GAO Highlights

Highlights of GAO-18-19, a report to the Ranking Member, Committee on Finance, United States Senate.

January 2018

WORKPLACE RETIREMENT ACCOUNTS

Better Guidance and Information Could Help Plan Participants at Home and Abroad Manage Their Retirement Savings

Why GAO Did This Study

Saving for retirement can be difficult. However, when participants lose their workplace retirement accounts when they change employers or participate in a workplace retirement plan abroad they can encounter additional challenges in securing adequate retirement savings. GAO was asked to review steps federal agencies might take to assist participants with these challenges.

This report examines key challenges U.S. participants face with: (1) unclaimed retirement accounts in the United States, and (2) complying with U.S. tax reporting requirements on their foreign retirement savings. GAO reviewed relevant federal laws and regulations, and reviewed selected tax treaties. GAO interviewed stakeholders in the United States and in Australia, Canada, Hong Kong, Switzerland, and the United Kingdom—chosen because these locations host relatively large populations of U.S. individuals and have well-developed workplace retirement systems.

What GAO Recommends

GAO recommends Congress consider addressing taxation issues affecting the transfer of retirement assets between plans within the same foreign country. GAO is making seven recommendations, including that DOL issue guidance to help ongoing plan sponsors search for separated participants, and that IRS issue guidance to clarify how U.S. individuals should report foreign retirement savings to the IRS. The agencies generally agreed with GAO's recommendations. IRS disagreed with two of GAO's recommendations.

View GAO-18-19. For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

Plan participants in the United States face challenges after they change jobs, including not receiving communications from their plan sponsor and being vulnerable to unforeseen tax consequences that can result in a loss of retirement savings. GAO previously reported that when participants leave savings in a plan after separating from a job, the onus is on them to update former employers with their new address and to respond to their former employer's communications. GAO found that although an employer may incur costs searching for separated participants, there are no standard practices for the frequency or method of conducting searches. GAO reported that from 2004 through 2013, over 25 million participants in workplace plans separated from an employer and left at least one retirement account behind, despite efforts of sponsors and regulators to help participants manage their accounts. Department of Labor (DOL) officials told GAO that some sponsors do not search for participants when disclosures are returned as undeliverable. DOL has issued guidance on searching for missing participants for some plans that are terminating, but guidance does not exist on what actions DOL expects ongoing plan sponsors to take to keep track of separated participants. A key element of DOL's mission is to protect the benefits of workers and families. However, without guidance on how to search for separated participants who leave behind retirement accounts, sponsors may choose to do little more than remove unclaimed accounts from the plan when possible, and workers may never recover these savings.

Stakeholders told GAO that U.S. individuals who participate in foreign workplace retirement plans face challenges reporting their retirement savings for tax purposes because of complex federal requirements governing the taxation of foreign retirement accounts and a lack of clear guidance on how to report these savings. For example, stakeholders told GAO it is not always clear to U.S individuals or their tax preparers how foreign workplace retirement plans should be reported to the Internal Revenue Service (IRS) and the process for determining this can be complex, time-consuming, and costly. In the absence of clear guidance on how to correctly report these savings, U.S. individuals who participate in these plans may continue to run the risk of filing incorrect returns. Further, U.S. individuals in foreign retirement plans also face problems transferring retirement savings when they switch jobs. In the United States, transfers of retirement savings from one qualified plan to another are exempt from U.S. tax. However, foreign plans are generally not tax-qualified under the Internal Revenue Code, according to IRS officials, and such transfers could have tax consequences for U.S. individuals participating in foreign retirement plans. Officials from the Department of the Treasury (Treasury) told GAO that a change to the U.S. tax code could improve the tax treatment of transfers between foreign retirement plans that Treasury has already examined. Without action to address this issue, U.S. individuals may not consolidate their foreign retirement accounts or may have to pay higher U.S. taxes on transfers than taxpayers participating in qualified plans in the United States, threatening the ability of U.S. individuals to save for retirement abroad.