New Research from EBRI: More Workers Are Preserving Retirement Assets, Study Says

WASHINGTON—An increasing percentage of retirement plan participants are preserving their retirement assets in tax-qualified accounts, but a significant number are using at least some of these assets to pay off debts, start a business, or buy a home, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI).

The study, in the January EBRI Notes, points out that with 401(k)-type 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 assets they have earned in their employment-based plans when they change jobs. After leaving a job with an employer that sponsors a retirement plan, workers have three choices for their retirement accounts: leaving the money in the plan, rolling it over to another tax-qualified savings plan, or cashing it out.

According to the study, “Lump-Sum Distributions at Job Change” (available at www.ebri.org), the percentage of those rolling over their most recent lump-sum distribution to another tax-qualified retirement plan⎯thus preserving the assets for retirement⎯increased to 44.3 percent through 2006, compared with 19.3 percent of those who received their most recent distribution through 1993.

Furthermore, the study says, the percentage of lump-sum recipients whose most recent distribution went entirely for consumption was 9.2 percent for distributions received through 2006, compared with 22.7 percent for those who received distributions through 1993.

At the same time, however, the study also finds that about 60 percent of those who took a lump-sum distribution did not roll all of it into tax-qualified savings. While some of the assets were spent purely on consumption, some also was used for home purchases, starting a business, or paying down debt. This behavior varied significantly across retirement plan participants’ ages and the amount of the distribution, with individuals up to age 65 and those with higher balances more likely to roll over (preserve) their assets.

The study also found:

- Through April 2006, about 16.2 million working-age Americans reported ever having received a lump-sum distribution from a retirement plan when changing jobs. The average amount of these distributions was $32,219 (in 2006 dollars) and the median (mid-point) amount was $10,000.
- For the most part, the amounts of 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.

The study concludes 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 over time, due to compound interest. “By cashing out even small amounts, younger participants are sacrificing a potentially important asset for their retirement,” the study says.

EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

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