Capitalize®

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Stuck In The Past: Why 401(k) Rollovers Remain Outdated and Painful

A comprehensive new analysis from Capitalize highlights an outdated process for transferring 401(k) assets that remains considerably worse than other money movement methods such as ACH and ACATs

KEY TAKEAWAYS

- Rollovers from 401(k) accounts are a popular strategy for retirement savers and have grown rapidly over the past decade, approaching **$1 trillion annually** — but the process is complex, resulting in delays, abandonment, and often unintended tax consequences.

- Capitalize recently conducted a detailed analysis and survey on the rollover process in an attempt to surface the key pain points and their consequences. The data shows that **only 22% of savers manage to roll over an account without assistance, and 42% reported that the process took them two or more months to complete.** Compounding the issue, 54% of savers weren't originally sure where their old 401(k) was located.

- For many individuals, the rollover process is highly administrative with **over 80% having to resort to a manual step like a phone call or paperwork** during the course of their rollover transaction. In addition, paper checks remain a common element of the rollover process as **43% of individuals who rolled over were forced to receive and forward a paper check during their transfer.**

- Rollovers thus remain one of the least digital processes in personal finance, making them **far less accessible than other money movement methods, such as Automated Clearing House (ACH) transfers and even the ACATS framework** for brokerage accounts which have moved more of their process online. 82% of savers surveyed think rollovers should be as easy as an ACH bank transfer, and unsurprisingly **84% want the option to complete a rollover entirely online.**

- On average, Capitalize data shows that **workers wait almost four years between leaving a job and completing a rollover** — while millions never attempt a rollover at all and may thus lose track of their 401(k) assets.

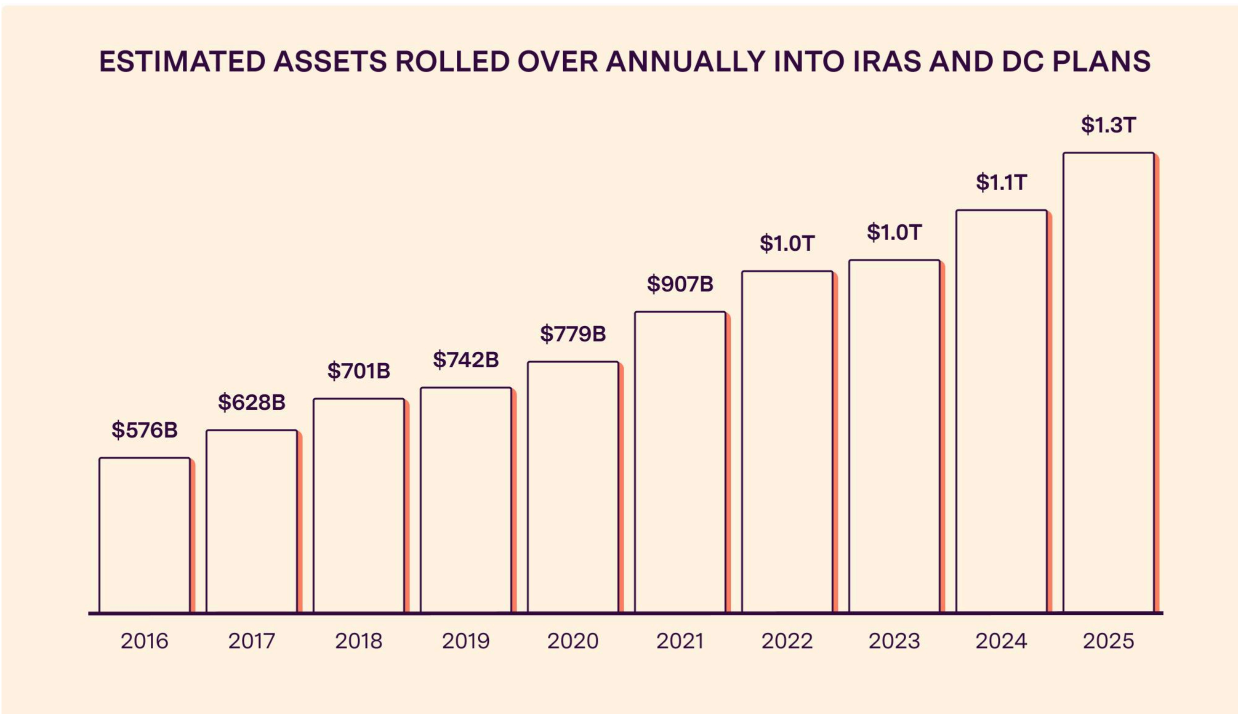
- In addition, most users who attempt a rollover on their own struggled to understand the tax treatment of retirement accounts, and **almost 1 in 5 reported that their rollovers resulted in an unintended tax consequence.**

- Capitalize **estimates that almost $1.1 trillion will be rolled over into IRAs and 401(k)s in 2024,** making the rollover process and its shortcomings increasingly consequential. Capitalize continues to build technology to help savers digitally find and roll over retirement accounts so that they can achieve better financial outcomes in retirement.

BACKGROUND

What are 401(k) rollovers and why do they matter?

401(k)s and other defined contribution (DC) accounts are key components of the American retirement system. As of Q2 2024, nearly 70 million Americans had saved over $11 trillion in these plans.



401(k) accounts have become popular and effective accumulation vehicles for good reasons. Employers often encourage their employees to contribute and incentivize additional saving through employer matches and other "nudges."[1] 401(k) contributions come directly out of employee paychecks, making saving convenient and effectively automating a dollar-cost averaging strategy, and they have important tax advantages.

[1] Thaler, R. H., & Sunstein, C. R. (2009). Nudge: Improving decisions about health, wealth, and happiness. Penguin Books.

Despite these benefits, serious limitations remain. A major challenge is that **401(k) savings do not automatically move with employees when they leave jobs.** By default, these funds remain in the employer's 401(k) plan — unless they are small balances which can be forced out — even if the employee has long since left their employer. The result is that many savers end up leaving their 401(k) behind with a previous employer's plan, moving onto new 401(k) accounts and paying less and less attention to legacy ones. This is not a small phenomenon; as of May 2023, there were **29.2 million left-behind or forgotten 401(k) accounts holding $1.65 trillion in retirement savings — and these numbers only continue to grow.**

In order to transfer these assets into a new account, **individuals can attempt what's known as a "401(k) rollover". A rollover is the process of transferring savings from an old employer-sponsored retirement account, such as a 401(k), to another 401(k) or an Individual Retirement Account (IRA).** Rollovers help savers gain more visibility and control over their savings since having assets split across multiple accounts is often harder to manage than just a single account where asset allocation and fees can be optimized. Rollovers into IRAs have become especially popular since IRAs can be opened at a financial institution of an individual's choice, such as their bank, brokerage, or advisory firm, and sever the connection to a legacy employer.

Given these benefits, the number of rollovers has grown consistently over time. Capitalize analysis of IRS and GAO data now shows that total rollovers — into both IRAs and into employer-sponsored plans — will grow from approximately 6.4 million in 2016 to over 10 million in 2024, roughly 75% of which are expected to end up in IRAs[2]. The dollars of assets moved have also become substantial, with $1.1 trillion to be rolled over in 2024 alone. These assets have become a substantial flow of funds within the market, and an important source of growth for retirement account providers, wealth managers, and others.[3]

Despite the size of these numbers, no detailed review of the rollover process has been conducted since a GAO report in March 2013. As a result, **Capitalize embarked on a comprehensive and updated analysis of the rollover process**, leveraging survey data, public data, and proprietary data to highlight key rollover pain points and their consequences. In addition, we highlight the key differences between the rollover process and other more modern money movement methods such as ACH and ACATs to showcase just how outdated 401(k) rollovers remain.

Breaking down the traditional rollover process

The 401(k) rollover *process* is not a single, uniform process; in fact, the process is unique to each 401(k) institution and there is no standardized protocol to initiate and complete transfers, unlike other money movement methods. Each 401(k) provider can thus determine how it requires individuals to submit rollover requests. The lack of uniformity can mean that even an individual who has successfully completed a rollover in the past can feel like

[2] The IRS publishes annual data on rollovers to IRAs through 2020; Capitalize analysis of other data sources (including GAO estimates) suggests this accounts for approximately 75% of all rollovers. The IRS publishes annual data on rollovers into IRA accounts with the latest available data through 2020. Capitalize estimates that 10% of eligible rollovers are moved into other employer sponsored plans, such as 401(k)s, instead of IRAs, based on previous GAO estimates. Capitalize estimates rollover volume after 2020 based on estimates of the number of private industry workers participating in employer sponsored retirement plans and annual job quits from the Bureau of Labor Statistics (BLS), as well as estimates on left behind 401(k)s from previous years' job changers. Capitalize estimates average rollover balances based on review of IRS data on rollovers along with other estimates from the Economic Benefit Research Institute and Investment Company Institute 401(k) database.

[3] IRA providers, 401(k) providers, and financial advisors all compete for rollover assets, with promotions and other incentives becoming increasingly common (e.g. matching contributions on rollover deposits)

they're attempting a new, uniquely difficult process each time they attempt a rollover with a new 401(k).

Despite the variation, most rollover processes are described as confusing and cumbersome by individual savers. Our analysis and survey data highlights a number of common challenges that prevent or delay a successful transfer.

Finding old 401(k) accounts is difficult, and over 50% of savers are initially unsure of where their accounts are held

Confirming where a 401(k) is held can be challenging for many reasons. As individuals change jobs, they lose access to their HR portals and benefits information. This means they often struggle to remember which financial institution (401(k) provider) holds their legacy 401(k) savings.

This problem is surprisingly common – **54% of savers aren't initially sure where their old 401(k) is located.** The problem is also a meaningful one: if savers don't know where their 401(k) is, they can't begin the rollover process. Furthermore, the steps required to find the 401(k) are often uncomfortable and frustrating for savers, causing some to give up the search before they find the account.

61% of savers don't know their 401(k) account login details

Online access to a 401(k) can give savers required information, including the account balance, tax type (Traditional or Roth), name and address on record, and other information. In certain cases, it might be possible to submit account requests online, such as to change a name or address if needed or even to initiate a transfer. Although most accounts are accessible online, recall and access starts to decline once people leave their jobs and their accounts behind to the point where **61% of savers surveyed did not know their account login details.**

Without online access, savers are left with time-consuming options like calling their former employer's HR or benefits team — an often uncomfortable task for an employee who has left the company already, in some cases years previously.

Accounts can be transferred to a different institution of the employer's choice in some scenarios

Employers often change 401(k) providers as their needs change or companies merge, leading to the transfer of all current and terminated employee 401(k) accounts to a new institution. If this happens after the saver left, they are generally notified by letter or email — but many do not receive these notifications. The result is a time-consuming process for the individual to find out where their assets have gone.

"Safe harbor" rollovers are another reason the account may be at a new institution. For savers with smaller 401(k) balances (under $7,000), a 401(k) plan can automatically move assets to a "safe harbor" IRA at another institution. This happens to approximately 2.5 million savers every year. While savers are notified in writing and given time to move their assets voluntarily, many forget or do not fully understand their options. Once the account has been transferred, the saver must reclaim and recover their assets from the Safe Harbor IRA, a process which can take time.

Requesting a rollover is cumbersome, with almost 80% of individuals resorting to a manual step like a phone call or signed form to get their rollover done

Once their 401(k) has been found, savers are left with an even more difficult step: submitting their rollover request.

Unfortunately, the vast majority of users who roll over on their own are forced to deal with a manual step such as a phone call or form. Additionally, the process is not uniform across providers, and can even be different at the same provider depending on which specific employer is sponsoring the retirement plan.

Many savers end up having to call their 401(k) provider when rolling over on their own

Among survey respondents, **79% reported that their rollovers involved a phone call to complete.** Savers are often left to wait on hold, sometimes for multiple hours during busy times of year. This alone can be a major deterrent to savers, **42% report that making phone calls was a major deterrent to completing their rollover** requiring them to carve time out of busy days to call during provider business hours and navigate complex phone systems.

Rollovers may in fact require *multiple* phone calls given the confusing nature of these interactions and additional administrative steps. Once they're connected with a representative, savers are asked to confirm that they fully understand the tax implications of their transaction and have read detailed tax disclosures. These disclosures are jargon-filled and can have the effect of confusing the user.

Savers must then confirm their destination account and mailing address for their funds since 401(k) providers won't have this information beforehand. Stating either incorrectly can lead to an unexpected delay and misdirection of funds.

Rollovers can be delayed for a number of other reasons which require additional phone calls:

- A change in address or name (e.g. due to marriage) can result in a 401(k) account being placed on hold for 10 days or longer before assets can be transferred.
- Some types of accounts require spousal consent for a rollover, often necessitating a notarized form.
- Former employees are often incorrectly marked as an active employee in a 401(k) plan as employers fail to update the saver's employment status at the time of job change, a dynamic that occurs with some regularity.
- Some 401(k) plans require the employer's sign off for any distributions (including rollovers) by any participants, requiring the saver to contact their former employer to proceed.

The culmination of these hurdles can add up — many savers spend hours waiting, talking, and following up before successfully completing a rollover.

Many rollovers involve paperwork

Some 401(k) providers require rollover requests or — changes to user information required ahead of a rollover — to be submitted via a signed form. In 2024, when most financial transactions can be done online, this can feel anachronistic. More importantly, it also leads to user frustration.

The primary issue with forms submitted is that many savers fail to complete forms correctly, which results in a NIGO, or “Not in Good Order” rejection of the transfer attempt by the 401(k) provider. The NIGO process is opaque and confusing for many individuals who are not notified right away, and are often not clearly told which fields require correction.

The errors on forms are compounded when savers do not have full online access to their legacy 401(k) account, which can result in additional tax risks as they guess at the tax-type of their origin and destination accounts (Traditional vs. Roth) in an attempt to keep their rollover tax-free.

Even rollovers that can be requested via phone or online may require forms for name and address changes or spousal consent. **Over 50% of respondents who rolled over without help reported completing some paperwork as part of their rollover process.**

84% of savers want a fully digital process to request rollovers

Unsurprisingly, **84% of savers want the option to complete a rollover entirely online.** While online rollover requests are becoming more common, this is often only permitted if the saver is rolling into another account at the same provider, with calls or forms required to transfer assets into external institutions.

For a minority of savers, though, it’s possible to submit a rollover request online. Clearly this has significant advantages — it avoids phone calls, provides an opportunity to visually confirm account details and tax consequences, and make changes online.

Still, though, these online submissions can be improved. Some are difficult to find within an overly complicated online dashboard and can be jargon- and disclosure-filled, prompting savers to call into provider centers to parse the complexity. More can be done to simplify the process.

43% of rollovers require an individual to forward a paper check

Regardless of how the rollover request is submitted, **many rollovers still require physical checks sent via mail to actually move funds.** This often surprises and frustrates users who are rolling over, and represents a major difference between 401(k) rollovers and other money movement methods that savers are familiar with. In many cases, rollover checks are sent directly to the saver's new retirement account, but some providers send a check to the saver first.

Starting a rollover request is hard

79% **of people made a phone call** in order to complete

43% **received a paper check** in order to complete

Source: Capitalize Data

Many savers must forward checks to new retirement accounts

43% of savers reported receiving a paper check that needed to be forwarded on. The timing of this whole interaction can be frustrating. Savers can wait up to 10 business days to receive a paper check in the mail for their 401(k) balance. Once received, the saver is responsible for sending the check to their new retirement account provider. If the saver sends that check to the wrong place, they must contact their 401(k) provider to freeze the check and have a new one issued.

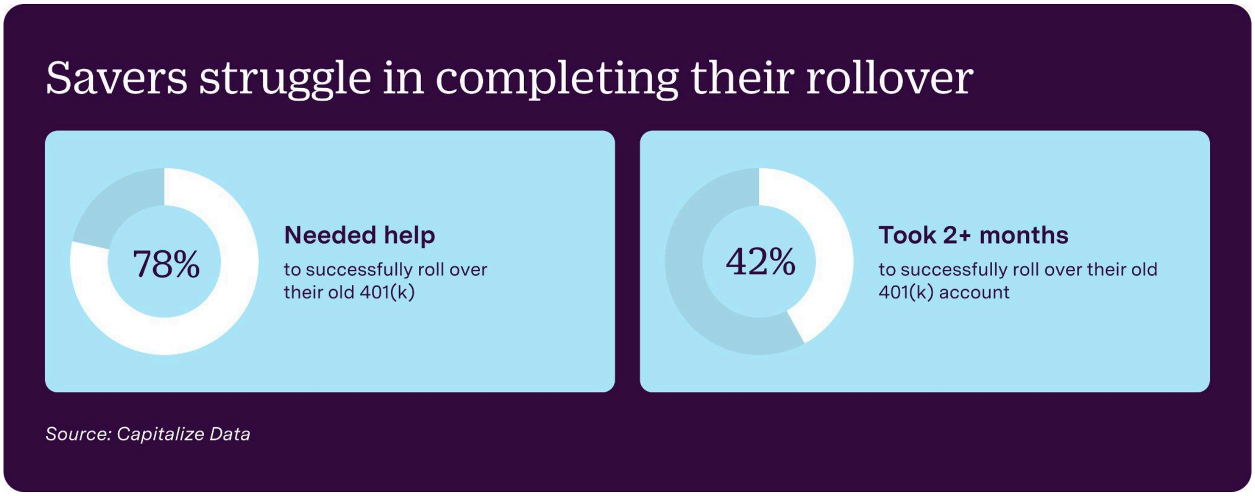
Naturally the prospect of having sizable sums of money being mailed from institution to institution makes savers uncomfortable and anxious. Many younger savers accustomed to digital banking may *never* in fact have dealt with physical checks before, underscoring how outdated the rollover process seems to many of these savers.

42% of rollovers can take two or more months to complete

While a standard rollover process can take a user a few weeks on their own, disruptions can add even more time to the transaction. It's not uncommon for the USPS to lose mail, and checks are no exception. If a check is lost at any juncture — whether on the way to the saver or the provider – the saver will have to initiate their rollover again. That might mean more phone calls, forms, or online actions in order to essentially start the process over again and make sure that the lost check is frozen.

Once the check arrives at the new retirement account provider, it can take several additional days to make sure the check is processed and funds are correctly deposited – adding more time to an already elongated process.

Overall, the **paper check system is one of the more outdated aspects of the rollover process and 38% of savers say it's a major inconvenience in completing a rollover.** Even when it works as intended (i.e. no lost checks or misaddressed envelopes), it takes weeks. This unpredictability reinforces the importance of mail tracking for visibility and peace of mind for savers. In total, the entire process can end up taking months to accomplish. Amongst survey respondents, **42% reported the process took two or more months to complete.**



Nearly 1 in 5 savers trigger an unintended tax consequence when rolling over on their own and many misallocate their assets

Retirement accounts are special types of financial accounts since they benefit from favorable tax treatment — a huge advantage, but also an additional point of complexity in successfully completing a rollover. **More than 1 in 3 workers who rolled over don't fully understand the potential tax consequences of their rollover.** Savers may have difficulty clarifying the nature of their 401(k)s — whether assets include pre or post tax funds, or in some cases both. This might require a saver to open two new retirement accounts if they are trying to keep their rollover tax-free .

This confusion has consequences. In the worst case scenario, a saver might make a decision and trigger unintended tax consequences as a result of their confusion. Unfortunately, **nearly 1 in 5 savers reported that they triggered an unintended tax consequence during a rollover.** Others may be intimidated by potential taxes such that they don't attempt a rollover at all. In either scenario, savers are left without the information and knowledge they need to make informed decisions.

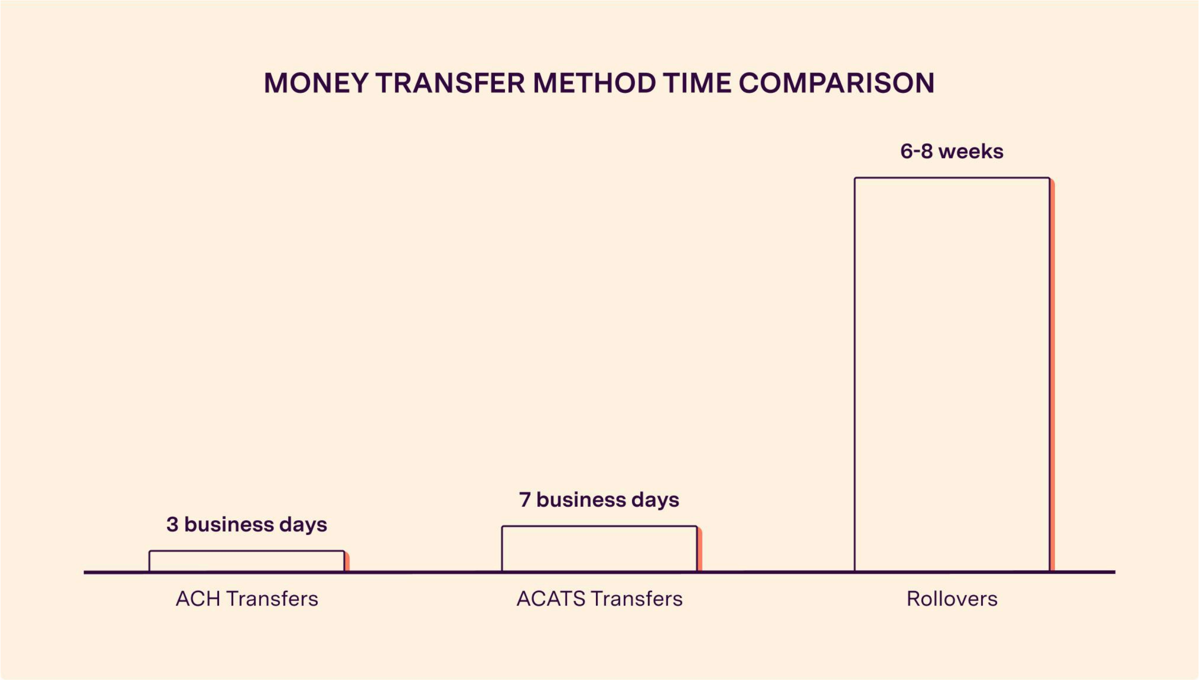
1 in 3 savers forget to allocate the assets in their IRA

After funds have arrived in a new retirement account like a new account like an IRA, it's imperative that savers allocate these funds into investments; otherwise they'll likely sit in cash or other capital preserving instruments like money market funds that could hamper long term returns.

A recent Vanguard report suggests as many as one in three neglect this step. A long term strategy for retirement savings usually involves substantial investment in the market, whether it comes via index funds or other strategies. Funds left in cash won't benefit from this market exposure, and over time the impact will be significant as the account misses out on compounding gains that enable many years of comfortable retirement.

The 401(k) rollover process is outdated compared to other money transfer methods

The outdated nature of the 401(k) rollover process comes across clearly when comparing it to other money transfer methods. Processes like Automated Clearinghouse (ACH) for bank account transfers and Automated Customer Account Transfer Service (ACATS) for brokerage account transfers are not perfect, but allow funds to be transferred with greater speed and convenience. The contrast with the 401(k) rollover process is stark, and savers know it: **82% of savers say the rollover process should be as easy as an ACH bank transfer**.



ACH transfers

ACH transfers are one of the most common methods of sending and receiving money online. From direct deposits, bill payments, and peer-to-peer transactions, ACH transfers enable the electronic movement of funds between bank accounts. **They typically take between one to three business days to complete and can be initiated simply by users linking a bank account and submitting the transfer request.** The ACH system is governed by the National Automated Clearing House Association (NACHA) — a single, unified body which sets strict regulations ensuring that transfers are reliable and consistent. In 2023, [31.5 billion payments totaling over $80 trillion] were processed by ACH. ACH transfers are highly transparent, and users can track the status of a transaction with a 15-digit trace number, a stark contrast to the opaque and multi-month long rollover process.

ACATS transfers

The ACATS system allows the transfer of securities from one brokerage or IRA account to another. **These transfers typically take between five to seven business days to complete**, although the process has its own issues with success and completion rate. ACATS transfers are standardized and provide guidelines for transferring various types of assets between brokerages, including stocks, bonds, and mutual funds. Regulated by the Financial Industry Regulatory Authority (FINRA), Rule 11870 governs the account transfer process. According to DTCC Clearing and Settlement Services, there were approximately 14 million ACATS transfers totaling over $1.4 trillion in 2023. ACATS transfers are far more standardized, and can be initiated by the *receiving* institution on behalf of the user — sparing the user from having to deal with different transfer processes on their own. While ACATS has many requirements and the nuances can be a challenge, it's still far simpler and more predictable than 401(k) rollovers.

A comparison of financial transfer methods

Putting these transfer processes side-by-side and comparing them on key dimensions such as transfer time, tracking and transparency serves to highlight just how burdensome and extreme the 401(k) rollover process is compared to other money movement methods.

Transfer type / Dimension	ACH Transfers	ACATS Transfers	Rollovers
Typical time to transfer	1-3 business days	5-10 business days	6-8 weeks[4]
Transparency & tracking	Tracking via a 15-digit trace number, providing users the ability to call their bank for a status update.	Many brokerages offer transfer status tracking within their platforms.	Lack of transparency, with users frequently left unaware of their transfer status.
Transfer process	Fully digital and simple to initiate via online banking platforms. Requires minimal user interaction.	Largely digital with ability to initiate via standardized forms; special cases may require physical paperwork.	Involves multiple steps, often requiring paperwork, phone calls, and paper checks.
Standardization & consistency	Overseen by NACHA, a unified governing body that sets strict rules across financial institutions.	Standardized through Rule 1187 / FINRA, which sets out a transfer framework.	Lacks standardization across providers, leading to variability in the process and procedures between institutions.

Proposed solutions: How the process can be improved

Overall, rollovers are difficult for savers to complete and remain significantly less digital and convenient than other transfer methods. This difficult process — from finding accounts to navigating complex and disparate institutional processes — has serious consequences for savers.

401(k) rollovers should be easier to complete for all savers; among respondents, **75% indicated they would roll over sooner if the process were easier.** The complexities surrounding retirement accounts are increasingly recognized by private sector participants who are looking to embrace more

[4] Based on Capitalize survey of retirement savers

digital solutions to help individuals find, consolidate, and manage accounts. The consequences of an outdated process are also increasingly recognized, as “leakage” from the defined contribution system continues to undermine retirement savings outcomes.

Based on discussions with individual savers, providers, employers, and other stakeholders, we believe a number of initiatives would significantly reduce the friction embedded in the current rollover process and support better outcomes.

Allow more rollover requests to be submitted online

Too many rollovers require the saver to initiate lengthy phone calls or fill out paperwork, leading to costs and complexity on all fronts. Most retirement savers are used to conducting the vast majority of their financial lives online, and other modalities feel outdated to them. While some providers already allow online rollovers, this capability could become the industry standard, and **84% of savers think they should have the option to complete a rollover entirely online.** Doing so would reduce the administrative burden of rolling over, lower leakage and delays, and likely reduce operational costs across the retirement savings ecosystem.

Importantly, while there are some initiatives in place that aim to help users more “automatically” move their 401(k)s at the point of job change (e.g. Auto Portability initiatives), these remain very limited in the context of the overall rollover market. These are confined to smaller account balances under $7,000, require much opt-in, and are not available for most IRAs where the majority of rollovers occur. While these are certainly positive steps, more general digitization is required for individuals to move their assets freely and to initiate the process where and how they want.

Move away from checks to electronic funds transfer

Transitioning away from the reliance on paper checks for transferring retirement assets is essential to improving the 401(k) rollover process. The use of paper checks introduces unnecessary delays, risks of loss, and additional burdens on the saver. Allowing direct electronic transfers between retirement accounts would vastly speed up the process, reduce errors, and provide a more secure method of transferring funds. By adopting digital transfer methods across the board, the rollover process could be shortened from weeks or months to a few days, vastly improving the experience for savers and conforming it to other transfer processes.

Make it easier to find forgotten accounts

The difficulty of tracking down forgotten or left-behind 401(k) accounts has rightfully received increasing attention, with the SECURE 2.0 Act mandating the creation of a new national database to aid savers in finding old accounts. This government-backed "lost-and-found" database, which is expected to launch by 2025, will allow savers to search for old retirement accounts and get connected to the administrator of their prior plan to begin the process of reclaiming their assets. While encouraging, the database will take time to become fully operational and may face challenges such as incomplete or outdated data from various 401(k) providers. Additionally, the system is likely to rely on voluntary updates from these providers, which could result in substantial gaps in information. Therefore, while this database is a positive development, it definitely will not eliminate the difficulties savers face in locating their retirement funds.

Make transferring easier during both onboarding and offboarding

The highest intent moments for an individual saver to transfer are when they onboard into a new retirement account (either an employer-sponsored account or an IRA at their retail financial institution) and when they offboard from an existing employer. Clearly providing the option to transfer in or out — among other relevant options such as staying in a 401(k) — in a jargon-free way will go a long way towards preventing the problems that snowball when savers forget about their assets and ultimately try to roll over, years later.

The Bottom Line

The **401(k) rollover process remains one of the least popular elements of the retirement savings market, and in personal finance more broadly.** As surveys and analysis continue to show, the process is a very difficult one for individuals to complete without assistance, and involves a range of administrative barriers that can often seem archaic and pointless. This painful process has consequences — millions of accounts left-behind for extended periods, hours of precious time for individual savers, tax consequences that can be unintended, and potentially suboptimal outcomes for individuals and the system as a whole.

At Capitalize, we've helped users find and roll over billions of dollars and continue to work towards modernizing the rollover experience for all by engaging stakeholders and providers across the ecosystem to collaborate on new paradigms. We're excited to help move the industry towards a more modern transfer process and thus empower a generation of workers to both move and manage their assets in a way that maximizes their retirement savings.

While the 401(k) market has achieved significant traction, much friction remains which reduces its effectiveness such as the outdated rollover process. We remain committed to providing data and insights on ways in which the employer sponsored retirement savings market can improve outcomes for all.

Methodology and disclosures

Estimates of rollover market size are based on Capitalize analysis of various government sponsored and private data sources. The IRS publishes annual data on rollovers into IRA accounts through 2020. Capitalize estimates that 10% of eligible rollovers are moved into other employer sponsored plans, such as 401(k)s, instead of IRAs based on previous Government Accountability Office (GAO) estimates. For estimates after 2020, Capitalize estimates rollover volume based on the number of private industry workers participating in employer sponsored retirement plans and annual job quits from the Bureau of Labor Statistics (BLS), as well as estimates on left behind 401(k)s from previous years' job changers. Of this population, only a portion actually choose to rollover their retirement accounts. Capitalize estimates average rollover balances based on review of IRS data on rollovers along with other estimates from the Economic Benefit Research Institute and Investment Company Institute 401(k) database.

Survey data highlighted is based on a June 2024 survey of 1,000 US-based respondents who had contributed to an employer-sponsored retirement account (e.g., 401(k), 403(b), 457(b), TSP, etc.) at a previous job. The survey demographics were 44.8% male and 55.2% female. 94.8% of respondents were aged 25 years old or older, and 70% of respondents having a post-high school education.

Additional data points on the rollover process came from analysis of Capitalize proprietary and user-generated data.