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New Research from EBRI:

Reducing "Leakage" in 401(k) Plans

WASHINGTON—A recurring issue with defined contribution (DC) savings plans such as the 401(k) is the risk of "leakage"—preretirement reductions in plan savings by workers, either through loans, hardship withdrawals, or payouts at job change.

To highlight new work on leakage, the nonpartisan Employee Benefit Research Institute (EBRI) devoted part of its 78th policy forum to the topic of "Retirement Challenges and Reforms," focusing in particular on "Reducing Leakage and Incubating Savings." The May 12 event in Washington, DC, brought together about a hundred benefits-related experts to discuss a variety of retirement and health topics.

The August 2016 *EBRI Notes* summaries policy forum discussions on the issue:

- There have been widely varying estimates of how big of a problem leakage actually is, and what the potential reactions may be by both retirement plan sponsors and participants if new preretirement access restrictions were imposed. For instance, for many workers the option of being able to take a loan from their 401(k) account is seen as a major incentive for them to participate.
- A 2014 analysis by EBRI found that approximately two-thirds of the impact of diminished retirement savings due to leakage was associated with the cashouts that sometimes occur at job change. Others have pointed out that 401(k) loans, which sometimes are criticized as a significant source of retirement savings leakage, actually account for the smallest amount of preretirement savings loss.
- The leakage-focused session involved the presentation of a simulation model by the Retirement Clearinghouse (RCH) concerning outcomes of "Auto Portability," or automated and presumptive plan-to-IRA and plan-to-plan transfers of retirement savings as workers change jobs.

The full report, "Reducing Retirement Savings Leakage, appears in the August 2016 *EBRI Notes* (no. 9), online at www.ebri.org

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