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New Research from EBRI:

Take it or Leave it? Factors Influencing a Retirement Plan Rollover

WASHINGTON—It is a question of increasing interest and concern to policymakers and employers alike: When workers leave or change jobs, what do they do with their employment-based retirement savings—and why?

New research from the nonpartisan Employee Benefit Research Institute (EBRI) finds that it largely depends on whether they retire or stay in the work force. EBRI's new analysis, focusing on the financial behavior of job changers over age 50, finds that among those still in the labor force, the most common outcome was to leave it in the previous employer's plan, while among those who retire from the work force and stop working, the most common choice was to take the money.

However, the EBRI analysis found that a number of other factors also play a role in influencing the choice. For example, the decision to take a cash withdrawal of accumulated savings declined with higher account balances, higher incomes, existing ownership of an individual retirement account (IRA), and higher financial wealth, while the decision to take a cash withdrawal rose with debt levels.

In contrast, the decision to rollover a defined contribution (DC) distribution (typically from a 401(k) to an IRA) is the mirror image of the characteristics influencing cash withdrawals: Rollover decisions increased with higher account balance, higher income, previous ownership of an IRA account, and greater financial wealth. They also declined with higher debt.

Sudipto Banerjee, EBRI research associate and author of the report, cautioned, however, that there is no clear trend with respect to those variables and whether workers decide to leave their retirement balances in the prior employer plans. "This suggests that there may be behavioral factors—such as inertia—driving what in some cases might be seen as a 'non-decision.' Additionally, those who are postponing the distribution may simply be deferring the decision until they need the money," he said.

As the report points out, one of the most important decisions that workers with 401(k)-type retirement plans face is what to do with the money in their account when they switch jobs or retire. A poor decision—for example, withdrawing the money prior to age 59-½, which results in a 10 percent penalty in addition to income tax on that distribution—could reduce their retirement assets significantly. Rolling over the assets to an IRA is a common way to preserve the savings, even though doing so may also bring higher investment and/or administrative costs than a 401(k) plan.

EBRI's analysis is based on 2008 and 2010 data from the Health and Retirement Survey (HRS), a study of a nationally representative sample of U.S. households with individuals age 50 and over. The full report, "Take it or Leave it? The Disposition of DC Accounts: Who Rolls Over into an IRA? Who Leaves Money in the Plan and Who Withdraws Cash?" is published in the May 2014 *EBRI Notes* and is available online at www.ebri.org

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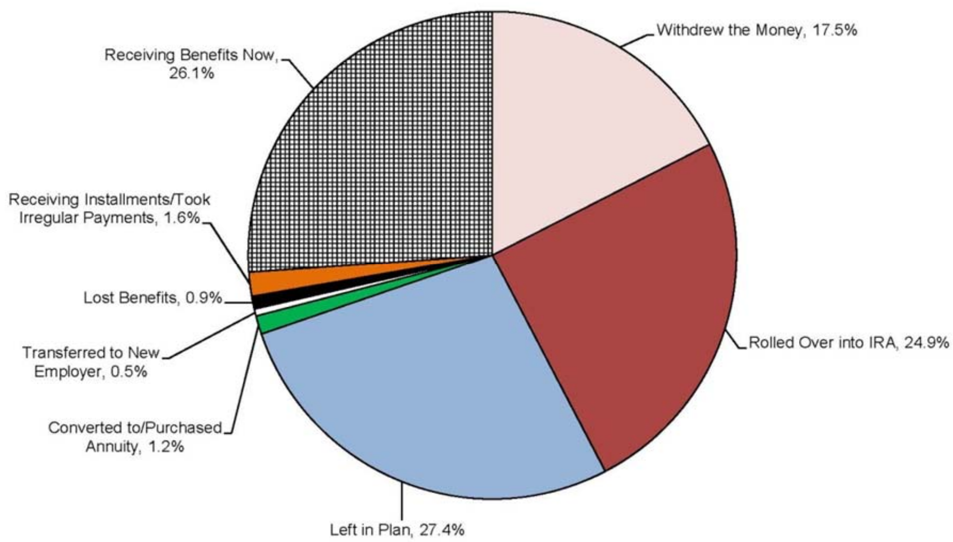
Distribution of DC* Plan Asset Disposition When Respondents Retired/Left Employer, 2010



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).
* Defined contribution.