STRONGER TOGETHER

Consolidating retirement plan assets benefits plan sponsors and participants

Defined contribution retirement plans — 401(k), 403(b), and similar plans — are the primary force behind retirement preparation for American workers. Using sound investment strategy, tax deferral, and the power of compounding, these plans may allow people to save and invest for their future more easily and confidently.

But what happens when retirement accounts are left behind as a participant changes jobs? The ability to move one's retirement account from employer to employer — known as portability — enables participants to manage their assets in one place. But it only works when participants take advantage of it.

Determining the best way to handle a legacy retirement plan balance is a complex decision involving several factors. That may be the reason some avoid making the decision. But doing nothing can lead to potential tax implications or, worse, losing track of the account entirely.

ASSETS LEFT BEHIND

When a participant changes jobs, they may leave their retirement account behind because it's the easy thing to do. It also maintains the participant's access to familiar investment options, plan features, tax deferral, and potentially lower costs.

However, retirement assets are sometimes left behind unintentionally due to:

- **Job changes.** Americans change jobs, on average, about every four years.[1] This means people could enroll in a new retirement plan 10 or more times throughout their career, leading to:
  - Misplaced paperwork and information related to their prior accounts
  - Forgetting to leave a forwarding address with former employers
  - Not realizing they are "lost" and no longer receiving plan updates
  - Missed notifications about changes in previous plans, like investment options, recordkeepers, plan termination, and other important developments
  - Difficulty tracking old retirement accounts due to changes in physical address
- **Lack of engagement.** Even with the increase of digital tools, educational opportunities, and online plan management, participants are not always engaged with their retirement plan.
  - They may be intimidated, thinking it's too complicated or they're too young to worry about retirement.
  - They may be participants as a result of auto-enrollment rather than by their own decision.
- **Recordkeeper changing.** Rollovers can be especially challenging in some 403(b) plans, such as those funded by individual contracts.

How does automatic enrollment contribute to a lack of engagement? Nearly 60% of 401(k) plans use auto-enrollment[2] and, while it has successfully increased the number of people participating in employer retirement plans, employees who were automatically enrolled may not even realize they are participants with balances that need attention.

Because automatic enrollment typically starts at a low deferral rate, savings accumulate slowly. The participant may not realize they have a retirement balance or consider the balance too small to worry about. When they change jobs, the account may not be top-of-mind, which can easily lead to it being left behind. The result is many plans with numerous small-balance accounts.

Nearly

60%

of 401(k) plans use auto-enrollment[2]

SMALL-BALANCE CASH-OUTS

Plans can get small balances off their books by automatically cashing them out when a participant moves on. How the account balance is treated depends on its amount:

- If the account has less than $1,000, the balance can be automatically distributed, which can mean it unexpectedly ends up in the participant's pocket and counted as income on the following year's taxes.
- The Internal Revenue Service (IRS) permits plans that allow for it to automatically distribute amounts under $7,000, as long as proper notices are provided explaining how to transfer the balance to a new employer's plan or IRA. The participant must carefully follow the rules and procedures to maintain the money's tax-qualified status.

When plans don't automatically distribute small balances or transfer them into an IRA or new employer's plan, the risk of losing track of an old retirement plan account is high. But even if a participant intentionally keeps their old retirement plan account in a former employer's plan, the old and new retirement accounts are still separate. The result can be lack of oversight and disruption of the participant's retirement strategy. Most workers don't use a professional financial advisor[3] and find it difficult to manage a single retirement account, to say nothing of multiple accounts with multiple providers.

> **Conclusion: Leaving the retirement account in a former employer's plan may be the easiest choice in the short term, but it makes maintaining a cohesive retirement strategy more difficult and can blur the participant's understanding of progress toward their retirement goals.**

CONSIDERATIONS FOR PLAN SPONSORS

Automatic rollovers to an IRA for terminated participants with a low balance saves time and money for plan sponsors by relieving them of the burden of administering those accounts. For plans that don't allow automatic small-balance rollovers, accounts that stay in the plan must be tracked and certain notices must still be provided.

Tracking accounts and providing notices are fiduciary responsibilities that become difficult if former employees can't be located. Failure to meet those fiduciary responsibilities may lead to plan audits, penalties, and legal action.

Employers may also face expenses associated with missing participant searches, uncashed checks, and extra mailing costs.

WHAT'S THE BETTER OPTION FOR EMPLOYEES?

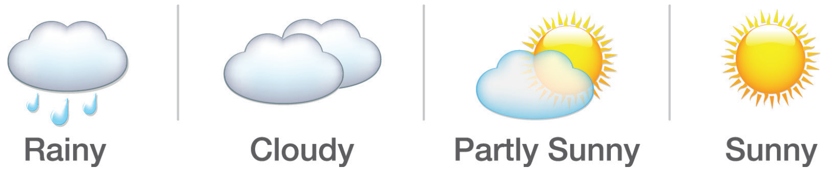
Besides leaving the retirement plan account with a past employer, employees who change jobs have three choices — withdraw the money, roll the balance into an individual retirement account, or roll it into a new employer's plan (where permitted). Cashing out qualified retirement funds should, in most cases, be a last resort in order to avoid unnecessary taxes and penalties and to maintain the benefits of long-term, tax-deferred growth.

Rolling a retirement balance into an IRA keeps the money tax-qualified and allows the participant to access a wide array of investment options. Some investors choose this option because it can allow them to work with a financial advisor to select an investment strategy, obtain retirement planning support, and cut ties with their former employer.

Investors who want to simplify their retirement strategy may decide to roll their balances into the new employer's plan. By doing so, there is no danger of leaving old balances behind, plus participants can take advantage of:

- A consistent investment strategy
- Simpler management of their total retirement assets
- Retirement planning tools offered by their new employer

For example, Transamerica's *Your Retirement Outlook®* is a retirement readiness tool that uses easy-to-understand weather icons to show how likely the participant is to have enough money in retirement. If the forecast is less than sunny, the tool provides tips and guidance to help it improve.



Your Retirement Outlook allows participants to incorporate in their projection any non-plan assets they wish to include by adding those assets manually. By including all assets in the projections, the tool can more accurately guide the participant toward a better retirement outcome.

> **Conclusion: Rolling over prior plan balances to the current employer's plan allows participants to easily manage all their retirement assets and stay on course to reach their goals.**

EVERYBODY BENEFITS

With only 20% of workers feeling very confident in their ability to fully retire with a comfortable lifestyle,[3] we believe society benefits when employees keep a tight rein on their retirement assets. When more people are financially prepared to retire, the system works as it should:

- People retire with enough money
- Senior-level jobs open for subsequent generations
- Potentially less demand on social services to provide for people who aren't adequately prepared

Employers also benefit by avoiding unnecessary fiduciary risks associated with tracking terminated participants.

Besides attracting and retaining talented employees, the primary reason to offer a 401(k) or 403(b) plan is to help employees reach a secure retirement. It's in everyone's best interest for employers to support participants as they make the important decision about an old plan account.

66%

Two in three workers (66%) want more information and advice from their employers about how to reach their retirement goals.[3]

ASSISTANCE FROM TRANSAMERICA

As a long-time advocate for expanding workplace retirement coverage to all Americans, Transamerica supports participants weighing decisions about their retirement accounts. We can help them understand the options and make the right choice for them. We offer:

- A team of unbiased, highly trained financial professionals who can explain available options, including IRAs, and help participants evaluate pros and cons. The team reviews and advises based on the participant's situation, goals, and preferences. These advisors uphold a strict legal standard of care, requiring them to act in the participant's best interests.
- Small balance cash-out service. Through Inspira, plans can automatically cash out all small balances from $1 - $7,000 (as set in their plan document). The potential that participants may incur unexpected income taxes is reduced, as are the plan sponsor's fiduciary concerns in connection with "lost" participants. Inspira assumes the fiduciary responsibility, removing it from the plan sponsor.
- Easy access via phone, chat, or email to these financial professionals, at no cost to the participant.
- *Your Retirement Outlook*, the retirement readiness tool that allows participants to consider all sources of retirement funding, whether inside or outside the plan.
- Transamerica's *OnTrack*® communications program helps engage participants through targeted emails and texts suggesting ways to improve their retirement readiness. Communications are plan-specific, personalized, and results-driven.

Working together with plan sponsors to deliver better retirement outcomes is where Transamerica shines. By ensuring participants have the information they need and making it simple for them to act, we can provide a simpler path to a brighter retirement outcome.

ABOUT TRANSAMERICA

Transamerica is one of the largest and most trusted retirement plan providers in the industry with more than 85 years helping employees live their best lives. Our integrated approach provides employers and their advisors a variety of programs to enhance the financial and personal well-being of employees.

Contact your Transamerica representative for more information.

CALL
800-755-5801

VISIT
Transamerica.com

[1]"Employee Tenure in 2022," Bureau of Labor Statistics, News Release, September 22, 2022

[2] "65th Annual Survey of Profit Sharing and 401(k) Plans," Plan Sponsor Council of America, January 2023

[3] "The Multigenerational Workforce: Life, Work, & Retirement," nonprofit Transamerica Center for Retirement Studies, June 2024

Securities offered through Transamerica Investors Securities Corporation (TISC), member FINRA, 440 Mamaroneck Avenue, Harrison, NY 10528.

Investment advisory services are offered through Transamerica Retirement Advisors, LLC (TRA), registered investment advisor. All Transamerica companies identified are affiliated.

Important: The projections or other information generated by the engine (which produces *Your Retirement Outlook*®) regarding the likelihood of various investment outcomes are hypothetical, do not reflect actual investment results, and are not guarantees of future results. Results derived from the tool may vary with each use and over time. Please visit your plan website for more information regarding the criteria and methodology used, the engine's limitations and key assumptions, and other important information. When rolling over or transferring from an employer plan, be sure to consider whether the asset transfer changes any of the features and benefits that may be important to you, including the range of investment options available; investment-related fees or plan expenses that may be incurred; service levels available; availability and circumstances of penalty-free withdrawals; timing of required minimum distributions; federal protection of assets from creditors and judgments; and tax consequences of rolling employer stock into a new plan.

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