Job Changers and Orphaned DC Accounts

In the 2013 edition of the DCP Online Survey of 7,000 active DC participants, published in June, we focused on the behavior and attitudes of Job Changers — defined as active participants in DC plans who changed a full-time job in the past three years.

To understand the magnitude of the orphaned account phenomenon, consider that 32% of all participants still have at least one DC account at a previous employer. By comparison, 60% of Job Changers still have at least one DC account at a previous employer.

Let’s look specifically at cashing-out behavior among Job Changers who moved the money out of their last DC plan (about 40% of all Job Changers). Among this group, 47% cashed out their balances. This is particularly interesting given that a very small proportion of Job Changers who actually cashed out — only 4% — said they would do so if they changed jobs today.

Why such a large discrepancy between their actual cash-out behavior and their very low predisposition to cash out? First, a major part of the answer lies in the processes involved in moving money out of the plan. Cashing out is the easiest transaction to complete, compared with rolling over into an IRA or rolling into the next DC plan in which they participate.

While only a third described the rollover or roll-in process as "easy, clear and simple," two thirds described the cash-out process in the same manner. Essentially, cashing out (i.e., moving money out of the tax-deferred retirement system) is simply much easier to accomplish.

The second cause for the discrepancy between behavior and predisposition is regret. Six out of 10 Job Changers who cashed out from their last plan described that decision as a “major regret;” an additional 20% said it’s a “minor regret” but a regret nonetheless.

It is often argued that people who cash out do so because economic hardship necessitated such a drastic behavior. This does not appear to be the case widely — the incomes and total retirement savings in all DC plans among those who cashed out are very similar to those who rolled over to an IRA or rolled into a new employer’s DC plan. Industry data has repeatedly shown that smaller-balance DC accounts are more likely to cash out than are larger DC accounts. However, when looking at the entire financial profile of the household, those differences in cash-out behavior disappear.

Perhaps it’s not worth the frustration to preserve such a small account when cashing out is so easy to accomplish. If this is true, it would point to finding ways to simplify the process of moving DC balances to their optimal location.

Warren Cormier is President and CEO of Boston Research Group and author of the DCP suite of satisfaction and loyalty studies. He also is co-founder of the Rand Behavioral Finance Forum, along with Dr. Shlomo Benartzi.