EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

At a Glance | September 12, 2019

Gauging the Potential Impact of Auto Portability on Defined Contribution Account Balances at Retirement

CASHOUT LEAKAGE

Studies show that the most significant source of defined contribution (DC) plan leakage is cashouts upon termination, especially among workers with low plan balances. No effective solution has yet been implemented to address this problem. We take a look at two auto portability scenarios modeled by EBRI's Retirement Security Projection Model® (RSPM).[1]

Auto portability is where 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.

SCENARIO 1:
PARTIAL AUTO PORTABILITY

Only accounts with less than $5,000 (indexed for inflation) are consolidated in the new employer's plan.

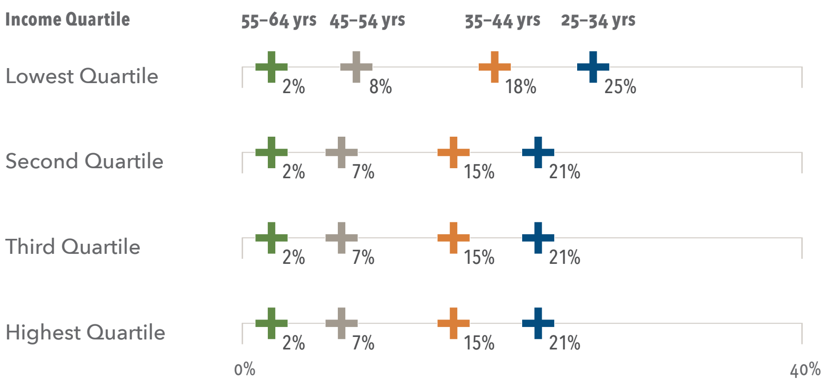
SCENARIO 2:
FULL AUTO PORTABILITY

A participant's accounts are consolidated in a new employer's plan at job change. Participants arrive at age 65 with one account.

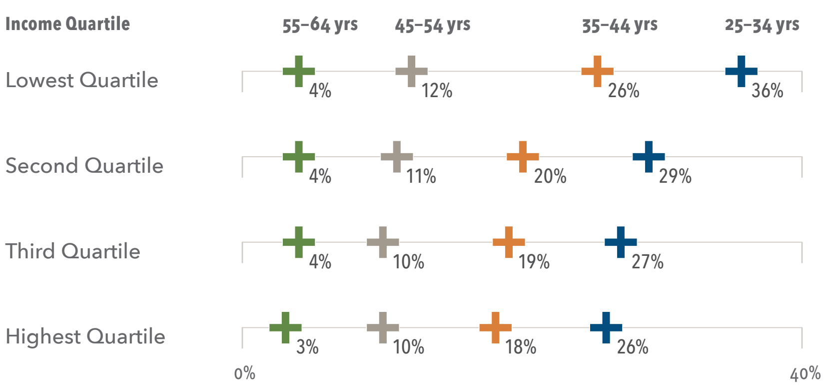
In both scenarios, any leakage is limited to hardship withdrawals.

Percentage Increase in Projected Aggregate Balances at Age 65 With Full and Partial Auto Portability Implemented

SCENARIO 1: PARTIAL AUTO PORTABILITY



SCENARIO 2: FULL AUTO PORTABILITY



SOURCE: 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).

1. RSPM® simulates retirement income adequacy for U.S. households. The model's accumulation module reflects the real-world behavior of 27 million 401(k) participants as well as 20 million individuals with individual retirement accounts (IRAs).