

# Notes

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## A T A G L A N C E

**Lump-Sum Distributions at Job Change, Distributions Through 2012**, *by Craig Copeland, Ph.D., EBRI*

- What workers choose to do with their retirement plan assets upon job change can profoundly affect their financial resources in retirement, particularly in the case of younger workers and those with large balances. Since a common option is to take all the assets as a lump-sum distribution (LSD), a key question is whether participants roll their retirement assets over to another tax-qualified savings vehicle (such as an IRA), retain it in other savings, or use it for consumption.
- The average amount of LSDs *in 2012 dollars* was \$20,781, with a median (mid-point) amount of \$12,355. In terms of the value *at the time of the distributions*, the average amount was \$15,934 and the median amount was \$10,000.
- Preservation of benefits appears to have improved after 1986, with some evidence it has continued to improve through 2012. Moreover, recipients who did not use their LSD for tax-qualified savings were more likely to use it to improve their financial condition, paying down debt or buying a home, rather than spending it on pure consumption.

**Views on the Value of Voluntary Workplace Benefits: Findings from the 2013 Health and Voluntary Workplace Benefits Survey**, *by Paul Fronstin, Ph.D., EBRI, and Ruth Helman, Greenwald & Associates*

- More than three-quarters of employees state that the benefits package an employer offers prospective employees is extremely (33 percent) or very (45 percent) important in their decision to accept or reject a job.
- Nevertheless, 31 percent are only somewhat satisfied with the benefits offered by their current employer, and 26 percent are not satisfied.
- Eighty-eight percent of employees report that employer-provided health insurance is extremely or very important, far more than for any other workplace benefit.
- Employees identify lower cost (compared with purchasing benefits on their own) and choice as strong advantages of voluntary benefits. However, they are split with respect to their comfort in having their employer choose their benefits provider, and think the possibility that they may have to pay the full cost of any voluntary benefits is a disadvantage.

# Lump-Sum Distributions at Job Change, Distributions Through 2012

*By Craig Copeland, Ph.D., Employee Benefit Research Institute*

## Introduction

With a growing number of workers participating in defined contribution (DC) retirement plans (typified by the 401(k) plan), where lump-sum distributions (LSDs) are the “norm,” along with an expanding number of defined benefit (DB) (pension) plans that allow a lump-sum distribution of benefits, more and more individuals are confronted with making decisions about what to do with the assets they have accumulated in these plans when they change jobs.<sup>1</sup>

Upon leaving employment, a retirement plan participant generally has the following choices for his or her retirement account:

- Leave the money in their current plan.
- Roll it over to another tax-qualified savings vehicle (another employment-based plan or an individual retirement account (IRA)).
- Cash it out (to spend it or to invest/save it in a different manner than through a tax-qualified savings vehicle).
- Some combination of the above.

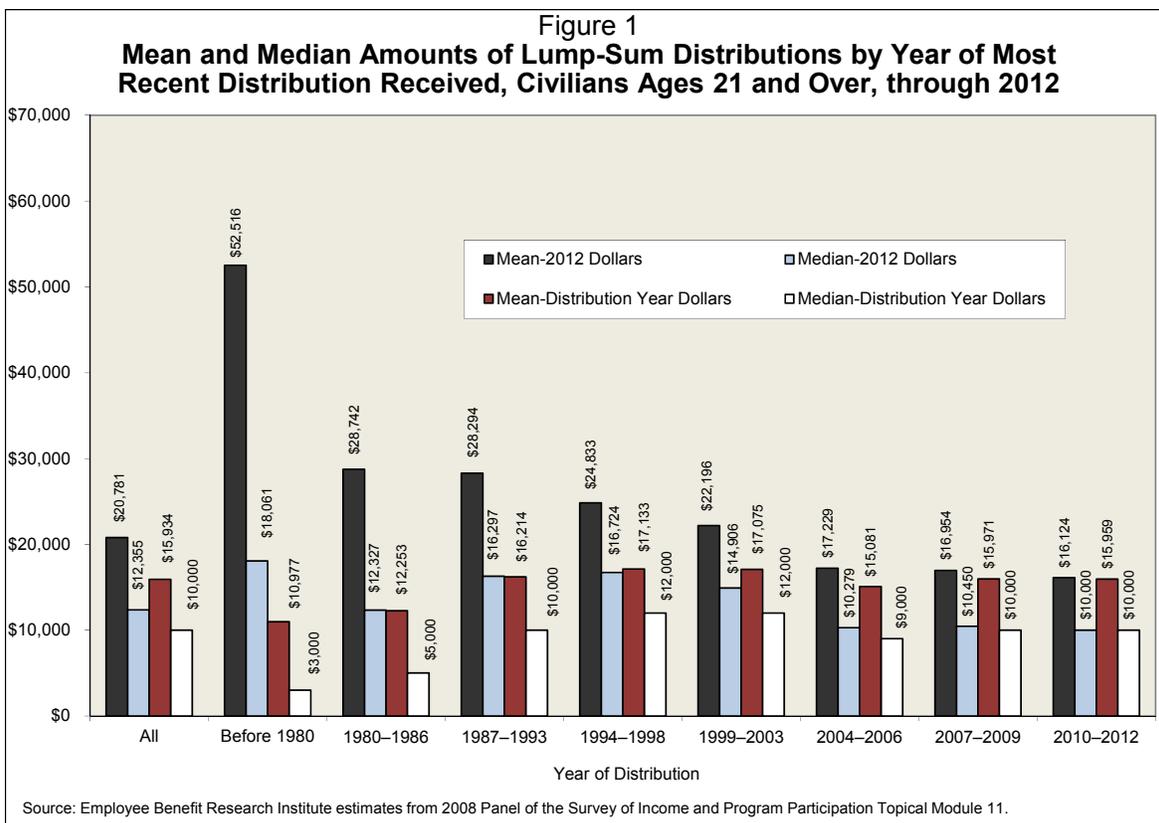
This choice can profoundly affect participants’ financial resources in retirement, particularly in the case of younger workers who might forego years of subsequent accumulation and those with large balances who might wind up inadvertently squandering a career’s worth of savings.<sup>2</sup> Consequently, to determine whether individuals are accumulating and retaining the assets they will need for financial adequacy in retirement, it is important to understand what they do with their retirement plan assets when leaving a job.

This article focuses on the decisions that workers make at job change upon receipt of a lump-sum payment from an employment-based retirement plan. The number and level of the LSDs are estimated, followed by a discussion of what individuals do with these distributions and an analysis of important determinants of the decision to roll over the distributions compared with using the assets for other reasons. These results are derived from recently released data from the U.S. Census Bureau—The Pension and Retirement Plan Coverage Topical Module 11 of the 2008 Survey of Income and Program Participation (SIPP)—which includes lump-sum data for individuals through March 2012.<sup>3</sup> This research updates prior studies on LSDs done by the Employee Benefit Research Institute (EBRI).<sup>4</sup>

## Lump-Sum Distributions: An Overview

In the 2008 Panel of SIPP Topical Module 11, approximately 18.1 million working Americans ages 21 and over reported having received an LSD from a retirement plan associated with a previously held job (when changing jobs) through March 2012.<sup>5</sup> Respondents were asked further questions about that distribution or, if more than one, their most recent distribution, to better understand the uses (rollover, spending on consumption, education expenses, housing purchase/improvement, starting a business, or some other investment) and size of these distributions. The size or amount of the distribution was reported in the survey in terms of its value at the time of the distribution.<sup>6</sup> However, because some of these distributions were taken many years ago, the distributions’ relative value to current prices was not the same. Consequently, the amount of the distributions is presented here with respect to both the value when the distributions were received and in 2012 dollars, by adjusting the reported values by the consumer price index so that values are in the same dollar terms.

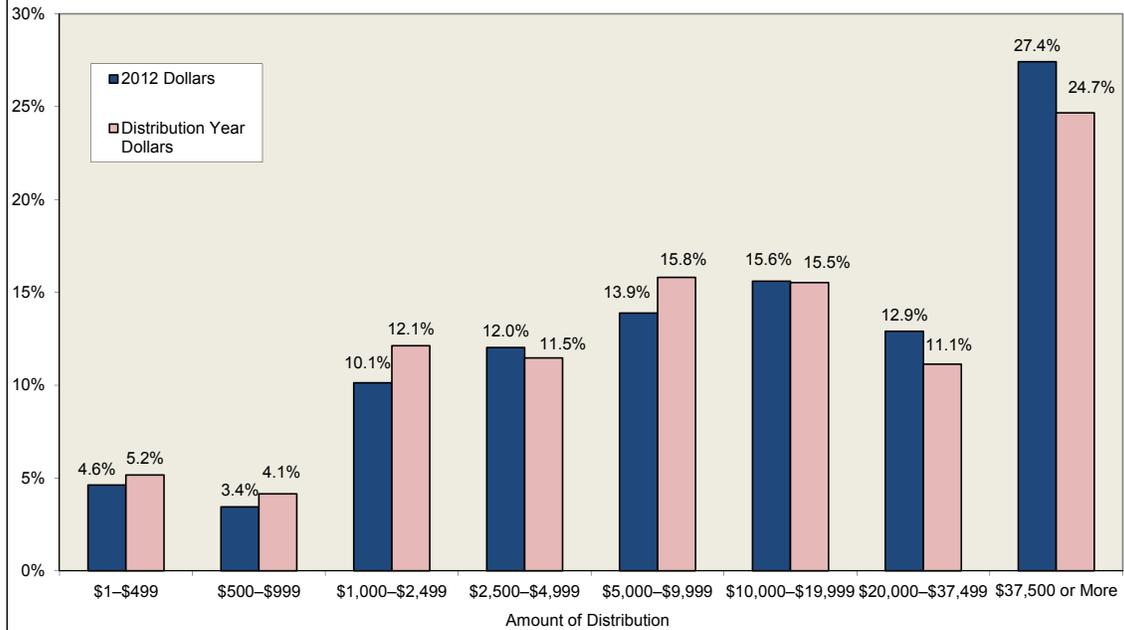
The mean (average) amount of these distributions *in 2012 dollars* was \$20,781, with a median (mid-point) amount of \$12,355, with the average amounts declining with time (Figure 1).<sup>7</sup> For example, for distributions taken before 1980, the average distribution in 2012 dollars was \$52,516, compared with \$16,124 for distributions taken from 2010–2012. The median also declined over the entire time period from \$18,061 before 1980 to \$10,000 from 2010–2012. However, this was not a straight decline as the median amount increased and decreased in between. In terms of the value *at the time of the distributions*, the average amount was \$15,934 and the median amount was \$10,000. (For the value of the distributions when taken, the average distribution increased from \$10,977 for those taken before 1980 to \$17,133 during 1994–1998, and then decreased to \$15,959 during 2010–2012.)



The amounts of the LSDs for the most part were relatively small, with 4.6 percent of recipients reporting a distribution of less than \$500 (in 2012 dollars), 3.4 percent reporting from \$500 to less than \$1,000, and 10.1 percent reporting from \$1,000 to less than \$2,500—for a total of 18.1 percent of the distributions being less than \$2,500 (Figure 2). The rest of the distributions, except for the 27.4 percent that were \$37,500 or more, were between \$2,500 and \$37,499, with those distributions being somewhat equally divided (in the 12–16 percent range of the total) among the \$2,500–\$4,999; \$5,000–\$9,999; \$10,000–\$19,999; and \$20,000–\$37,499 distribution categories.

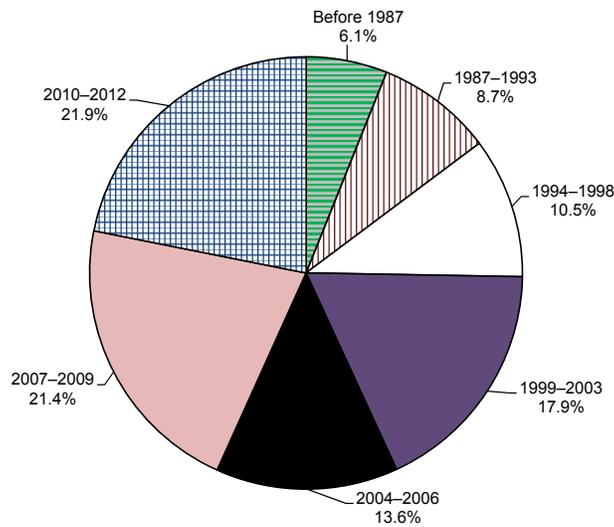
Approximately 22 percent of the LSD recipients reported having received their most recent distribution from 2010–2012, and another approximately 21 percent from 2007–2009, whereas only 6.1 percent received their most recent distribution before 1987 (Figure 3). Consequently, more than 56 percent of the distributions in this study took place after 2003. As for the age at which the recipients received their most recent distribution, just over 50 percent were 40 years old or younger (Figure 4).

**Figure 2**  
**Percentage of Lump-Sum Recipients by Amount of Most Recent Distribution, Ages 21 and Over, 2012**



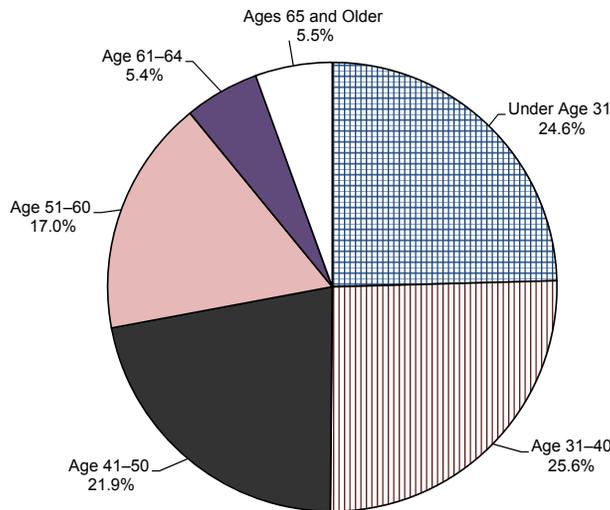
Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.  
 Note: The distribution amounts are top-coded at \$37,500.

**Figure 3**  
**Percentage of Lump-Sum Recipients by Year of Most Recent Distribution Received, Workers Ages 21 or Older, Through 2012**



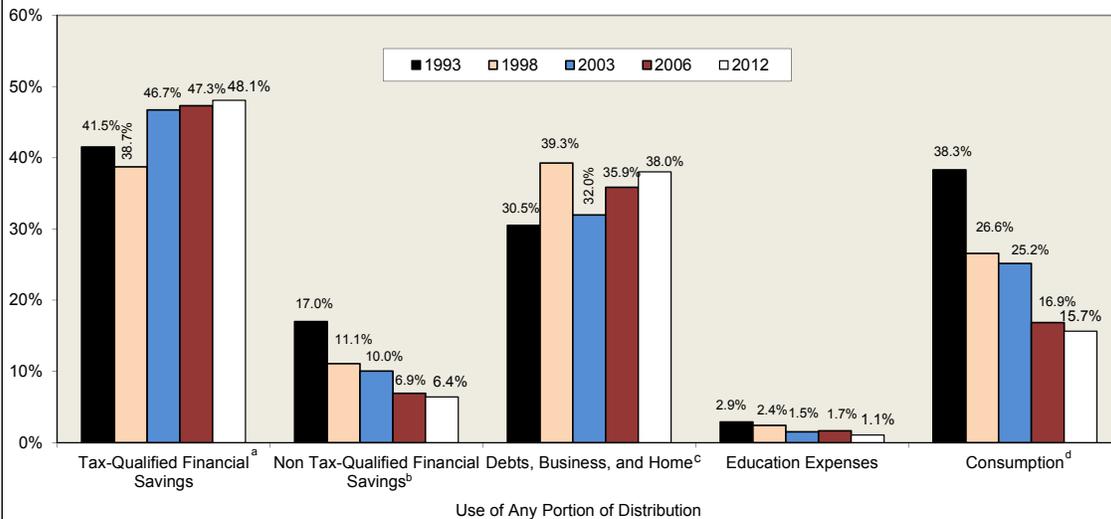
Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.

**Figure 4**  
**Proportion of the Most Recent Lump-Sum Distribution by the Recipient's Age at the Time of the Distribution, 2011–2012**



Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.

**Figure 5**  
**Proportion of Lump-Sum Recipients Reporting Various Uses for Any Portion of Their Most Recent Distribution, Civilians Ages 21 and Over, 1993, 1998, 2003, 2006, and 2012**



Source: Employee Benefit Research Institute estimates from the 2008 Panel of the Survey of Income and Program Participation Topical Module 11; 1996, 2001, and 2004 Panels of the Survey of Income and Program Participation Topical Module 7 and April 1993 Employee Benefits Supplement to the Current Population Survey.

<sup>a</sup> Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

<sup>b</sup> Includes savings accounts, other financial investments, and other savings.

<sup>c</sup> Includes purchase of a home, start or purchase of a business, payments towards debt, bills, loans, or mortgage.

<sup>d</sup> Includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

## Benefit Preservation Trends

The primary goal of a retirement savings plan such as a 401(k) plan is to provide income for individuals in their retirement, an objective arguably undermined by cashing out the balances at job termination. This section looks at the percentage of lump-sum recipients who rolled over their assets to a tax-qualified plan (an IRA or another employment-based retirement plan), thereby preserving their benefits, at least initially, rather than cashing them out.

Among those who reported in 2012 ever having received a distribution, 48.1 percent reported rolling over at least some of their most recent distribution to tax-qualified savings<sup>8</sup> (Figure 5).<sup>9</sup> This is higher than the percentage reported for workers receiving a distribution most recently through 2006. Furthermore, among those who received their most recent distribution through 2012, the percentage who used any portion of it for consumption<sup>10</sup> was also lower, at 15.7 percent (compared with 25.2 percent of those whose most recent distribution was received through 2003 and 38.3 percent through 1993). However, there was an uptick in the percentage of recipients through 2012 who used their lump sum for debts, business, and home expenses, and a decrease in the percentage saving in nontax-qualified vehicles relative to distributions through 2006.

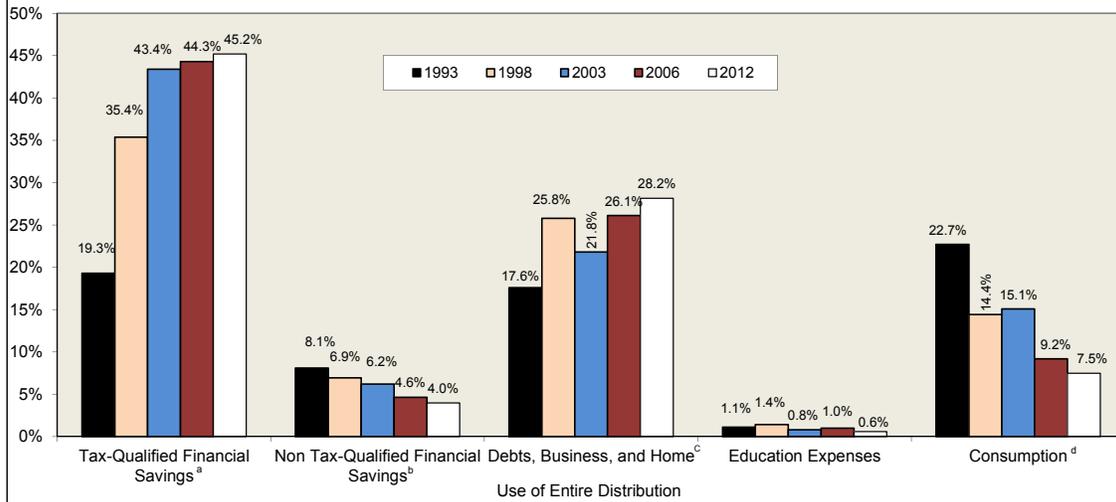
On the other hand, the percentage of lump-sum recipients who used the entire amount of their most recent distribution for tax-qualified savings has increased sharply since 1993; well over 4 in 10 (45.2 percent) of those who received their most recent distribution through 2012 did so, compared with 19.3 percent of those who received their most recent distribution through 1993 and 35.4 percent through 1998 (Figure 6). Furthermore, 7.5 percent of recipients whose most recently received distribution through 2012 was entirely spent on consumption, compared with 22.7 percent for those who received a distribution through 1993 and 15.1 percent through 2003.

An important factor in the change in the relative percentages between the 1993 and 2012 data is the percentage of lump sums that were used for a single purpose. Among individuals who received their most recent distribution through 2012, nearly all (94.0 percent) of those who rolled over at least some of their most recent distribution did so for the entire amount, whereas only 46.5 percent of those who rolled over at least some of their most recent distribution through 1993 did so with the entire amount.<sup>11,12</sup> Therefore, while a benefit-preservation trend might not look promising when analyzing the use of *any portion* of the LSD, a trend for more preservation is revealed to be quite substantial on an *entire-use* basis, as virtually all of those who chose to roll over their lump sum rolled over the entire amount. In addition, the decline in the use of an entire distribution for consumption accelerated through 2006 and into 2012.

Another technique to analyze the trend in the percentage of workers who roll over their assets relative to cashing them out is to use the 2008 SIPP Topical Module 11 data to examine when the most recent distributions were received *within* the dataset, instead of *across* datasets. The most recent distributions from these data are broken down into six categories: before 1980, 1980–1986, 1987–1993, 1994–1998, 1999–2003, 2004–2006, 2007–2009, and 2010–2012. In this analysis, the likelihood of any of the most recent distributions going to tax-qualified savings increased with time before declining for the most recent distributions starting in 2007 (Figure 7).<sup>13</sup> Among workers who received their most recent distribution between 2004–2006, 52.2 percent used some portion for tax-qualified savings, whereas only 20.5 percent of those who received their distribution before 1980 did so. However, this percentage was lower for those who received a distribution between 2007–2009 and 2010–2012 (47.9 percent and 45.9 percent, respectively).

The percentage of recipients using any portion of their most recent LSD for consumption decreased sharply from 27.2 percent for distributions between 1980–1986 to 13.5 percent for distributions between 1987–1993 (Figure 8). For distributions after 1993, the percentage using any portion for consumption slowly increased, reaching 15.8 percent for distributions between 2010–2012.

**Figure 6**  
**Proportion of Lump-Sum Recipients Reporting Using Entire Portion of Their Most Recent Distribution for Each Use, Civilians Ages 21 and Over, 1993, 1998, 2003, 2006, and 2012**



Source: Employee Benefit Research Institute estimates from the 2008 Panel of the Survey of Income and Program Participant Topical Module 11; 1996, 2001, and 2004 Panels of the Survey of Income and Program Participation Topical Module 7; and April 1993 Employee Benefits Supplement to the Current Population Survey.

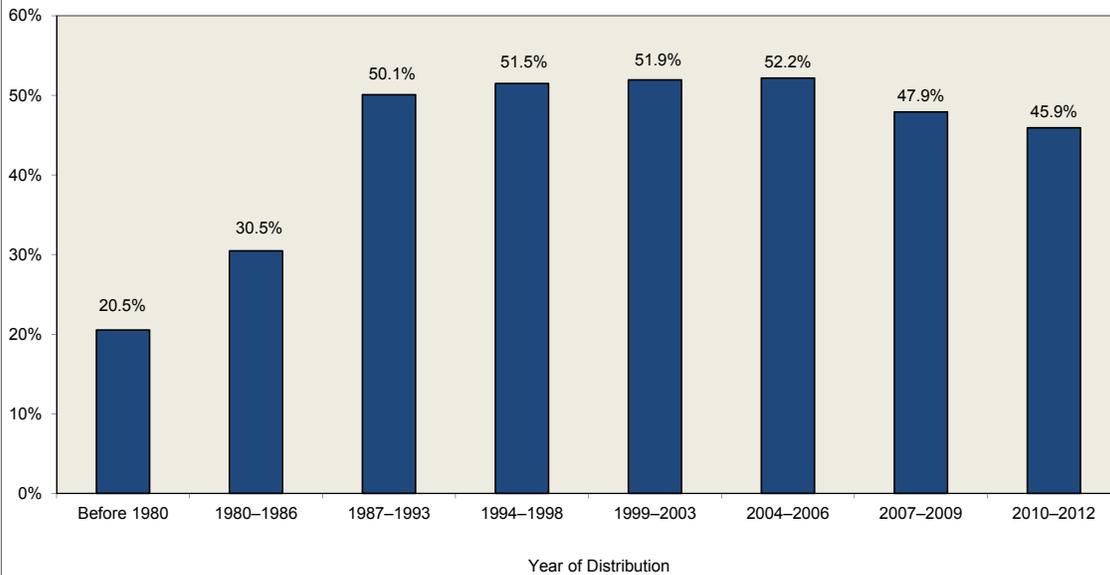
<sup>a</sup> Investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

<sup>b</sup> Savings accounts, other financial investments, and other savings.

<sup>c</sup> Purchase of home, start or purchase of a business, payments towards debt, bills, loans, or mortgage.

<sup>d</sup> Purchase of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

**Figure 7**  
**Proportion of Lump-Sum Recipients Reporting Using Any Portion of Their Most Recent Distribution through 2012 for Tax-Qualified Financial Savings<sup>a</sup> by Year of Receipt, Civilians Ages 21 and Over**



Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.

<sup>a</sup> Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

Both analysis techniques show that the percentage of lump-sum recipients using some portion of their most recent distribution for tax-qualified savings was significantly higher in 2012 than it was through 1986, despite declines in that trend for the more recent (2007–2012) distributions within the 2008 SIPP. Furthermore, the percentage that used any portion of their distribution for consumption significantly decreased after 1986, but has remained virtually constant at around 15 percent for the most recent distributions within the 2008 SIPP, although that is a decline from prior years of SIPP. Consequently, the preservation of benefits appears to have improved after 1986, with some evidence it has continued to improve through 2012. Moreover, recipients who did not use their lump sum for tax-qualified savings were more likely to use it to improve their financial condition, paying down debt or buying a home, rather than spending it on additional consumption.

A possible major driver of the trend to roll over the entire distribution was the federal government's imposition of a 20-percent withholding rate on distributions not directly rolled over after 1993. Other possible reasons include better education and the likelihood that the plan was the worker's only retirement savings vehicle. However, the decrease in benefit preservation of the most recent distribution may be due to the need to pay down debts during the difficult post-2006 economic times.

## Determinants of Benefit Preservation

Two important factors in whether an LSD is used exclusively for tax-qualified savings appear to be the age of the recipient and the size of the distribution. The likelihood of the distribution being rolled over entirely to tax-qualified savings increased with the age of the recipient at the time of receipt until age 64, after which a substantial decline began for the oldest recipients. Among those receiving a distribution when they were ages 61–64, 55.9 percent used their distribution entirely for tax-qualified savings, compared with 32.4 percent of those who were ages 30 or younger (Figure 9).<sup>14</sup>

Similarly, the larger the distribution, the more likely it was kept entirely in tax-qualified savings. Among recipients with a distribution of \$500–\$999 (in 2012 dollars), 21.1 percent rolled over their distribution exclusively to tax-qualified savings, compared with 69.5 percent of those with a distribution of \$37,500 or more (Figure 10).

## Conclusion

Benefits paid from defined contribution (DC) retirement plans have the advantage of potentially experiencing real growth—rather than only nominal growth—through investment returns, even after individuals change jobs. This is in contrast to (non-cash balance) defined benefit (DB) (pension) plans, in which the benefits are based on the participants' years of service and wage history at the time of job termination, and remain at that relative value until distributions commence. However, this advantage of defined contribution plans can be compromised if plan participants cash out their benefits prematurely, foregoing subsequent investment returns, and subjecting those balances to taxation prior to retirement.<sup>15</sup> This article assesses the likelihood that lump-sum recipients cashed out or retained benefits from an employment-based retirement plan once the decision was made to take a distribution from a plan.

The data show that improvement has been made in the percentage of employment-based retirement plan participants rolling over all of their LSDs on job change, along with less frequent pure-consumption use of any of the distributions. The data also show that approximately 55 percent of those who took a lump-sum payment did not roll *all of it* into tax-qualified savings (Figure 6), although some of these distributions were used for purposes that might contribute to financial well-being; home purchases, starting businesses, or paying down debt. This behavior varied significantly across participants' ages at the point of distribution and the amount of the distribution, with older individuals (up to age 64) and those with higher balances more likely to roll over their assets.

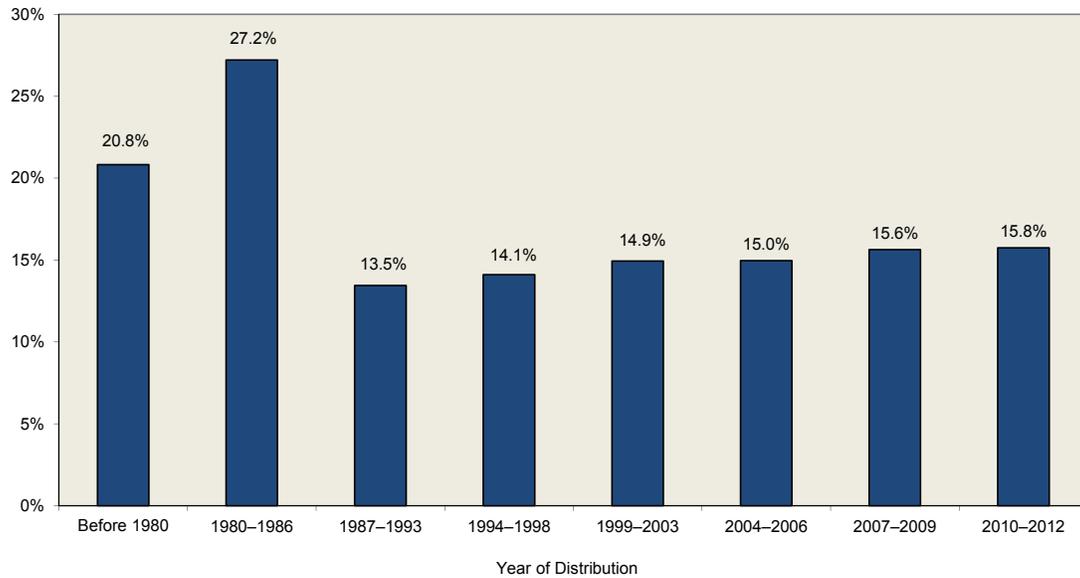
This suggests that some individuals, particularly younger ones, do not understand or value the fact that a small amount of savings can, over time, make a significant contribution to retirement accumulations due to compound interest.<sup>16</sup> Thus, by cashing out even small amounts, younger participants are sacrificing potentially important assets for their retirement.<sup>17</sup>

One possible reason that a large percentage of small balances are being cashed out is the ability of private-sector plan sponsors under current law to require individuals to take a lump sum if their balance is less than \$5,000. Many individuals, particularly those with small balances, may be unaware of the tax implications associated with the lump sum, and may therefore cash the check they receive from the plan sponsor after job termination. A provision in the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107–16) (EGTRRA) established a rollover individual retirement account (IRA) as the default option for LSDs of less than \$5,000 but not less than \$1,000. This provision, which became effective March 28, 2005, was introduced to increase the likelihood of rollovers among those with the balances in this range.

Using data from the 2008 Survey of Income and Program Participation (SIPP) panel on the portion of recipients of a distribution between \$1,000 and \$5,000 at the time of the distribution who roll over all of their distribution to tax-qualified savings, the percentage of those receiving a distribution in 2004 or before can be compared with the percentage of those receiving a distribution in 2005 or 2006 and with those in 2007–2012. The result *does not* show a statistically significant difference for those rolling over all of the distribution: 31.5 percent of those who took a distribution through 2004, 30.5 percent of those who took a distribution in 2005 or 2006, and 26.4 percent of those who took a distribution from 2007 to 2012 (Figure 11). However, the percentage who used the distribution only for consumption declined for distributions in 2005 and 2006 with a retrenchment for distributions taken between 2007–2012.

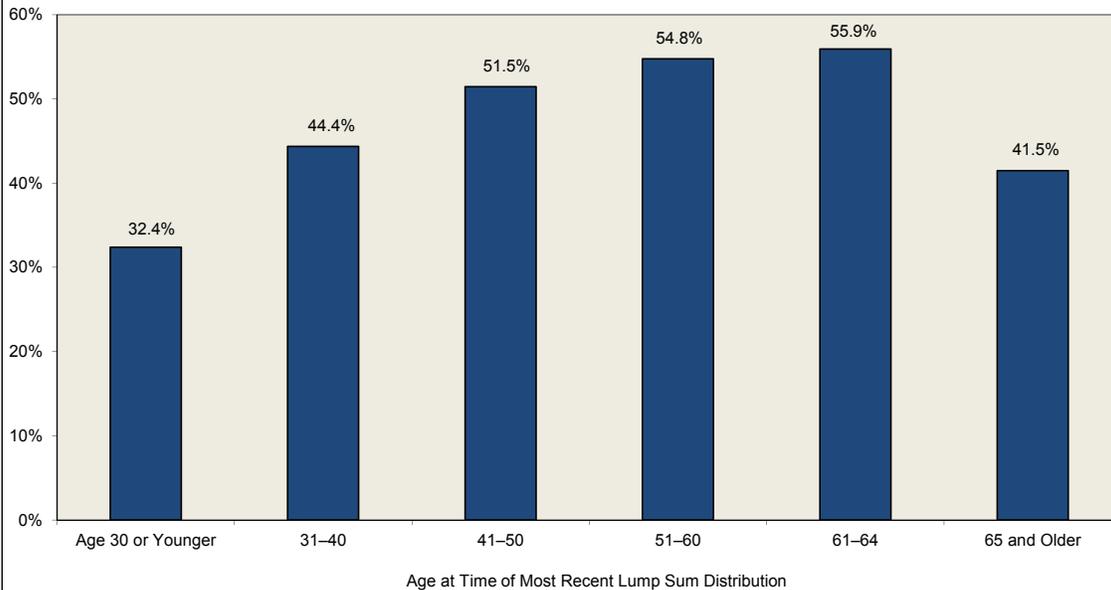
While there was an improvement in the percentage of individuals who took a distribution and then rolled it over to tax-qualified savings, rolling over is by no means universal. The other primary uses besides rollovers were paying down debt, making home down payments, and starting or purchasing businesses. These are more immediate financial needs that individuals changing jobs may need to address to prevent their current financial positions from deteriorating. Whereas, just pure consumption such as buying a car, TV, etc., which is unlikely to maintain or improve a current financial situation, declined. While benefit preservation might be the ultimate goal of these plans, in order to reduce individuals' reliance on Social Security, workers who find themselves between jobs may need these assets immediately to allow them to stay financially solvent prior to retirement, even if doing so jeopardizes their circumstances post-retirement.

**Figure 8**  
**Proportion of Lump-Sum Recipients Reporting Using Any Portion**  
**of Their Most Recent Distribution Through 2012 for Consumption,<sup>a</sup>**  
**by Year of Receipt, Civilians Ages 21 and Over**



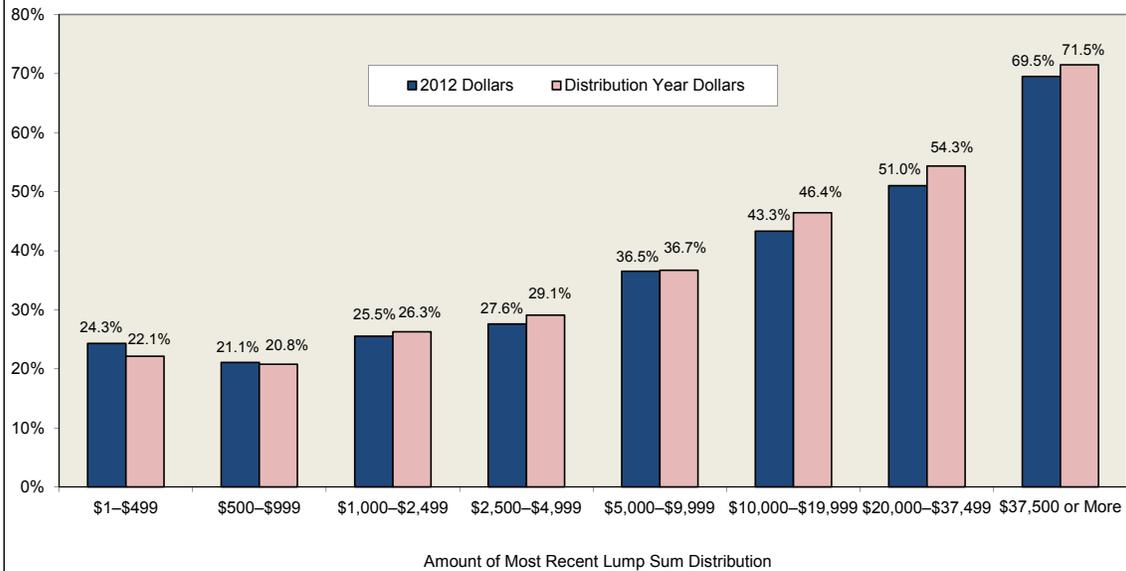
Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.  
<sup>a</sup> Includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

**Figure 9**  
**Proportion of Lump-Sum Recipients Using Entire Portion of Their Most**  
**Recent Distribution Through 2012 for Tax-Qualified Financial Savings,<sup>a</sup> by**  
**Age at Time of Most Recent Distribution, Civilians Ages 21 and Over**



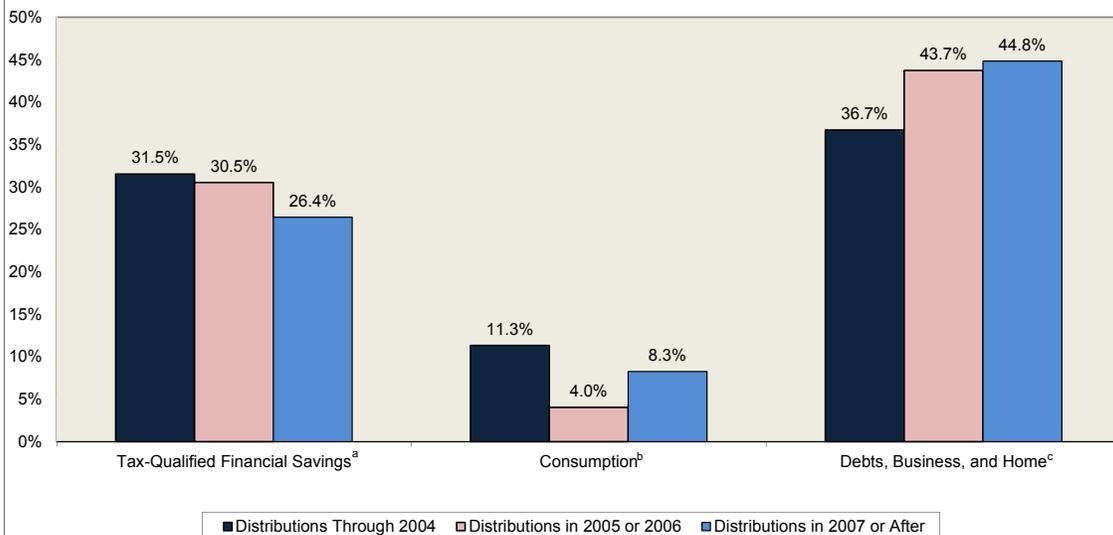
Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.  
<sup>a</sup> Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plan.

**Figure 10**  
**Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution Through 2012 for Tax-Qualified Financial Savings,<sup>a</sup> by the Amount of the Most Recent Distribution, Civilians Ages 21 and Over**



Source: Employee Benefit Research Institute estimates from 2008 Panel of the Survey of Income and Program Participation Topical Module 11.  
<sup>a</sup> Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

**Figure 11**  
**Percentage of Lump-Sum Distribution Recipients of \$1,000 to \$5,000 at the Time of the Distribution Who Used the Entire Distribution For Various Uses, by Year of the Distribution, 2012**



Source: Employee Benefit Research Institute estimates 2008 Panels of the Survey of Income and Program Participation Topical Module 11.  
<sup>a</sup> Investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.  
<sup>b</sup> Purchase of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.  
<sup>c</sup> Purchase of home, start or purchase of a business, payments towards debt, bills, loans, or mortgage.

## Endnotes

<sup>1</sup> In Craig Copeland, "Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2012," *EBRI Notes*, no.8 (Employee Benefit Research Institute, August 2013): 2–10, 78.0 percent of employment-based retirement plan participants were found to consider a defined contribution plan to be their primary retirement plan, compared with 25.8 percent in 1988. Furthermore, for those participating in a defined benefit plan, lump-sum distributions are increasingly available. See, for example, U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2005 Bulletin* (2007), [www.bls.gov/ncs/ebs/sp/ebbl0022.pdf](http://www.bls.gov/ncs/ebs/sp/ebbl0022.pdf) and *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2002–2003* (2005), [www.bls.gov/ncs/ebs/sp/ebbl0020.pdf](http://www.bls.gov/ncs/ebs/sp/ebbl0020.pdf) The percentage of all private industry employees eligible for a lump-sum distribution (LSD) increased from 48 percent in 2002 to 52 percent in 2005, compared with 23 percent and 15 percent of full-time workers participating in a defined benefit plan in a medium or large establishment who were offered an LSD in 1997 and 1995, respectively (U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Private Establishments, 1997* (1999), [www.bls.gov/ncs/ebs/sp/ebbl0017.pdf](http://www.bls.gov/ncs/ebs/sp/ebbl0017.pdf) and *Employee Benefits in Medium and Large Private Establishments, 1995* (1998), [www.bls.gov/ncs/ebs/sp/ebbl0015.pdf](http://www.bls.gov/ncs/ebs/sp/ebbl0015.pdf)). In 2010, this number declined somewhat to 46 percent of full-time employees in private-sector defined benefit (DB) plans who were eligible for LSDs (U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Health and Retirement Provisions in Private Industry in the United States, 2010* (August, 2011) [www.bls.gov/ncs/ebs/detailedprovisions/2010/ebbl0047.pdf](http://www.bls.gov/ncs/ebs/detailedprovisions/2010/ebbl0047.pdf)).

<sup>2</sup> For example, a 25-year-old who leaves an employer after accumulating a \$5,000 account balance would have approximately \$24,600 at age 65, assuming a constant 4-percent rate of return compounded monthly.

<sup>3</sup> The 2008 Panel of the Survey of Income and Program Participation (SIPP), conducted by the U.S. Census Bureau, follows the same households for a five-year period, asking various questions on their economic and demographic status. Survey participants are interviewed at four-month intervals about a core set of demographic and economic issues. In addition, topical modules ask more specific questions about important economic issues. Topical Module 11, fielded in December 2011–March 2012, asked questions about workers' participation in retirement and/or pension plans in addition to questions on lump-sum distributions. For more information about SIPP, see [www.census.gov/sipp/](http://www.census.gov/sipp/)

<sup>4</sup> See Craig Copeland, "Lump-Sum Distributions at Job Change." *EBRI Notes*, no. 1 (Employee Benefit Research Institute, January 2009a): 2–11; Craig Copeland, "More Detail on Lump-Sum Distributions of Workers Who Have Left a Job, 2006." *EBRI Notes*, no. 7 (Employee Benefit Research Institute, July 2009b): 2–10; Craig Copeland, "Lump-Sum Distributions." *EBRI Notes*, no. 12 (Employee Benefit Research Institute, December 2005): 7–17; Craig Copeland, "Lump-Sum Distributions: An Update," *EBRI Notes*, no. 7 (Employee Benefit Research Institute, July 2002): 1–8; and the citations therein from both academic studies and service-provider studies on LSD decisions. Also see Craig Copeland, "Retirement Plan Participation and Retirees' Perception of Their Standard of Living," *EBRI Issue Brief*, no. 289 (Employee Benefit Research Institute, January 2006) for more results from the 2001 Panel of SIPP.

Other research on LSDs includes a study by the Investment Company Institute that examines distribution choices at just retirement (not preretirement) and finds a small amount spent at the time of the distributions. See John Sabelhaus, Michael Bogdan, and Sarah Holden, "Defined Contribution Plans Distribution Choices at Retirement: A Survey of Employees Retiring Between 2002 and 2007," *Investment Company Institute Research Series*, December 5, 2008 (Investment Company Institute, Fall 2008), [http://ici.org/pdf/rpt\\_08\\_dcdd.pdf](http://ici.org/pdf/rpt_08_dcdd.pdf) In addition, a plan administrator study done by Hewitt Associates found that 45 percent of 401(k) participants who left their job in 2005 cashed out their lump sum, 32 percent left it in the plan, and 23 percent rolled it over to another tax-qualified plan. They were not able to determine what the individuals who cashed out their lump sum did with it (spent it, invested it, paid down debt, etc.). Furthermore, a study by researchers at Vanguard found that 27 percent of defined benefit plan participants from two large plans who were eligible for an LSD chose to take an annuity as the payout option, while 17 percent did so from cash balance plans (Gary R. Mottola and Stephan P. Utkus, *Lump Sum or Annuity? An Analysis of Choice in DB Pension Payouts*, Vanguard Center for Retirement Research, Vol. 30, November 2007, <https://institutional.vanguard.com/iam/pdf/CRRLSA.pdf>). In addition, Sudipto Banerjee, "Annuity and Lump-Sum Decisions in Defined Benefit Plans: The Role of Plan Rules," *EBRI Issue Brief*, no. 381 (Employee Benefit Research Institute, January 2013) showed that the level of restrictions on the lump sum choice within a defined benefit plan greatly affects the decision to take an LSD from the plan.

<sup>5</sup> This included individuals who were participants in the plan along with any survivors of those who were in a plan. This did not factor in the participants who left their assets behind in the plan. The percentage of individuals who left their assets in a previous employers' plan has been estimated to be approximately one-third; see Hewitt study from endnote 4 and Copeland (2009b), op. cit.

<sup>6</sup> The distribution amounts are top coded within the survey data at \$37,500.

<sup>7</sup> As mentioned previously, the 2008 SIPP top coded the lump-sum amounts at \$37,500. Prior surveys did not have this restriction, so the average amounts of the lump sums were smaller in this study than in the prior studies of SIPP using the prior survey years without the restriction.

<sup>8</sup> This included investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

<sup>9</sup> The results for the LSDs most recently received through 1993 were tabulated from the April 1993 Employment Benefits Supplement to the Current Population Survey. See Employee Benefit Research Institute, "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey," *EBRI Issue Brief*, no. 153 (Employee Benefit Research Institute, September 1994), for further information and results from this survey. The results for the most recent distributions through 1998 are from the 1996 Panel of the Survey of Income and Program Participation Retirement and Pension Plan Coverage Topical Module 7; see Copeland (2002), op. cit., for further results from this dataset. The results for the most recent distributions through 2003 are from the 2001 Panel of the Survey of Income and Program Participation Retirement and Pension Plan Coverage Topical Module 7; see Craig Copeland (2005), op. cit., for further results from this dataset. The results for the most recent distributions through 2006 are from the 2004 Panel of the Survey of Income and Program Participation Retirement and Pension Plan Coverage Topical Module 7; see Craig Copeland (2009a), op. cit., for further results from this dataset. It is possible that some individuals could have had an LSD before 1993, between 1994–1998, between 1999–2003, between 2004–2006, and between 2007–2012. Where the 1996 SIPP only asked about the most recent distribution that occurred through 1998, the 2001 SIPP asked about the most recent through 2003, and the 2004 SIPP asked about the most recent through 2006. Therefore, the change could result both because some individuals chose to do something different with their distribution the next time as well as because additional individuals had an LSD. The following section examines only those distributions occurring most recently through 2012 or only results from the 2008 SIPP.

<sup>10</sup> This includes purchases of consumer items (e.g., car, boat), medical and dental expenses, general everyday expenses, and other spending.

<sup>11</sup> This was calculated by taking the percentage of those using the entire portion of their LSD for tax-qualified savings and dividing it by the percentage that used at least some portion of their LSD for tax-qualified savings for the respective years. (See Figures 5 and 6.)

<sup>12</sup> This increase in the percentage of the entire use of the distribution being used for one purpose correlated with the introduction of the 20-percent withholding requirement for any LSD from an employment-based retirement plan not directly rolled over to another tax-qualified savings vehicle as established by the 1992 Unemployment Compensation Amendments.

<sup>13</sup> These results are only from the 2008 SIPP concerning their most recent distribution through 2012, so there is no replacement issue similar to those in the earlier results.

<sup>14</sup> Starting at age 59 1/2, retirement plan participants can take tax-penalty-free account withdrawals.

<sup>15</sup> As mentioned above, a greater availability of LSDs under defined benefit plans may limit the potential advantage of benefit preservation under this type of plan. Consequently, the decision to take an LSD is pertinent to participants in both types of plans.

<sup>16</sup> These individuals may understand the impact of compound interest but may have more pressing financial concerns, such as paying down debt in a time when they are out of work.

<sup>17</sup> In some cases, spending the account balance for certain purchases that could be considered as investments, such as educational expenses or home purchases, could result in a more secure retirement than merely preserving the asset.

# Views on the Value of Voluntary Workplace Benefits: Findings from the 2013 Health and Voluntary Workplace Benefits Survey

*By Paul Fronstin, Ph.D., Employee Benefit Research Institute, and Ruth Helman, Greenwald & Associates*

## **Introduction**

The Employee Benefit Research Institute (EBRI) has been conducting “value of benefits” surveys for 20 years to determine the relative importance of different benefits to workers and to assess the role played by benefits in job choice and job change. The surveys show consistency in the value of some benefits and substantial change on others. Workers continue to rank health insurance as the first or second most important benefit provided by employers. Between 1999 and 2013, the percentage of workers ranking health insurance as the first- or second-most important benefit varied between 75 percent and 82 percent (Figure 1). While the ranking of a retirement savings plan fell from 2001 to 2013, this may be due to the introduction of additional benefits in the survey, such as paid time off.

This paper examines public opinion surrounding voluntary workplace benefits. Data come from the 2013 Health and Voluntary Workplace Benefits Survey (WBS), conducted by EBRI and Greenwald & Associates. Among other topics, the survey examines a broad spectrum of workplace benefits issues, with a particular focus on voluntary workplace benefits.

## **The Importance of Employee Benefits**

The benefits package that an employer offers prospective employees is an important factor in their decision to accept or reject a job. One-third (33 percent) of employees say the benefits package is extremely important, while 45 percent say it is very important (Figure 2). Just 18 percent describe the benefits that a potential employer offers as somewhat important in their decision to accept or reject a job, and only 3 percent say it is not too or not at all important. In fact, one-quarter (25 percent) of employees report they have accepted, quit, or changed jobs because of the benefits, other than salary or wage level, that an employer offered or failed to offer.

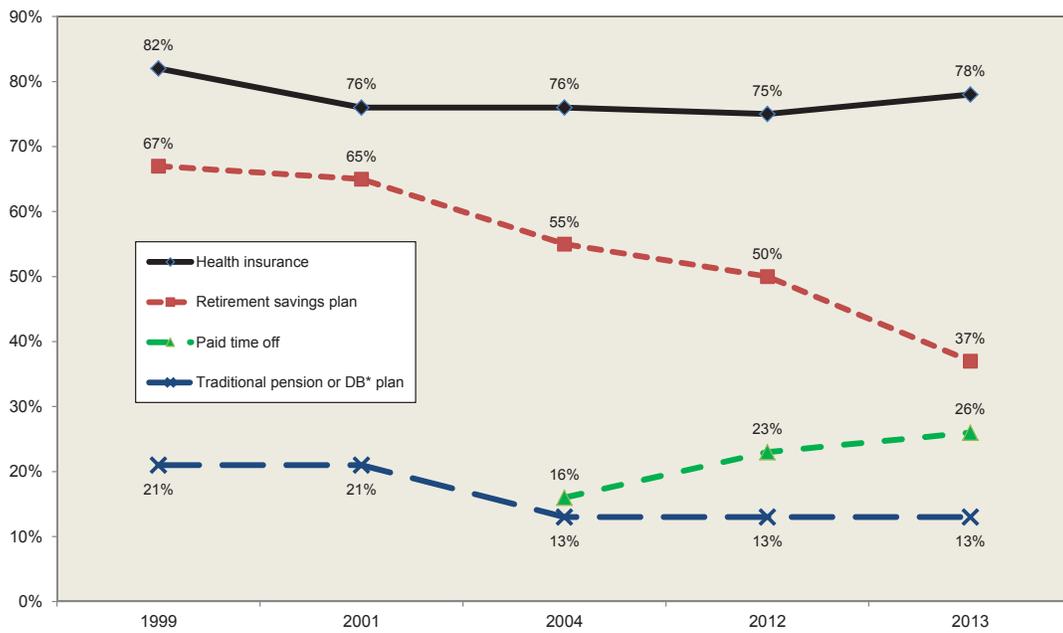
Nevertheless, many employees are not especially satisfied with the benefits package offered by their employer. While 12 percent report being extremely satisfied and 31 percent are very satisfied, another 31 percent are only somewhat satisfied, and one-quarter are not too satisfied (12 percent) or not at all satisfied (14 percent) (Figure 3).

With the enactment of the Patient Protection and Affordable Care Act of 2010 (PPACA), employees overwhelmingly consider health insurance to be the most important workplace benefit. Nearly two-thirds (63 percent) say this benefit is extremely important, while an additional one-quarter (25 percent) consider it to be very important (Figure 4). A retirement savings plan (rated extremely or very important by 70 percent of employees) and dental or vision insurance (67 percent) are also among the highest rated benefits. Close to half of employees say disability insurance (48 percent), life insurance (47 percent), a traditional pension or defined benefit plan (47 percent), and other health-related insurance (43 percent) are extremely or very important.

## **Benefits Coverage in the Workplace**

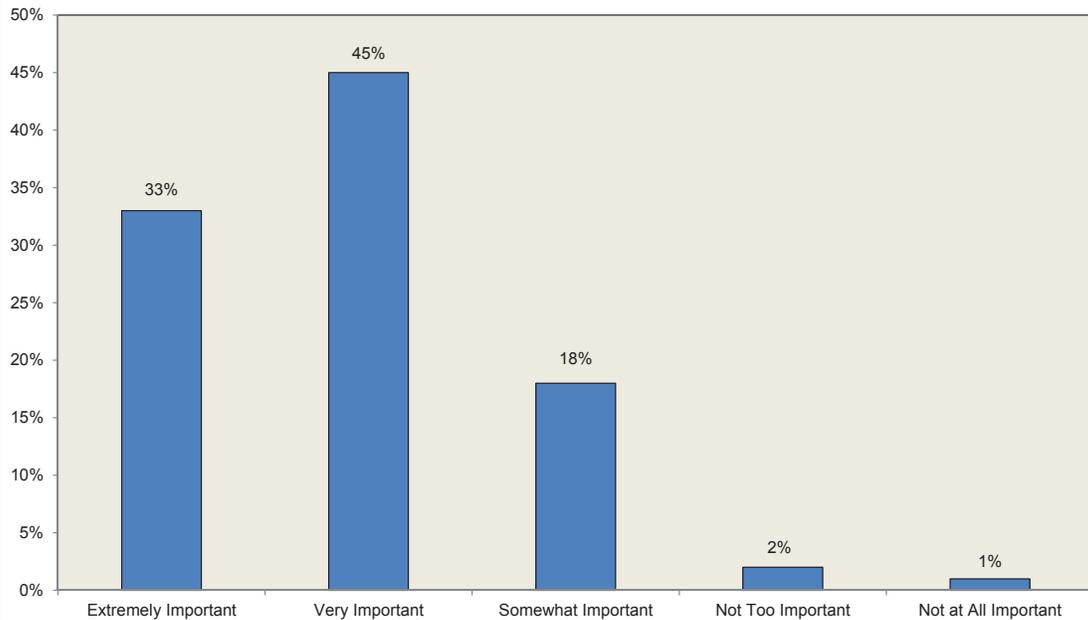
Benefits coverage in the workplace, including health insurance, is far from universal. Three-quarters of employees (76 percent) report their employer offers them health insurance (Figure 5). Two-thirds each indicate they are offered dental insurance (67 percent) and a retirement savings plan (66 percent), and more than half say they are offered vision insurance (60 percent), life insurance (58 percent), and short-term disability insurance (55 percent) by their employer. About half are offered long-term disability insurance (49 percent) and accidental death and

Figure 1  
**Percentage of Employees Identifying Benefit as First- or Second-Most Important**

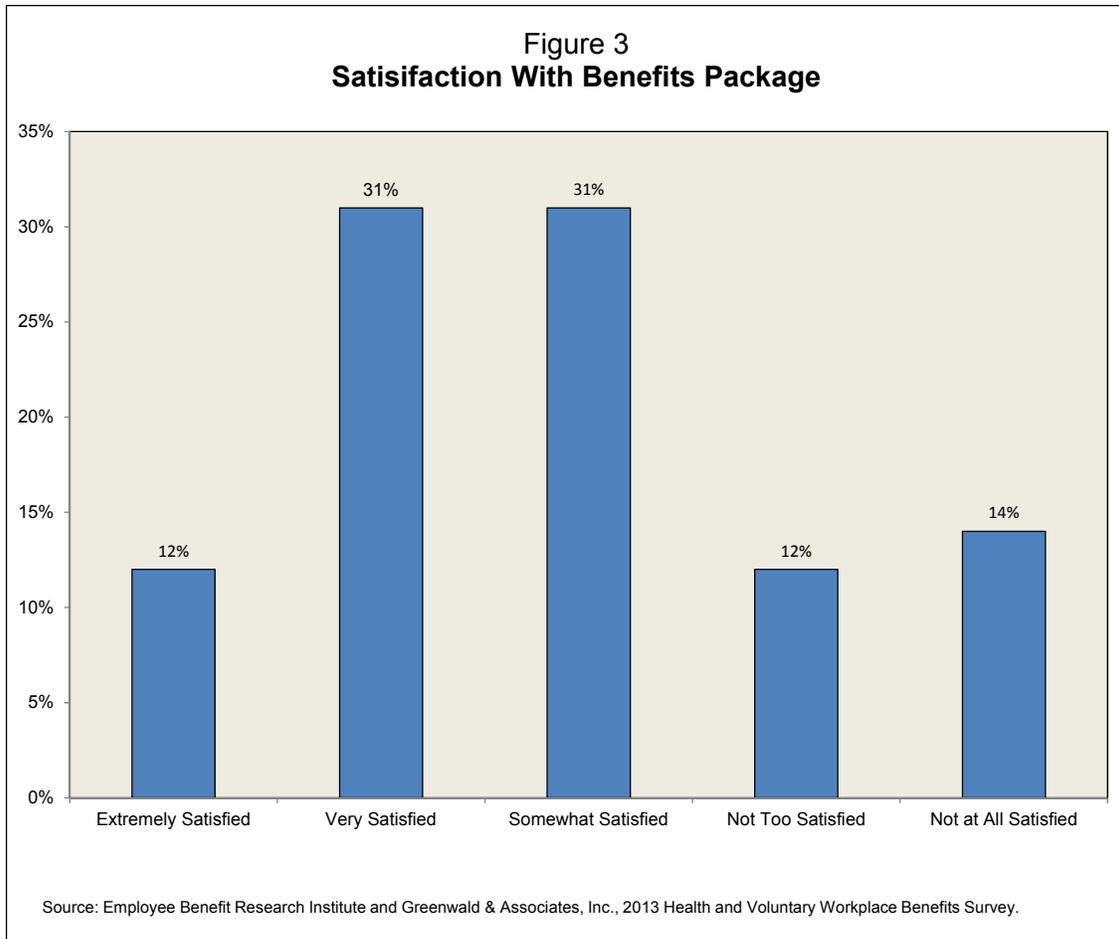


Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 1999 and 2001 Value of Benefits surveys, 2004 and 2012 Health Confidence surveys, 2013 Health and Voluntary Workplace Benefits Survey.  
 \* Defined benefit plan.

Figure 2  
**Importance of Benefits Package in Decision to Accept Job**



Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.



dismemberment insurance (48 percent). However, just 38 percent report being offered a traditional pension or defined benefit plan, and only one-quarter (25 percent) are offered long-term care insurance. Fewer report being offered retiree health insurance (22 percent) or other non-core ancillary benefits.

Further, not all employees offered a benefit at the workplace take advantage of it. At least 8 in 10 who are offered health insurance (83 percent), life insurance (81 percent), dental insurance (80 percent), and a retirement savings plan (80 percent) report they currently have this benefit through their employer (Figure 6). Between two-thirds and three-quarters of those offered a traditional pension or defined benefit plan (76 percent), vision insurance (73 percent), short-term disability insurance (71 percent), accidental death and dismemberment insurance (70 percent), and long-term disability insurance (66 percent) indicate they have this coverage through the workplace. Fewer report taking up other benefits offered by their employer.

However, a substantial minority of employees may be confused about the benefits their employer offers and how those benefits are funded. Roughly 2 in 10 each state they do not know whether their employer offers them critical-illness insurance (23 percent), home-health insurance (22 percent), retiree health insurance (21 percent), cancer insurance (21 percent), and long-term care insurance (19 percent). Approximately 1 in 10 of those offered each benefit examined in the survey do not know whether their employer pays all, some, or none of the cost of the benefit, while others report their employer picks up some or all of the cost of non-core ancillary benefits. For example, half of those offered prepaid legal services (53 percent) and critical-illness insurance (50 percent) say their employer pays all or some of the cost.

**Figure 4**  
**Importance of Various Employee Benefits**

	Extremely Important	Very Important	Somewhat Important	Not too Important	Not at all Important
Health insurance	63%	25%	9%	2%	1%
Retirement savings plan	30	40	23	6	1
Dental or vision insurance	29	38	25	6	2
Life insurance	18	29	31	16	5
Traditional pension or defined benefit plan	17	30	34	16	3
Other health-related insurance	17	26	34	18	5
Retiree health insurance	16	24	37	19	5
Disability insurance	16	32	35	14	3
Long-term care insurance	12	23	40	20	5
Other benefits	4	9	27	37	23

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

**Figure 5**  
**Percentage of Employees Reporting Benefits Are Offered by Employer**

	Offered	Not Offered	Don't Know
Health insurance	76%	23%	1%
Dental insurance	67	30	3
Retirement savings plan	66	31	3
Vision insurance	60	36	5
Life insurance	58	36	6
Short-term disability insurance	55	34	10
Long-term disability insurance	49	38	12
Accidental death & dismemberment insurance	48	38	13
Traditional pension or defined benefit plan	38	52	10
Long-term care insurance	25	56	19
Retiree health insurance	22	58	21
Critical illness insurance	17	60	23
Stock options	16	76	8
Pre-paid legal services	14	72	14
Cancer insurance	13	66	21
Home-health insurance	13	65	22
Auto insurance	7	86	8
Pet insurance	5	86	9
Homeowner's insurance	4	87	9

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

**Figure 6**  
**Reported Take-up of Workplace Benefits**

	Among All Employees	Among Employees Offered Benefit
Health insurance	63%	83%
Dental insurance	54	80
Retirement savings plan	53	80
Life insurance	47	81
Vision insurance	44	73
Short-term disability insurance	39	71
Accidental death & dismemberment insurance	34	70
Long-term disability insurance	32	66
Traditional pension or defined benefit plan	29	76
Long-term care insurance	10	39
Stock options	9	57
Retiree health insurance	7	34
Critical illness insurance	7	41
Prepaid legal services	6	39
Cancer insurance	4	34
Home-health insurance	3	27
Auto insurance	3	47
Homeowners insurance	2	50
Pet insurance	1	26

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

### Attitudes toward Voluntary Benefits

Employees see a number of advantages to voluntary benefits, foremost among these are cost and choice (Figure 7). Nearly 6 in 10 (58 percent) report that a strong advantage of voluntary benefits is that purchasing these benefits through an employer may cost less than purchasing them on their own, with another third (32 percent) saying this is a moderate advantage. In fact, half of employees are extremely (19 percent) or very (32 percent) confident that insurance and other benefit products are less expensive when purchased through the workplace (Figure 8). More than half (54 percent) report that the ability to choose which benefits they want to purchase is a strong advantage, and 36 percent say it is a moderate advantage. Other advantages employees cite are portability (85 percent say it is a strong or moderate advantage) and payments made through payroll deduction (74 percent).

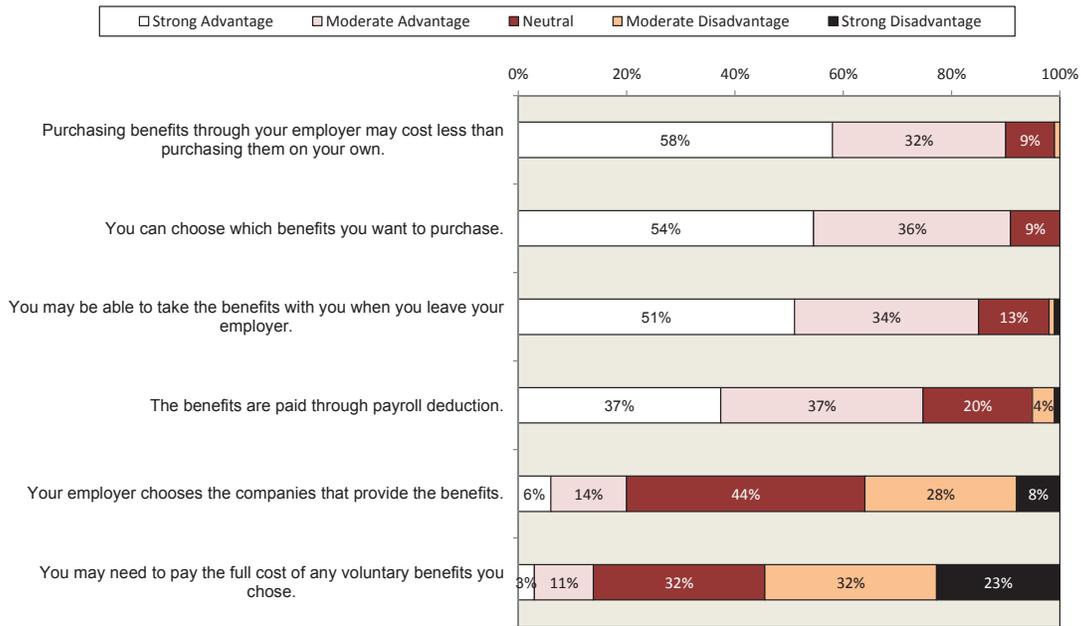
However, employees also see some disadvantages. More than half (55 percent) identify the potential of having to pay the full cost of any voluntary benefits they choose as a strong or moderate disadvantage. In addition, employees are more likely to say that the employer choosing the companies that provide the benefits is a disadvantage (36 percent) rather than an advantage (20 percent). Moreover, employees are split with respect to how comfortable they feel having their employer pick their benefits providers: 27 percent say they are extremely or very comfortable, while 23 percent are not too or not at all comfortable (Figure 9). Half describe themselves as somewhat comfortable.

Most employees see value in offering additional voluntary benefits to employees nearing retirement age (Figure 10). Large majorities say they think the following products and services would be extremely or very valuable to workers nearing retirement age:

- An annuity product that makes guaranteed monthly lifetime payments (83 percent).
- Life insurance that pays benefits to the surviving spouse, helping to replace income from Social Security or other sources that is discontinued when a worker dies (77 percent).
- Retirement planning that includes assistance with deciding when to retire, when to claim Social Security benefits, what Medicare option to choose, and how to set up a stream of income for retirement (76 percent).
- Long-term care insurance (71 percent).

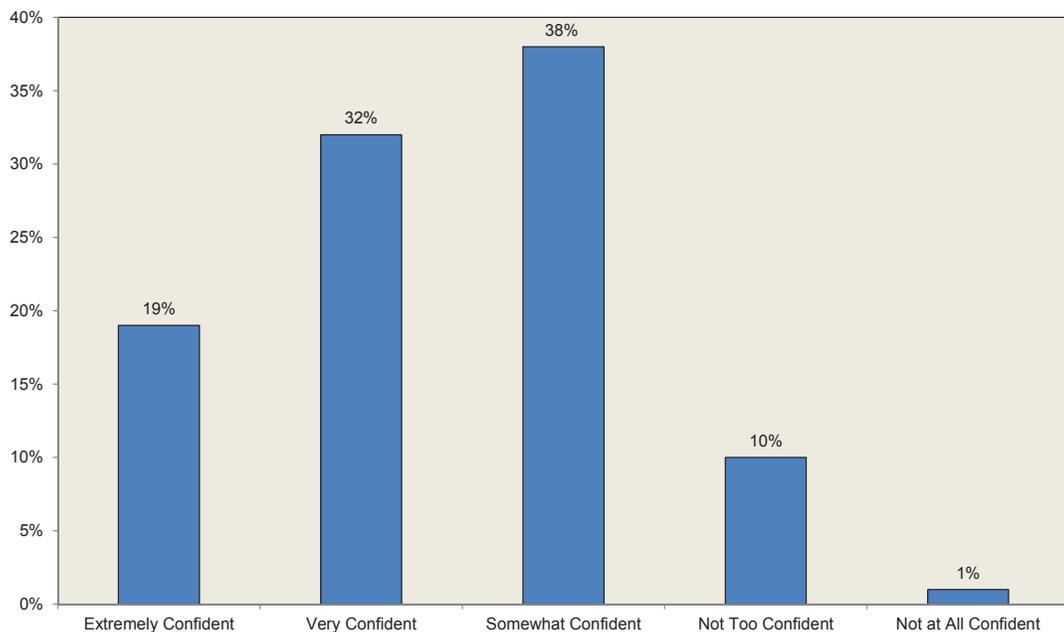
As findings from the WBS clearly show, employee benefits continue to be important to workers. Even with the Affordable Care Act, employers who offer a strong employee benefits package should find themselves with a competitive advantage over other companies when it comes to attracting and retaining desirable employees.

**Figure 7**  
**Advantages and Disadvantages of Voluntary Benefits**



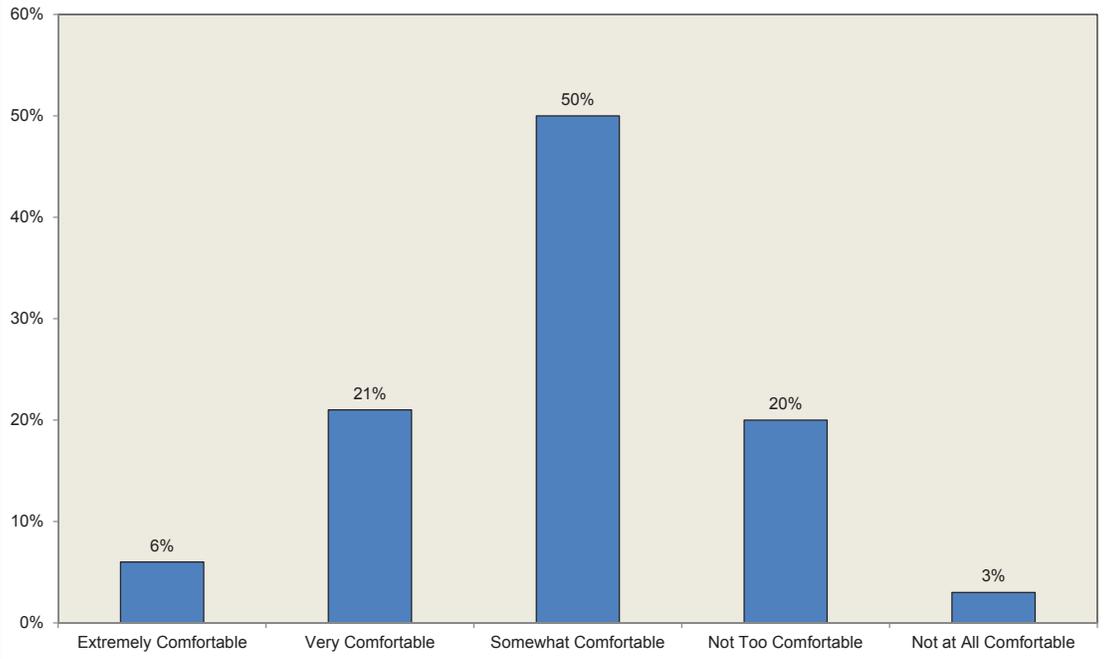
Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

**Figure 8**  
**Employee Confidence That Benefits Purchased Through the Workplace are Less Expensive**



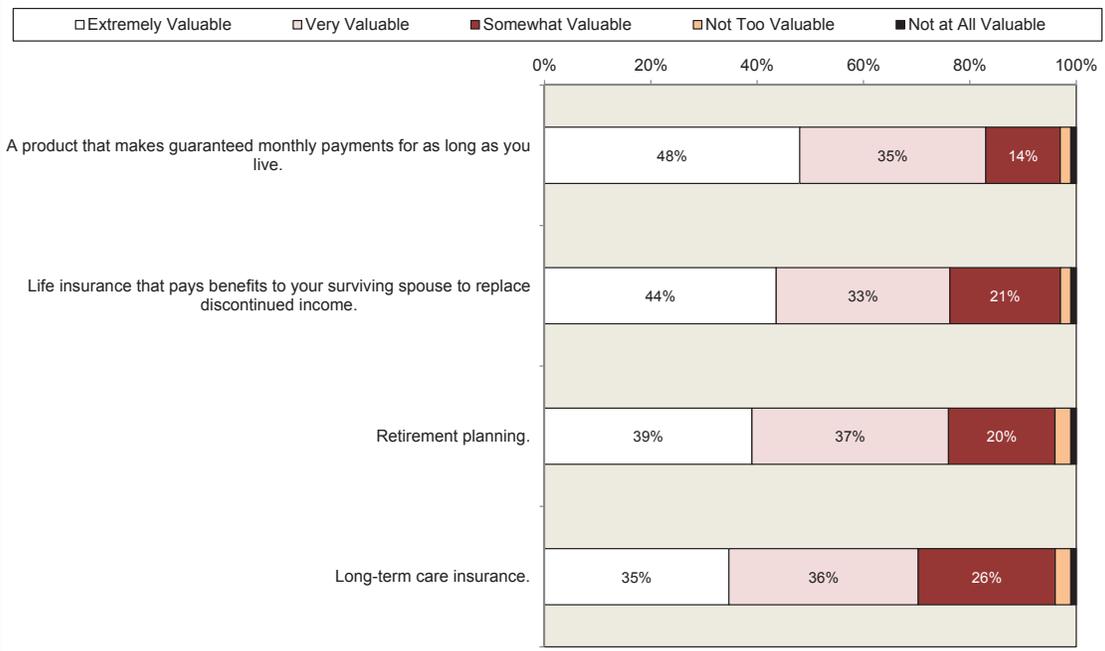
Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

Figure 9  
Employee Comfort With Having Employer Pick Benefits Providers



Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

Figure 10  
Value of Additional Voluntary Benefits for Employees Nearing Retirement Age



Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

## **Appendix—The 2013 WBS**

These findings are part of the 2013 Health and Voluntary Workplace Benefits Survey (WBS), which examines a broad spectrum of attitudes regarding workplace benefits, including voluntary benefits and health benefits. The survey was conducted online between June 11 and 20, 2013, using the Research Now consumer panel. A total of 1,014 workers in the United States ages 21-64 participated in the survey. The data were weighted by gender, age, and education to reflect the actual proportions in the employed population.

No theoretical basis exists for judging the accuracy of estimates obtained from nonprobability samples such as the one used for this survey. However, there are possible sources of error in all surveys (both probability and nonprobability) that may affect the reliability of survey results. These include imperfect sampling frames, refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, interviewer bias, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them.

The WBS is co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan, public-policy-research organization, and Greenwald & Associates, Inc., a Washington, DC-based market research firm. The 2013 WBS data collection was funded by grants from nine private organizations. Staffing was donated by EBRI and Greenwald & Associates. Materials related to the WBS and its predecessor, the Health Confidence Survey, and a list of underwriters may be accessed at the EBRI website: [www.ebri.org/surveys/hcs/](http://www.ebri.org/surveys/hcs/)

## Principal's Zimpleman Named 2013 EBRI Lillywhite Award Winner

WASHINGTON, DC— Larry D. Zimpleman, chairman, president, and chief executive officer of the Principal Financial Group,® has been named the winner of the 2013 EBRI Lillywhite Award, which recognizes outstanding lifetime contributions to Americans' economic security.



Larry Zimpleman (left) receives Lillywhite Award from EBRI's Dallas Salisbury (right)

“Larry’s contributions to America’s retirement prospects extend through the tens of millions of participants served by The Principal during his career, as well as his leadership in a wide variety of professional and academic organizations over the years,” noted Dallas Salisbury, president and CEO of the Employee Benefit Research Institute (EBRI), which has sponsored the award since 1992. “He is a long-standing champion of savings and financial literacy, who continues to lead both his company and this industry by his example.”

Joining The Principal® as a student actuary in 1971, and joining full time upon graduation from Drake University in 1973, Zimpleman has more than 40 years’ experience in the financial services industry at The Principal, including all aspects of strategic and operations management. Since 2001, Zimpleman has

led the company’s global expansion efforts and integration of domestic pension operations with retirement businesses outside the United States. He serves on the board of the American Council of Life Insurers (ACLI) and also serves as vice chair, Executive Committee and board member of the Financial Services Roundtable. A Fellow of the Society of Actuaries, Zimpleman is a past president of the American Academy of Actuaries, a past member of the Board of Governors of the Society of Actuaries, and a former chairman of EBRI.

The Lillywhite Award is sponsored by the nonpartisan Employee Benefit Research Institute (EBRI), a nonprofit research organization based in Washington, DC. The award is named for Ray Lillywhite, a pioneer in the pension field with Alliance Capital, who for decades guided state employee pension plans. EBRI established the award in 1992 to acknowledge the contributions of individuals who have had distinguished careers in the investment management and employee benefits fields and whose outstanding service enhances Americans’ economic security.

Salisbury presented the award on October 29 at the *Pensions&Investments* West Coast Defined Contribution Conference in San Francisco.

More information about the Lillywhite Award and a list of previous winners is online at [www.ebri.org/programs/lillywhite/](http://www.ebri.org/programs/lillywhite/)

Commemorating its 35<sup>th</sup> anniversary in 2013, the Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to [www.ebri.org](http://www.ebri.org) or [www.asec.org](http://www.asec.org)

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