

## The Largest Leakage Culprit: Job Change Cashouts

In general, cashouts at job change have a much more serious impact on 401(k) savings than either plan loan defaults or hardship withdrawals, even taking into account the impact of a six-month suspension of contributions that generally accompanies those hardship withdrawals, according to new analysis by the nonpartisan Employee Benefit Research Institute.

In fact, the effect from these 401(k) cashouts at job change turns out to be approximately two-thirds of the total leakage impact, according to the report. With regard to retirement savings, “leakage” is generally defined as money that is withdrawn from 401(k)s prior to retirement.

EBRI’s analysis considered the impact on young employees with more than 30 years of 401(k) eligibility by age 65 if cashouts at job turnover, hardship withdrawals (and the accompanying six-month suspension of contributions) and plan loan defaults were substantially reduced or eliminated. The analysis assumed automatic enrollment and (as explicitly noted) no behavioral response on the part of 401(k) participants or retirement plan sponsors if that access to plan balances was eliminated.

The findings, presented in testimony to the ERISA Advisory Council, noted that 20 percent of those in the lowest-income quartile who would otherwise have enough savings to achieve a real replacement rate threshold of 80 percent would fall short due to these cashouts at job change. Moreover, just over 10 percent of the highest-income quartile who would otherwise have enough money to meet that 80 percent threshold would fall short due to job change leakage.

EBRI’s testimony for the ERISA Advisory Council, U.S. Department of Labor Hearing on Lifetime Participation in plans is available [online here](#).

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