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FAST Facts

# How Much Might Defined Contribution Savings Benefit From Auto Portability?

Auto portability is an important topic these days among those evaluating ways to improve the defined contribution (DC) system. With auto portability, a participant's account from a former employer's retirement plan would be automatically combined with their active account in a new employer's plan. This would help keep the DC assets in the retirement system and—in theory—reduce leakage from cashouts upon employment termination. This is important because studies have found that cashouts are the most significant form of leakage from DC plans, especially among workers with low plan balances.

In its June 2018 *Issue Brief*, "EBRI Retirement Security Projection Model®(RSPM) – Analyzing Policy and Design Proposals," EBRI explored the impact on Retirement Savings Shortfalls (RSS) of reducing cashouts through auto portability. The analysis examined households in various groups by age and future years of DC plan eligibility, assuming that a full auto portability system was established.[1]

> Retirement Saving Shortfall measures the present value of simulated retirement deficits at retirement age using EBRI's Retirement Security Project Model. For more on this methodology, see [EBRI Retirement Security Projection Model (RSPM) – Analyzing Policy and Design](#).

Focusing on the youngest age cohort, which would have the most time to benefit from the cessation of cashouts, EBRI's analysis found that when full auto portability is implemented, the RSS for participants ages 35-39 would decline by:[2]

- 17 percent for those with 1-9 years of future eligibility in a DC plan.
- 19 percent for those with 10-19 years of future eligibility.
- 23 percent for those with 20 or more years of future eligibility.

Older workers would benefit, but to a lesser extent. Workers ages 40-44 with 20+ years of future DC eligibility would see a reduction in RSS of 18 percent; those ages 45-49 and 50-54 with 10-19 years of future DC eligibility would see a reduction of 14 percent and 10 percent respectively. However, because workers ages 55-59 and 60-64 have so few years to benefit from auto portability, they would see single-digit reductions in RSS with 1-9 years of future DC eligibility.

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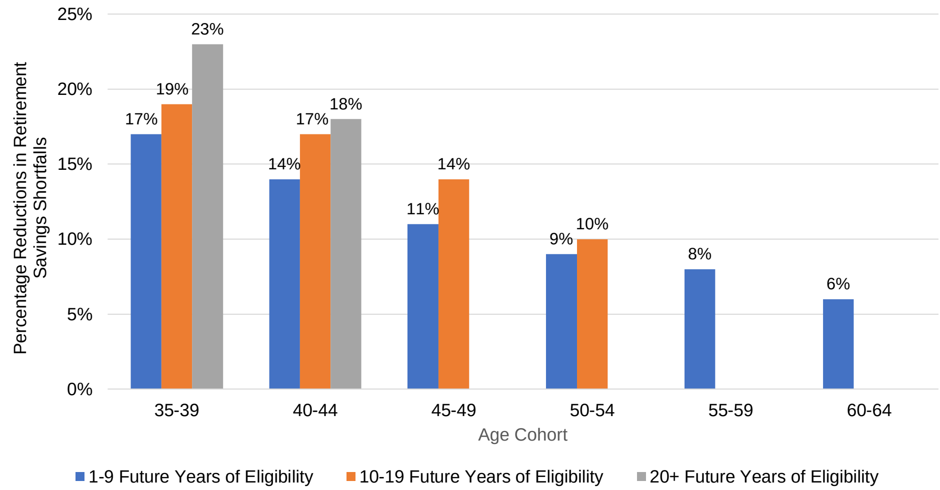
[1] The analysis assumes no leakage from the auto portability system.

[2] Individuals with no future years of eligibility for a defined contribution plan are excluded since there would be no active account in a new employer's plan to link the previous balance to.

**Reductions in Retirement Savings Shortfalls Under a Full Auto-Portability System**




Source: EBRI Retirement Security Projection Model® Version 2749. Note: Chart reflects the percentage reductions in 2014 Retirement Savings Shortfalls (taking into account long-term care costs) under auto-portability for households age 35-64 in various groups by age and future DC eligibility years (assumes no leakage from the auto-portability system).

While EBRI's analysis makes a strong case for the potential impact of auto portability on reducing RSS—especially for younger workers with many years of future DC plan eligibility—it is important to consider that removing forms of leakage from the DC system may produce behavioral responses (e.g., lower participation and contribution rates, especially among the lower income groups) that would at least partially offset these improvements. Future research will explore this potential offset in more detail.

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