Auto Portability as a Stand-Alone Retirement Savings Policy Initiative

Auto portability is an important topic among those evaluating ways to improve the current 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 August 2019 Issue Brief, “The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage,” the Employee Benefit Research Institute (EBRI) simulated two scenarios to show the full impact of auto portability on aggregate participant balances at age 65:

- In the first scenario — FULL auto portability — every participant is assumed to consolidate their savings in their new employer’s plan every time they change jobs, i.e. all participants arrive at age 65 with one account. Any leakage in this scenario is limited to hardship withdrawals.

- In the second scenario — PARTIAL auto portability — every participant with less than $5,000 (indexed for inflation) consolidates their savings in their new employer’s plan every time they change jobs. Again, any leakage in this scenario is limited to hardship withdrawals.

Figure 1 shows the impact of partial auto portability by current age and age-specific income quartile. As expected, auto portability is most beneficial for workers who are youngest (have the longest projected time within the retirement system) and have the lowest income (e.g., lowest DC plan balances). For those currently 25–34, the lowest income quartile is projected to have a 24.6 percent increase in balances while the highest income quartile is projected to have a 21.0 percent increase.

Figure 2 shows a similar analysis for the full auto portability scenario. Given that the benefits would potentially accrue to anyone at job change and not just those with balances under the $5,000 indexed threshold, one would expect larger absolute values than in Figure 1 as well as a larger impact of income quartiles within an age cohort. And indeed, for those currently 25–34, the lowest income quartile is projected to have a 35.5 percent increase in balances while the highest income quartile is projected to have a 25.7 percent increase.

Whether evaluated as a stand-alone policy initiative or in tandem with other legislative initiatives, implementation of auto portability could significantly reduce retirement savings deficits. As a stand-alone policy initiative, we project that the present value of additional accumulations over 40 years resulting from “partial” auto portability (participant balances less than $5,000 adjusted for inflation) would be $1.50 trillion, and the value would be $1.99 trillion under “full” auto portability (all participant balances). Under partial auto portability, those currently 25–34 are projected to have an additional $659 billion, increasing to $847 billion for full auto portability.
Figure 1
Increase in Aggregate Balances at Age 65 as a Result of Implementing Partial Auto Portability, by Age and Age-Specific Income Quartile

Note: 40-year time horizon.

Figure 2
Increase in Aggregate Balances at Age 65 as a Result of Implementing FULL Auto Portability, by Age and Age-Specific Income Quartile

Note: 40-year time horizon.
The EBRI report, “The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage,” is published as the August 15, 2019, *EBRI Issue Brief* and is available online [here](http://example.com).

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1 For additional information, see Jack VanDerhei. “The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage,” *EBRI Issue Brief*, no. 489 (Employee Benefit Research Institute, August 15, 2019).

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