EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Workplace Retirement Account Leakage: By the Numbers

Leakage refers to the loss of retirement savings from workplace retirement accounts prior to retirement used for non-retirement purposes and not subsequently saved in individual retirement accounts.

Types of Leakage

- Cashouts: Preretirement withdrawals from defined contribution (DC) retirement plans at or after leaving employment and not rolled into an individual retirement account (IRA) or another employer's plan.
- Hardship withdrawals: Withdrawals permitted by employment-based retirement plans due to certain unforeseen emergencies or life events while still working.
- Loan defaults: Borrowing against retirement accounts and not repaying the loan.
- Delays for initial plan participation: Delaying or not participating in retirement plans when eligible.

Cashouts:

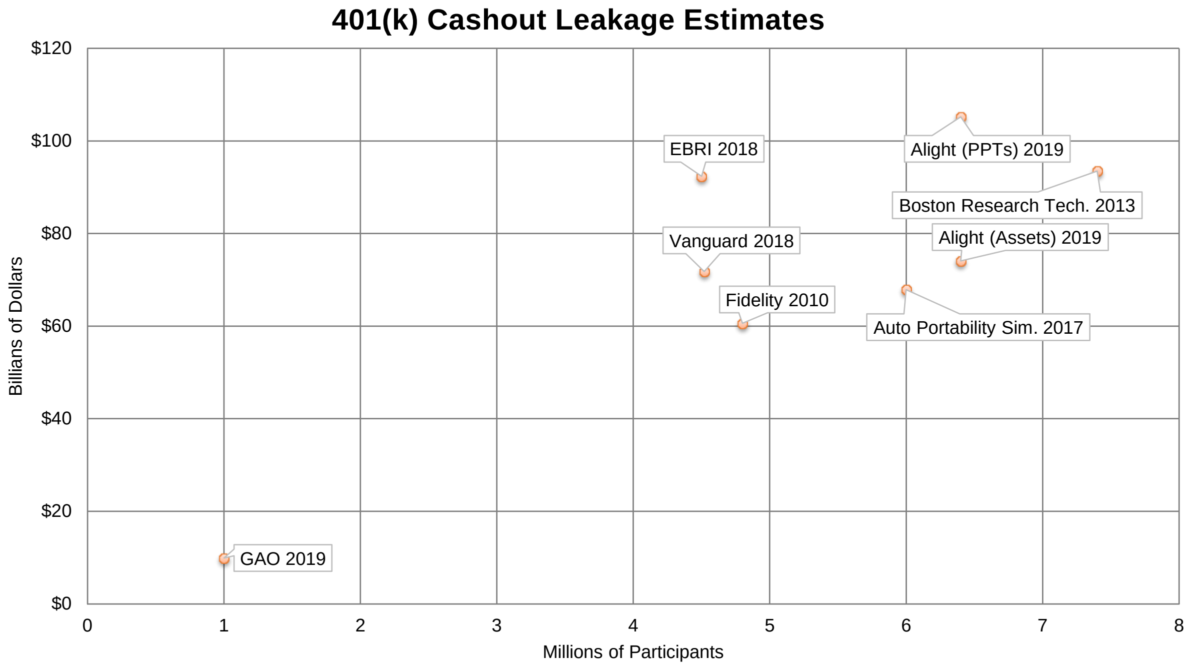
- Cashout leakage is defined as a lump-sum distribution received by an employee at job separation that is not rolled over into another employer-sponsored retirement account or an IRA.
- Vanguard (2022)[1] reported the following immediate lump-sum cashout with participants who terminated employment in the years below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Percentage of Participants Choosing Lump-Sum Cashout	29%	28%	28%	28%	30%	30%	33%	34%	31%	29%

- The Savings Preservation Working Group (SPWG)[2] conducted a summary of cashouts across multiple studies by several large recordkeepers. (The following chart from SPWG shows the variation between these studies; some are participant weighted, while others are asset weighted.)

[1] Vanguard (2022), "How America Saves." Retrieved 13 October 2022, from https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/22_TL_HAS_FullReport_2022.pdf.

[2] Savings Preservation Working Group, "Cashing Out: The Systemic Impact of Withdrawing Savings Before Retirement," *Issue Brief*, vol. 1, October 29, 2019.



Note: GAO uses the SIPP survey (SIPP 2014 Panel and Form 5500 Data), which only inquired about the lump-sum distributions that are greater than $1,000. Omission of this balance segment could explain the gap between the GAO's and other studies estimates.

- SPWG also reported that between 33 percent and 47 percent of plan participants withdraw part or all of their retirement plan assets following a job change.[3]
    - The lost savings due to cashouts amount to between $60 billion and $105 billion (1.4 percent to 2.4 percent of total DC assets[4]) annually.
    - Approximately 4.5 to 6.4 million participants cash out annually, which is approximately 6.5 percent to 9.5 percent of 401(k) plan participants.
- Based on EBRI's Retirement Security Projection Model® (RSPM),[5] it is estimated that the baseline average retirement deficit for the 35–64 age cohort of $49,182 would increase by nearly half (46 percent) to $71,786 in the year 2019, if all workers cash out their DC account balances at job change. (See the figure below for the average 2019 retirement savings shortfall differences by age cohort.[6])

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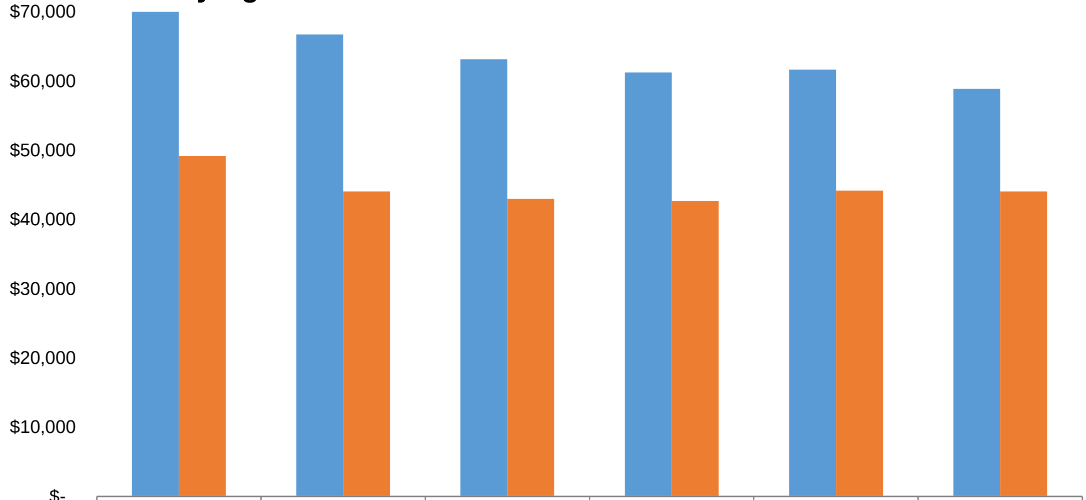
[3] Savings Preservation Working Group 2019.

[4] ICI: Quarterly Retirement Market Data, "Quarterly Retirement Market Data". *Investment Company Institute*, 2022, https://www.ici.org/research/stats/retirement. Accessed 28 Oct 2022.

[5] Using RSPM®, EBRI estimates that the aggregate retirement deficit is $3.83 trillion for U.S. households headed by those between the ages of 35 and 64.

[6] Employee Benefit Research Institute, "Impact on Retirement Deficits of Cashing Out 401(k) Balances," *EBRI Fast Facts*, no. 331.

Average 2019 Retirement Savings Shortfalls,*
by Age Cohort: Baseline vs. No IRA Rollovers



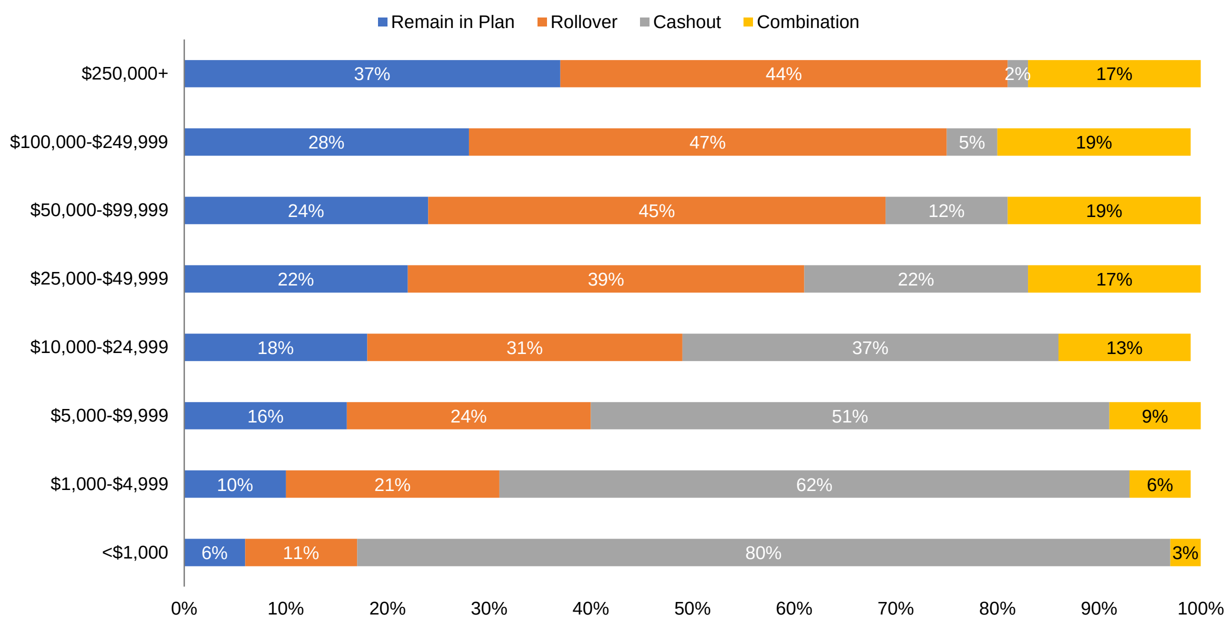
	35–39	40–44	45–49	50–54	55–59	60–64
2019 Without IRA Rollovers	$71,786	$66,751	$63,145	$61,268	$61,666	$58,893
2019	$49,182	$44,052	$43,004	$42,681	$44,186	$44,055

Sources: EBRI Retirement Security Projection Model® versions 3501 and 3459.
* The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65.

- Most cashouts (63 percent) are not made for emergency purposes. The biggest culprit in driving cashouts is "friction (unfamiliar rollover procedures by the participants)."[7]

- DC participants with small balances were most likely to cash out.[8]. According to Alight Solutions (2019), 80 percent of people with balances of less than $1,000 cash out their entire balance, compared with only 2 percent of people with balances of $250,000 or more.

Percentage of Participants by Balance Size and Distribution Category



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[7] Cormier, Warren J., "Eliminating Friction and Leaks in America's Defined Contribution System," Boston Research Group, April 25, 2013.

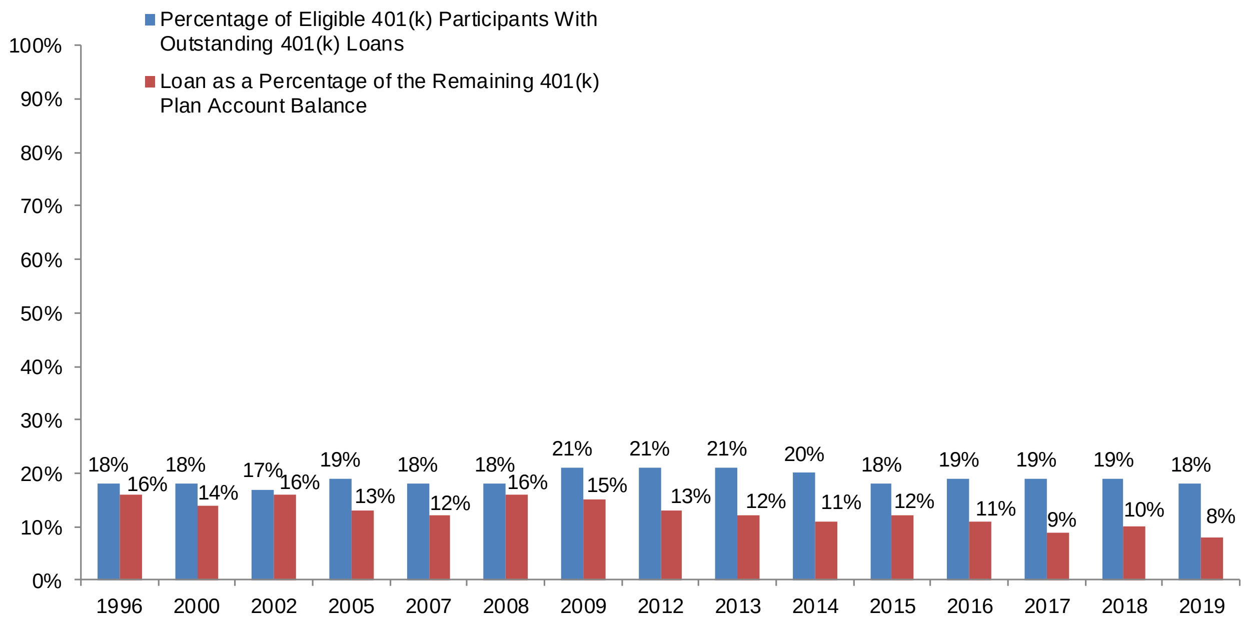
[8] Alight Solutions 2019, *What do workers do with their retirement savings after they leave their employers? A deep dive into post-termination behavior, 2008–2017*, Rob Austin, Anthony DePalma, and MacKenzie Lucas.

Loan Defaults

- Loan defaults occur when a plan participant borrows against his or her savings account and does not repay the loan.
- At year-end 2019, approximately 18 percent of all 401(k) participants who were eligible for loans had taken loans against their DC plan accounts.[9]

Few 401(k) Participants Had Outstanding 401(k) Loans; Loans Tended to Be Small

Selected years



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

- The average unpaid 401(k) loan balance was $7,142 among the participants with outstanding loans.[10]
- Loan defaults amounted to $25 billion in 2006, accounting for 23.1 percent of the total leakage.[11] ()
- Deloitte[12] reported that although many participants repay their loans as intended, around 10 percent of loans default each year. Among those participants who defaulted on their loans, about 66 percent of them also cashed out the entire account balance.
- Among participants terminating employment with outstanding loans, 86 percent failed to repay

[9] Holden, Sarah, Steven Bass, and Craig Copeland, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2019," *EBRI Issue Brief*, no. 557.

[10] Ibid.

[11] GAO analysis of DOL and Census Bureau data, 2009 - Estimated Total Amounts in (2008 dollars) of Leakage Reported by 401(k) Participants, Ages 15 to 60.

[12] Deloitte, "*Loan leakage: How can we keep loan defaults from draining $2 trillion from America's 401(k) accounts?," 2018,* https://www.dol.gov/sites/dolgov/files/EBSA/laws-and-regulations/rules-and-regulations/public-comments/1210-AB97/00004-attachment-1.pdf.

their outstanding loans.[13]

- Black and Hispanic workers have higher rates of loans and loan defaults than White workers.[14] About 12 percent of Black 401(k) plan participants borrowed money from their retirement accounts, compared with approximately 5 percent of White participants who took 401(k) loans.[15]

Hardship Withdrawals

- Hardship withdrawals are defined as withdrawals permitted by 401(k) plans in connection with certain unforeseen emergencies and other life events while still employed.

- There were $9 billion in hardship withdrawals in 2006, accounting for 8.3 percent of the total leakage (GAO analysis of DOL and Census Bureau data, 2009 - Estimated Total Amounts in 2008 dollars of leakage reported by 401(k) participants, ages 15 to 60).

- The following hardship withdrawal percentages were reported in Vanguard DC plans:[16]

	2017	2018	2019	2020	2021
Hardship Withdrawals	1.80%	1.90%	2.30%	1.70%	2.10%
Coronavirus Distributions				5.70%	

- Individuals with at least one hardship withdrawal have an increase of $11,857 (36 percent) in retirement deficits based on RSPM.®[17]

Increase in "Adjusted" Retirement Deficits as a Result of Type of Leakage for the Intermediate Assumptions

Type of Leakage	Dollar-Value Increase	Percentage Increase Relative to Current Average Retirement Deficit
At Least One Loan Default	$2,522	8%
At Least One Hardship Withdrawal	$11,857	36%
At Least One Cashout	$17,537	53%
All Three Sources of Leakage at Least Once	$24,848	75%

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[13] Lu, T., Mitchell, O. S., Utkus, S. P., & Young, J. A. (2017). Borrowing from the future? 401 (K) plan loans and loan defaults. *National Tax Journal*, *70*(1), 77-109.

[14] Fellowes, Matt, and Katy Willemin, "The Retirement Breach in Defined Contribution Plans," Hello Wallet, January 2013.

[15] Charles Schwab (2021), "New Ariel-Schwab Black Investor Survey Shows Black Americans Continue to Trail Their White Counterparts in Building Wealth," https://www.aboutschwab.com/ariel-schwab-black-investor-survey-2021.

[16] Vanguard (2022).

[17] Employee Benefit Research Institute, "Quantifying the Impact of 401(k) Plan "Leakage" on Retirement Deficits," *EBRI Fast Facts*, no. 363.

Delays for Initial Plan Participation

- These are defined as delays in initial participation of one to five years.[18]
- This is less common (relative to other leakage types) due to the ever-increasing prevalence of auto-enrollment in DC plans. No particular study has been conducted on this type of leakage yet.

[18] Copeland, Craig. Testimony. U.S. Department of Labor. ERISA Advisory Council. *Lifetime Participation in Plans,* 17 June 2014.