Frictions in Saving and Claiming: An Analysis of Unclaimed Retirement Accounts

One concern about the changing retirement landscape is the increased burden this places on individuals: more jobs translates to more retirement accounts, creating scope for mismanagement or neglect of saved retirement funds. Failing to take required minimum distributions (RMDs) is costly. If the account owner has not done so by age 70.5, the account is subject to heavy penalties (50% of the required distribution) and the account value could quickly dissipate. While the issue appears widespread, there is no consensus about how many people or how many funds are impacted. This study estimates the extent of unclaimed retirement funds, both from 401(k) accounts and pensions.

Unclaimed retirement savings are savings that individuals are entitled to receive but have not claimed because employers or other entities that maintain their retirement accounts cannot locate the individuals or because the individuals have forgotten about the savings. Whether or not anyone “claims” a retirement account is not a well-defined concept, as by definition retirement accounts are long-term savings that could be untouched for decades without being “forgotten” or otherwise unclaimed. We define “unclaimed” as an account whose owner does not receive their RMD by age 70.5, plus a state-defined dormancy (account owner has no account activity and fails to respond to notices about distributions) period of two to five years.

Towards a National Estimate: State Unclaimed Property (SUP) Data

We obtain novel account-level data from state unclaimed property divisions. While the data quality varies, most states provide property level information on the size of the account, property type, year reported, and names and addresses of the owner and holder of the property,
typically going back to the 1980s. This study is based on data from 13 states.

We find that most of these accounts are related to defined contribution retirement plans. In our sample of 13 states, more than 36,500 retirement-related accounts were reported to unclaimed property databases in 2016, totaling more than $18 million. Extrapolating these numbers to the entire U.S., we find that almost 70,000 retirement accounts were unclaimed, totaling more than $38 million.

**Research Contributions and Implications**

This research topic proves to be timely given current discourse in Congress over the Retirement Savings Lost and Found Act of 2018, which is focused entirely on this issue. The Act under debate would increase an online database of pension and 401(k) plan account owners to facilitate finding information about their plans and current contact information. It would also clarify the rules for categorizing account owners as “missing” and place a greater burden on employers and plan managers to find these individuals.

The findings from the study can help inform a variety of potential policy considerations.

◊ States vary in the effort they exert to connect unclaimed property with their owners. Greater coordination amongst states to improve these efforts may reduce the amount of unclaimed property

◊ Modifying tax codes to facilitate moving retirement savings due during job changes may help people to avoid losing them.

◊ Related policies, such as default auto-enrollment into retirement savings, may have unintended consequences, such as savings that are less salient to the employee. This lack of salience may lead to employees not realizing the need to manage these accounts upon job separation or at retirement.

◊ Other policies also generate potential problems; for example, account holders cannot mix savings from employer-based and other retirement plans in the same account (while keeping the ERISA qualified status), generating additional burden to consolidating savings.