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New Research from EBRI:

Lump-Sum Distributions: How Many, What Size, Where Do They Go?

WASHINGTON—Some 16.2 million workers had taken a lump-sum distribution from an employment-based retirement plan as of 2006. The average amount of these distributions was $32,219 and the median (mid-point) amount was $10,000, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI).

The study examines workers' decisions to a take a lump-sum distribution from an employment-based retirement plan when changing jobs, while remaining in the labor force. It also compares the standard of living of individuals age 55 or older with that of those in their early 50s, after making a lump-sum decision. The study, in the July *EBRI Notes*, is available at www.ebri.org.

As the study points out, what individuals chose to do with a lump-sum distribution can have a significant impact on how much (if any) assets they have at retirement, depending on whether they "roll over" the assets into another tax-advantaged savings account (such as an individual retirement account, or IRA), or spend the money on consumption. Through 2006, almost half (47.3 percent) of those taking a lump-sum distribution used at least some portion of the money for tax-qualified savings, while 16.9 percent used at least some portion of it for consumption.

The other most prevalent uses were buying a home, paying off debt, or starting a business. The research shows that at least some portion of a lump-sum distribution is more likely to go for tax-qualified savings if the distribution is larger, the recipient is older, male, or white.

Here are some of the other points in the study:

- Almost half of these lump-sum distributions were for less than $10,000, and 22.7 percent were received from 2004 through 2006.
- Just over 55 percent went to individuals age 40 or younger, 83.7 percent were received by whites, and 53.9 percent went to females.
- Recipients ages 61–64 had the highest lump-sum distribution average amount of any age category. The average distribution was significantly higher for males than for females.

The study also compares the standard of living of individuals age 55 or older with the standard they maintained when they were in their early 50s for those who took a lump sum versus those who did not. This allows for an assessment of how the current "near elderly" and elderly have fared after making a lump-sum decision.

((more))

A significantly higher percentage of those who spent their lump-sum distributions entirely reported their standard of living as being much worse than was reported by those who had rolled over their entire distribution (11.8 percent compared with 4.3 percent), the study finds. This may be because those who spent their lump-sum distributions did not plan for retirement and consequently are worse off in old age, or because spending the lump-sum distribution left these individuals without resources they needed to maintain their standard of living in older age, the study says.

While the percentage who reported being much worse was relatively small, the consequences of spending lump-sum distributions highlight the fact that those who took a lump-sum distribution and spent it entirely were almost three times more likely to describe their standard of living as being much worse than was reported by all of those age 55 or older who rolled over their assets, the study adds.

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