Quantria Strategies, LLC

ACCESS TO CALL CENTERS AND BROKER DEALERS AND THEIR EFFECTS ON RETIREMENT SAVINGS

Prepared by

Quantria Strategies, LLC

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CONTENTS

LIST OF TABLES

LIST OF GRAPHS

EXECUTIVE SUMMARY

RE-PROPOSED REGULATIONS THAT ARE ANTICIPATED FROM THE DEPARTMENT OF LABOR (DOL) ARE GENERALLY EXPECTED TO CREATE FIDUCIARY RESPONSIBILITY FOR FINANCIAL SERVICE PROVIDERS THAT WILL LIMIT THE ACCESS TO ASSISTANCE PROVIDED BY CALL CENTERS AND BROKER-DEALERS WHEN TERMINATING EMPLOYEES FACE PLAN DISTRIBUTION DECISIONS. LIMITING ACCESS TO THIS ASSISTANCE COULD INCREASE ANNUAL CASH OUTS OF RETIREMENT SAVINGS FOR EMPLOYEES TERMINATING EMPLOYMENT BY $20 – 32 BILLION. THESE WITHDRAWALS COULD REDUCE THE ACCUMULATED RETIREMENT SAVINGS OF AFFECTED EMPLOYEES BY 20 TO 40 PERCENT.

- If expected DOL re-proposed regulations apply the fiduciary standard to advice to retirement plan participants concerning their distribution options, millions of participants could lose access to call center and broker-dealer assistance upon job termination. Approximately 50 million job terminations occur each year among wage and salary workers in the United States.[1] Terminating employees often need to make decisions about their retirement savings, including what to do with retirement savings accumulated in the former employer's retirement savings plan. Our empirical model indicates that losing access to financial assistance at job termination could have significant impacts on long-term retirement savings; our results found that retirement savings balances are 33 percent higher for individuals who have access to financial assistance. While beyond the scope of this study, we note our results suggest that reduced access to financial assistance generally could have broad, long-term effects on plan participants that are not limited to plan participants who terminate employment.[2]

- According to a 2011 survey, 42 percent of terminating employees take a cash distribution from their retirement savings, 29 percent roll their retirement savings to another plan or an IRA, and 29 percent leave their assets in the employer's plan.[3] Terminating employees cashed out approximately 7.3 percent of their total retirement assets. Further, these distributions are more likely to occur among individuals who (1) have a low account balance, (2) are under age 30, or (3) have lower wages. Higher cash-out rates are also an issue for African-Americans and Hispanics.

- Employees are less likely to take cash withdrawals of their retirement savings if they discuss their distribution options with a call center or broker-dealer upon job termination. One company found that terminating employees with account balances between $35,000 and $50,000 are approximately 3.2 times less likely to cash out their retirement savings if they receive a call from a licensed representative of the company compared to similarly situated terminating employees who only receive written communications.

- DOL's re-proposed regulations may eliminate access to call centers and broker-dealer assistance with respect to distribution advice. A recent Government Accountability Office (GAO) report suggests that terminating employees often receive guidance and marketing that could favor IRA

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[1] Hathaway, Kendra C. *Job openings continue to grow in 2012, hires and separations less so.* Bureau of Labor Statistics, JOLTS Publications, JOLTS Annual Story, 2012.
[2] The data used in our model do not specifically examine the effect of financial assistance on cash-out behavior, but rather look at the overall effects of financial assistance on retirement savings.
[3] *Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income, 2011.* AON Hewitt, 2011. The study found these percentages were consistent with pre-economic downturn numbers.

rollovers.[4] However, very importantly, the GAO also noted the fears of fiduciary liability could inhibit communications with employees and the provision of information regarding distribution options. Inhibiting these communications creates a great risk to retirement savings – that terminating employees will take cash distributions instead of leaving their assets in their employer's plan or rolling over the assets to another plan or IRA. From a retirement security perspective, retaining the assets in either an employer plan or IRA is preferable to cashing out.

Davis & Harman, LLP commissioned this report on behalf of a coalition of financial services organizations that provide retirement services to millions of Americans.

4 United States Government Accountability Office. *401(K) PLANS. Labor and IRS Could Improve the Rollover Process for Participants.* GAO-13-30, March 2013.

I. FINDINGS AND OVERVIEW OF RESEARCH

A. FINDINGS

- Employees need to make numerous decisions about their retirement savings, including whether and when to participate in an employer-sponsored retirement plan or IRA, how much to contribute, how to invest the assets in the plan or IRA, and when and how to take a distribution. A substantial body of research shows that Americans frequently lack the basic financial literacy needed to make decisions about their retirement savings. This lack of financial literacy causes employees to make suboptimal decisions concerning their retirement savings.

- One of the critical "choke points" in the retirement savings process occurs when an employee changes jobs or retires; at this point, an individual must decide what to do with retirement savings accumulated in a former employer's plan. The job termination "choke point" will occur multiple times during an employee's working career; on average, approximately 50 million job terminations occur each year among wage and salary workers in the United States.[5] In 2012, half of all wage and salary workers in the United States had been with an employer for less than 4.6 years.[6]

- Many people do not understand the long-term consequences of taking cash withdrawals of retirement savings at job termination. If a terminating employee decides to withdraw retirement savings and not roll the assets over to an IRA or another qualified plan, the employee loses not only the amount of the withdrawn assets, but also the future earnings on these amounts (i.e., the benefits of interest compounding). Furthermore, if an employee is younger than 59½ years old, she generally would also pay an additional 10 percent tax on the taxable portion of any withdrawal that is not rolled over.

- According to a 2011 survey, 42 percent of employees take a cash distribution from their retirement savings at job termination, 29 percent roll their retirement savings to another plan or an IRA, and 29 percent leave their assets in the employer's plan.[7] The cash-out rate varies by account size; the survey found a 75 percent cash-out rate for participants with less than $1,000 in their account and a 10 percent cash-out rate for participants with at least $100,000 in their account. Terminating employees cashed out approximately 7.3 percent of their total retirement assets.

- Cash-outs are more likely to occur among individuals who (1) have a low account balance, (2) are under age 30, or (3) have lower wages. Higher cash-out rates are also an issue for African-Americans and Hispanics.

- A recent General Accountability Office (GAO) report suggested that employees who change jobs often receive guidance and marketing from service providers' call centers encouraging them to roll their retirement savings into IRAs rather than keeping the

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[5] Hathaway, Kendra C. *Job openings continue to grow in 2012, hires and separations less so.* Bureau of Labor Statistics, JOLTS Publications, JOLTS Annual Story, 2012.
[6] Ibid.
[7] *Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income, 2011.* AON Hewitt, 2011. The study found these percentages were consistent with pre-economic downturn numbers.

savings in a 401(k) plan.[8] However, this report ignores the fact that the greatest risk to retirement savings is that employees will take a cash distribution upon job termination. From a retirement security perspective, retaining the assets in either an employer plan or an IRA is preferable to cashing out.

- Employees who interact with a call center or broker-dealer to help them understand their options upon job termination are less likely to take cash withdrawals of their retirement savings. We contacted a number of financial services companies about the interactions between terminating employees and call centers. One company found that terminating employees with account balances between $35,000 and $50,000 are approximately 3.2 times less likely to cash out their retirement savings if they receive a call from a licensed representative of the company compared to similarly situated terminating employees who only receive written communications.

- These statistics are consistent with our analysis of a Department of Labor (DOL) pilot survey conducted as part of the Rand American Life Panel. Our empirical models suggest that access to financial assistance results in plan balances that are 33 percent higher than for individuals who do not have access to financial assistance.[9]

- DOL's re-proposed regulations may eliminate access to call centers and broker-dealer assistance with respect to distribution advice. If this happens, the cash-out rates of employees terminating employment will increase and retirement savings will decline in both the short- and long-term. We estimate that eliminating the availability of call centers and reducing broker-dealer assistance upon job termination will increase annual cash outs of retirement savings by an additional $20 – 32 billion. Over the long run, these cash outs will result in a significant reduction in overall retirement savings; our estimates indicate that these withdrawals could reduce the ultimate retirement savings of affected individuals by 20 to 40 percent.

B. OVERVIEW OF RESEARCH

DOL is expected to issue re-proposed regulations addressing the issue of fiduciary liability with respect to retirement savings plans. These re-proposed regulations may limit the ability of financial services companies to assist individuals who are terminating employment with respect to their distribution options for their retirement savings assets. This limitation would arise because DOL's prohibited transaction rules would generally preclude any advice from a financial services company, even if the advice is in the best interest of the individual, unless the DOL provides comprehensive exemptions from such rules, Accordingly, we examined the potential effects on cash outs of retirement savings when employees terminate employment and the long-term implications for overall retirement savings if the re-proposed regulations apply the fiduciary standard to assistance with respect to distribution options without the prohibited transaction exemptions needed to permit the kind of assistance that is currently being provided to terminating employees by call centers and broker dealers.

[8] United States Government Accountability Office. *401(k) Plans. Labor and IRS Could Improve the Rollover Process for Participants.* GAO-13-30, March 2013.

[9] The survey does not specifically examine the effect of financial assistance on cash-out behavior, but rather looks at the overall effects of financial assistance on retirement savings.

A substantial body of research in the United States finds that financial literacy presents a significant problem for retirement savings adequacy. Individuals tend to make suboptimal decisions concerning their retirement savings and the problem is particularly acute for individuals in particular demographic groups, including individuals with lower income, individuals with less education, the young, and the old (retired or near retired). Women, African-Americans, and Hispanics also face unique challenges in this area.

Research has also shown that consulting with a financial planner or advisor positively correlates with retirement savings balances, suggesting that access to a financial planner or advisor will improve retirement savings outcomes. However, most of the research focuses on individuals who hire a paid financial planner; these individuals are likely to have characteristics associated with positive savings behavior (e.g., such characteristics include higher income and higher educational attainment). Generally, individuals with these characteristics have a greater propensity to save notwithstanding the consultation with a financial planner or advisor.

However, none of the research to date has explored the outcomes associated with the assistance provided by call centers or broker dealers to a retirement plan participant at termination of employment. Generally, this assistance occurs when an individual contacts a call center or broker-dealer associated with the employer's retirement savings plan; these contacts may also occur through a proactive contact by a call center. For a terminating employee, these types of contacts assist the employee by providing the various options with respect to his or her retirement savings and often counsel the employee against cashing out the retirement savings.

This study examines the possible correlation between access to a call center or broker-dealer and the short- and long-term accumulation of retirement savings for employees who terminate employment. Our analysis expands on existing research by considering the effects on retirement savings if terminating employees should lose access to call centers or broker dealers.

The study relies on data from the Rand American Life Panel (ALP), which follows approximately 6,000 individuals who participate in occasional, on-line surveys. The approximately 350 surveys conducted to date provide data on financial decision-making, access to financial advice, financial literacy, income, retirement savings, demographics, and such other topics as self-reported health and wellbeing. This study uses a regression-based model of total retirement savings balances to attempt to isolate the effect of financial advice, controlling for other variables that may also be important in determining the size of total retirement savings.[10]

The study also utilizes confidential data provided by several large financial service companies concerning the volume and outcome of call center assistance provided to employees with respect to their retirement savings. This additional data helps to isolate the potential effects of call center assistance at employment termination and provides additional support for the results of the regression analysis.

[10] See Appendix A for a technical discussion of the empirical analysis of the ALP survey results. Because the ALP does not specify the type of financial assistance provided, it does not allow a distinction between the use of a paid financial advisor for retirement savings assistance and consultation with a call center or broker dealer offered as a routine service to employees participating in an employer-sponsored retirement savings plan. Further, the ALP does not distinguish between general assistance and specific assistance provided when an employee terminates employment with an employer.

II. RETIREMENT SAVINGS AND FINANCIAL LITERACY

A. AMERICAN WORKERS LACK FINANCIAL LITERACY

Employees need to make numerous decisions about their retirement savings, including whether and when to participate in an employer-sponsored retirement plan or IRA, how much to contribute, how to invest the assets in the plan or IRA, and when and how to take a distribution. A substantial body of research shows that Americans frequently lack the basic financial literacy needed to make decisions about their retirement savings. This lack of financial literacy causes employees to make suboptimal decisions concerning their retirement savings.

A substantial body of research has explored the causes of suboptimal retirement savings in the United States. One of the problems commonly identified in the literature is that many U.S. workers lack financial literacy, which means that they lack basic understanding of key financial concepts, such as the benefits of interest compounding. Other research has focused on the effects of access to financial advice and financial education programs as a way to counter lack of financial literacy.

Across all age groups, individuals lack essential knowledge of basic financial concepts, including interest compounding, the effects of inflation, and diversification of risk. [11] In multiple surveys and studies, the research shows that a significant percentage of U.S. workers (1) cannot answer correctly the most simple multiple choice questions on issues of basic financial literacy, (2) fail to plan adequately for retirement, (3) consistently underestimate the amount of retirement savings they will need, and (4) make decisions, such as cashing out their retirement savings prior to retirement age, that adversely impact their long-term retirement savings.[12]

Amromin et al reviewed the literature on financial literature and concluded that the surveys and studies varied significantly in content and sample population, but generally agreed on the following:

> "(1) a large proportion of consumers are not financially literate, even among the wealthiest and most educated population segments,
> (2) financial literacy rates vary consistently by demographic groups, tending to be high for those with more wealth and education, for men (although results vary), and for whites (in the U.S.), and
> (3) financial illiteracy leads to welfare-reducing financial behavior and outcomes."[13]

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[11] See, for example, Lusardi, Annamaria and Olivia S. Mitchell. *Financial Literacy and Retirement Planning in the United States*, February 1, 2011. Lusardi, Annamaria and Olivia S. Mitchell. *Financial Literacy and Planning: Implications for Retirement Wellbeing.* University of Michigan Retirement Research Center, MRRC Working Paper n. 2006-144.

[12] The list of references at the end of this paper contains multiple sources for research relating to financial literacy and retirement saving.

[13] Amromin, Gene, Itzhak Ben-David, Sumit Agarwal, Souphala Chomsisenphet, and Douglas D. Evanoff. *Financial Literacy and the Effectiveness of Financial Education and Counseling: A Review of the Literature.* Accessed at: http://www.chicagofed.org/digital_assets/others/region/foreclosure_resource_center/more_financial_literacy.pdf.

Low levels of financial literacy present particularly acute problems for certain demographic groups, such as individuals with low education. Concerns have also been raised about the challenges facing women, African-Americans, and Hispanics.[14]

These challenges translate to average account balances in 401(k) plans that are significantly lower for African-Americans and Hispanics than other demographic groups.[15] Table 1 shows average account balance, by salary range, for African-Americans, Hispanics, and whites participating in a 401(k) or 403(b) plan of 60 of the largest business and nonprofit organizations in the United States. Across all salary ranges, African-Americans and Hispanics have lower average account balances than their white counterparts.

Table 1 – Average Retirement Account Balance, by Salary, 2007 and 2010

Salary	African-American		Hispanic		White	
	2007	2010	2007	2010	2007	2010
$0 – $29,999	$7,518	$7,557	$7,930	$8,949	$13,836	$14,563
$30,000 – $59,999	$28,169	$24,505	$28,727	$27,823	$44,546	$42,720
$60,000 – $89,999	$71,630	$68,343	$77,991	$76,031	$101,535	$98,290
$90,000 – $119,999	$122,208	$132,222	$125,520	$138,274	$164,897	$182,061
$120,000 and over	$173,490	$201,585	$167,781	$206,007	$243,115	$285,341

Source: *401(k) Plans in Living Color. A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups.* The Ariel/Aon Hewitt Study 2012.

At the lowest salary levels, the average account balances of African-Americans and Hispanics are only approximately 60 percent of the average for whites. The percentage disparity becomes smaller as salaries increase, but even at the highest salary levels, the average account balances of African-Americans and Hispanics tend to be approximately 70 percent of the average for whites. While a variety of factors (e.g., lower participation and contribution rates) account for these disparities, preretirement cash-outs of retirement savings represents one significant factor (discussed in greater detail below) affecting account balances for all workers, but particularly for minority and ethnic groups.

B. JOB TURNOVER CREATES RETIREMENT SAVINGS "CHOKE POINT"

One of the critical "choke points" in the retirement savings process occurs when an employee changes jobs or retires; at this point, an individual must decide what to do with retirement savings accumulated in a former employer's plan. The job termination "choke point" will occur multiple times during an employee's working career; on average, approximately 50 million job terminations occur each year among wage and salary workers in the United States. In 2012, half of all wage and salary workers in the United States had been with an employer for less than 4.6 years.

From a retirement savings perspective, financial illiteracy causes workers to make bad decisions at important "choke points" in the retirement savings process. We define choke points as critical points in an individual's working life when savings behavior may change. One of the critical

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[14] *Ibid*, at p. 12.

[15] *401(k) Plans in Living Color. A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups.* Ariel Education Initiative, Aon Hewitt, Joint Center on Political and Economic Studies, and The Raben Group, 2012.

"choke points" in the retirement savings process occurs when an employee changes jobs or retires; at this point, an individual must decide what to do with retirement savings accumulated in a former employer's plan. At this time, an individual may dis-save (take a cash out of retirement savings) or temporarily or permanently stop saving for retirement. Thus, decisions made at the job termination choke point affect the ability of an individual to accumulate adequate savings for retirement security.

More than half of all employers offer their employees the ability to defer current wages and salary into a defined contribution retirement account (often a 401(k) plan).[16] These accounts typically offer an employer matching contribution in addition to the employee deferrals. In 2011, employees contributed approximately $186 billion and employers provided matching contributions of an additional $122 billion.[17]

One of the advantages of a defined contribution plan is that it provides portability for employees upon job change. An employee who terminates employment typically has several options with respect to his or her accumulated retirement savings; the individual can:

- leave the retirement savings in the old employer's plan;
- transfer or roll over their retirement savings to a new employer's plan or an IRA; or
- withdraw the accumulated retirement savings and use them for nonretirement purposes.

Plan portability can be important because of the mobility of the U.S. workforce. On average, approximately 4 million wage and salary workers in the United States separate from service with an employer each month for approximately 50 million job terminations per year.[18] Most workers will change jobs multiple times during their working careers. While it is difficult to estimate the number of job changes that individuals will have during their working career, one study (the National Longitudinal Survey of Youth 1979) tracked early Baby Boomers (ages 45-53 in 2010-2011) and found that, on average, this group had held 11.3 jobs from ages 18-46.[19]

The median job tenure for wage and salary workers in the United States was 4.6 years in 2012, meaning that half of all wage and salary workers had been with an employer for less than 4.6 years. [20] Job turnover rates are particularly high for some minority and ethnic groups with 51.5 percent of African-Americans, 56.2 percent of Hispanics, and 53.4 percent of Asians working for their current employer for less than five years.[21] Less than 30 percent (29.2) of the total wage and salary workforce has been employed with their current employer for 10 or more years. [22]

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[16] Refer to Copeland, Craig, Ph.D., *Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2012***,** Employee Benefits Research Institute. The study indicates that, based on the latest Survey of Income and Program Participation data from the U.S. Census Bureau, 61 percent of all workers over age 16 had an employer that sponsored a pension or retirement plan for any of its employees in 2012. The percentage of workers participating in a plan was 46 percent in 2012.
[17] U.S. Department of Labor, Employee Benefit Security Administration, Private Pension Plan Bulletin, *Abstract of 2011 Form 5500 Annual Reports*, June 2013..
[18] Hathaway, Kendra C. *Job openings continue to grow in 2012, hires and separations less so.* Bureau of Labor Statistics, JOLTS Publications, JOLTS Annual Story, 2012.
[19] U.S. Department of Labor, Bureau of Labor Statistics. *Number of Jobs Held, Market Activity, and Earnings Growth Among the Youngest Baby Boomers: Results From a Longitudinal Survey.* USDL-12-1489, July 25, 2012
[20] *Employee Tenure in 2012*. Bureau of Labor Statistics, Economic News Release, September 18, 2012.
[21] *Ibid.*
[22] *Ibid.*

The statistics suggest that job turnover represents a pivotal point in the retirement savings process when employees must make decisions about what to do with the retirement savings they have accumulated with their employer. This "choke point" occurs multiple times during an average working career. Withdrawals from retirement savings that occur upon job change represent not only the loss of the amount of accumulated savings, but also the loss of the benefits of compounding that occurs when these amounts are withdrawn from retirement savings.

C. CASHOUTS OF RETIREMENT SAVINGS ERODE LONG-TERM RETIREMENT SECURITY

If a terminating employee decides to withdraw retirement savings and not roll the assets over to an IRA or another qualified plan, the employee loses not only the amount of the withdrawn assets, but also the future earnings on these amounts (i.e., the benefits of interest compounding).

U.S. retirement assets totaled $20.9 trillion as of June 30, 2013.[23] Estimates indicate that preretirement withdrawals from retirement savings total from $70 to $104 billion each year.[24] While these withdrawals represent a small percentage of total retirement assets (0.34 to 0.50 percent), even modest withdrawals from individual accounts can reduce the ability of individuals to attain adequate retirement savings. Further, increases in the cash-out rate could result in significant declines in retirement security in the United States.

Preretirement withdrawals (commonly referred to as leakage) from retirement savings can occur in a number of ways. Loans, in-service withdrawals (for hardships and life events), and distributions that occur at (or following) job change are three forms of leakage that diminish retirement savings balances.

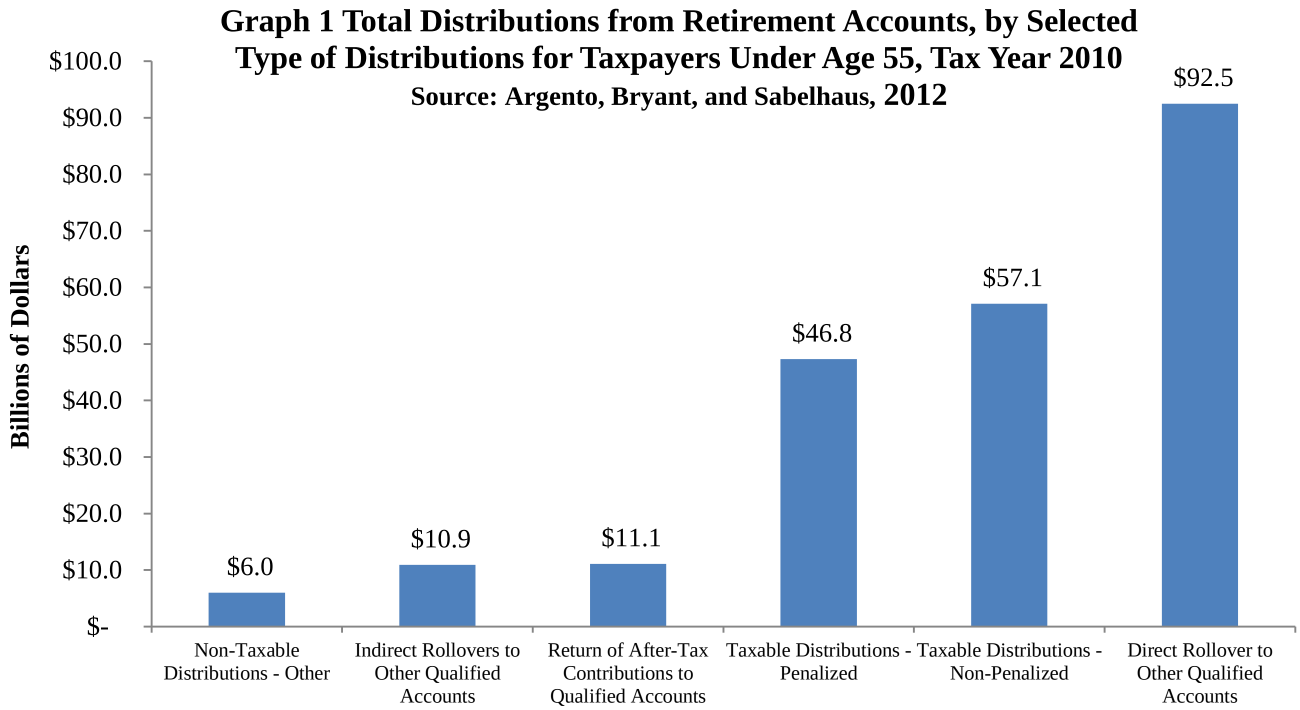
This analysis focuses on withdrawals at job termination, which affect retirement savings in two ways. First, if the individual does not replace or rollover the retirement savings to another employer plan or an IRA, the withdrawals will reduce the individual's overall account balance. Second, even if the individual replaces the funds at a subsequent time, the individual loses the benefits of the tax-deferred earnings on the amounts withdrawn and the compounding effects of interest accumulation.

A recent study found that, for tax year 2010, distributions from qualified retirement plans totaled $1,281 billion, $241 billion of which went to taxpayers under age 55.[25] Nearly half of this amount, $104.3 billion, was subject to tax and, in some cases, subject to early withdrawal penalties (see Graph 1). Recognizing the inclination of many individuals not to leave portable retirement funds with a former employer, more than $100 billion was rolled over (directly or indirectly) to other qualified accounts.

[23] Investment Company Institute, Research and Statistics. *Retirement Assets Total $20.9 Trillion in Second Quarter 2013, September 30, 2013.* Accessed at: http://www.ici.org/research/retirement/retirement/ret_13_q2.

[24] Refer to Fellowes, Matt and Katy Willemin, *The Retirement Breach in Defined Contribution Plans Size, Causes, and Solutions*, HelloWallet, January 2013 and Argento, Robert and Victoria L. Bryant, John Sabelhaus, *Early Withdrawals from Retirement Accounts During the Great Recession,* prepared for presentation at the November, 2012, National Tax Association annual meetings, November 2012.

[25] Refer to Argento, Robert and Victoria L. Bryant, John Sabelhaus, *Early Withdrawals from Retirement Accounts During the Great Recession,* prepared for presentation at the November, 2012, National Tax Association annual meetings, November 2012.



The study estimated that nearly 25 percent of all taxpayers ***younger than age 55 with current pension coverage*** (or retirement balances from past contributions) had a gross distribution in 2010. Among those taxpayers with a gross distribution, approximately 67 percent of the taxpayers had a taxable distribution, and about 40 percent had a penalized distribution. With respect to the dollar amounts, approximately 43 percent of the gross distribution amounts were subject to tax and nearly 20 percent of the gross distributions (approximately $46.8 billion) were subject to early withdrawal penalties. (Refer to Graph 1.)[26] Graph 2 shows the annual penalized distributions for taxpayers under age 55, for 2004 to 2010.

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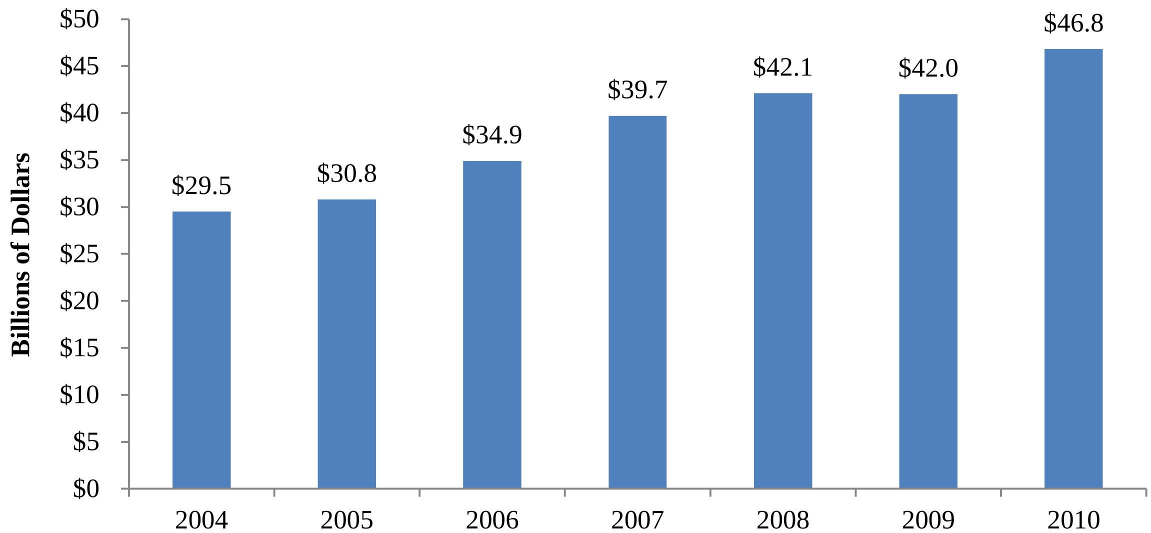
[26] Note there are modest discrepancies in the data reported in the 2010 Argento et al paper. For instance, the penalized amount for 2010 is listed in Table 1 is $47.3 billion, but in Table 3, this amount is listed as $46.8 billion. However, the discrepancy is small enough to be irrelevant for the purposes of this study. For purposes of our study, we report the $46.8 billion figure.

Graph 2 Total Distributions from Retirement Accounts Subject to a Tax Penalty, for Taxpayers Under Age 55
Source: Argento, Bryant, and Sabelhaus, 2012



When workers make a job change (either voluntarily or involuntarily terminate employment), they have several options available with respect to their retirement assets – generally, they may keep the assets in the original employer's plan, roll over the assets to an IRA or to a retirement savings plan of a new employer, or cash out the balance.

According to a 2011 survey, 42 percent of employees take a cash distribution of their retirement savings at job termination, 29 percent roll their retirement savings to another plan or an IRA, and 29 percent leave their assets in the employer's plan.[27] *The cash-out rate varies by account size; the survey found a 75 percent cash-out rate for participants with less than $1,000 in their accounts and a 10 percent cash-out rate for participants with at least $100,000 in their accounts. Total assets cashed out represented 7.3 percent of total retirement savings assets of terminating employees.*

Thus, empirical research indicates that nearly half of all workers take cash distributions when terminating employment.[28] On a plan-asset weighted basis, cash distributions in the 2011 survey represented 7.3 percent of the total amounts available at employment termination, with 54.7 percent of assets remaining in the employer's plan and 38 percent of assets rolled over to another employer retirement plan or an IRA (refer to Graph 3).

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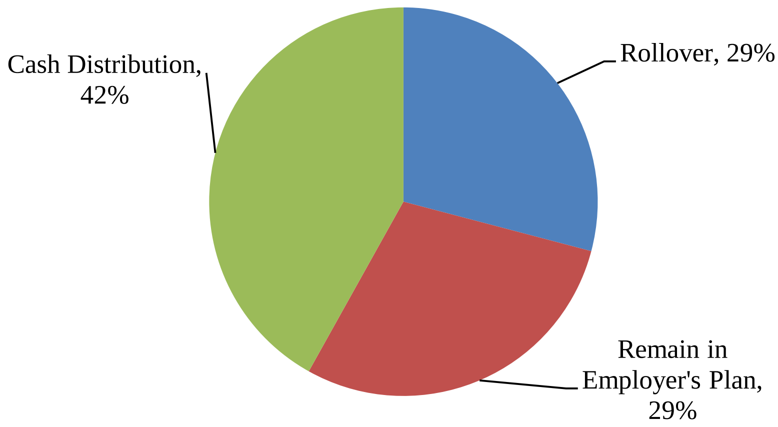
[27] *Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income 2011*. Aon Hewitt, 2011.

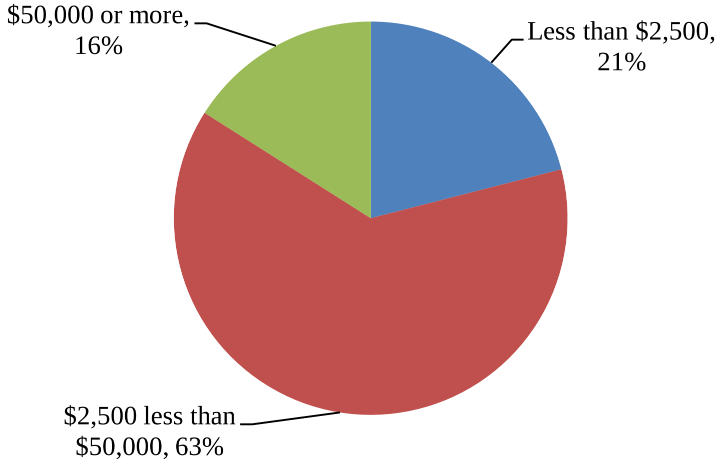
[28] One survey indicated that this percentage could be as high as 68 percent, although the data may be out of date. Refer to Moore, James H. and Leslie A. Muller, *An analysis of lump-sum pension distribution recipients*, Monthly Labor Review, May 2002.

Graph 3 Treatment of Retirement Plan Assets, after Employment Terminations, Percentage of Employees
Source: Aon Hewitt Survey, 2011



Cashing out tends to be the most prevalent behavior with average distributions of $32,219 (in 2006 dollars).[29] The following graph (Graph 4) displays the range of distribution amounts for individuals taking a lump-sum distribution when changing jobs.

Graph 4 Lump-Sum Distributions at Job Change, by the Size of the Distribution
Source: EBRI Notes, January 2009



[29] EBRI Notes, Lump-Sum Distributions at Job Change, Vol. 30, No. 1, January 2009.

D. CASH-OUTS MORE LIKELY AMONG CERTAIN GROUPS

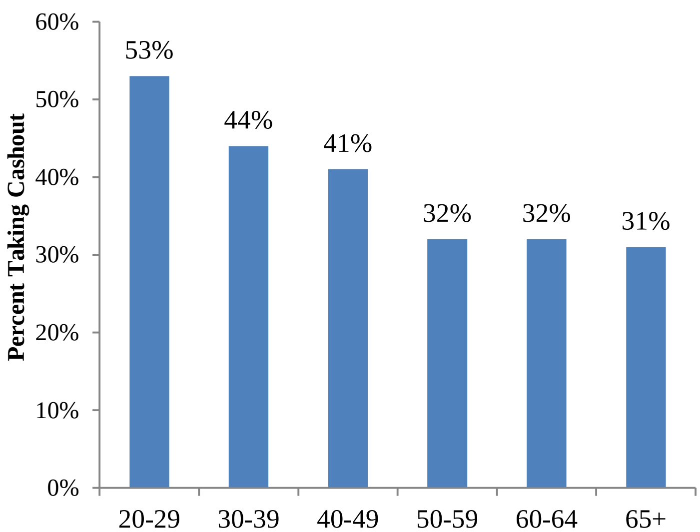
Cash-outs are more likely to occur among individuals who (1) have a low account balance, (2) are under age 30, or (3) have lower wages. Higher cash-out rates are also an issue for African-Americans and Hispanics.

Certain participant characteristics provide an indicator of the likelihood that employees will cash out their retirement savings at job change. These characteristics relate to the amount of retirement savings accumulated, as well as certain demographic characteristics, including the employee's age, income, and race or ethnicity.

1. Account Balances – The likelihood that an employee will cash out a retirement account after terminating employment correlates negatively with the employee's account balance. As an employee's account balance increases, a terminating employee is less likely to cash out the account. As noted above, one study estimated that the average cash distribution at job change was $32,219 in 2006.[30]

2. Age of the Workers – Younger workers tend to have lower account balances relative to their older cohorts (due to fewer years participating in a qualified plan). In addition, younger workers are much more likely to cash out these smaller account balances. The 2011 Aon Hewitt retirement survey estimated that 53 percent of terminating employees who were younger than 30 years of age cashed out their retirement savings.

Graph 5 Percentage of Terminating Employees Who Cash Out Retirement Savings, by age, 2010
Source: Aon Hewitt Retirement Survey, 2011



Yet, research indicates that as an individual reaches 40 years of age or older, they tend to have financial challenges that make it more likely that they will use their retirement savings.[31] This is particularly true when an older worker terminates employment. In many cases, they have more complicated financial demands (e.g., retaining a primary residence or college-aged children) and retirement savings may represent the only available form of savings. Numerous surveys of plan participants report similar findings.[32] However, as participants age, they are more likely to retain their retirement assets, even following a job change.

3. Lower-Paid Workers – Workers with lower-wage employment also tend to be more likely to withdraw or cash-out retirement savings, particularly at job change. Research by

[30] Refer to Copeland, Craig, *Lump Sum Distributions at Job Change*, Employee Benefits Research Institute, Notes 30(1), January 2009.
[31] Refer to Fellowes, Matt and Katy Willemin, *The Retirement Breach in Defined Contribution Plans Size, Causes, and Solutions*, HelloWallet, January 2013.
[32] *Ibid.* Refer also to *Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts Are Eroding Retirement Income 2011*, AON Hewitt, 2011; and *How America Saves 2012*, The Vanguard Group, Inc., 2012.

Butrica, et al. indicates that workers in the lowest income quartile are much more likely (28.6 percent) to make withdrawals from retirement savings than those in the highest income quartile (16.4 percent).[33]

4. Minority Workers – African-American and Hispanic workers have significantly higher cash-out rates than white workers (see Table 2).

Table 2 – Employee Actions Taken Upon Job Termination, Percentages by Racial and Ethnic Group

Action	African-American	Hispanic	White
Leave Balances in Employer Plan	12%	15%	27%
Rollover to New Plan or IRA	25	28	34
Cash-Out With Penalty	63	57	39

Source: *401(k) Plans In Living Color. A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups*, the Ariel/Aon Hewitt Study 2012.

These higher cash-out rates could occur partially because the average account balances for African-Americans and Hispanics are significantly smaller than the average account balances for whites with the same salary rate. However, even accounting for size of account balances, African-American and Hispanic workers tend to have higher cash-out rates.

E. DOL REGULATIONS MAY REDUCE ACCESS TO CALL CENTER AND BROKER-DEALER ASSISTANCE FOR TERMINATING EMPLOYEES

On October 22, 2010, DOL proposed regulations to modify the standards for fiduciary liability with respect to retirement savings plans. In 2011, the DOL announced that the regulations would be re-proposed.[34] The re-proposed regulation is generally expected to apply the revised fiduciary standard to assistance provided to terminating employees by call centers and broker dealers. In some cases, a terminating employee will contact a call center or broker-dealer associated with an employer's retirement savings plan to understand his or her options with respect to the employee's retirement savings account balance. In other cases, a call center or broker-dealer might reach out directly to a terminating employee to help the employee understand his or her options. If broker-dealers and call centers become fiduciaries under the DOL regulations as expected, such contacts with terminating employees would generally be prohibited under the prohibited transaction rules, even if the advice given is in the best interest of the employees, unless comprehensive exemptions are provided by the DOL. If the re-proposed regulations fail to provide such exemptions for this type of assistance, then employees will lose access to call center and broker-dealer assistance at this critical choke point in the retirement savings process.

[33] Refer to Butrica, Barbara A., Sheila R. Zedlewski, and Philip Issa. *Understanding Early Withdrawals from Retirement Accounts.* The Urban Institute, The Retirement Policy Program, Discussion Paper 10-02, May 2010.
[34] United States Department of Labor News Release, Release Number: 11-1382-NAT, September 19, 2011.

F. ACCESS TO CALL CENTER AND BROKER-DEALER ASSISTANCE REDUCES CASH-OUTS

A recent GAO report suggested that employees who change jobs often receive guidance and marketing from service providers' call centers encouraging them to roll their retirement savings into IRAs rather than keeping the savings in a 401(k) plan. However, very importantly, the GAO also noted that fears of fiduciary liability could inhibit communications with employees and the provision of information regarding distribution options. Inhibiting these communications creates a great risk to retirement savings – that terminating employees will take cash distributions instead of leaving their assets in their employer's plan or rolling over the assets to another plan or IRA. However, the GAO report ignores the fact that the greatest risk to retirement savings is that employees will take a cash distribution upon job termination. From a retirement security perspective, retaining the assets in either an employer plan or an IRA is preferable to cashing out.

The research on access to financial assistance typically examines assistance in the form of a paid financial advisor. However, individuals who seek assistance from a paid financial advisor tend to be those individuals who are higher income and have higher levels of financial literacy. Individuals with lower education and income, African-Americans, and Hispanics are significantly less likely to seek assistance from a paid financial advisor.

In a 2008 paper, Lusardi stated "individuals are most prone to decision-making in specific time periods. For example, the start of a new job pushes people to think about saving (often because they have to make decisions about their pensions), and it may be very important to exploit such *teachable moments*."[35] Lusardi goes on to state that "to be effective, programs have to recognize the many differences among individuals, not only in terms of preferences and economic circumstances but also of their existing levels of information, financial sophistication, and ability to carry through with plans. In other words, relying on 'one-size-fits-all' principles can lead to rather ineffective programs."[36]

One of the key decision-making points for retirement savings is job termination, when an employee must decide what to do with their retirement savings with the employer. Employees frequently have access to a call center or a broker-dealer to help them understand their options at this decision-making point. In fact, most financial services firms make such assistance available to help employees make decisions concerning their retirement savings.

A recent study by the Government Accountability Office ("GAO") indicated GAO's strong preference for workers keeping their retirement savings in an employer plan, rather than moving the funds to an IRA.[37] However, this view does not address how to deal with many employees' inclination not to leave their assets at their former employer's plan, nor with some workers' desires to obtain access to investments that may not be available under a former employer's plan. Further, the GAO indicated that it had made calls to 401(k) and IRA service providers to request information about rollover options and IRAs, but it is unclear whether these calls went to sales lines or the company's technical call centers. This clearly makes a significant difference in terms of the nature of the assistance. Most importantly, GAO's report ignores the biggest risk to long-

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35 Lusardi, Annamaria. *Financial Literacy: An Essential Tool for Informed Consumer Choice?* January 2008.
36 *Ibid.*
37 Refer to the Government Accountability Office, *401(K) PLANS Labor and IRS Could Improve the Rollover Process for Participants,* GAO-13-30, March 2013.

term retirement security, which is the preretirement cash out of retirement savings. From a retirement security perspective, retaining the assets in either an employer plan or an IRA is preferable to cashing out.

None of the research to date has examined the effects of employee access to call center assistance on retirement savings. As a result, very little information is available concerning the effects of call center assistance on retirement savings outcomes. In order to help fill this gap in the research, we conducted interviews of several large financial services firms serving a broad range of individuals concerning their call center operations with respect to employer retirement savings plans. The information and data collected from these interviews help to construct a better picture of how access to call centers assists employees with important retirement savings decisions.

Millions of employees contact call centers associated with their retirement plan each year.[38] Some of the calls represent basic transactions, such as a balance inquiry or providing an address change. For some companies, the initial call will be handled by a basic service representative, who will handle the most basic inquiries and will transfer the caller to a licensed representative for any other question or request.

The financial services firms view their call center operations as an important way to help educate employees on the importance of preserving their retirement savings. In addition to responding to employees who contact a call center, some companies make proactive calls to employees at key decision points to make sure employees are educated concerning their options. Companies with whom we spoke as part of our research generally indicated that their general approach was to discourage terminating employees from cashing out their retirement savings. One company indicated that, with terminating employees, they would send a letter explaining the employee's options, followed by a telephone call, generally advising against cashing out. Another company indicated that the most impactful way to help plan participants was a proactive call to help with options when an employee terminates employment.

In addition, some employees have direct access to a broker-dealer for assistance. This might occur if an employee has set up an IRA using a broker-dealer or if an employer (often a small employer) has a broker-dealer who helped the employer establish a retirement plan for employees. In many cases, broker-dealers assist employees who could not otherwise afford to hire a financial advisor. While it is more difficult to quantify the extent to which employees might access a broker-dealer for assistance for help understanding their options with respect to their retirement savings, this access represents another important way in which employees receive assistance with respect to their retirement savings and, more generally, their financial literacy.

As a result, call center and broker-dealer assistance is an important source of information to employees. The evidence suggests that access to this assistance improves retirement savings outcomes. One financial services company reported that cash-out rates for individuals with account balances between $35,000 and $50,000 decline significantly when an employee receives a proactive call (3.3 percent cash-out rate) relative to those who only receive a written communication (10.5 percent cash-out rate). This compares to a cash-out rate for this company of 34 percent for all former employees each year.

[38] These call centers should be distinguished from the sales forces that may have been involved in the GAO study discussed above.

III. ESTIMATING THE EFFECTS OF REDUCING AVAILABILITY OF CALL CENTER OR BROKER-DEALER ASSISTANCE ON CASH-OUTS OF RETIREMENT SAVINGS

When an employee terminates employment, cashing out accumulated retirement savings may be appealing. Many employees lack the basic financial literacy needed to make an informed decision, which leads to a failure to understand the long-term consequences of these cash-outs. In particular, an employee with high debt levels or other financial pressures rarely appreciates the importance of keeping the assets in a qualified retirement savings vehicle. Similarly, an employee who has a relatively small retirement savings balance does not understand the long-term consequences of cashing out. Finally, the process of rolling over retirement savings into a plan of a new employer or an IRA presents complexities that many plan participants fail to understand. Having access to a call center or broker-dealer for assistance may help a terminating employee gain a clearer picture of all the options with respect to his or her retirement savings and the consequences of each option.

If the DOL re-proposed regulations extend fiduciary liability to call center and broker-dealer assistance without an exemption to permit the types of contacts that routinely occur when employees terminate employment, then cash outs at termination of employment will increase and long-term retirement security will decline. The following sections estimate the potential impacts of these changes, including estimates of (1) the aggregate potential reduction in retirement savings and (2) the effect of cashing out retirement savings on retirement savings accumulations over a 30-year work history. These potential impacts may affect disproportionately individuals in the most vulnerable populations.

A. INCREASED WITHDRAWALS FROM RETIREMENT SAVINGS

The estimates of increased cash-outs of retirement savings and reduced rollovers to IRAs and other qualified plans rely on a number of data sources as well as our estimates of the effect of call centers and/or broker-dealer assistance on these cash outs.

The first step in estimating the potential increases in cash-outs from retirement assets and reduced rollovers to IRAs and other qualified plans requires estimating pension participation by income class. This analysis relies on Internal Revenue Service (IRS) Statistics of Income (SOI) tabulations of the elective deferrals claimed on taxpayers' Form W-2 for 2010.[39] Table 3 displays the number of taxpayers with elective deferrals and the aggregate amount of the deferral.

The second step is to impute aggregate balances for the distribution of taxpayers reporting retirement contributions on Form W-2. This information relies on several surveys. Using multiple data sources provided an opportunity to verify and corroborate the assumptions applied to the taxpayer characteristics.[40]

[39] The IRS tabulation of W-2 data includes elective deferrals from all employer-provided defined contribution amounts for primary and/or secondary taxpayers. Elective retirement contributions are reported on the Form W-2, box 12 and includes the following codes: code D (traditional 401k), code E (traditional 403b), code F (SEP), code G (457b), code H (501(c)(18)(D), code S (SIMPLE), code AA (Roth 401k), and code BB (Roth 403b).

[40] Refer to Appendix A for a detailed description of the data sources and the methodology.

Table 3 – Taxpayers with Elective Retirement Contributions, by Size of Adjusted Gross Income, 2010 *(Dollar Amounts are in thousands)*		
Adjusted Gross Income	**Returns**	**Contribution Amount**
Under $10,000	628,363	$723,644
$10,000 under $20,000	1,840,733	1,205,130
$20,000 under $30,000	3,569,640	3,990,174
$30,000 under $40,000	4,116,205	6,896,514
$40,000 under $50,000	3,881,058	8,825,907
$50,000 under $75,000	8,927,933	28,557,724
$75,000 under $100,000	7,719,584	33,078,699
$100,000 under $200,000	11,607,079	79,943,732
$200,000 or more	3,495,241	45,992,983
Total	**45,785,836**	**209,214,507**
Source: IRS, Statistics of Income tabulations of the elective deferrals claimed on taxpayers' 2010 Form W-2.		

The third step is to estimate the qualified plan participants who may experience a break in service (through job termination) and face a decision regarding plan assets held with their previous employer. The Job Opening and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics estimated that 37.1 percent of current workers experience separation from employment during the year. The definition of separation includes voluntarily quitting, being laid off, or being fired.[41]

From this information, we derive estimates of the potential retirement savings balances that are likely to become vulnerable to cash out.[42] We assume that those employees cashing out balances currently will continue to do so. With respect to employees choosing to leave account balances in a former employer's plan passively (through inaction), we assume that the small number of account balances that would have remained passively with the former employer will also be likely to remain there.

Our analysis assumes that the balances most vulnerable to increased cash-out are those currently being rolled into IRAs or a new employer plan and those that currently remain in an employer's plan through an employee decision. These amounts reflect those decisions that are most likely to be assisted by a call center or broker-dealer. Our estimates indicate that, each year, these balances total approximately $117 to $145 billion.

Our final step involves investigating the role of call center and broker-dealer assistance in helping workers retain their retirement savings at job change. Our research relies on a DOL-sponsored pilot survey that looks at how current enrollees in employer-sponsored defined contribution (DC) plans make retirement decisions.[43] Our empirical models suggest that

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[41] Refer to Hathaway, Kendra C., *Job openings continue to grow in 2012, hires and separations less somewhat,* JOLTS Annual Story, Monthly Labor Review, May 2013.

[42] In addition, the estimates include an adjustment for the likelihood that workers separating from employment have access to a qualified plan.

[43] The survey asked the following question: "How do you make decisions about savings and investment related to retirement?" The possible responses were: "1 Ask relatives/friends, 2 Talk to financial planners/brokers, 3 Talk to lawyers, 4 Read magazines/newspapers/books, 5 Get advice from television, and 6 Other." Of the respondents who had not already retired, approximately 24 percent indicated that they had talked to financial planners/brokers. These contacts likely include both consultation with a paid financial planner and contacts through a call center or broker-dealer associated with their employer's retirement savings plan.

retirement savings plan balances are 33 percent higher if a financial planner or broker was consulted for financial advice. Our parameter estimates support our theory that consultations with call centers or brokers/dealers result in retirement savings in DC plans that are higher by about 33 percent. Our model suggests important life-cycle effects are present in retirement savings with plan balances increasing with age initially and then increasing at a decreasing rate as workers approach retirement age.

Based on the estimated cash-outs from retirement balances for terminating employees, we estimate that reducing the availability of call center and broker-dealer assistance will increase annual cash outs of retirement savings at job termination by an additional $20 – 32 billion.[44]

B. LONG-RUN EFFECTS ON RETIREMENT SECURITY

Cash outs of retirement savings prior to retirement not only reduce retirement savings by the amount withdrawn, but also by the earnings that those amounts would accrue if they were not withdrawn.[45]

The following example shows the effects of withdrawals of retirement savings early in a working career, which corresponds to the work history of many workers who may change jobs three or four times during the early years of their working career. The first stream of retirement savings represents the accumulation of assets assuming no cash out prior to retirement age (i.e., the assets either remain in an employer's plan or the individual rolls over to an IRA or a new employer's plan). This individual, who earns $40,000 in 2014 (assuming 2.5 percent annual increases in salary and a 5 percent deferral rate), will accumulate $124,742 during her career (assuming 4 percent annual earnings on those contributions).[46]

Assume the same individual changes jobs three or four times during the early years of employment and cashes out her retirement savings at each job change with the final cash-out occurring after year six. This behavior means the individual is essentially beginning to save for retirement in the seventh year of employment. Withdrawing the retirement balances in the early years of employment (with consistent savings thereafter) will reduce the individual's accumulated retirement savings by $32,093.

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[44] Refer to Appendix A for a detailed description of our empirical work.

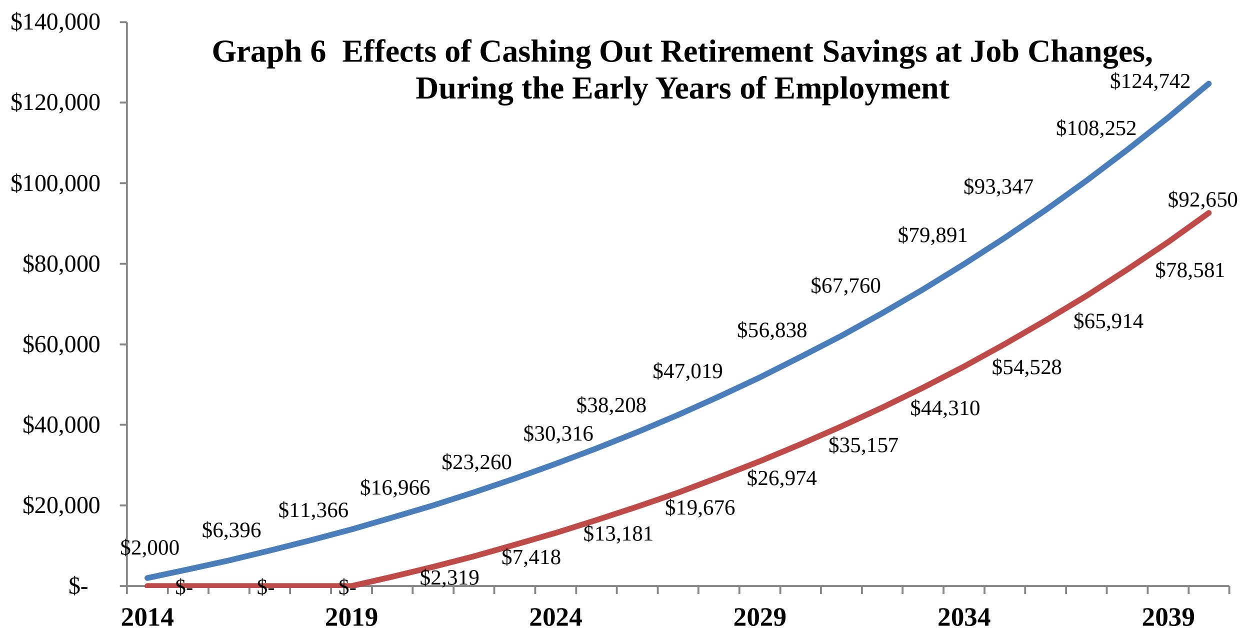
[45] In addition, the amounts withdrawn frequently are subject to Federal and state income taxes plus penalty taxes on early withdrawals.

[46] This deferral rate is consistent with average deferrals based on Internal Revenue Service Statistics of Income data tabulations of the Form W-2 for taxpayers with $40,000 of wage income.

Table 4 – Effects of Cashing Out Retirement Savings, with Job Changes Early in the Work History					
Year	Account Balance		Year	Account Balance	
	No Distributions	Distribution at Job Changes		No Distribution	Distribution at Job Change
2014	$ 2,000	$ -	2028	$ 47,019	$ 26,974
2015	$ 4,130	$ -	2029	$ 51,797	$ 30,950
2016	$ 6,396	$ -	2030	$ 56,838	$ 35,157
2017	$ 8,806	$ -	2031	$ 62,154	$ 39,606
2018	$ 11,366	$ -	2032	$ 67,760	$ 44,310
2019	$ 14,083	$ -	2033	$ 73,668	$ 49,280
2020	$ 16,966	$ 2,319	2034	$ 79,891	$ 54,528
2021	$ 20,022	$ 4,790	2035	$ 86,446	$ 60,068
2022	$ 23,260	$ 7,418	2036	$ 93,347	$ 65,914
2023	$ 26,688	$ 10,212	2037	$ 100,610	$ 72,080
2024	$ 30,316	$ 13,181	2038	$ 108,252	$ 78,581
2025	$ 34,152	$ 16,332	2039	$ 116,290	$ 85,432
2026	$ 38,208	$ 19,676	2040	$ 124,742	$ 92,650
2027	$ 42,494	$ 23,220			

Both examples assume the individual has a starting salary of $40,000, receives 2.5 percent annual increases, defers 5 percent of salary each year, and earns 4 percent interest on those contributions.

Graph 6 displays the effect of this behavior on the accumulated earnings. This reduces the ultimate retirement savings balance by approximately 26 percent.

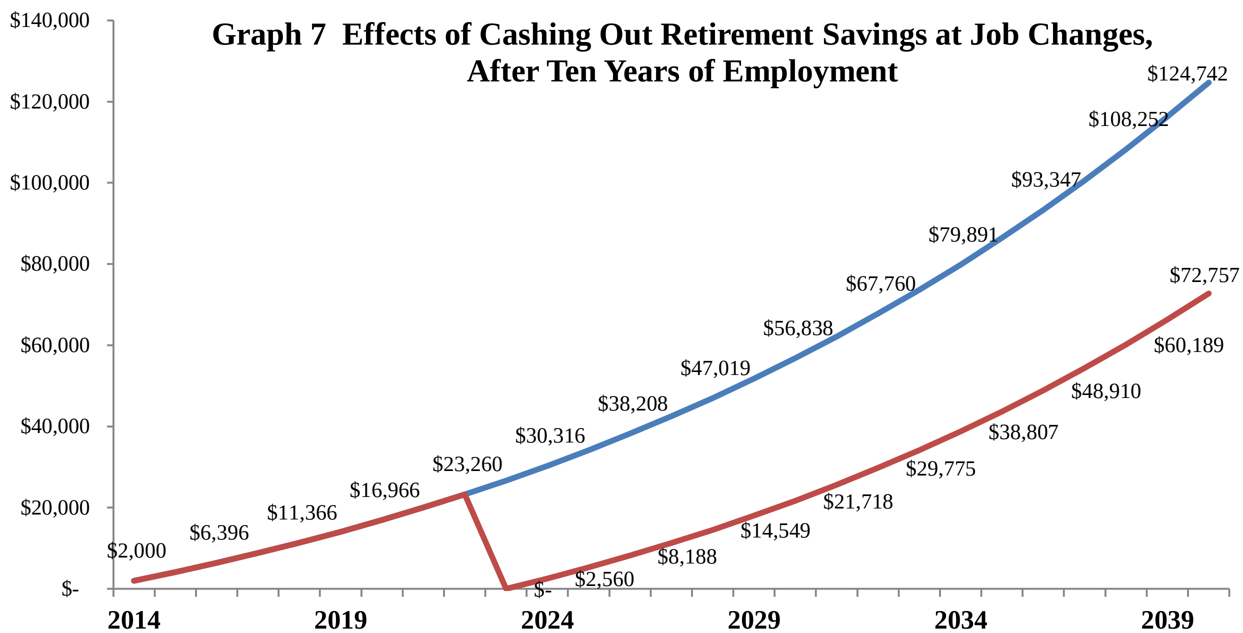


Graph 6 Effects of Cashing Out Retirement Savings at Job Changes, During the Early Years of Employment

While it is common for younger workers to cash out balances, the average account distribution is considerably higher ($32,219) suggesting that cash outs also occur later in a working career. Using the same example, this is comparable to a worker cashing out his or her retirement savings when changing jobs after 10 years. The effect of this behavior is to reduce the individual's total retirement savings by nearly $52,000 or 41 percent.

Table 5 – Effects of Cashing Out Retirement Savings, with Job Changes After 10 Years					
	Account Balance			**Account Balance**	
Year	**No Distributions**	**Distributions at Job Changes**	**Year**	**No Distribution**	**Distribution at Job Change**
2014	$ 2,000	$ -	2028	$ 47,019	$ 14,549
2015	$ 4,130	$ -	2029	$ 51,797	$ 18,028
2016	$ 6,396	$ -	2030	$ 56,838	$ 21,718
2017	$ 8,806	$ -	2031	$ 62,154	$ 25,630
2018	$ 11,366	$ -	2032	$ 67,760	$ 29,775
2019	$ 14,083	$ -	2033	$ 73,668	$ 34,163
2020	$ 16,966	$ -	2034	$ 79,891	$ 38,807
2021	$ 20,022	$ -	2035	$ 86,446	$ 43,718
2022	$ 23,260	$ -	2036	$ 93,347	$ 48,910
2023	$ 26,688	$ -	2037	$ 100,610	$ 54,396
2024	$ 30,316	$ 2,560	2038	$ 108,252	$ 60,189
2025	$ 34,152	$ 5,287	2039	$ 116,290	$ 66,304
2026	$ 38,208	$ 8,188	2040	$ 124,742	$ 72,757
2027	$ 42,494	$ 11,273			
Both examples assume the individual has a starting salary of $40,000, receives 2.5 percent annual increases, defers 5 percent of salary each year, and earns 4 percent interest on those contributions.					

Graph 7 displays the cumulative effects of cashing out after ten years of employment over the remaining working career.



These two examples rely on conservative assumptions and present the effects on a worker earning the U.S. median salary. The effects would increase significantly with modest changes in the assumptions. For instance, as the interest rate increases, the accumulation gap between not cashing out and cashing out grows much wider. In addition, if the individual were to defer the maximum amount each year or if the employer provided matching contributions, the effects would also multiply. In each of these cases, the gap widens and the effects on retirement security become more significant.

C. AFFECTING THE MOST VULNERABLE POPULATIONS

Individuals who hire a financial advisor tend to be higher income and have more general education than other individuals. That is not the case for individuals who contact a call center or broker-dealer associated with their employer's retirement plan. Information that we received from financial services firms suggests that a wide range of individuals utilize this type of service to help them with their retirement savings decisions. For example, one company's call center data for the first quarter of 2013 indicated that nearly 80 percent of the calls related to individuals with no more than $50,000 of assets in their retirement savings plan and nearly 50 percent of the calls related to individuals with no more than $5,000 in the plan. Nearly 60 percent of the calls related to individuals under age 50 and more than 60 percent related to individuals with less than 10 years of service with the employer.

One of the greatest risks to long-term retirement savings is the potential for pre-retirement cash outs of retirement savings. Cash-outs are highest among individuals who are younger, have lower wages, and have less tenure with an employer. Higher cash-out rates are also an issue for African-Americans and Hispanics. Assistance provided by call centers and broker-dealers at job termination plays a key role in trying to reduce cash-out rates, particularly among these groups who are least likely to use the services of a paid financial planner. One financial services company indicated that oral communications with employees terminating employment has a significant effect on cash-out rates; employees with account balances between $35,000 and $50,000 are approximately 3.2 times less likely to cash out their retirement savings if they receive a call rather than only receiving written communications. As a result, reducing access to call center and broker-dealer assistance will likely disproportionately affect the individuals who are most vulnerable to cash outs.

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APPENDIX A – TECHNICAL EXPLANATION OF STUDY ESTIMATES

The estimates of increased cash-outs from qualified retirement savings rely on a number of data sources as well as our estimates of the effects of reducing employee access to assistance through call centers and broker-dealers. The estimates attempt to characterize and quantify the potential asset erosion from retirement savings when participants are unable to obtain assistance at job change, when they must make decisions regarding their retirement plan assets.

We first estimate pension participation and IRA contributions by income class. Because cashouts of retirement savings at job change tend to correlate negatively with income (i.e., individuals with higher income are less likely to cash out their retirement savings at job change), we can use the income distribution of pension and IRA participation to help us capture these effects. The Internal Revenue Service Statistics of Income (SOI) data provide the starting point for this step. The SOI presents tabular data based on information collected from matched samples of Form 1040, U.S. Individual Income Tax Return; and Form W-2, Wage and Tax Statement, for Tax Years.

Data from individual income tax returns rely on a stratified probability sample.[47] Information on wages and retirement contributions rely on Forms W-2 matched to the sampled individual income tax return. The individual income tax return provides information on the gender and age of a taxpayer (obtained by matching the primary and secondary Social Security numbers on the individual income tax return to information from the Social Security Administration). Form W-2, box 12 provides detail on the type of retirement plan. The SOI collects this information on an individual taxpayer basis. These estimates retain information on age, gender, filing status, and wage and salary income levels to reflect certain characteristics that are likely to affect account balances.

We impute aggregate balances for the distribution of taxpayers reporting retirement contributions on Form W-2 relying on data from two surveys, which provides an opportunity to verify and corroborate the assumptions applied to the taxpayer characteristics. The first survey is the Survey of Consumer Finances (SCF), a survey of U.S. households sponsored by the Board of Governors of the Federal Reserve System with the cooperation of the U.S. Department of the Treasury every three years. The second survey is the Employee Benefits Research Institute and the Investment Company Institute (EBRI/ICI) survey of retirement plans. The EBRI/ICI survey collects information about individual 401(k) plan participant accounts. As of December 2010, the database included information about 23.4 million 401(k) plan participants in 64,455 employer-sponsored 401(k) plans, representing $1.414 trillion in assets. In addition, the EBRI/ICI survey collects data from plan recordkeepers and, therefore, is able to capture the characteristics of the plan activity. The survey retains information on demographic, contribution, asset allocation, and loan and withdrawal activity information for millions of participants, which enables estimates of the cumulative changes in account balances. Together, these surveys provide qualitative information that allows imputation of account balances.

From this base, we estimate those qualified plan participants who experience a break in service (through job termination) and face a decision regarding plan assets held with their previous employer. The Job Opening and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics provides current statistics on labor turnover by selected worker characteristics. The

[47] Refer to Statistics of Income—2010, Individual Income Tax Returns documentation for the description of the sampling procedures and data limitations of Statistics of Income tabulations.

JOLTS measures hires and separations on a monthly basis. Historical estimates that correspond with the reference year data (2010) support these estimates.

Finally, we investigate the role of financial planners and brokers in helping workers save for retirement. Our research (described in detail below) relies on a DOL-sponsored pilot survey conducted through the Rand American Life Panel that looks at how current enrollees in employer-sponsored defined contribution (DC) plans make retirement decisions.

Rand American Life Panel (ALP)

Since 2006, the Rand Corporation has fielded a survey of approximately 6,000 individuals who have agreed to participate in occasional, on-line surveys on topics of interest to policymakers. Approximately 350 surveys have been conducted to date on topics as diverse as financial decision-making, financial literacy, self-reported health and well-being and Social Security knowledge. Participants in the ALP are selected from several other, on-going surveys in the United States including the University of Michigan Monthly Survey, the National Survey Project cohort and active recruitment based on the nature of the survey.

Well-Being Survey 189 is a DOL-sponsored pilot survey to ascertain the retirement plans of individuals. The survey was conducted between June and August of 2011 and resulted in 3,061 completed interviews with a response rate of slightly over 85 percent. In addition to a basic core module that provides demographic information on the respondents, the survey also includes modules on:

- Retirement Planning;
- Income and Transfers;
- Assets and Liabilities;
- Retirement Savings Behavior;
- Employer Retirement Savings Plans and Design;
- Financial Literacy; and
- Risk and Time Preferences.

For the purposes of this research, we focus primarily on the demographic characteristics of workers enrolled in employer-sponsored DC plans, plan balances, the investment decisions of the plan participants, indicators of financial literacy, and the decision to rely on a financial planner or broker to assist in retirement decisions.

The Model

For this preliminary research, we constructed an econometric model of plan balances for workers in the Well Being 189 Survey who indicated they were enrolled in a company-sponsored DC plan. We investigate how access to a financial planner might affect retirement savings outcomes. For this purpose, we define plan balances as the sum of (1) current plan balances; (2) balances in plans from prior employers; and (3) any IRA or Keogh plan balances that the respondent may have. Of the 3,061 survey respondents, 837 met our criteria.

We also construct several variables from the Survey that we believe should be strong predictors of retirement savings:

AGE:	The age of the respondent.
AGESQR:	The age of the respondent squared (to capture life-cycle effects).
INCOME:	Total income of the respondent.
CHRONIC:	An indicator if the respondent reported suffering from a chronic disease such as cancer, diabetes or stroke.
TENURE:	An indicator if the respondent owned a home.
FRACTION_STOCK:	The fraction of current plan balance that is invested in stocks.
LITERACY:	An index of financial literacy.
PLANNER:	An indicator if the respondent said he/she relied on a financial planner or broker for assistance.

We expect total plan balances to be positively related to income capturing the fact that a higher income should result in more resources devoted to retirement savings. In contrast, we expect retirement savings to be negatively related to health status (as captured in the CHRONIC variable) as this could mean time spent out of the labor force, reduced hours of work, or other impediments to lifetime earnings. Similarly, we expect retirement savings to be positively related to owning a home (TENURE), suggesting that homeowners may have more resources that can be devoted to saving for retirement.

Appendix A - Table 1. Description of Variables Used in the Model [1/]

Name	Description
LNBALANCE	Natural logarithm of total plan balances in 2010. Includes balances of existing plan, plans from prior employment and any IRA or Keogh plans.
AGE	Age of survey respondent.
AGESQR	Age of survey respondent squared.
LNINCOME	Natural logarithm of total income.
CHRONIC	Takes a value of 1.0 if the respondent reports suffering from a chronic illness (e.g., cancer, diabetes) and zero otherwise.
TENURE	Takes a value of 1.0 if the respondent is a homeowner.
FRACTION_STOCKS	The fraction of current plan assets invested in stock.
LITERACY	Index of financial literacy equal to the number of correct responses to survey questions relating to numeracy, inflation and risk diversification.
PLANNER	Takes a value of 1.0 if the respondent indicates he/she has consulted with a financial planner or broken in planning for retirement.

[1/] Variables are calculated from survey questions contained in the American Life Panel, *Well Being Survey 189, DOL Pilot*.

We have no a priori expectation about how the fraction of stock in one's portfolio might affect plan balances. Because stocks generally have higher long-term growth than bonds, we would expect this variable to be positively related to plan balances. On the other hand, because the survey was conducted in mid-2011, those plans with a large stock component could have suffered from the recent financial crisis. We expect financial literacy to be positively correlated with plan balances to the extent enrollees make better financial decisions relating to their retirement savings. Finally, we expect that plan balances should be positively related to seeking planning advice from a professional advisor.

In order to control for the wide variation and degree of skew in plan balances, we use the natural logarithm of total plan balances as our dependent variable. We also use the natural logarithm of total income as a predictor variable. Appendix Table 1 describes the variables used in our analysis and Appendix Table 2 reports summary statistics for each.

Appendix A - Table 2. Mean and Standard Deviation of Variables Used in the Model [1/]

Variable	Mean (N=837)	St. Dev. (N=837)
LNBALANCE	9.9285	2.7615
AGE	47.0824	11.3594
AGESQR	2,345.6400	1,073.7000
LNINCOME	10.8762	1.8997
CHRONIC	0.3154	0.4650
TENURE	0.7790	0.4152
FRACTION_STOCKS	0.7384	0.4398
LITERACY	2.3214	0.9638
PLANNER	0.5317	0.4993

[1/] Variables are calculated from survey questions contained in the American Life Panel, *Well Being Survey 189, DOL Pilot*.

The statistics show that, of our sample of 837 enrolled workers, the average age is 47 years, approximately 32 percent have experienced some type of chronic health problem, 78 percent are homeowners, about 74 percent of current plan balances are in stocks, and slightly more than half consulted with a financial planner.

Results

Our results are shown in Appendix Table 3. The estimated coefficients conform to our expectations about how certain variables relate to plan balances. The positive coefficient on AGE shows that, at least for our sample, plan balances at first rise with age, as one would expect. In contrast, the negative coefficient on AGESQR indicates that balances begin to increase at a slower rate at some point in the life-cycle, perhaps due to withdrawals or a movement towards safer, fixed-income investments as one gets older.

Appendix A - Table 3. Estimation Results for Total Plan Balances in 2010 [1/]

(Standard Errors in Parentheses)

Variable	Dependent Variable LNBALANCE
AGE	0.18585**
	(0.0406)
AGESQR	-0.0014**
	(0.0004)
LNINCOME	0.36822**
	(0.0445)
CHRONIC	-0.1334
	(0.1857)
TENURE	0.78026**
	(0.2058)
FRACTION_STOCKS	1.10525**
	(0.1999)
LITERACY	0.31658**
	(0.0939)
PLANNER	0.33368**
	(0.1666)
Number of Observations	837
Adjusted R-Square	0.2793
F-Value	41.49**

[1/] Coefficient estimates from unweighted, ordinary least squares on employed respondents enrolled in a employer-provided defined contribution plan in 2010.

[*] Statistically significant at 90 percent confidence levels.

[**] Statistically significant at 95 percent confidence levels.

Plan balances correlate positively with income and homeownership as indicated by the positive coefficients on these two variables and correlate negatively with health status. Both these results are expected. The fraction of plan balances held in stocks (FRACTION_STOCKS) suggests a strong, positive effect on plan balances. As expected, larger plan balances are positively related to financial literacy and the use of a financial planner. Because of the log specification of our model for plan balances, we can interpret the coefficient on PLANNER as indicating that plan balances are about 33 percent higher if an individual consulted a financial planner or broker for financial advice.

All the coefficients in our model, except CHRONIC, are statistically significant at 95 percent confidence intervals. The adjusted R-square of 0.28 is reasonably high for cross section data.

Conclusions and Suggestions for Future Research

Our model of DC plan balances performs quite well. Our parameter estimates supports our theory of how certain variables might influence retirement savings. In particular, having access to a financial planner or broker appears to result in retirement savings in DC plans that are higher by about 33 percent. Our model suggests important life-cycle effects are present in retirement savings with plan balances increasing with age initially and then at decreasing rate as workers approach retirement age.