RETIREMENT SAVINGS

Additional Data and Analysis Could Provide Insight into Early Withdrawals

What GAO Found

In 2013 individuals in their prime working years (ages 25 to 55) removed at least $69 billion (+/- $3.5 billion) of their retirement savings early, according to GAO’s analysis of 2013 Internal Revenue Service (IRS) and Department of Labor (DOL) data. Withdrawals from individual retirement accounts (IRA)—$39.5 billion (+/- $2.1 billion)—accounted for much of the money removed early, were equivalent to 3 percent (+/- 0.15 percent) of the age group’s total IRA assets, and exceeded their IRA contributions in 2013. Participants in employer-sponsored plans, like 401(k) plans, withdrew at least $29.2 billion (+/- $2.8 billion) early as hardship withdrawals, lump sum payments made at job separation (known as cashouts), and loan balances that borrowers did not repay. Hardship withdrawals in 2013 were equivalent to about 0.5 percent (+/-0.06 percent) of the age group’s total plan assets and about 8 percent (+/- 0.9 percent) of their contributions. However, the incidence and amount of certain unrepaid plan loans cannot be determined because the Form 5500—the federal government’s primary source of information on employee benefit plans—does not capture these data.

Stakeholders GAO interviewed identified flexibilities in plan rules and individuals’ pressing financial needs, such as out-of-pocket medical costs, as factors affecting early withdrawals of retirement savings. Stakeholders said that certain plan rules, such as setting high minimum loan thresholds, may cause individuals to take out more of their savings than they need. Stakeholders also identified several elements of the job separation process affecting early withdrawals, such as difficulties transferring account balances to a new plan and plans requiring the immediate repayment of outstanding loans, as relevant factors.

Stakeholders GAO interviewed suggested strategies they believed could balance early access to accounts with the need to build long-term retirement savings. For example, plan sponsors said allowing individuals to continue to repay plan loans after job separation, restricting participant access to plan sponsor contributions, allowing partial distributions at job separation, and building emergency savings features into plan designs, could help preserve retirement savings (see figure). However, they noted, each strategy involves tradeoffs, and the strategies’ broader implications require further study.

Example of an Emergency Savings Option within a 401(k) Plan That Could Better Preserve Retirement Savings, According to Stakeholders

A portion of participant’s contributions to a 401(k) plan is directed to an emergency savings account. When emergency savings threshold is met, subsequent contributions are directed to a 401(k) plan. When faced with an economic shock, participant may withdraw emergency savings. Afterwards, a portion of contributions is again directed to replenish emergency savings.

Source: GAO analysis of stakeholder responses. | GAO-19-179

Note: GAO is not endorsing or recommending any strategy, and has not evaluated these strategies for their behavioral or other effects on retirement savings or on tax revenues.