PORTABILITY Is Key to Retirement Saving Success

PORTABILITY OF RETIREMENT ACCUMULATIONS

Workers need the option of portability for their retirement savings in economies where they change jobs over the course of their careers.

- When workers change jobs over the course of their careers, they may end up with several smaller accounts from their different employers.
- Giving retirement savers the option of moving their retirement accumulations from one plan or account to another allows them to select the best place to keep their assets and to consolidate their accumulations. The option of portability also puts competitive pressure on the retirement savings market.
- US workers leaving an employer generally have four options for their vested defined contribution (DC) plan account balances: cash out the account; leave the account in the plan; roll over the account into an individual retirement account (IRA); or, if their new employer's DC plan accepts rollovers, roll over their account to the new plan. Many defined benefit (DB) plans allow for lump-sum distributions, which also can be rolled over.
- Disclosure facilitates informed decisionmaking around the rollover decision. Because it is important that retirement savers understand the implications of their distribution or rollover decision, a plan must provide certain information to participants, including a description of the plan's distribution options; for any distribution requiring consent, a notice of the right to leave their accounts in the plan (and the consequences of failing to do so); and information about the plan's automatic rollover procedures for small accounts, if applicable.

LAWS

In the United States, both the Internal Revenue Service (IRS) and Department of Labor (DOL) regulate retirement plan disclosure and distribution options.

§ 402(f) notice helps participants decide whether to roll over the distribution. Under Internal Revenue Code § 402(f), plan administrators of qualified plans must furnish a written notice describing the tax consequences of the various distribution options to any participant receiving an eligible rollover distribution within a reasonable time before making the distribution. The IRS offers a model notice that plan administrators can use and tailor to their own plans (www.irs.gov/pub/irs-drop/n-20-62.pdf).

Within the regulations, plan sponsors choose distribution options allowed. The private-sector retirement plan sponsor may decide whether to allow accounts of separated participants of any size to remain in the plan or force distribution of small accounts. Regulations allow accounts of $1,000 or less to be distributed directly to separating participants, and accounts between $1,000 and $5,000 to be rolled over automatically into an IRA. Internal Revenue Code §401(a)(31)(B)(i) requires that the plan administrator notify the participant in writing (either separately or as part of the § 402(f) notice) that, absent an affirmative election by the participant, the distribution will be paid to an IRA (IRS, "Automatic Rollover, Notice 2005-5," www.irs.gov/pub/irs-drop/n-05-05.pdf).

The DOL has provided a safe harbor under which fiduciaries will be deemed to have satisfied their fiduciary duties under the Employee Retirement Income Security Act of 1974 (ERISA) § 404(a) with respect to both the selection of an IRA provider and the investment of funds within the IRA in connection with an automatic rollover of a mandatory distribution (Labor Reg. §2550.404a-2, www.govinfo.gov/app/details/CFR-2012-title29-vol9/CFR-2012-title29-vol9-sec2550-404a-2).

IRA providers are subject to certain disclosure obligations. IRA providers report IRA contribution, rollover, and withdrawal activity to the IRS through IRS Form 5498 (www.irs.gov/pub/irs-pdf/f5498.pdf) and IRS Form 1099-R (www.irs.gov/pub/irs-pdf/f1099r.pdf). Entities that serve as custodians to IRAs also are regulated depending on the type of entity. The Federal Deposit Insurance Corporation (FDIC) regulates bank custodians and the IRS approves and regulates nonbank custodians. The investments offered within IRAs may be subject to other regulations (e.g., mutual funds and exchange-traded funds [ETFs] are regulated by the Securities and Exchange Commission [SEC]). The range of options offered varies by IRA provider.

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RESULTS

Rollovers provide a significant boost to IRA assets. In 2018, $534 billion was rolled over from employer-sponsored retirement plans to IRAs, mainly to traditional IRAs.

A majority of traditional IRA–owning households have taken advantage of rollovers. In mid-2020, 59 percent of all US households owning traditional IRAs had traditional IRAs that included rollover assets.

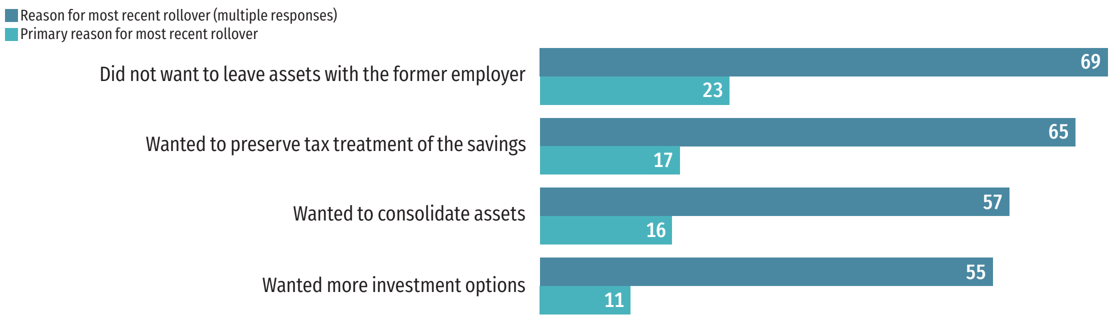
Households Research the Rollover Decision, Consulting Many Resources

Percentage of US households owning traditional IRAs that include rollovers, 2020

Note: Multiple responses are included; 65 percent of traditional IRA–owning households with rollovers consulted multiple sources of information.

Households with Rollovers Are Often Aiming to Consolidate Their Retirement Savings; Some Sought Different Investment Options

Percentage of US households owning traditional IRAs that include rollovers, 2020



Note: Seventy-nine percent of traditional IRA–owning households with rollovers had multiple reasons for rolling over. See Figure 12 in this ICI Research Perspective *for additional reasons mentioned and additional detail.*

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