

**Abstract:** Generally, the term “leakage” has negative connotations. So, it’s not surprising that the same is true in the context of retirement planning, where leakage refers to pre-retirement early withdrawals from a retirement account. A business owner who sponsors a qualified retirement plan might say, “Well, that’s my participants’ business, not mine.” But there are valid reasons to address the issue with employees participating in a company’s plan.

## **Are you at risk of retirement plan leakage?**

Generally, the term “leakage” has negative connotations. So, it’s not surprising that the same is true in the context of retirement planning, where leakage refers to pre-retirement early withdrawals from a retirement account. Now, as a business owner who sponsors a qualified retirement plan, you might say, “Well, that’s my participants’ business. Not mine.”

However, there are valid reasons to address the issue with employees who participate in your plan.

### **Does it matter?**

For starters, leakage can lead to higher plan expenses. Fees are often determined on a per-account or per-participant basis. When a plan loses funds to leakage, total assets and individual account sizes shrink, which tends to hurt administrative efficiency and raise costs.

More broadly, if your employees are taking pre-retirement withdrawals, it could indicate they’re facing unusual financial challenges. These issues may have a negative impact on productivity and work quality and leave them unable to retire when they planned to.

The stress surrounding COVID-19 may account for part of the financial need. And more recently, the “Great Resignation” could lead some workers to draw out retirement funds to live on or use to start a business of their own.

### **What can you do?**

The most important thing business owners can do to limit leakage is to educate and remind employees about how pre-retirement withdrawals can diminish their accounts and delay their anticipated retirement dates. While you’re at it, consider providing broader financial education to help workers better manage their money, amass savings, and minimize or avoid the need for early withdrawals.

Some companies offer emergency loans that are repayable through payroll deductions to reduce the use of retirement funds. Others have revised their plan designs to limit the situations under which plan participants can take out hardship withdrawals or loans.

### **Can you eliminate the problem?**

“Roughly 22% of net contributions made by those 50 or younger leaks out of the retirement savings system in a given year,” according to a 2021 report by the Joint Committee on Taxation. Some percentage of retirement plan leakage will probably always occur to some extent, but becoming aware of the problem and taking steps to minimize it are still worthwhile for any business. We can answer questions you might have about leakage or other aspects of plan administration and compliance.

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