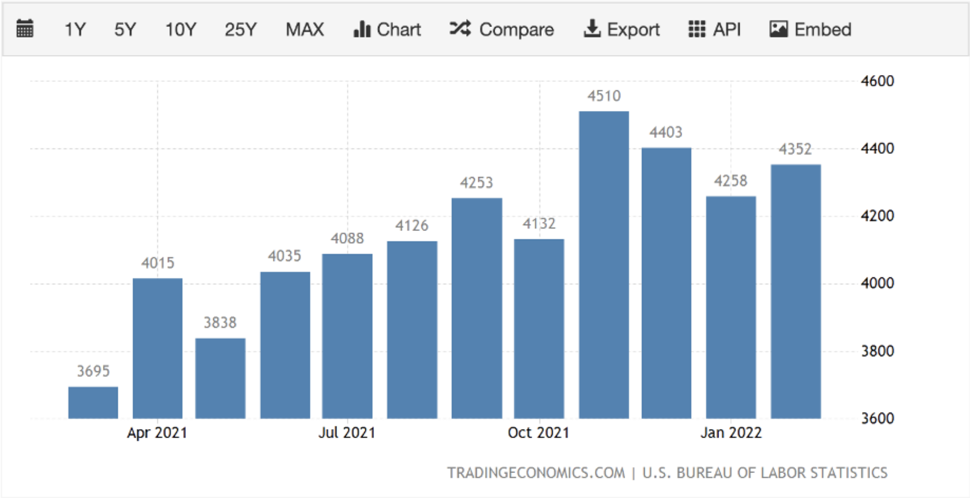
THE INS AND OUTS OF ABANDONED 401(k)S

Although the U.S. labor market continues to march toward a robust post-pandemic recovery, “The Great Resignation” phenomenon continues to create an environment with a massive supply/demand imbalance.

On the one hand, in the United States, there are currently a record 5 million more job openings than there are unemployed people. On the other hand, a near-record 4.35 million workers resigned from their jobs in February. This figure represents an increase of 94,000 over the previous month and represents roughly 2.9% of the total workforce.

The number of job quits in the United States rose to 4.352 million in February of 2022 from 4.258 million in January. Quits increased in retail trade (+74,000); durable goods manufacturing (+22,000); and state and local government education (+14,000). Quits decreased in finance and insurance (-30,000). The number of quits was little changed in all four regions. The so-called quits rate, which measures voluntary job leavers as a share of total employment, rose to 2.9%. source: U.S. Bureau of Labor Statistics



Source: TradingEconomics

To put in perspective what a massive number this is, the pre-pandemic monthly resignation averaged 3.5 million.

In response, 35% of Fortune 1000 companies have expanded their benefit plans to increase worker retention. Yet, workers are leaving their current jobs at such an astronomical rate that it might not even matter. Outside of becoming challenging for employers to build and manage effective workforces, there's a growing concern about abandoned 401(k) accounts because of massive employee turnover.

WHAT IS AN ABANDONED 401(k)?

A 401(k) plan is a company-sponsored retirement account. Employees contribute income, some employers match contributions, and depending on if it's traditional or Roth, it may have different types of tax incentives.

Simple enough, right?

It is. Yet, with employees quitting in droves and switching jobs at the rate we're seeing, 401(k)s can become complicated and often forgotten or "abandoned." These abandoned 401(k)s are not monitored, employees do not update their contact information, and so on.

Approximately 2.8 million 401(k) accounts are abandoned annually, with an average account size of $55,400, according to FinTech firm Capitalize, a firm that specializes in consolidating 401(k) plans. We will discuss what consolidating means and why it can be so important.

These abandoned 401(k)s could amount to nearly $1.35 trillion of assets or 20% of the $6.7 trillion total assets in 401(k) plans today. Additionally, according to the Capitalize study, an individual with an abandoned 401(k) account has the potential to lose track of almost $700,000 in retirement savings over their lifetime.

Remember that this is data as of last year. This number has likely increased due to "The Great Resignation."

NOT ONLY EMPLOYEES CONTEND WITH ABANDONED 401(k)S

When departing workers forget about their 401(k) balances with previous employers, it causes issues beyond the employees. It also makes it harder for employers and plan providers.

As employers face the difficulties of building and managing an effective workforce in a challenging environment, abandoned 401(k)s can lead to further hassles, including penalties and administrative complexity. Additionally, failing to follow the guidance of MIA participants and forfeiture rules may lead to additional challenges and penalties for plan sponsors.

There are certainly ways for employers and plan sponsors to limit the potential burden of abandoned 401(k) accounts, including ensuring that they have up-to-date contact information before an employee's final day and adopting auto-portability benefits. But, from an employee's perspective, it's important to understand all the options.

THE KEY TAKEAWAY:
ACTIVELY MAKE A DECISION ABOUT THE FATE OF YOUR ACCOUNTS

According to a Bureau of Labor Statistics study, an average person will have nearly 12 jobs throughout their career. This same study showed the median tenure for employees is just short of four and a half years for men and four years for women. Keep in mind that this data was released before "The Great Resignation" even peaked.

Not all is lost if you have hopped jobs over the years and lost track of all your 401(k) plans. It's never too late to do something about these abandoned accounts. Consolidating your 401(k)s may put more of your hard-earned money on the table and help to simplify your overall financial situation.

Consolidating 401(k) retirement accounts depends on a variety of factors. There's no one solution for everyone, and it largely depends on the financial situation, investment style, and retirement goals of the individual. But, doing so can give you broader investment options and may help organize an otherwise cluttered financial situation.

Moreover, according to Charles Schwab, consolidating 401(k)s can help you:

- Minimize administrative fees
- Holistically view your portfolio
- Monitor investments in one place
- Efficiently and quickly prepare your taxes
- Simplify your future finances

There are four ways you can consolidate your 401(k)s.

1. Roll the 401(k) account(s) into your active 401(k).
2. Roll the 401(k) account(s) into a Traditional IRA at an institution of your choosing.
3. Do nothing and leave the account(s) as-is.

4. Cash out your account (and beware of taxes and fees).

Not every option is fit for everyone, but each has its potential benefits. Consider your situation and why each option may be best for you.

Option 1: Rolling Over into Your Active 401(k)

This may be a top option if you want all your tax-deferred dollars under one roof and your investment strategy consolidated.

Option 2: Rolling into an IRA

This may be your top choice if you want maximum autonomy over your account, financial institution, and investment options.

Option 3: Doing Nothing

If you're happy with the financial institution, your investments, and your situation, you may choose to continue with the status quo.

Option 4: Cashing Out (less fees and taxes)

This final and last-resort option allows you to cash out your 401(k) in full. However, there are costs for doing so, such as a 10% penalty for cashing out early in addition to the income tax on any dollar of withdrawal. Because these are pre-tax contributions, every dollar withdrawn is taxable.

Again, the key takeaway is that when addressing your abandoned 401(k) situation, there is not a one-size-fits-all solution. We believe the benefits of consolidating your 401(k)s, or at least accounting for them so that you can manage them, far outweigh doing nothing and can dramatically simplify your financial life.

Consolidating your 401(k)s can put more of your hard-earned money on the table and simplify your overall financial situation.