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Pew Survey Explores Consumer Trend to Roll Over Workplace Savings Into IRA Plans

Low fees not a factor in most decisions about where to keep or move retirement savings

Overview

Most retirement savings are accumulated through workplace plans. Of those savings, more are held in individual retirement accounts (IRAs) than in 401(k)s and other defined contribution accounts, primarily because workers tend to "roll over" their workplace savings into an IRA when they retire or change jobs.[1]

To help identify how fees factor into the decision to roll over savings into an IRA versus other plan options, The Pew Charitable Trusts surveyed older workers (also called near retirees) and recent retirees, asking to what extent fees would be or were a motivating factor in their decision and how they would react if they learned that fees in the IRA were higher than their current plan. Lower fees do not appear to motivate savers to either keep their savings in a current retirement plan or to roll their savings into an IRA when they retire. Previous research from Pew has shown that investment fees can be unclear and difficult to understand, which might explain why some near and recent retirees don't give a lot of weight to fees in their decisions. As a result, some might roll their savings into higher-cost IRAs without fully realizing the impact this will have on their savings over the course of their retirement. Many people roll over their savings throughout their careers and not just at retirement, so the analysis in this brief does not represent a full accounting of the choices or behavior of all IRA rollovers.

More broadly, the survey examined how retirees and older workers consider what to do with their savings when they retire. Previous research has found that IRA owners were motivated to roll over savings in order to preserve tax advantages, to consolidate their savings, and to not leave their assets with their former employer—findings that generally align with Pew's survey. Further insight as to why retiring workers make the choices they do could better prepare employees for retirement and inform employers and policymakers as they seek to provide greater support for retirees.[2] This assistance could range from improved education opportunities to shifting default options that better preserve savings in low-cost plans while still giving workers and retirees access to financial advice and options that provide sufficient control over their investments.

Among the survey's key findings:

- For both retirees and near retirees, low fees were not a significant factor in their decisions to leave their savings in their plan or roll them over to an IRA.
- Some recent retirees transferred their savings to IRAs (46%), while others reported leaving their savings in their most recent employer plan (54%).
    - In contrast, near retirees were less likely to plan on leaving their savings with their employer plan at retirement.
- A quarter of near retirees said they were unsure about what they planned to do with their retirement savings, and only 16% said they would roll over their savings into an IRA.
- Half of near retirees and 55% of retirees cited their preference for their employer-sponsored plan's investment options as the most important reason for not moving their retirement savings from their current plan.
- Near retirees who planned to roll over their savings into an IRA were motivated by a desire to have greater control over their investments. Although greater control was also a factor for retirees, they were more likely to say that they rolled over their savings in order to gain access to professional advice.

Demographics of near and recent retirees

Pew surveyed 1,125 older workers and recent retirees ages 55 to 75 between May 12 and June 5, 2020. Of these, 536 were currently retired and 589 were working full time. All had at least $30,000 in retirement savings investment accounts including 401(k)s, IRAs, or other defined contribution retirement accounts.

The survey asked participants a series of questions about whom they had consulted in deciding what to do with their retirement savings and how they planned to handle their savings (in the case of those still working), or what they had done with their savings (in the case of retirees).

Because the survey aimed to paint a picture of how people were handling their savings at retirement, the sample was limited to those who had at least $30,000 saved for retirement—so the sample is not representative of the overall population of near and recent retirees ages 55 to 75 in the United States and is generally wealthier and more highly educated than that overall population. And although comparisons can be drawn between what near retirees say they plan to do and what retirees report having done, retirees' actions don't necessarily predict the actions of those who haven't yet retired. However, comparing near retirees and recent retirees may help lead to an understanding of why workers plan certain actions before retirement and yet end up making different choices at retirement.

Figure 1

Demographics of Survey Sample

Near and recent retirees differed across age and gender, while both groups had similar rates of education

		Retired	Working	Respondents Overall
Gender	Men	53%	61%	56%
	Women	47%	39%	44%
	Total	100%	100%	100%
Age	55-58	4%	36%	19%
	59-62	12%	36%	23%
	63-67	28%	21%	25%
	68-70	25%	4%	15%
	71-75	30%	4%	18%
	Total	100%	100%	100%
Education	No HS diploma	2%	0%	1%
	HS	20%	22%	21%
	Some college	28%	26%	27%
	BA or above	50%	52%	51%
	Total	100%	100%	100%
Household income	Less than $25,000	6%	3%	4%
	$25,000-49,999	21%	13%	17%
	$50,000-74,999	27%	18%	23%
	$75,000-99,999	19%	19%	19%
	$100,000-149,999	18%	25%	21%
	$150,000-199,999	5%	12%	8%
	$200,000 or more	5%	9%	7%
	Total	100%	100%	100%

Note: Because of rounding not all columns sum to 100%.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees.

The vast majority of those still working are 62 or younger, and just 8% are 68 or older. Among those still working, men made up more than 3 in 5 survey respondents; among retirees, men and women were nearly evenly split. Surveyed retirees and workers were similar in several ways, namely their level of educational attainment and money set aside for retirement.

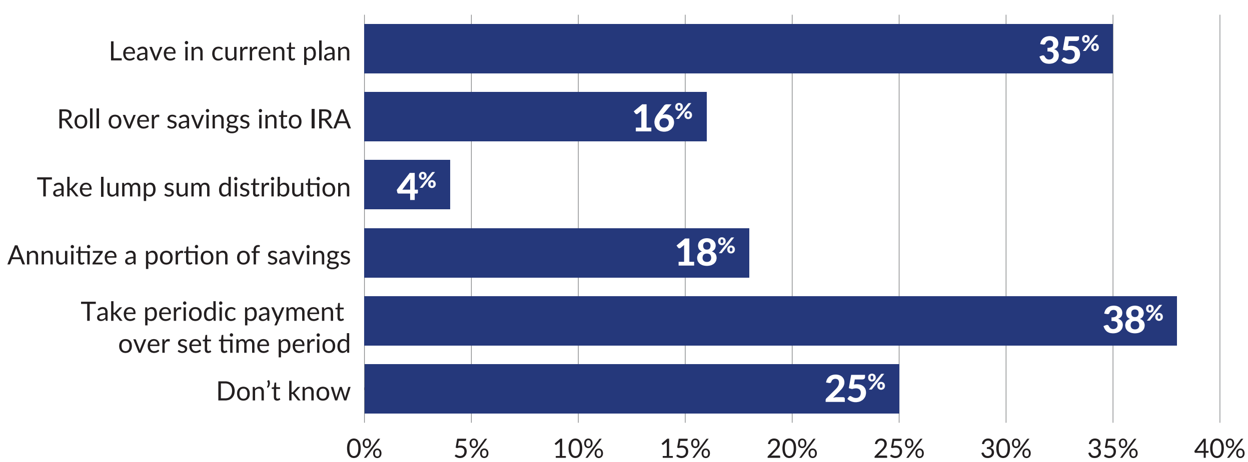
Workers' plans for their savings when they retire

The survey asked older workers what they would do with their savings at retirement, providing a range of options that are usually available to retirement plan participants. A quarter of near retirees said they didn't know what they planned to do with their savings. More than a third said they planned to leave their savings in their current plan, while 16% thought they would roll over at least some of their savings into an IRA. The most common answer given by workers for what they planned to do with their savings was to take a periodic withdrawal on a regular basis, such as monthly, with nearly 2 in 5 (38%) selecting this option.

Figure 2

Workers' Strategies for Their Savings at Retirement

Many near retirees were still unsure of what they planned to do; few thought they would roll over savings into an IRA



Notes: Respondents could select multiple answers, therefore total values exceed 100%. Analysis based on a sample of 589 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

With many near retirees unsure of what they'll do with their savings when they retire—and some of them several years from their planned retirement—it's tempting to think that they have time to think through their options prior to retirement. But a cautionary note for those who have not yet retired arises from the fact that many retirees who responded to the survey reported having retired earlier than they had planned (a finding consistent with prior research).

Motivations for leaving balances in current plan

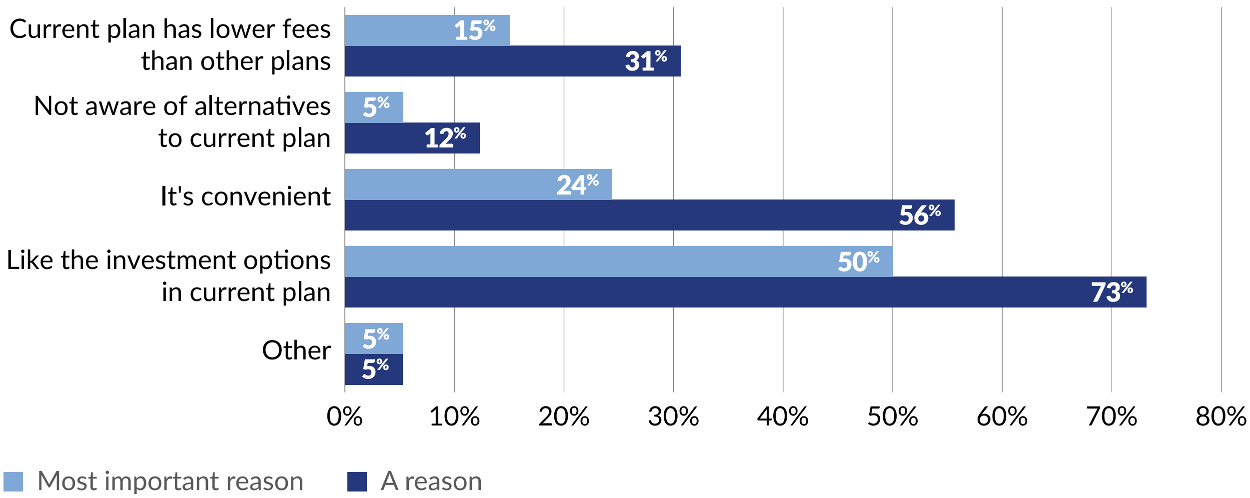
The survey asked respondents to identify the reason behind their choices, with a focus on how fees might affect those decisions. Because there are many considerations when rolling over or leaving savings in a current plan—

including fees, convenience, and investment options—the survey allowed respondents to rank multiple reasons for leaving their savings in a workplace plan. Workers were most motivated to stay in their current plan because they preferred the investment options—a reason cited by 50% of respondents as the most important reason, and mentioned by nearly three-quarters (73%) as at least one reason why they intend to leave their savings in their current plan when they retire. More than half felt that staying in their current plan would be convenient.

Figure 3

Motives Workers Cited for Leaving Savings in Current Plan

Preference for existing investment options, convenience are top reasons



Notes: Because of rounding, "Most important reason" may not sum to 100%. Respondents could select multiple reasons, therefore "A reason" exceeds 100%. Analysis based on a sample of 191 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

In contrast, near retirees did not identify fees as a strong factor in their considerations of whether to keep their savings in their current plan when they retire. Although more than 3 in 10 were motivated to plan on keeping their savings in their current plan because they thought it would have lower fees than other options, just 15% said lower fees in their current plan was the most important reason for planning to leave their savings where they are. Workers also felt they were sufficiently aware of options other than their current plan.

Although older workers who were planning to keep their savings in their current plan at retirement were motivated more by convenience and investment options than by fees, employers were at the same time making it easier for some workers to stay in their current plans once they retire. Employers have increasingly shown a willingness to allow their workers to leave their savings in their plan once they retire, which could also encourage more near retirees to choose this option.[3] This has the potential to benefit retirees as those leaving their savings in their current plan will continue to benefit from fiduciary oversight and likely lower management fees, especially within larger plans.

Motivations for IRA rollover

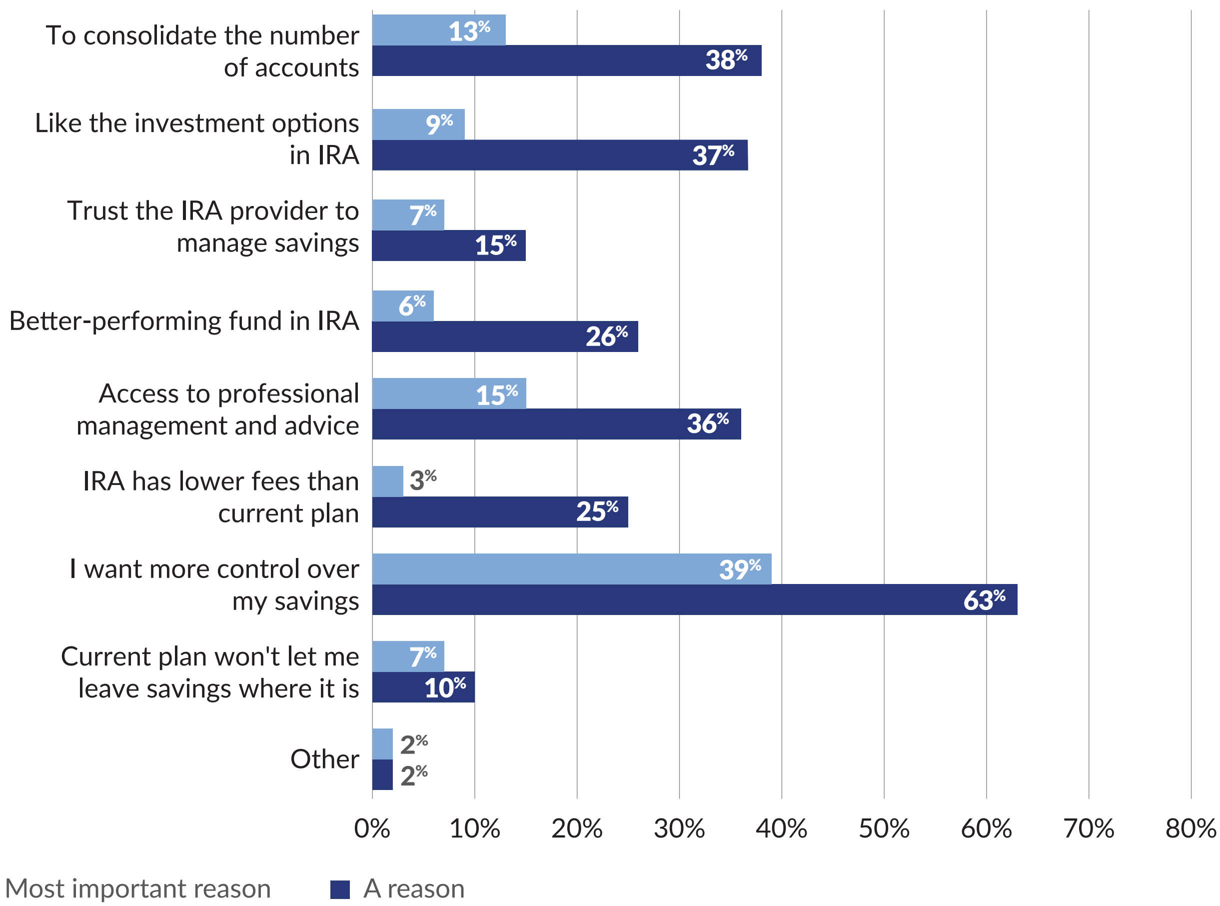
Near retirees planning to roll their savings into an IRA at retirement were similarly motivated by convenience and investment options. However, the strongest motivating factor for these respondents is the ability to have greater control over their investments, with more than 6 in 10 (63%) saying that was one reason that they planned to roll their workplace savings into an IRA. In addition, more than a third of workers mentioned their desire to consolidate accounts (38%), preferring the IRA investment options (37%), and gaining access to professional management and advice (36%) as reasons to roll savings into an IRA.

Investment performance and fees, though still substantial motivations for workers to roll their savings into IRAs, were less important to respondents than the ability to control their investments. Roughly a quarter said that investment performance was behind their plan to move their savings into an IRA when they retired; roughly the same percentage said the same thing about fees. Notably, for both those who intend to leave their savings in their current plan and those who plan to roll their savings into an IRA, having lower fees was cited less often as a reason than considerations of investment options, convenience, and managing investments.

Figure 4

Reasons Workers Planned to Roll Over Savings Into IRA

Ability to manage savings, convenience, and access to advice are main motivations for rollover



Notes: Because of rounding, “Most important reason” may not sum to 100%. Respondents could select multiple reasons, therefore “A reason” exceeds 100%. Analysis based on a sample of 191 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

When asked what their primary reason was for a rollover, 39% said they wanted more control over their investments, more than double the response for the next highest-rated main reasons, account consolidation (13%) and access to professional advice (15%). Only 3% said that lower fees were the main reason for a rollover.

Although near retirees appear to place little emphasis on or don't consider fees in their intention to roll their savings into an IRA, even small differences in fees can have large impacts over the course of one's career or retirement.[4] The extent to which near retirees roll savings into an IRA with higher fees could have lasting consequences throughout their retirement.

It's unclear from the results of this study why few of those who plan to roll over their savings are concerned about fees; one possible explanation could be that near retirees are simply motivated by having greater control and access to advice—and see any potentially higher fees as worth the cost. Still, as noted above, many workers are still unsure of what they plan to do and may view fees differently when they actually have the opportunity to roll their savings into an IRA.

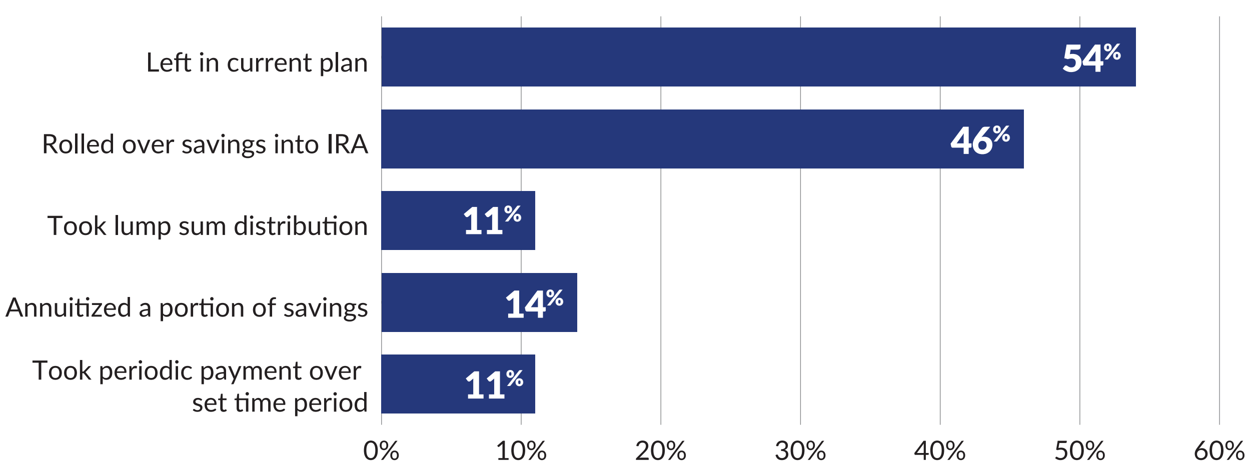
How retirees handled their savings

Although some workers in the survey were unsure of what they planned to do with their savings when they retired, they were most likely to say that they intended to take a periodic payment. Despite this intention of older workers, greater proportions of retirees reported that they actually left their savings in their current plan or rolled over their savings into an IRA when they retired. Roughly half of retirees said that they had left at least some of their savings in their workplace plan when they retired (54%), while nearly half (46%) rolled at least some of their savings into an IRA. Only about 1 in 10 chose to neither roll over their money nor leave it where it was when they retired.

Figure 5

What Retirees Reported Doing With Their Retirement Savings

Roughly half reported leaving money in their workplace plan and half rolled it over into an IRA



Notes: Respondents could select multiple answers, therefore total values exceed 100%. Analysis based on a sample of 536 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

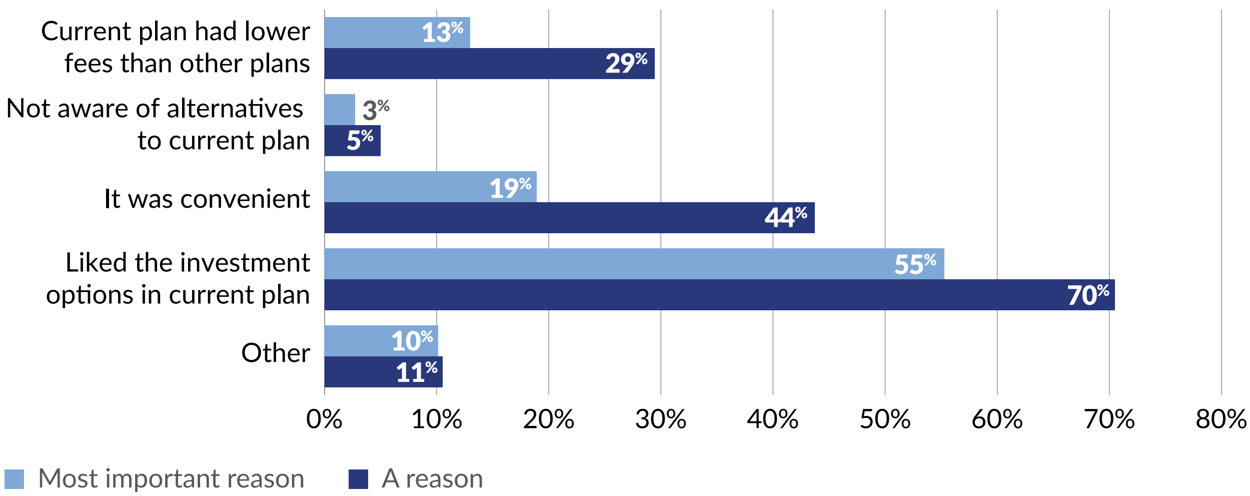
Motivations for leaving balances in a current plan

When asked why they left their savings in their workplace plan, large proportions of retirees said that they liked the investment options (70%) and it was convenient (44%). More than half of retirees cited the investment options in their workplace plan as the most important reason they left their savings there.

Figure 6

Reasons Retirees Left Their Savings in Their Workplace Plan

Convenience and liking their investment options cited as primary motivations



Notes: Because of rounding, "Most important reason" may not sum to 100%. Respondents could select multiple reasons, therefore "A reason" exceeds 100%. Analysis based on a sample of 290 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

Retirees were less likely than near retirees to say convenience and lack of knowledge about alternatives were reasons they wanted to keep their savings in their workplace plan. And, similarly to near retirees, retirees were less motivated by the prospect of lower fees than by reasons such as convenience and liking investment options. Less than a third of retirees cited fees as a reason behind their decision to leave savings in their workplace plan, and only 13% said lower fees were the most important reason behind their decision.

Motivations for IRA rollover

Similar to the intentions of near retirees, retirees emphasized professional advice and control as critical reasons behind their desire or decision to roll their savings into an IRA. Just over half of retirees said that having access to professional advice was a motivating factor behind their decision to roll over their savings, and 25% said it was the most important reason. Nearly half of retirees said that having control over their investments was a reason they rolled their savings into an IRA, with 20% citing it as the main reason.

Lower fees appeared to be slightly less of a motivating factor among retirees than among near retirees who chose to roll over their savings. About 18% of retirees cited lower fees as a reason for rolling over their savings, slightly less than the 25% of near retirees who cited fees as a reason. Only 4% of retirees said it was the most important reason, nearly identical to the 3% of near retirees who said the same.

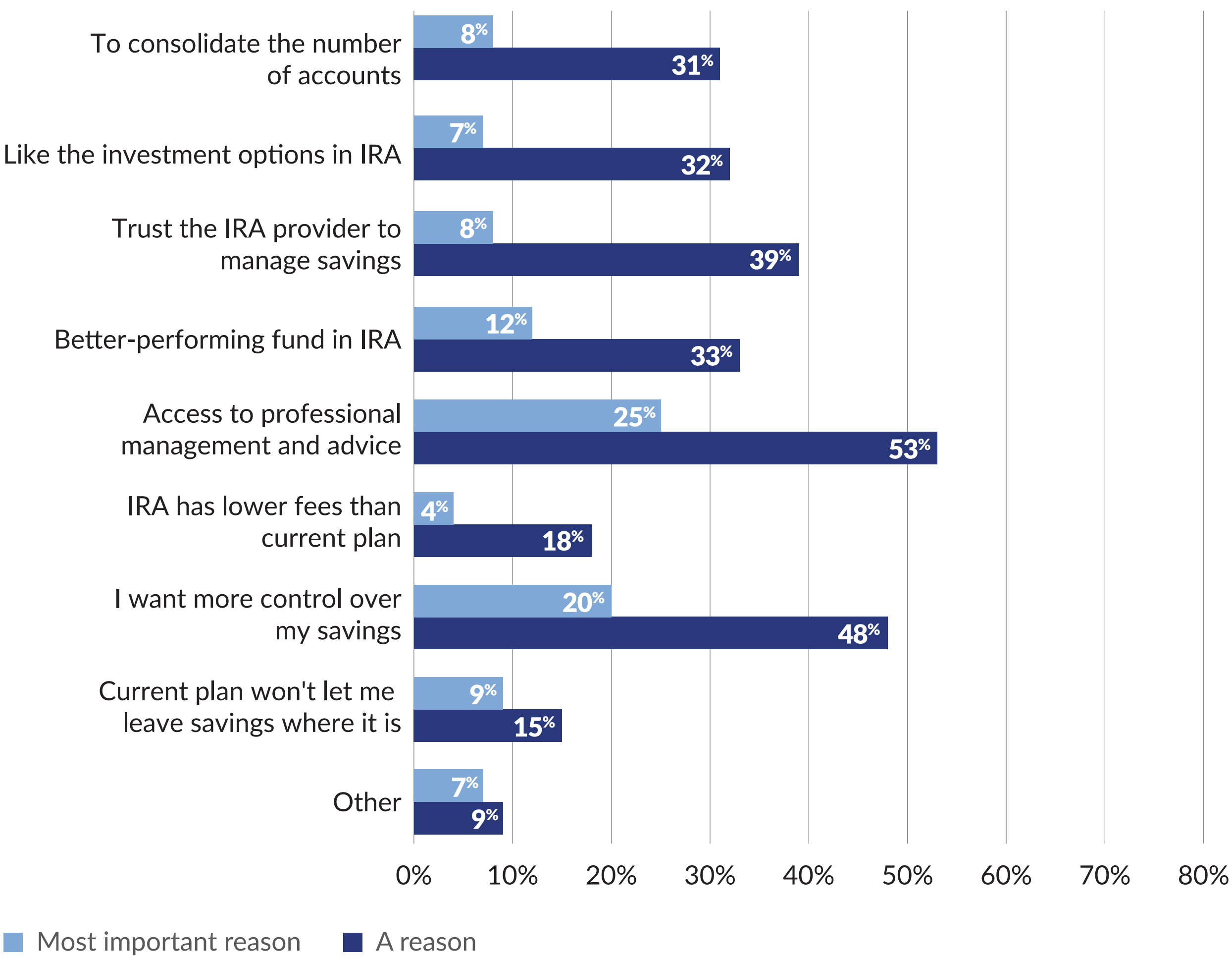
As with near retirees, the extent to which retirees' limited consideration of lower fees in IRAs leads them into higher-fee products may have significant impacts on their savings over the course of their retirement. As noted earlier, even small differences in fees could mean much less savings over the course of a decades-long retirement. As with near retirees, retirees may find higher fees worthwhile if they perceive they are getting access to additional services and advice. Retirees may also not find fees a motivating factor if they are shopping around and finding relatively (and similarly) low-fee products.

Although the behavior and attitudes of current retirees don't necessarily predict the actions of older workers still in the labor force, this finding that fees are generally not a motivating factor could suggest that few older workers are likely to reconsider their views on fees when they actually retire.

Figure 7

Reasons Retirees Rolled Over Their Savings Into IRAs

Access to advice and control over their savings ranked high, while fees were less of a consideration



Notes: Because of rounding, "Most important reason" may not sum to 100%. Respondents could select multiple reasons, therefore "A reason" exceeds 100%. Analysis based on a sample of 242 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

How important are fees in decisions?

Lower fees were not among the most important motivating factors for either workers or retirees when considering whether to leave their savings in their workplace plan or roll them over into an IRA. However, workers and retirees who wanted to leave their savings in the plan were more likely to cite lower fees as a main reason (15% and 13%, respectively) than workers and retirees who cited lower fees as a main reason for a rollover (3% and 4%, respectively).

To better understand the role of fees in the decision to roll savings into an IRA, the survey asked respondents choosing rollovers what they would do if they learned that the fees in the IRA were higher than the fees in their workplace plan. Perhaps unsurprisingly, large proportions of both groups said that they would not roll their savings into an IRA with higher fees, with just 13% saying they would roll over their money despite the higher fees. Still, nearly half (48%) of workers said that they would try to find another IRA with lower fees. Among retirees, 15% said that they would roll over their funds despite the higher fees, with 7 in 10 retirees saying they would have rolled over their savings into a different IRA with lower fees. Respondents were not asked, however, if fees would be an important consideration in finding an alternative IRA.

Although few said that they would continue a rollover into an IRA with higher fees than their workplace plan, previous research by Pew has shown that many people struggle to fully understand their investment fees. Just 25% of workers in an earlier Pew survey said that they had read and understood the fee disclosure of their retirement account.[5] If near retirees and retirees aren't fully aware of the fees associated with a plan, they may not take steps to avoid paying higher fees.

The preference of both near and recent retirees for finding another lower-cost IRA suggests that investors don't want to pay higher fees. Retirees in particular were highly motivated to hold at least some of their savings in an IRA once they have made the choice to roll their savings into an IRA. Because all respondents were asked as a hypothetical question whether they would roll over their savings if they found out IRA fees were higher, it's possible that their actual behavior would not directly mirror their answers. Notably, neither group—retirees nor near retirees—expressed a strong preference for other options for their savings such as periodic payments or annuity options instead of an IRA rollover. Although respondents may roll their savings into a higher-fee product, factors such as investment options and advice may continue to motivate preferences for an IRA rollover as opposed to leaving assets in a retirement plan.

The desire to hold at least some retirement savings in IRAs is also demonstrated by the higher amount of retirement savings held in IRAs compared with 401(k)s or other defined contribution plans: At the end of 2020, IRAs held $12.2 trillion in assets compared with $9.6 trillion in 401(k)-style plans.[6] Much of this accumulation is the result of rollovers from 401(k)s into IRAs.[7] At the same time, IRAs tend to have higher fees than employer plans, in part because IRAs offer fewer protections than 401(k)s and IRA investment products can be sold by broker-dealers, who have incentives to sell higher-fee products.[8] Even small differences in fees can have a significant impact over the course of someone's retirement.[9]

Conclusion

The survey results show that investment fees are not a significant factor in the decision for near and recent retirees to roll their savings into an IRA. However, when asked about the possibility of rolling their savings into a higher-fee IRA, many said they would not move forward with such a rollover, and it's possible that a retiring worker would research the fees associated with alternative IRA investment products. But given that fee disclosures are generally opaque and difficult to understand, as found in prior Pew research, many people will end up in higher-cost IRA investments that erode their savings during retirement.

Workers may find fees to be a more important factor and incorporate them into their thinking at the time of their savings decisions as opposed to responding to a hypothetical survey question about a future event. Near retirees and retirees may also not perceive substantial differences between the fees they pay in their workplace plans and the fees they would pay if they rolled their savings into an IRA. Finally, those rolling over their savings may be willing to pay more in fees in order to access professional advice or to exercise greater control over their investments and saving.

The survey results also show that retirees and near retirees alike are motivated by the desire for greater control over their savings when choosing or planning an IRA rollover. Both groups are also interested in gaining greater access to financial advice and guidance.

Future research should explore more deeply some of the trade-offs between fees and preferences such as convenience or control over investments, particularly if workers could be made to understand the effects of fees on their savings. The survey results do indicate sensitivity to fees, but this finding could be developed further.

Moreover, because near retirees were not certain about what they would do with their savings, they may be amenable to interventions such as targeted education, policy nudges, or default options that preserve assets in low-fee investments unless the worker affirmatively opts out. Policy nudges could include providing reminders or illustrations about the impact of fees at key decision points (such as when someone is rolling their savings into an IRA), or creating explicit default options that would automatically keep savings in a low-cost account or plan after retirement unless a retiree chose another option. Employers are increasingly willing to allow workers who terminated employment to leave their savings in the employer's retirement plan, which could affect their decision to roll their savings into an IRA.[10] Additional research is needed on how IRA rollovers and associated investments are marketed to older workers and whether it's possible for these workers to make informed judgments about the effects of fees on their retirement savings. Finally, future work might explore the feasibility and efficacy of putting savings into low-fee investments as a default option at retirement that the participant can change at any time.

Investors, employers, policymakers, and retirement plan designers should consider how to facilitate the transition from work to retirement to preserve as much savings as possible. Retirees should be able to maintain their desired level of control and choice over their investments, and it's important that they have access to financial advice while avoiding unnecessary products and services—and burdensome fees—in order to better preserve their savings.

Methodological Appendix

NORC used its nationally representative AmeriSpeak Panel when fielding the Near and Recent Retirees study on behalf of The Pew Charitable Trusts. The market research firm obtained 1,125 qualified interviews from panelists ages 55 to 75 with at least $30,000 saved for retirement who were employed full time or were not working and reported being retired. Many of the questions in the survey sought to understand what recent retirees had done with their savings when they retired and how workers were thinking about and preparing for retirement, and what they planned to do with their savings. The $30,000 in retirement savings threshold was selected so that respondents would have sufficient savings to appropriately address questions in the survey. The survey was fielded May 12 to June 5, 2020, in English, online and via telephone. The study received 536 responses from retirees by May 20. No further responses were collected for the retiree group after May 20. The study concluded on June 5, with 589 respondents working full time.

The sample was drawn from NORC's probability-based AmeriSpeak Panel. All members of the panel have a known probability of selection. This allows for calculation of a response rate that accounts for all sources of nonresponse. A random sample of 7,201 panel members was drawn from the AmeriSpeak Panel; 2,456 responded to the invitation to complete the survey, and 1,139 qualified. This resulted in a screener completion rate of 34.1%, an eligibility rate of 46.4%, and a survey completion rate of 98.8%. The AmeriSpeak Panel recruitment rate, reported by NORC, was 23.6%, and the retention rate was 84.8%. The survey's overall cumulative response rate was 6.7%.

Endnotes

1 Planadviser, "$35 Trillion in Retirement Savings Tells a Tale of Two Economies," March 18, 2021, https://www.planadviser.com/35-trillion-retirement-savings-tells-tale-two-economies/; A. Chen and A.H. Munnell, "Who Contributes to Individual Retirement Accounts?" (Center for Retirement Research at Boston College, 2017), https://crr.bc.edu/wp-content/uploads/2017/04/IB_17-8-1.pdf.

2 Investment Company Institute, "The Role of IRAs in U.S. Households' Saving for Retirement, 2020" (2021), https://www.ici.org/system/files/attachments/pdf/per27-01.pdf.

3 L. Barney, "D.C. Plan Sponsors Want Retirees/Terminated Employees to Remain in Their Plans," PLANSPONSOR, Jan. 28, 2019, https://www.plansponsor.com/dc-plan-sponsors-want-retirees-terminated-employees-remain-plans/; T. Godbout, "Plan Sponsors Mostly Prefer Retirees Stay in Plan," National Association of Plan Advisors, May 3, 2021, https://www.napa-net.org/news-info/daily-news/plan-sponsors-mostly-prefer-retirees-stay-plan?utm_source=MagnetMail&utm_medium=email&utm_term=jscott@pewtrusts.org&utm_content=COM%5FNAPA%5FeNews%5F05%2E03%2E2021%5FDaily%5FMon&utm_campaign=Bipartisan%20Bill%20Seeks%20to%20Fix%20Family%20Attribution%20Flaw.

4 The Pew Charitable Trusts, "How Fees Affect Retirement Savings Over Time," Oct. 23, 2018, https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2018/how-fees-affect-retirement-savings-over-time?track=splash&slide=home. For example, take someone retiring at age 65 with $725,000 saved for retirement. They plan to withdraw $3,500 each month to cover living expenses and have chosen to roll over their savings into a low-risk IRA with estimated annual returns of 2%. If they were to choose a low-cost IRA with just a .04% annual fee as a percentage of their total account balance, they would still have $43,503 left in their account by the time they turned 85. However, if they went with an IRA whose fees were 1.25%, slightly above average, they would exhaust their savings before their 84th birthday; RIA in a Box, "2019 RIA Industry Study: Average Investment Advisory Fee Is .96%," accessed Dec. 17, 2020, https://www.riainabox.com/blog/2019-ria-industry-study-average-investment-advisory-fee-is-96-percent. Survey of 1,350 registered investment advisors (RIAs) found that the average RIA charged .96% in advisory fees. RIAs work differently from broker-dealers, who can charge commissions, though financial services firms can offer both RIA and broker-dealer services. Broker-dealers are likely to charge higher fees than RIAs.

5 The Pew Charitable Trusts, "Many Workers Have Limited Understanding of Retirement Plan Fees" (2017), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/11/many-workers-have-limited-understanding-of-retirement-plan-fees.

6 Investment Company Institute, "Retirement Assets Total $34.9 Trillion."

7 Investment Company Institute, "The Role of IRAs"; A.H. Munnell and A. Chen, "401(K)/IRA Holdings in 2019: An Update From the SCF" (Center for Retirement Research at Boston College, 2020), https://crr.bc.edu/wp-content/uploads/2020/10/IB_20-14.pdf.

8 A.H. Munnell, A. Webb, and F.M. Vitagliano, "Will Regulations to Reduce IRA Fees Work?" (Center for Retirement Research at Boston College, 2013), https://crr.bc.edu/wp-content/uploads/2013/02/IB_13-2-508.pdf. The Center for Retirement Research finds that actively managed funds underperform index funds, even before accounting for the higher fees of actively managed funds. Broker-sold funds perform even worse, with these funds underperforming actively managed funds by 23 to 255 basis points per year.

9 The Pew Charitable Trusts, "How Fees Affect Retirement Savings Over Time."

10 Barney, "D.C. Plan Sponsors"; Godbout, "Plan Sponsors Mostly Prefer Retirees Stay in Plan."

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