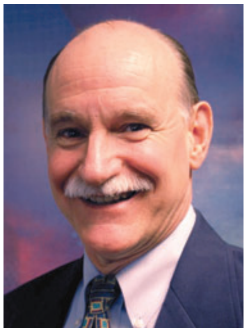
President's Page



Consolidate the Balances

It is in everyone's interest to aggregate account balances as an employee changes jobs.

By David Wray

PSCA's *Annual Survey* data consistently reports that average retiring participants have worked approximately 16 years with their final employer. In the defined contribution world, someone's final accumulation will be the sum of balances accumulated from many employers because most work for 40 years or more prior to retirement.

A recent study by Fidelity Investments found that individuals 65–69 who had both 401(k) and IRA account balances with Fidelity had an average total in retirement savings of $359,000. Individuals aged 65–69 with only a 401(k) balance with Fidelity had only $123,400. Why the difference? The first group has chosen to aggregate their retirement savings from all sources with Fidelity Investments. The second group reflects those whom Fidelity Investments is administering only the 401(k) savings accumulated with their final employer.

In practice, as workers move from job to job, they either roll the balance in their current plan into an IRA, or, if the balance is more than $5,000, leave it with their former employer. A smaller number transfer the balance into their new employer's plan, and some with small balances cash out. The result is that as workers approach retirement, they may have five or more balances in various plans or IRAs. Currently, DOL Form 5500 data reports there are over 60 million actively employed participants with account balances. In addition, terminated vested employees have 15 million account balances in plans, and the number is increasing by 500,000 a year. It won't be long before we have 20 million of these accounts in the system. With the increasing adoption of automatic enrollment, it is even possible that the number of balances held in the accounts of terminated vested employees will equal the number of accounts of actively employed participants at some point in the future.

This does not benefit anyone. These inactive, relatively small balances increase the cost for active employees as they depress the average account balance, a major component in plan fee determination, for the plan as whole. It is also expensive to keep track of former employees, especially those who terminate their employment by not showing up for work and leaving no forwarding address. Participants find it difficult to coordinate the proper management of these dispersed accounts, and, in some cases, lose track of them and never get the benefit of their earlier retirement savings.

It is in everyone's interest to aggregate these balances as an employee changes jobs. The average account balance in plans will be increased, giving sponsors more leverage in their fee negotiations. Participants will more easily coordinate the investment of their retirement assets and, importantly, not forget they even exist. Finally, participants with larger account balances rarely cash them out. If balances are aggregated, there will be fewer pre-retirement cashouts when participants change jobs.

Plan sponsors will have to push to make this happen, but everyone will be a winner. Participants will end up with greater retirement savings, and companies will benefit from the increased commitment of high-quality workers who will appreciate them for making the effort on their behalf.

David Wray is PSCA's president.