] As mentioned above, a greater availability of lump-sum distributions under defined benefit plans may limit the potential advantage of benefit preservation under this type of plan. Consequently, the decision to take a lump-sum distribution is pertinent to participants of both types of plans.

[14] In some cases, spending the account balance for certain purchases that could be considered as investments, such as educational expenses or home purchases, could result in a more secure retirement than merely preserving the asset.

Notes

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