

GAO Highlights

Highlights of [GAO-19-88](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Over the course of individuals' careers, their retirement savings can be spread across multiple retirement accounts and they can change jobs, both of which can cause their savings to become unclaimed and even lost. Prior GAO work has found that unclaimed retirement savings are sometimes transferred to the states. GAO was asked to review such transfers.

This report examines (1) how much in retirement savings is transferred to states as unclaimed property and what happens to those savings once transferred and (2) the steps IRS and DOL have taken to oversee these transfers and what improvements are needed. GAO interviewed federal and state officials, industry representatives, and other stakeholders, and surveyed all 50 states and the District of Columbia (and received 22 responses). GAO also surveyed 401(k) plan service providers and IRA trustees regarding the volume of retirement savings transferred to states and their federal tax reporting and withholding practices for those transfers.

What GAO Recommends

GAO is making three recommendations, including that IRS should consider clarifying whether transfers from employer-based plans (such as 401(k) plans) to states constitute reportable and taxable distributions and consider modifying its list of permitted reasons for rolling over savings after the 60-day rollover deadline. IRS agreed with our recommendations and noted that it will work with the Department of the Treasury to address them.

View [GAO-19-88](#). View a GAO video regarding transfers of retirement savings at <https://www.gao.gov/products/GAO-19-88>. For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeck@gao.gov.

January 2019

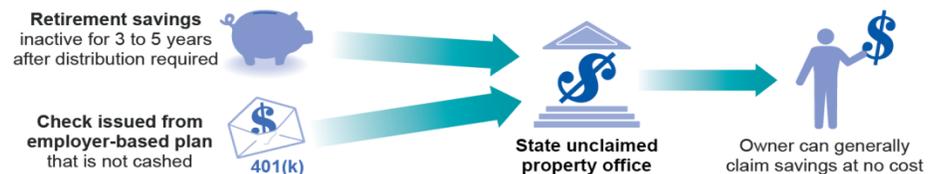
RETIREMENT ACCOUNTS

Federal Action Needed to Clarify Tax Treatment of Unclaimed 401(k) Plan Savings Transferred to States

What GAO Found

Millions of dollars in retirement savings are transferred to states as unclaimed property, only some of which is later claimed by owners. Of the 22 states responding to GAO's survey, 17 states provided data indicating that \$35 million in unclaimed retirement savings was transferred to them from employer plans and individual retirement accounts (IRAs) in 2016. When account owners do not claim money from retirement savings accounts or cash checks from their plans, the funds may be transferred to state unclaimed property offices (see fig.). Assets and uncashed checks from employer plans (such as 401(k) plans), were the most common form of retirement savings transferred to states. After funds are transferred, owners can claim their savings from the state. According to the 15 states providing data on this, owners claimed about \$25 million in retirement savings in 2016: \$601, on average, from 401(k) plan checks, and \$5,817, on average, from traditional IRAs. States reported using a range of strategies to maintain the value of retirement savings while holding these funds, such as applying interest. States also reported various efforts to locate owners. However, not all savings will be claimed because, among other reasons, owner information is not always associated with transferred savings when the amount is small, which complicates state efforts to locate some owners.

Stakeholders Described How Retirement Savings Are Transferred to and Claimed from States



Source: GAO analysis of survey data and interviews with unclaimed property experts. | GAO-19-88

The Internal Revenue Service (IRS) and the Department of Labor (DOL) have issued guidance on transferring retirement savings to states; however, IRS has not clarified certain responsibilities or ensured that the retirement savings that owners claim from states can be rolled over into other tax-deferred retirement accounts. IRS is responsible for communicating and enforcing tax responsibilities, but has not specified whether 401(k) plan providers should report state transfers to IRS as distributions and withhold federal income taxes. IRS officials said the agency has not issued guidance to clarify this issue because of competing priorities. As a result, 401(k) plan provider practices vary—some providers withhold taxes when transferring savings to states while others do not. This makes the IRS less likely to collect federal income taxes that may be due if transfers are taxable events. IRS also has not taken action to ensure that individuals who claim 401(k) savings from a state can roll over these savings to other tax-deferred retirement accounts after IRS's 60-day deadline. IRS allows individuals to roll over savings after 60 days for several reasons, none of which include claiming 401(k) savings from a state. Federal law seeks to protect the interests of participants in retirement plans. Account owners who are unable to roll over their reclaimed savings forgo the opportunity to continue investing the funds on a tax-deferred basis.