GAO Highlights

Highlights of GAO-15-73, a report to congressional requesters

November 2014

401(K) PLANS:

Greater Protections Needed for Forced Transfers and Inactive Accounts

Why GAO Did This Study

Millions of employees change jobs each year and some leave their savings in their former employers' 401(k) plans. If their accounts are small enough and they do not instruct the plan to do otherwise, plans can transfer their savings into an IRA without their consent. GAO was asked to examine implications for 401(k) plan participants of being forced out of plans and into these IRAs.

GAO examined: (1) what happens over time to the savings of participants forced out of their plans, (2) the challenges 401(k) plan participants face keeping track of retirement savings in general, and (3) how other countries address similar challenges of inactive accounts. GAO's review included projecting forced-transfer IRA outcomes over time using current fee and return data from 10 providers, and interviews with stakeholders in the United States, Australia, Belgium, Denmark, the Netherlands, Switzerland, and the United Kingdom.

What GAO Recommends

GAO recommends that Congress consider (1) amending current law to permit alternative default destinations for plans to use when transferring participant accounts out of plans, and (2) repealing a provision that allows plans to disregard rollovers when identifying balances eligible for transfer to an IRA. Among other things, GAO also recommends that DOL convene a taskforce to explore the possibility of establishing a national pension registry. DOL and SSA each disagreed with one of GAO's recommendations. GAO maintains the need for all its recommendations.

View GAO-15-73. For more information, contact Charlie Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

When a participant has saved less than $5,000 in a 401(k) plan and changes jobs without indicating what should be done with the money, the plan can transfer the account savings—a forced transfer—into an individual retirement account (IRA). Savings in these IRAs are intended to be preserved by the conservative investments allowed under Department of Labor (DOL) regulations. However, GAO found that because fees outpaced returns in most of the IRAs analyzed, these account balances tended to decrease over time. Without alternatives to forced-transfer IRAs, current law permits billions in participant savings to be poorly invested for the long-term. GAO also found that a provision in law allows a plan to disregard previous rollovers when determining if a balance is small enough to force out. For example, a plan can force out a participant with a balance of $20,000 if less than $5,000 is attributable to contributions other than rollover contributions.

Some 401(k) plan participants find it difficult to keep track of their savings, particularly when they change jobs, because of challenges with consolidation, communication, and information. First, individuals who accrue multiple accounts over the course of a career may be unable to consolidate their accounts by rolling over savings from one employer's plan to the next. Second, maintaining communication with a former employer's plan can be challenging if companies are restructured and plans are terminated or merged and renamed. Third, key information on lost accounts may be held by different plans, service providers, or government agencies, and participants may not know where to turn for assistance. Although the Social Security Administration provides individuals with information on benefits they may have from former employers' plans, the information is not provided in a consolidated or timely manner that would be useful to recipients.

The six countries GAO reviewed address challenges of inactive accounts by using forced transfers that help preserve account value and providing a variety of tracking tools referred to as pension registries. For example, officials in two countries told GAO that inactive accounts are consolidated there by law, without participant consent, in money-making investment vehicles. Officials in the United Kingdom said that it consolidates savings in a participant's new plan and in Switzerland such savings are invested together in a single fund. In Australia, small, inactive accounts are held by a federal agency that preserves their real value by regulation until they are claimed. In addition, GAO found that Australia, the Netherlands and Denmark have pension registries, not always established by law or regulation, which provide participants a single source of online information on their new and old retirement accounts. Participants in the United States, in contrast, often lack the information needed to keep track of their accounts. No single agency has responsibility for consolidating retirement account information for participants, and so far, the pension industry has not taken on the task. Without a pension registry for individuals to access current, consolidated retirement account information, the challenges participants face in tracking accounts over time can be expected to continue.