



Big Challenges With Small IRAs

EBRI Webinar

November 17, 2020

Speakers



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**Moderator: Will Chau,
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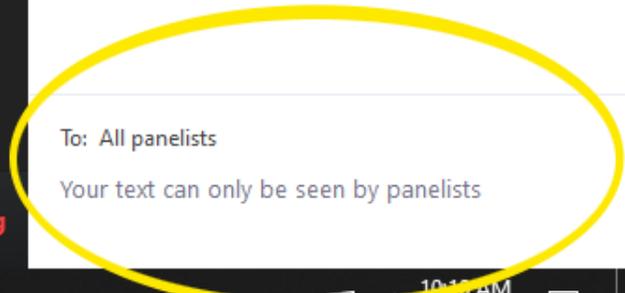
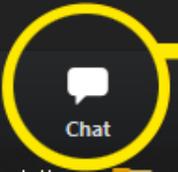
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Small Account Balance Individual Retirement Accounts: Data and Issues

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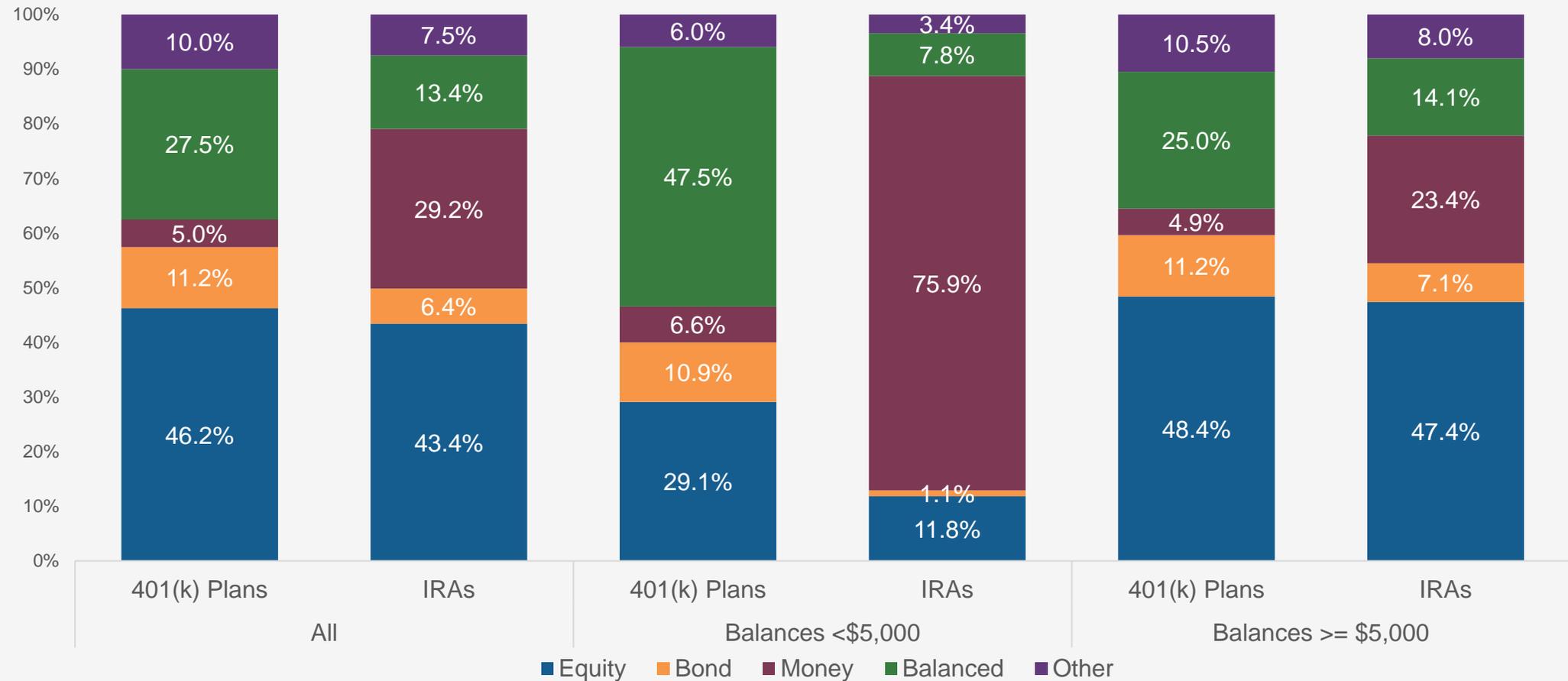
Overview

- The asset allocation in Rollover IRAs is significantly different from the asset allocation when the assets were in a 401(k) plan.
- This was especially true for accounts with balances of less than \$5,000. This in many cases is a result of the safe harbor regulations of forced cashouts for automatic rollovers, which must be invested in a money-type investment.
- Do these small accounts eventually change allocations? Are they kept for many years?
- How can retirement security be improved by improved behavior in these accounts?
 - Consolidation?
 - Different default investments?

Outline

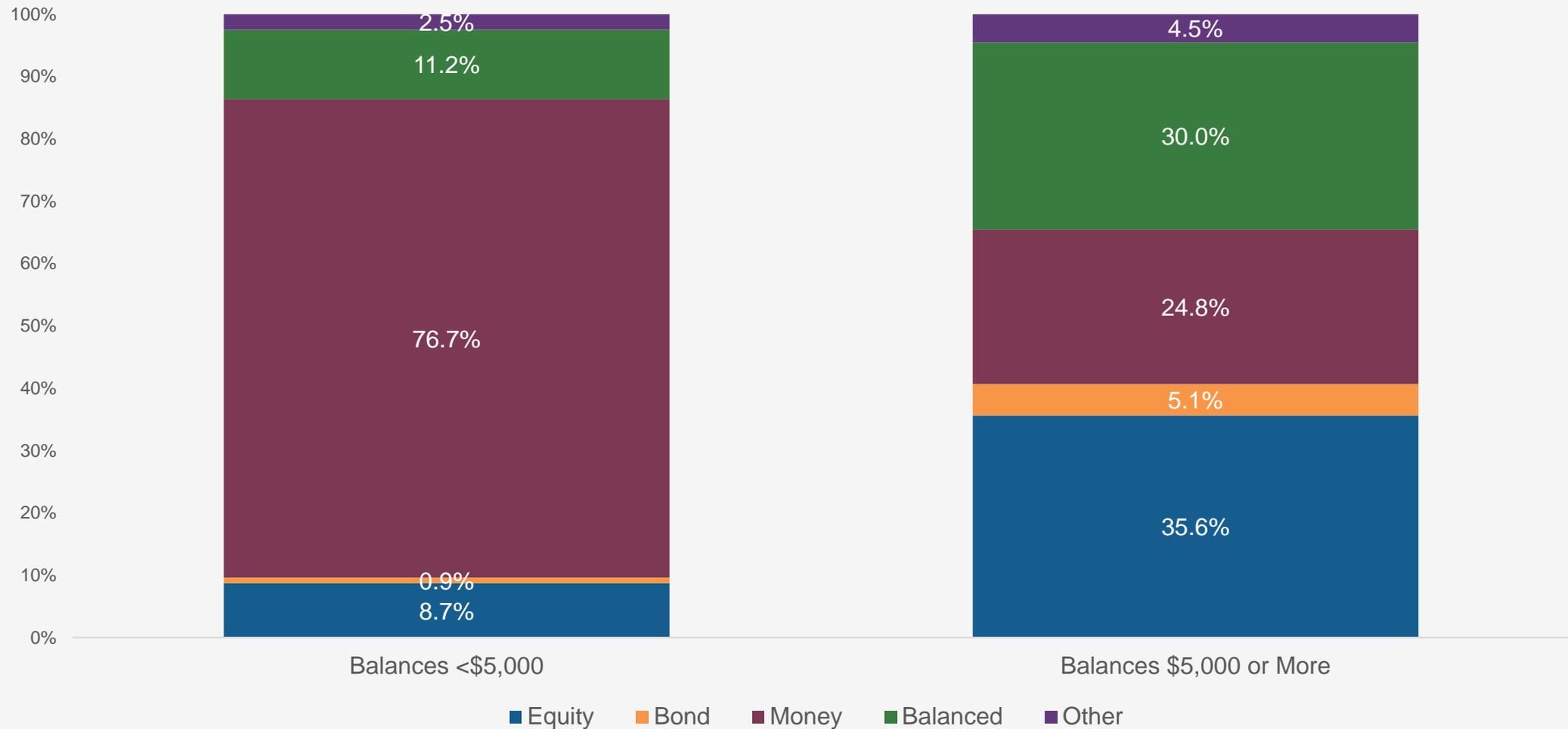
- Asset allocation before and after rollover to an IRA
- Percentage of Traditional Rollover IRAs with balances of less than \$5,000
- Owner age of these IRAs
- Establishment year of the IRAs
- Asset allocation of the IRAs by age and establishment year
- Percentage of IRAs with balances of \$1,000-\$4,999 still open after 3 years
- Percentage of IRAs that receive contributions

Average Asset Allocation in 401(k) Plans Before a Rollover and Average Asset Allocation in IRAs After the Rollover, by Rollover Balance (Individual Weighted)



Source: EBRI Integrated 401(k)/IRA Database.

Average Asset Allocation in IRAs After a Rollover from 401(k) Plans That Were 100% Invested in Balanced Funds, by Rollover Balance



Source: EBRI Integrated 401(k)/IRA Database.

Distribution of Traditional Rollover IRAs, by Account Balance

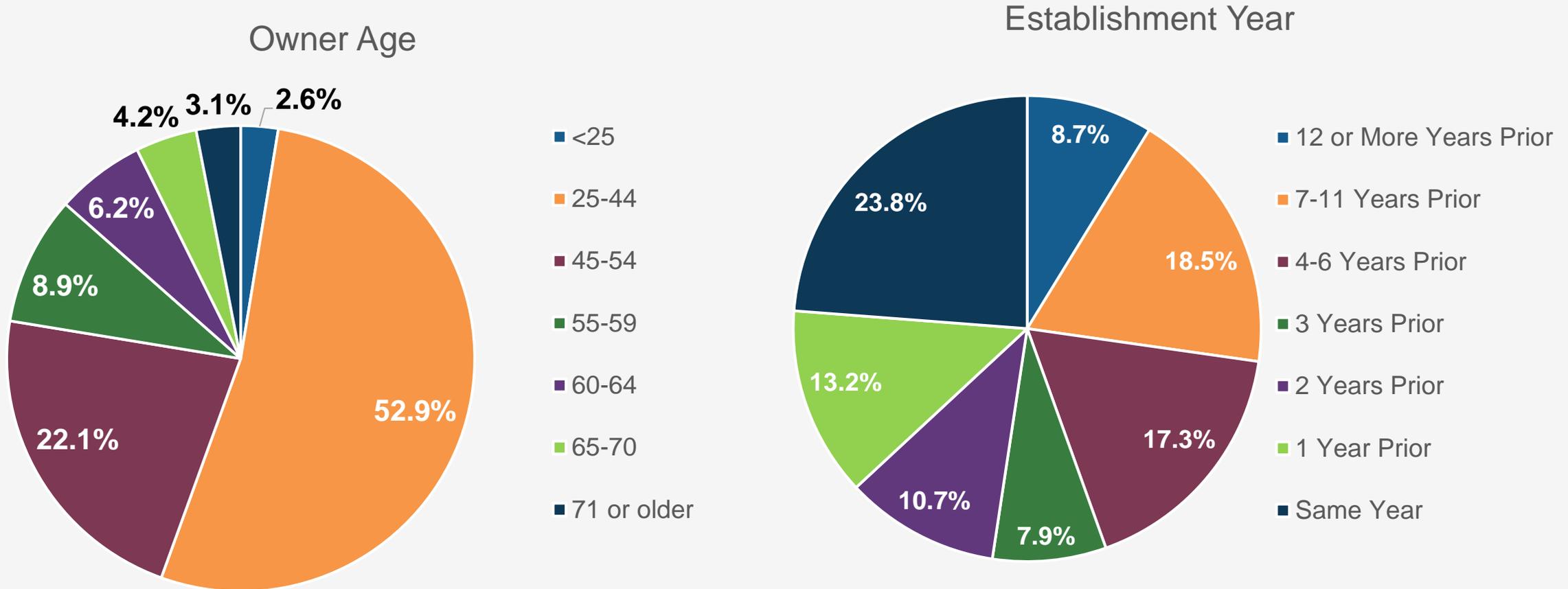
Account Balance	Accounts	Individuals
Less than \$5,000	22.1%	20.7%
\$5,000-\$9,999	5.1	4.5
\$10,000-\$24,999	10.7	9.7
\$25,000-\$49,999	11.1	10.5
\$50,000-\$99,999	13.0	12.7
\$100,000-\$149,999	8.2	8.1
\$150,000-\$249,999	9.9	10.1
\$250,000 or more	20.0	23.7

Accounts-the distribution of all IRAs.

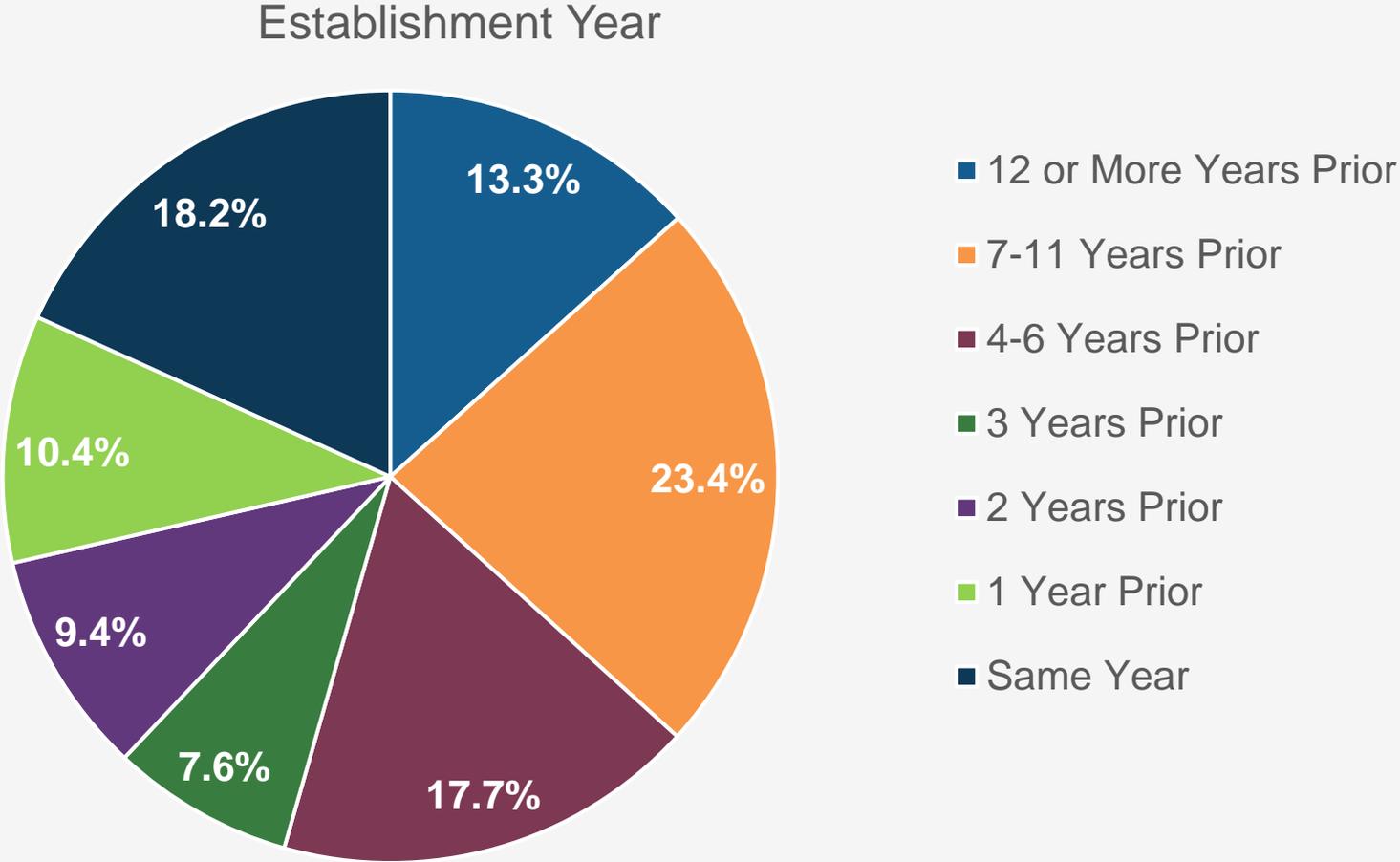
Individuals-the distribution of IRAs when combining the individuals with more than one Traditional Rollover IRA into one observation.

Source: EBRI IRA Database.

Owner Age and Establishment Year of Traditional Rollover IRAs With Balances of \$1,000 up to \$5,000



Establishment Year of Traditional Rollover IRAs With Balances of \$1,000 up to \$5,000 and Owners Ages 25-44



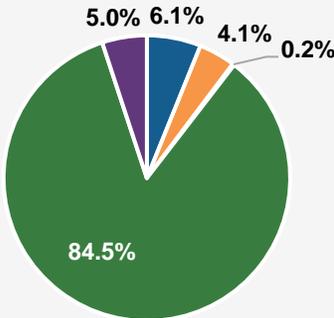
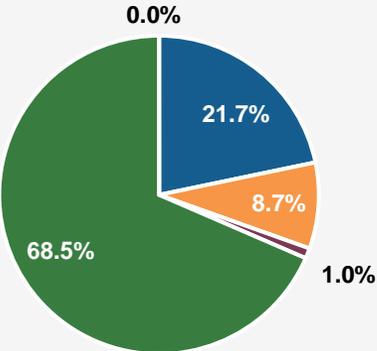
Average Asset Allocation of Traditional Rollover IRAs With Balances of \$1,000 up to \$5,000 and Owners Ages 25-39

Establishment Year 7-11 Years Prior

Establishment Year Same Year

Owner Ages 25-29

Owner Ages 25-29

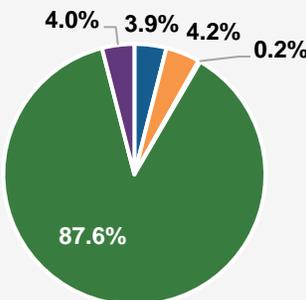
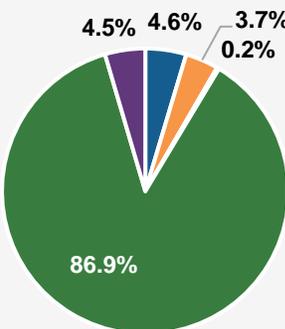
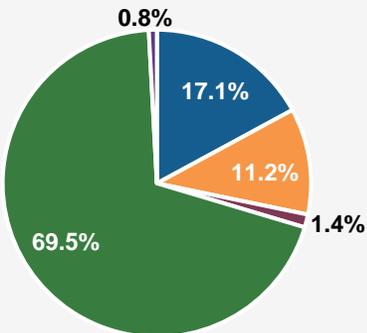
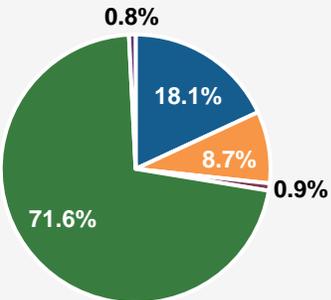


Owner Ages 30-34

Owner Ages 35-39

Owner Ages 30-34

Owner Ages 35-39



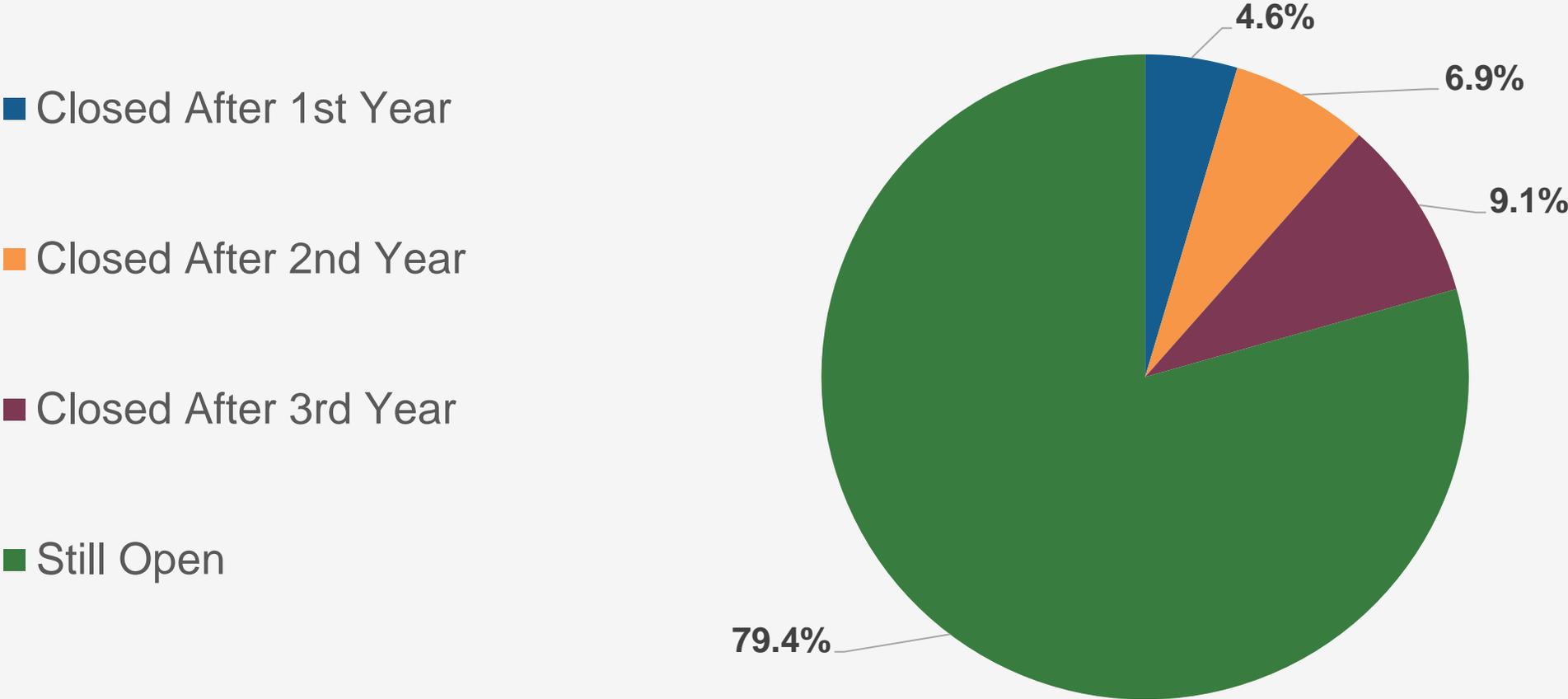
■ Balanced ■ Equity ■ Bond ■ Money ■ Other

Percentage of Traditional Rollover IRAs With Balances of \$1,000 up to \$5,000 With 100% Allocation to Money Assets

Owner Age and Establishment Year

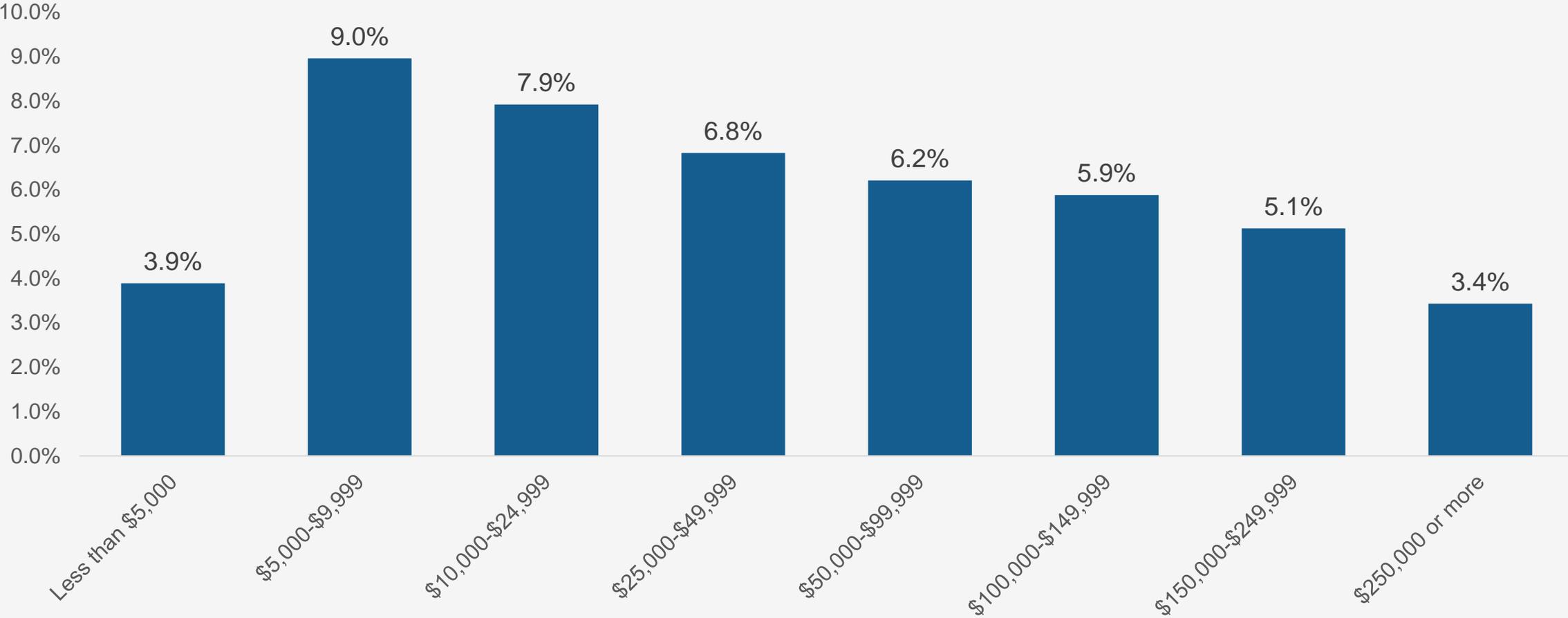
Age	7-11 Years Prior	Same Year
25-29	76.3%	85.7%
30-34	78.8%	87.6%
35-39	74.9%	89.0%

Percentage of IRAs With Balances of \$1,000-\$4,999 That Are Still Open After 3 Years



Source: EBRI IRA Database.

Percentage of Traditional IRAs That Received a Contribution, by Account Balance



Source: EBRI IRA Database.

Conclusions

- Small account balance (< \$5,000) IRAs are highly concentrated in money investments.
- These accounts make up approximately 20% of the Traditional Rollover IRAs.
- These accounts are owned by those of all ages, but the majority of owners are ages 25-44.
- While many of these accounts have only been established recently, many were established more than 10 years prior.
- The asset allocation (high concentrations in money investments) is not much different between those recently established and those established around 10 years prior.
- Accounts of this size are not being closed at high rates, with nearly 80 percent still open after 3 years.
- They also are not receiving contributions, as only about 4 percent of established Traditional IRAs with balances of less than \$5,000 receive a contribution in a specific year.

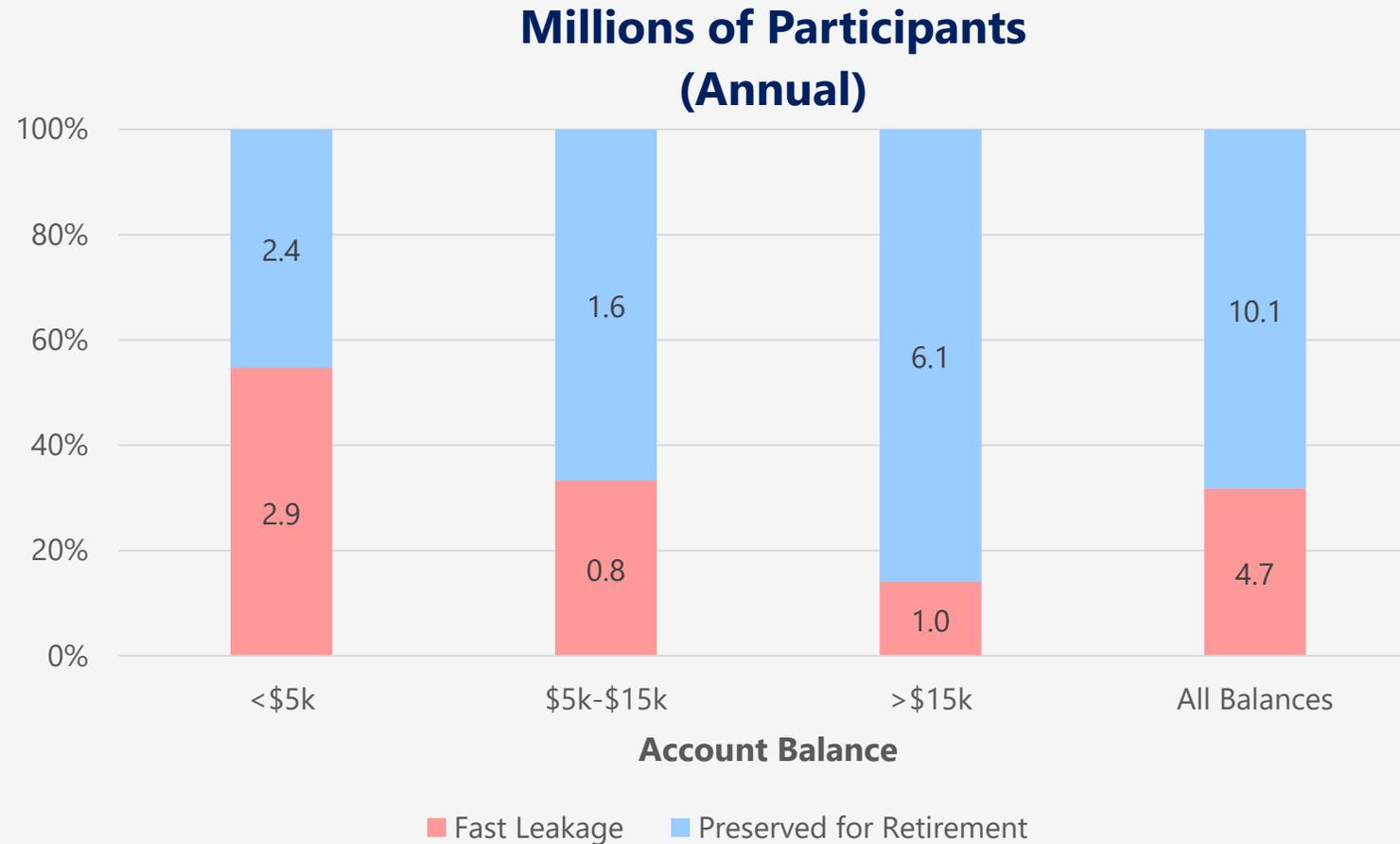


Small Account Balance Individual Retirement Accounts: Data and Issues

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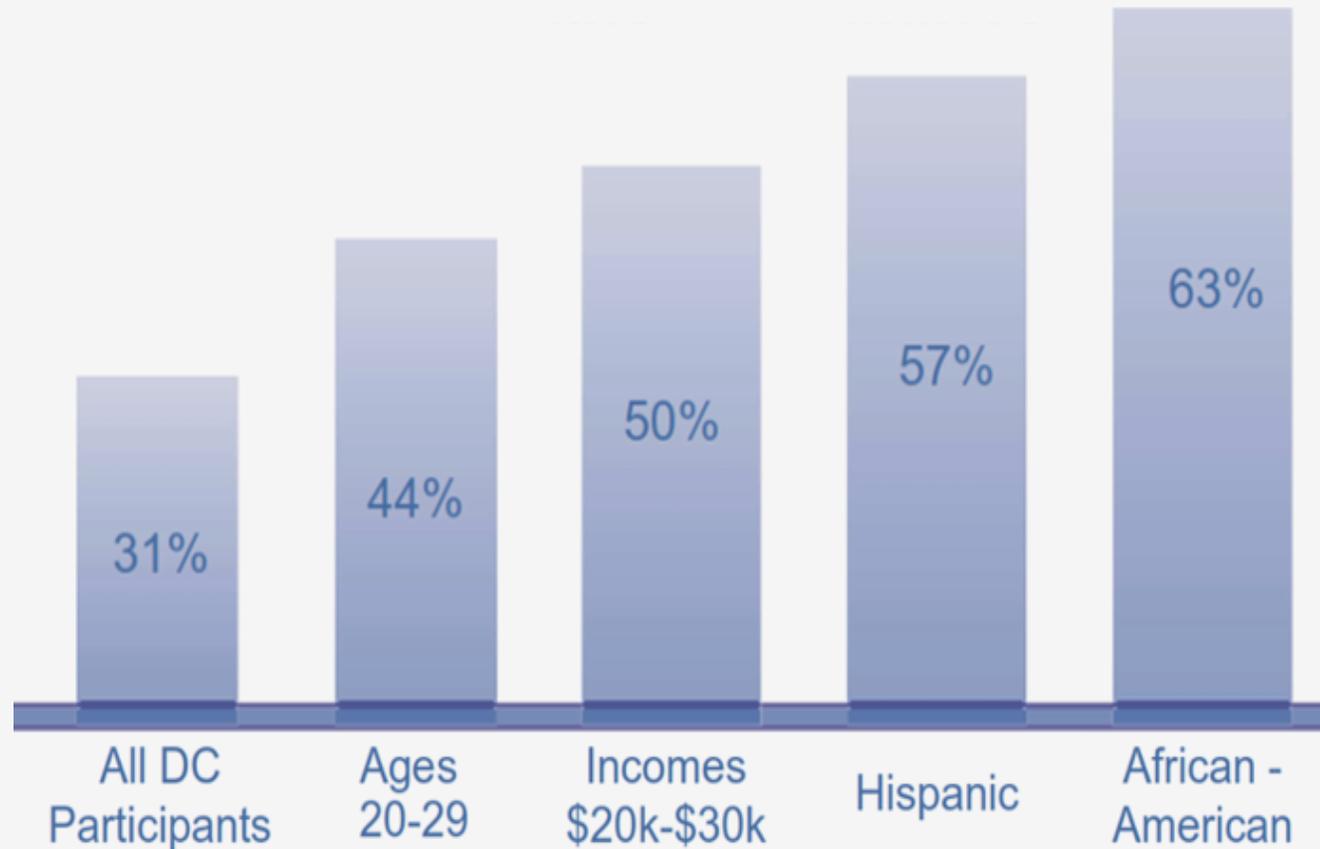
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Cashout Rates by Balance



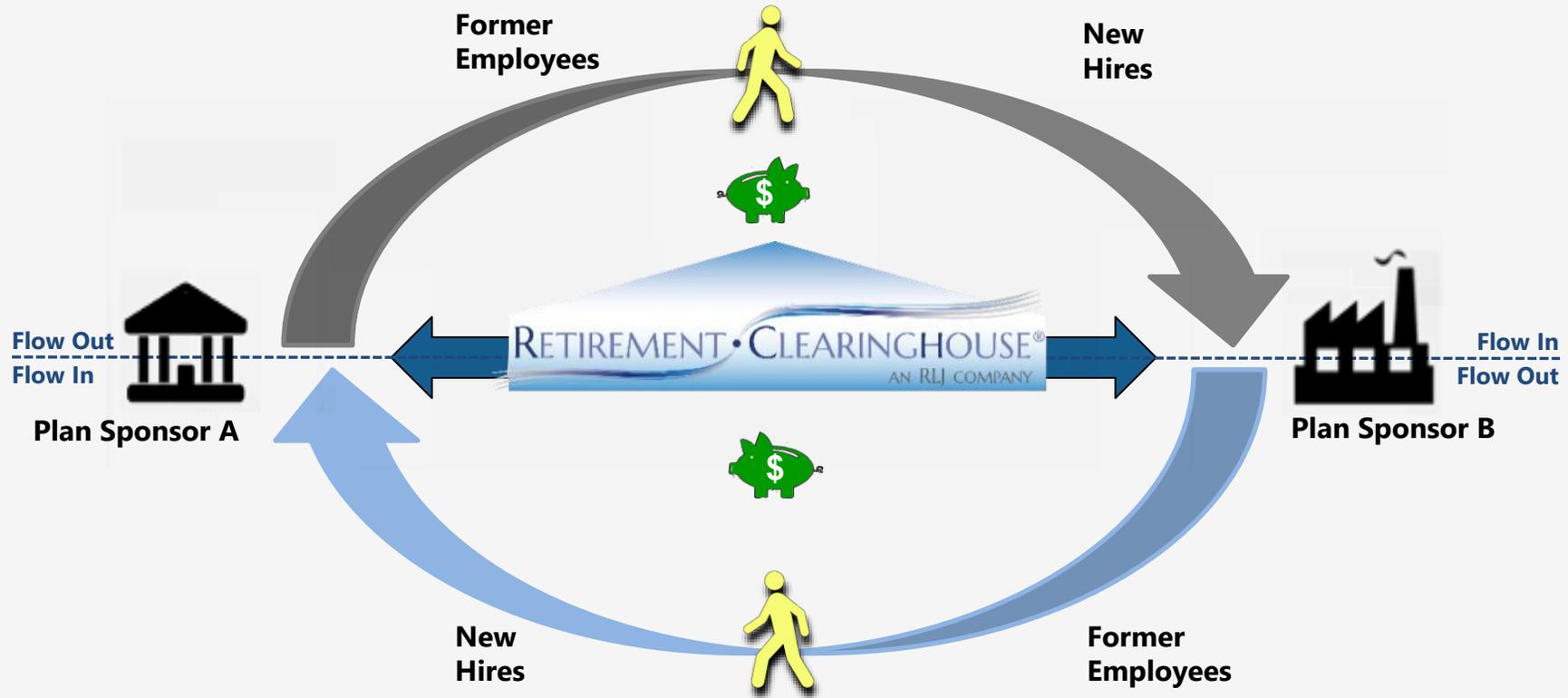
Fast leakage rates are composite results from Fidelity, Vanguard, & Alight reports for the year in which a participant's status changes from active to inactive. Number of participants cashing out equals leakage rate times EBRI market segment by account balance as a percentage of all accounts

Cashout Rates by Key Demographic Segments



Fidelity Investments, Vanguard, Alight Reports on Participant Activity, 2011-2020
401(k) Plans in Living Color, The Ariel/Aon Hewitt Study, 2012

The Auto Portability Recycling Paradigm





Big Challenges with Small IRAs – EBRI Panel

November 17, 2020

Courtney Eccles, Director IL Secure Choice



State Auto IRA – Program Structure



Michael W. Frerichs
ILLINOIS STATE TREASURER

A retirement savings program that makes it **easy for employees to save** and is **simple for employers to facilitate**.



Applies to all IL employers with 25 or more employees that do not offer a qualified retirement plan



✓ **True public-private partnership**

- Programs partner with private sector financial service providers to serve as the recordkeepers, investment managers, investment and program consultants etc.
- Program is overseen by a Board with the Treasurer serving as chair and Treasurer's staff providing operational/organizational support

✓ **Self-Sustaining**

- While states may receive some money to assist with program launch and start-up, all programs will ultimately be self-sustaining (similar to 529 programs)



OFFICE OF THE ILLINOIS STATE TREASURER
MICHAEL W. FRERICHS



Auto IRA – Employer & Employee Roles



Michael W. Frerichs
ILLINOIS STATE TREASURER



Employer



Employee



- ✓ Register for the program
- ✓ Enroll all employees into the program
- ✓ Set up the payroll deduction process and remit employee contributions to the plan provider
- ✗ Be considered a plan manager or fiduciary or be subject to ERISA
- ✗ Make employer contributions or matches to the plan
- ✗ Be responsible for the same administrative requirements as with employer-sponsored plans

- ✓ **Employees save their own money into their own Roth IRA and control their account even if they move from one job to another**
- ✓ **Participation is completely voluntary:** employees may opt out and back in at any time.

Program Overview – Accounts & Investments



Michael W. Frerichs
ILLINOIS STATE TREASURER

Participants are **automatically enrolled** into the standard default options but can make changes at anytime (contribution rate, fund option, or opt-out altogether).



Roth IRA (post-tax contributions)

5%

Default contribution rate



Default target date fund appropriate for the saver's projected retirement date (after the 90-Day Hold Fund)

Participants who elect to change the investment default can choose among the investment funds below:

Investment Options	Investment Funds/Managers
Target Retirement Date Funds	BlackRock LifePath® Index Series
Growth Fund	Charles Schwab / Schwab S&P 500 Index Fund
Conservative Fund	Charles Schwab / Schwab U.S. Aggregate Bond Index
Capital Preservation Fund	State Street Institutional Liquid Reserves Fund



Program Highlights as of November 12, 2020

Total Assets	\$40,348,125
Total Contributions	\$41,089,746
Total Withdrawals	(\$5,254,370)
Total Funded Accounts	75,204
Multiple Employer Accounts	21,735
Average Monthly Contribution	\$96.06
Average Contribution Rate	5.01%
Average Funded Account Balance	\$535.90
Total Registered Employers	6,083
Employers Remitting Contributions	2,588

Investment Funds & Assets Breakdowns

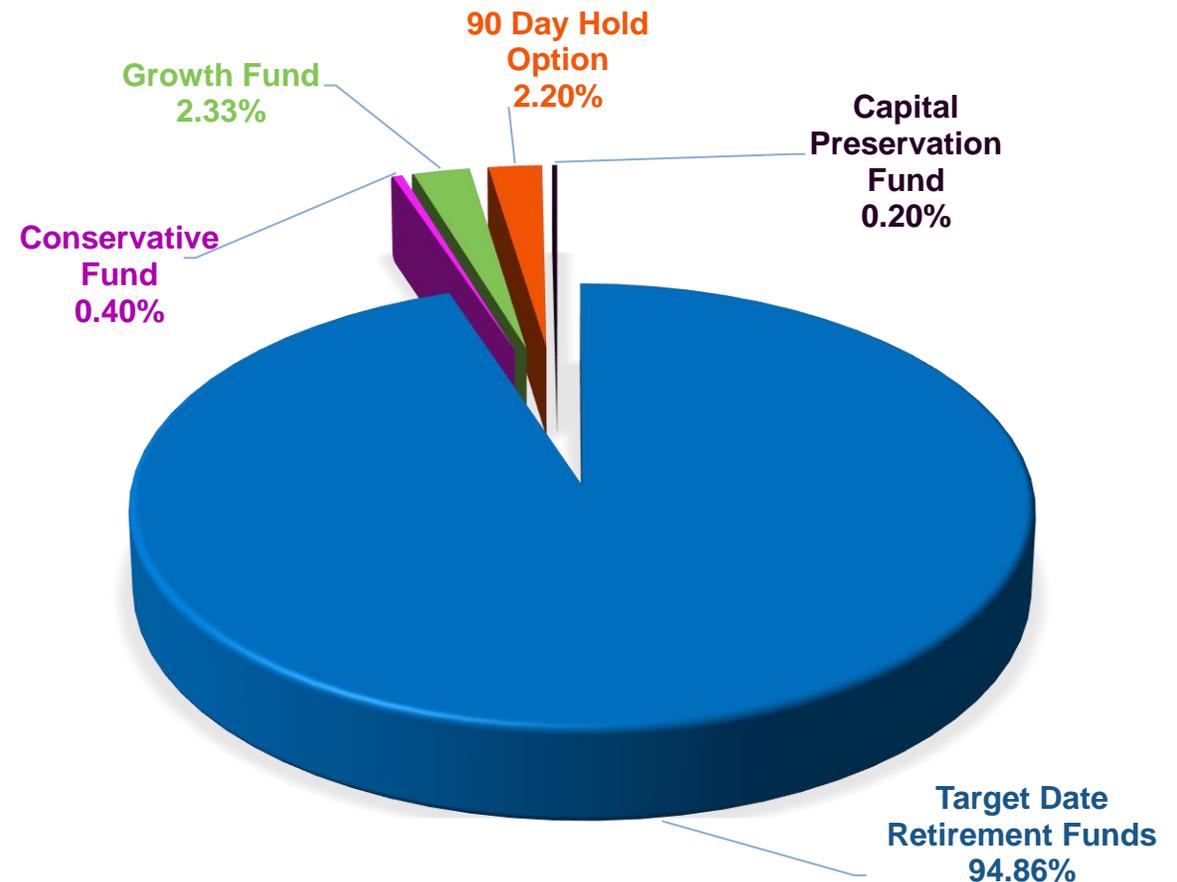


Illinois Secure Choice Fund-Type and Asset Breakdown*

Fund Name	Total Assets	% of Total Assets
Target Date Retirement Funds	\$34,902,199.38	94.86%
Target Date Retirement Fund	\$2,247,600.26	6.11%
Target Date Retirement Fund 2025	\$2,808,862.91	7.63%
Target Date Retirement Fund 2030	\$3,380,394.26	9.19%
Target Date Retirement Fund 2035	\$3,693,039.61	10.04%
Target Date Retirement Fund 2040	\$3,575,119.31	9.72%
Target Date Retirement Fund 2045	\$3,705,779.23	10.07%
Target Date Retirement Fund 2050	\$3,869,566.78	10.52%
Target Date Retirement Fund 2055	\$4,404,856.09	11.97%
Target Date Retirement Fund 2060	\$4,702,175.47	12.78%
Target Date Retirement Fund 2065	\$2,514,805.45	6.84%
Conservative Fund	\$147,775.63	0.40%
Growth Fund	\$857,891.32	2.33%
90 Day Hold Option	\$809,159.54	2.20%
Capital Preservation Fund	\$74,754.24	0.20%
Total	\$36,791,780.12	100.00%

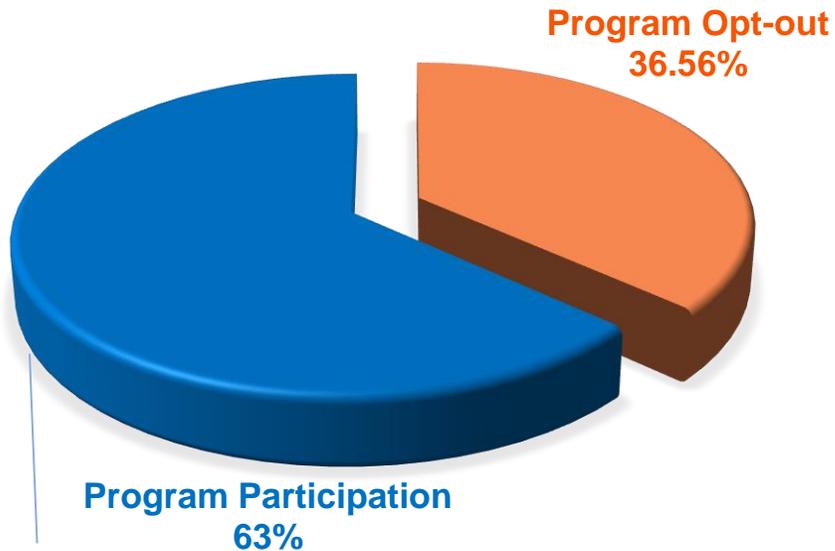
* Data as of 10/30/2020

ILLINOIS SECURE CHOICE TOTAL ASSETS



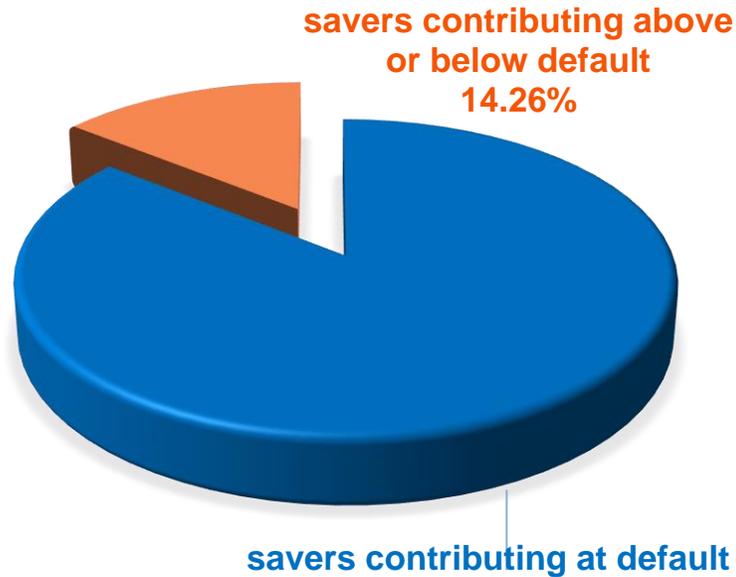
Participation, Contribution, and Investment

PARTICIPATION



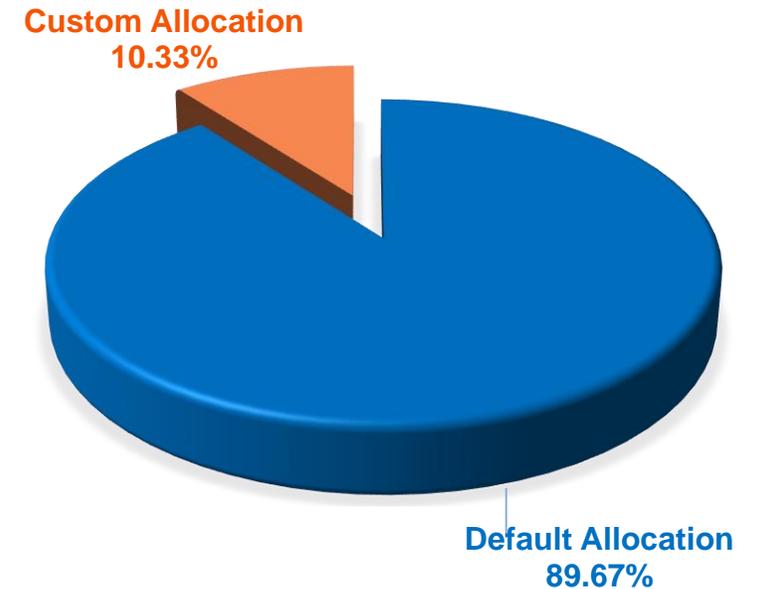
- Opt-Out Rate: 36.56%
- Participation Rate: 63.44%

DEFAULT CONTRIBUTION



- Savers contributing at default : 85.74%
- Savers contributing above or below default: 14.26%

INVESTMENT



- Savers with default investment options: 89.67%
- Savers with other investment options: 10.33%



Defaults work – the vast majority of Secure Choice participants stay in both the default investment option and remain at the default contribution rate



Target Date Fund Option allows for growth – impactful with small dollar contributions (could be seen as akin to smaller balance accounts) and certainly beneficial to younger savers



Portability should allow for fewer lost accounts (when a worker is added by a new/second employer – they are connected to their existing account)



Lessons from State Auto-IRA programs can shape future decisions around defaults for small-dollar rollover IRAs.

Q&A



UPCOMING EBRI PROGRAMS

Financial Well-Being – Findings from the EBRI/Greenwald Research
Workplace Wellness Survey – December 1

Winter Policy Forum Webinars – December 7, 8, and 10

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