Research

The Cost of Not Rolling Over 401(k)s to IRAs Because of the Fiduciary Rule

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Retirement savers who have changed jobs or retire often reoptimize and roll over their 401(k)s into an IRA. Unfortunately, because of the Department of Labor's new fiduciary rule – which subjects broker-dealers and IRA managers to heightened disclosure, reporting, and compliance burdens that will significantly increase their costs of doing business – it looks like retirement savers with lower account balances will have a hard time even finding somewhere to house their accounts. This is bad news for savers. Let's do the math:

- Per the Social Security Administration, 10,000 people retire everyday – approximately 300,000 per month.
- In March of 2016, 3 million people quit their job and 1.7 were fired or discharged, but did not leave the job market and therefore eventually switched or are attempting to switch jobs.
- 75 percent of all workers have access to defined contribution plans, like a 401(k), and 61 percent of all workers participate in those plans.
- Which means that, of the 5 million people who change jobs or retire every month, on average 3 million have some sort of retirement plan that they can and should be rolling over.
- The average 401(k) balance is $91,800 according to Fidelity and the average 401(k) annual fee is between 1 and 2 percent. To get a sense of magnitudes, let's say that's an average of 1.5 percent – or about $1,380 annually.
- Most IRAs through brokerages like Fidelity and Schwab charge no annual fee. However, if a consumer has their IRA directly through the funds themselves, they'll be charged a low annual fee like the $10 fee charged by American Funds or the $20 fee charged by Vanguard if the account balance is under $10,000. In order to identify the charges on IRAs, we will use the average of a $15 annual fee.
- At that rate, if each of those 3.05 million Americans who change jobs or retire every month have the average of $91,800 in their 401(k), they would lose approximately $1,375 each year by not rolling over their existing 401(k)s into an IRA. That's a total of almost $4.2 *billion* lost each year simply by retirement savers being unwilling or unable to roll over 401(k)s into IRAs.

Unfortunately, these consumers who have changed jobs or retire are hesitant or even unable to roll over their 401(k)s into an IRA because of the Department of Labor's new fiduciary rule which subjects broker-dealers and IRA managers to heightened disclosure, reporting, and compliance burdens that will significantly increase their costs of doing business. The rule will also make it so that retirement savers with lower account balances will have a hard time even finding somewhere to house their accounts, because those smaller accounts will no longer be profitable to their investment advisers.