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New Research From EBRI:

More Preserving Lump-Sum Retirement Distributions

WASHINGTON—An increasing percentage of participants in employment-based retirement plans are rolling over all of their lump-sum distributions into another retirement savings account when they leave a job, and fewer are spending any of those distributions on new consumption, a study released today by the nonpartisan Employee Benefit Research Institute (EBRI) shows.

The report is good news in terms of individuals retaining their retirement savings. "The goal of retirement savings plans such as a 401(k) is to provide income for individuals in their retirement," the report said. "For this to happen, participants in these plans must preserve their benefits until retirement by retaining any existing plan balance on job termination."

This choice can profoundly affect participants' financial resources in retirement, particularly in the case of young workers, the EBRI study said. For example, a 25-year-old who leaves an employer after accumulating a $5,000 account balance would have about $24,600 at age 65, assuming a constant 4 percent rate of return compounded monthly. Also, a typical 25-year-old today will work for seven or more employers before reaching age 65, and could receive several distributions before reaching retirement age, according to the Congressional Research Service.

The EBRI study, published in the December *EBRI Notes* and available on the Web at www.ebri.org, showed:

- 43.4 percent of lump-sum recipients who received their most recent distribution through 2003 placed all of their distributions in a tax-qualified savings plan such as an individual retirement account or another employment-based plan. This was up from 19.3 percent through 1993.
- 25.2 percent of lump-sum recipients who received their most recent distribution through 2003 used any portion of their distribution for new consumption—such as buying a home or boat or medical or dental expenses. This was down from 38.3 percent through 1993.
- $30,072 was the mean (average) distribution; $8,118 was the median distribution. For the most part, lump-sum distributions were relatively small, with a total of 26.2 percent amounting to less than $2,500. Another 29 percent were from $2,500 to $10,000.
- Two-thirds of the most recent lump-sum distributions took place from 1994-2003. Nearly 60 percent of those receiving a lump-sum distribution were ages 21 to 40 when they received the distribution.

One possible factor in increasing the number of those rolling over retirement distributions from one tax-qualified plan to another was the imposition of a 20 percent federal withholding tax on distributions not directly rolled over after 1993, the study said. Other reasons include better education and the likelihood that the plan was the worker's only retirement savings vehicle.

The EBRI study was based on 2003 Census Bureau data. A private, nonprofit organization, EBRI does not lobby and does not take positions on policy questions.

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