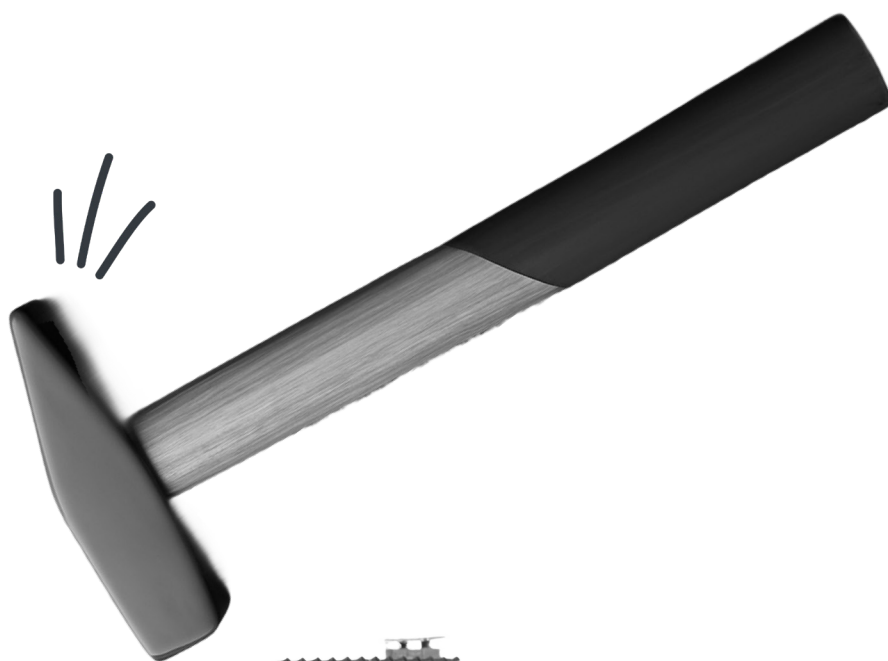


How Junk IRAs Are Destroying The American Dream

PensionBee

<https://www.pensionbee.com/us/employers>





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Press_US@PensionBee.com

+1(718) 502-9957



As the U.S. workforce becomes increasingly mobile, millions of small retirement accounts are being left behind with former employers.

By 2030, 13 million accounts worth \$43 billion are projected to be swept into Safe Harbor IRAs through automatic rollovers.

Most will become long-term traps that can drain retirement savings through excessive fees and minimal returns.

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When “Safe Harbor” Isn’t Safe



By
Romi Savova

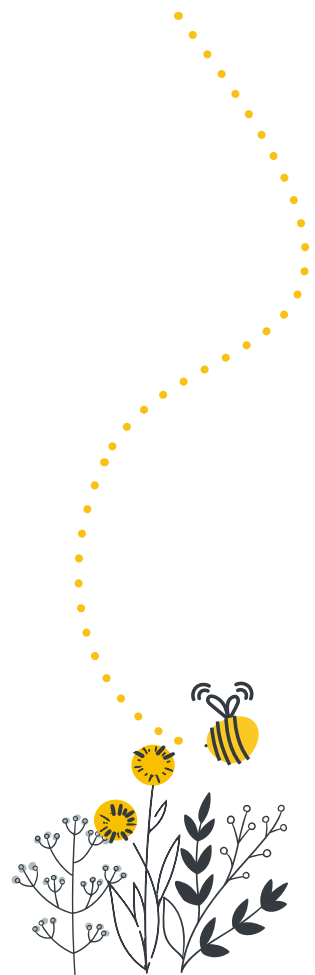
Retirement should be simple: you work hard, you save steadily, and you reap the rewards in later life. But for many Americans, that path is quietly being undermined. Our research and survey data reveal a troubling truth: most workers don’t even know what’s happening to their retirement savings when they leave a job.

- Only 1 in 5 people¹ say their employer clearly explained their retirement options when leaving a job
- Just 1 in 10 received instructions in writing
- Only 35% know accounts can be forced out into a Safe Harbor IRA without their consent.

There are nearly 30 million² left-behind 401(k) accounts in the U.S. Nearly 2 million of those accounts — each under \$7,000—are automatically rolled over into Safe Harbor IRAs each year, often without the saver’s knowledge. What was designed as a short-term bridge has become a long-term trap. Accounts stagnate in cash-like investments, fees consume small balances, and wealth that should grow instead erodes.

The result is a retirement system that penalizes mobility and punishes savers. What should have been a parking lot has become a graveyard for the American Dream. Without reform, Safe Harbor IRAs will continue to quietly drain the retirement security of entire generations.

This white paper lays out the scale of the problem, quantifies the hidden costs, and argues for urgent change. The numbers are stark, but the human impact is even starker. We owe it to workers - and to the integrity of the retirement system itself - to act now.



Footnotes

¹ PensionBee consumer insights

² US data based on calculations from “Private Pension Plan Bulletin” September 2024, Version 1.0, United States Department of Labor <https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletins-abstract-2022.pdf>

The Hidden Trap of Safe Harbor IRAs

The problem

When workers leave behind a small 401(k), former employers can force out those balances into a Safe Harbor IRA.



These accounts were designed to be temporary. In reality, most sit for years in cash-heavy products with fees that steadily erode savings.

The scale

With America's modern and mobile workforce, by 2030 an estimated 13 million accounts holding \$43 billion of retirement assets will sit in Safe Harbor IRAs. The average account holds just \$2,718—small enough that seemingly innocuous \$1–\$5 monthly fees or additional charges can erase growth. Up to 30% of all employment-based accounts are at or below the \$7,000 automatic rollover threshold.

Roughly 10% of all small balances—approximately 2 million accounts annually—are expected to be forced into these accounts via mandatory or automatic rollovers.



Only 12.8% of Safe Harbor IRA accounts are moved out in year one; after three years, 75% remain.

The impact

Left-behind balances stagnate in cash and are chipped away by fees. Across **13 million accounts projected by 2030**, even modest losses add up to a **system-wide erosion of retirement security**.

Why it happens

- **Cash-heavy default investments** suppress growth through reduced returns.
- **Fees and lower returns** (often due to providers retaining a large proportion) can erode small balances and stifle growth.
- **Poor communication** means workers often don't realize accounts were moved.
- **Policy drift** (SECURE/SECURE 2.0) expanded mandatory rollover eligibility.

The fix

- **Cap fees and ban penalties** for small balances.
- **Reform** Safe Harbor IRA investments to focus on long-term growth.
- **Mandate standardized, low-friction** transfers to ensure portability.
- **Require clear communication** so workers know options and can consolidate savings.

Bottom line

Safe Harbor IRAs were intended as a parking lot. They've become a graveyard. Without reform, millions of workers will lose compounding—their most powerful retirement tool.

How Small Accounts Became Stranded: From Pension Promises to DIY Savings

The Pension to 401(k) Shift

In 1989, most workers who had a retirement plan through their employer had pensions³—employer-run plans with guaranteed benefits. By the 2000s, pensions gave way to 401(k)s and other “defined contribution” plans, shifting the burden from employer to employee.

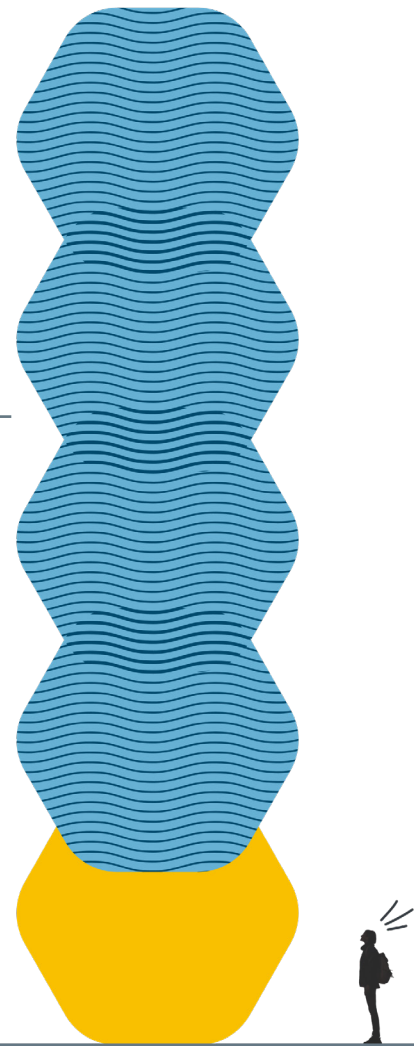
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? Did you know

Today, 401(k)s dominate: \$12.2 trillion in assets, four times more common than pensions.⁴

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The Force-Out Mechanism

As 401(k)s spread, employers struggled to manage thousands of small, leftover accounts that people did not move when they changed jobs. In 2001, policymakers proposed a solution: the Safe Harbor IRA. The policy required that if the employer was forcing out small, left-behind accounts (balances of \$1,000 - \$5,000, later changed up to \$7,000), to automatically roll them over into a ‘safe’ third-party vehicle unless the participant directed them to do otherwise.



³ Federal Reserve Bank of St. Louis. (2025, March). Pension and 401(k) retirement plan trends in the U.S. workplace. On the Economy. <https://www.stlouisfed.org/on-the-economy/2025/mar/pension-401k-retirement-plan-trends-us-workplace>

⁴ See footnote 3

✓ Reality check

The goal was to reduce employer burden, but the result has left millions of accounts stranded in low-growth, high-fee vehicles.

Rollovers into Safe Harbor IRAs will grow by 100% this decade



A Mobile Workforce and Forgotten Balances

The way we work has changed. With the average American holding 12 jobs⁵ in a lifetime, the risk of small retirement balances increases.

As Americans job-hop more frequently, they are more likely to leave behind small accounts under \$7,000. Employers are required to notify workers, but notices often go to old addresses. Savers often never see the letter. Their accounts are transferred automatically.

As a result, millions of employees make important decisions about their retirement by omission, unaware that by doing so, they are leaving their accounts at risk.

In 2025, 1.7 million accounts will be automatically rolled into “Safe Harbor” IRAs, many without the saver’s knowledge. By 2030, 2.2 million accounts could be forced out on an annual basis.

Despite the well-documented issue of forgotten 401(k)s, the risks associated with Safe Harbor IRAs have been little discussed until now.



The scale of the problem has ballooned in the dark, exerting an invisible drag on retirement wealth for millions of savers.

⁵ U.S. Bureau of Labor Statistics. (2021, September 3). Baby boomers born from 1957 to 1964 held an average of 12.4 jobs from ages 18 to 54. The Economics Daily. <https://www.bls.gov/opub/ted/2021/baby-boomers-born-from-1957-to-1964-held-an-average-of-12-4-jobs-from-ages-18-to-54.htm>

Where Safe Harbor IRAs Fail Savers

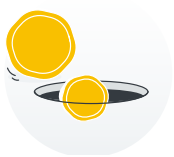
The average balance that is automatically rolled over into Safe Harbor IRA holds just \$2,718. That makes them especially vulnerable to high fees, low returns, and years of neglect.

The three biggest risks



Excessive fees

Monthly charges (\$1–\$5), enrollment fees up to 20%, and closure/search fees erode small balances fast.



Low returns

Most Safe Harbor IRAs invest almost entirely in cash. Fees are often deducted from the returns, leaving the interest earned at around 0.5% - 2%, well below inflation. This is exacerbated even further when interest rates are low, as they were for years before the pandemic.



Time in system

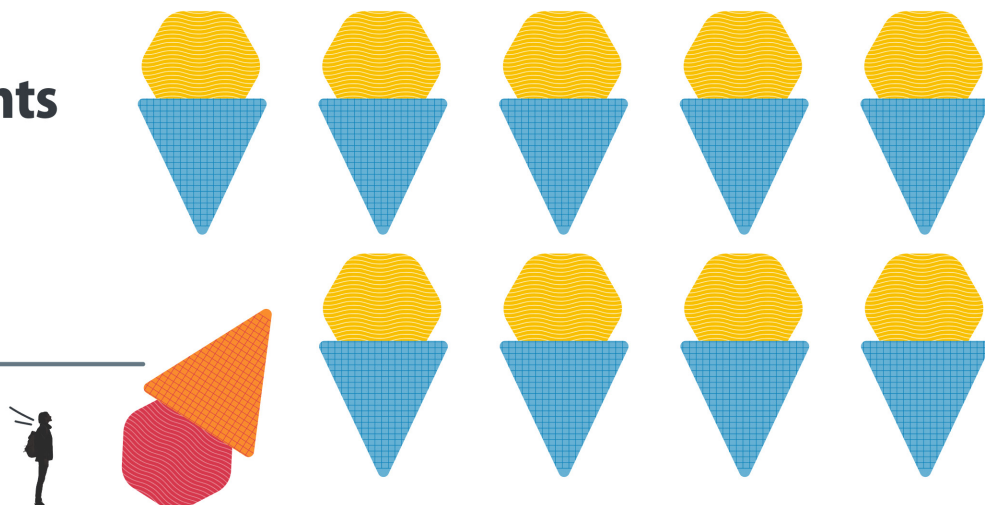
Accounts meant for 30–60 days linger for years, compounding losses.

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 Did you know

In some cases, balances fall all the way to \$0.
.....

1 in 10 small retirement accounts are forced into Safe Harbor IRAs each year

Representing nearly 2 million people per year.



A market review⁶ by PensionBee found that predatory practices are common among top Safe Harbor IRA providers. Three issues dominate:

Fees Disproportionally Hit Small Balances

Unlike 401(k)s, which average 0.85% in fees⁷, Safe Harbor IRAs often charge flat, seemingly low, monthly fees (\$1-\$5) that disproportionately erode small balances. On the average Safe Harbor account size of \$2,718 this can be as high as 2.2% annually—meaning many participants pay far more than in a typical 401(k). Enrollment fees can reach 20% of the initial balance, even for participants who didn’t choose to enroll. This practice erodes the principal investment, lowering the return potential of its lifetime. Search fees (up to \$100 per search), paper statement charges, and account closure penalties further chip away at savings.

Allocations Suppress Growth

Regulations require Safe Harbor IRAs to preserve principal and provide a reasonable rate of return, but in practice, many invest almost entirely in cash or very low-risk investments, offering below standard retirement portfolio returns which are also often below the rate of inflation. Compared to a standard investment portfolio that can return between 5% and 8%, top Safe Harbor IRA providers can return between 0.5% and 4%. Some providers even pay less than 1% interest⁸ while prevailing interest rates exceed 4%⁹, skimming the difference as a “bank servicing fee.”

“Temporary” Accounts That Linger for Years

Accounts meant for 30-60 days linger for years. Sparse communication from providers, potentially to old mailing addresses, means balances sit idle, compounding losses.

⁶ PensionBee’s market review included an examination of published fee schedules and interviews with industry experts.

⁷ PensionBee. (2025, February 27). Analysis: Rip off fees and measly returns in Safe Harbor IRAs can reduce accounts to \$0 [Press release]. Business Wire. <https://www.businesswire.com/news/home/20250227110653/en/Analysis-Rip-off-Fees-and-Measly-Returns-in-Safe-Harbor-IRAs-Can-Reduce-Accounts-to-%240>

⁸ Godbout, T. (2023, February 24). 401(k) plan fees decline (again). ASPPA. <https://www.asppa-net.org/news/2023/2/401k-plan-fees-decline-again/>

⁹ Federal Reserve Bank of New York. (n.d.). Effective Federal Funds Rate. Retrieved October 2, 2025, from <https://www.newyorkfed.org/markets/reference-rates/effr>

The Scope of the Safe Harbor IRA Problem

Who's Affected and What's at Stake

The average age of account holders is 45 years old—decades from retirement. Instead of being in growth investments, their savings sit almost entirely in cash.

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🔍 Did you know

By 2025, \$28.4 billion in retirement savings will sit in Safe Harbor IRAs. By 2030, that will grow to \$43 billion.

.....

Not Your Old Plan: Misunderstanding the Destination

These assets are not just left behind, but handed off; passed on to new providers and invested under completely different circumstances. Many savers believe they remain in their old employer's plan when, in reality, they've been shifted into something much less suitable for long-term growth.

Traditional 401(k) accounts are designed to allow for long-term investment growth (though a worker could make different elections) while mitigating risk.

They contain a standard mix of investments, and as the account holder ages, they transition from a growth-based to conservative allocation. Vehicles like the target-date fund will rebalance automatically.

Safe Harbor IRAs serve a different purpose. As the name suggests, these accounts were intended to work as a temporary safe-holding mechanism for left-behind savings. Rather than a mix of different investments, these accounts contain extreme allocations of cash, reflecting an account of someone budgeting for short-term emergencies rather than long-term wealth building.

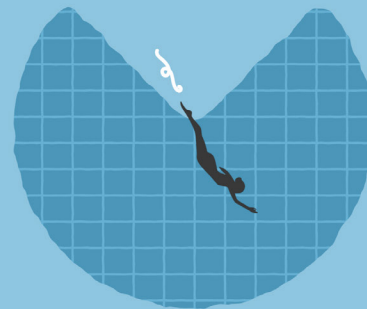
Unlike traditional 401(k)s, which are designed for long-term growth through diversified investments, Safe Harbor IRAs trap savings in cash-like products better suited to short-term holding than decades of compounding.

When “Temporary” Becomes Permanent

Only 25% move over three years



75% of automatic rollovers linger in placeholder accounts for over three years.



Why Accounts Rarely Exit

Only 12.8% of Safe Harbor accounts are moved in the first year. By year three, that falls below 5%.

After three years, roughly 75% of displaced accounts remain in Safe Harbor IRAs, and the likelihood of moving them declines with each passing year.

Policy Drift: SECURE / SECURE 2.0 Expansions

Instead of protecting workers, laws like the SECURE Act broadened Safe Harbor eligibility, exposing even more balances to these risks. Billions of dollars sit for years in accounts designed to be temporary, signaling that the majority of force-outs are failing to operate as originally intended.

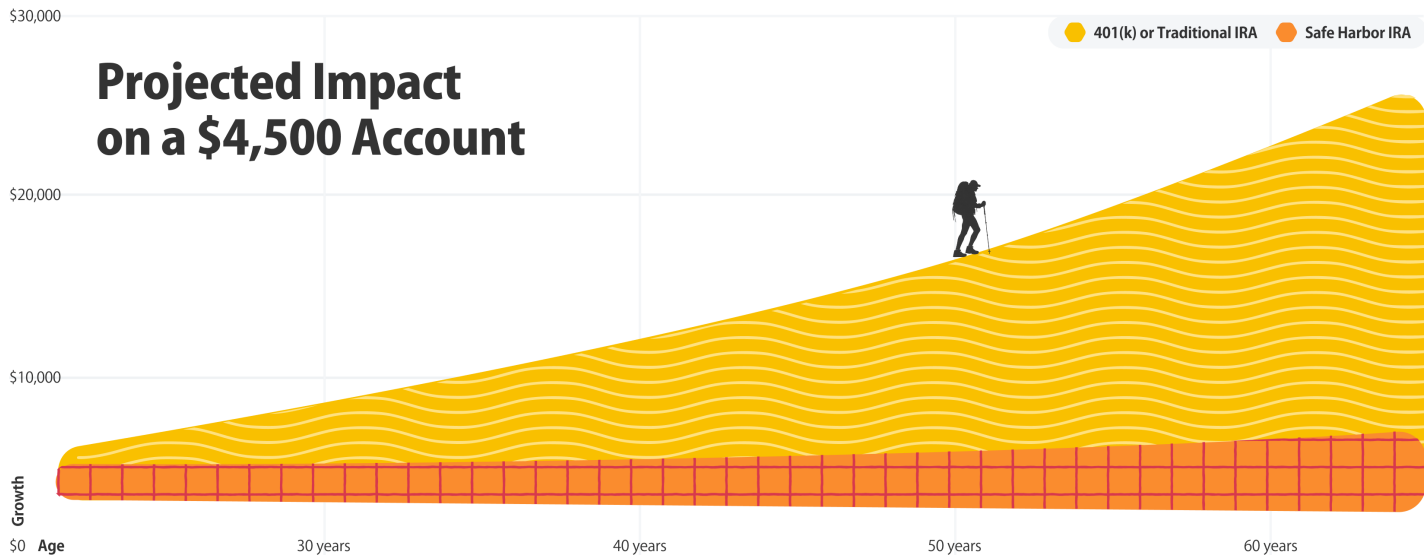
In another context, a policy failure of this magnitude would warrant reform.

Instead, legislation like the SECURE Act¹⁰, which made it easier for smaller employers to improve access to 401(k) plans, and SECURE 2.0, which expanded the threshold for automatic rollovers from \$5,000 to \$7,000, has effectively endorsed the practice while contributing to the explosion of vulnerable, small-balance accounts.

Without enough built-in protection to ensure accounts are managed appropriately, the vast majority of force-outs remain stuck in poor Safe Harbor IRAs for years.

¹⁰ Senate Committee on Finance. (n.d.). Retirement section by section. U.S. Senate. <https://www.finance.senate.gov/download/retirement-section-by-section->

What Savers Actually Lose



The \$4,500 Example

A single \$4,500 account left in a Safe Harbor IRA is projected to grow to \$5,507 by retirement. In a regular 401(k) or a Traditional IRAs, it could reach \$25,856.



That's a \$20,000+ gap from one account alone.

For workers who change jobs frequently, these losses multiply. PensionBee analysis compared Safe Harbor IRAs (~2% returns) with conservative 401(k) or IRA investments (~5% returns).

A lifetime of losses

Over a lifetime, Safe Harbor IRAs can erode retirement savings and plunge millions into retirement poverty.

Consider the following typical worker:

- Job hops between ages 20 and 30, leaving behind a 401(k) every two years (five total).
- Starts with a \$50,000 salary that grows 10% with each job change.
- Contributes 3% of that salary annually, with 50% employer match vested.

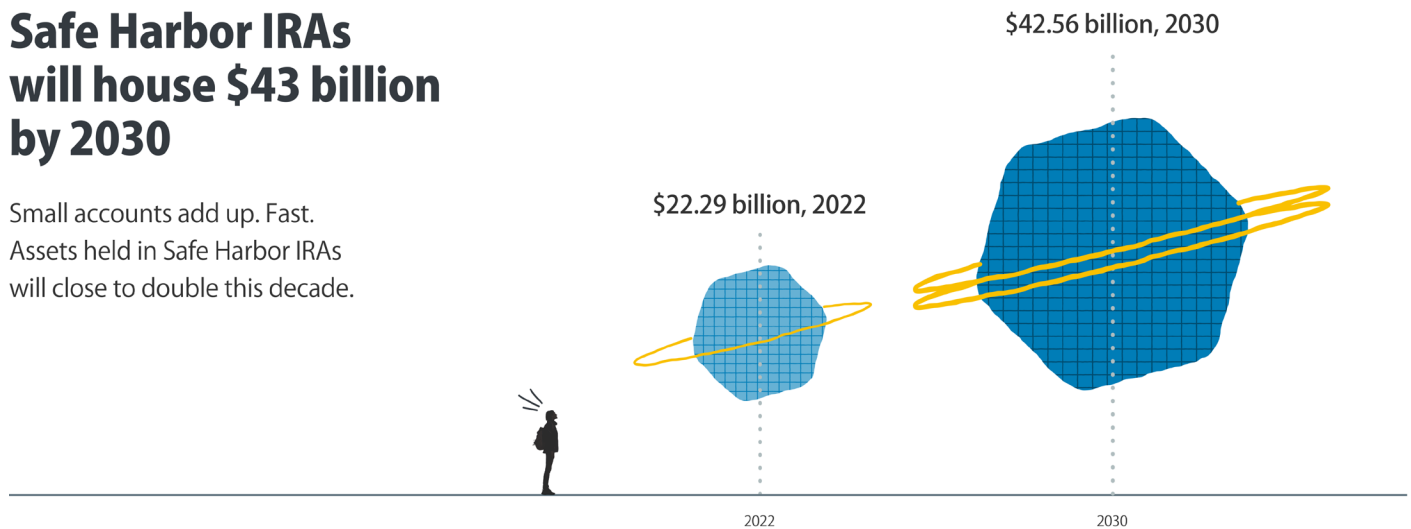
Under these assumptions, a 20-year old worker's \$4,500 balance left in a Safe Harbor IRA account grows to \$5,507 by retirement, while the same amount contained in a 401(k) or Traditional IRA grows to \$25,856 - a difference of \$20,000 from one account.

Multiply that by 5 left-behind accounts, and the lifetime shortfall climbs above \$90,000. This difference exceeds the median American retirement savings¹¹ of \$87,000.

¹¹ median retirement savings: NerdWallet. (2025, September 10). The average retirement savings by age and why you need more. <https://www.nerdwallet.com/article/investing/the-average-retirement-savings-by-age-and-why-you-need-more>

Safe Harbor IRAs will house \$43 billion by 2030

Small accounts add up. Fast.
Assets held in Safe Harbor IRAs
will close to double this decade.



System-Wide Losses Across Millions of Accounts

The risk is not isolated. Americans continue to job-hop and the number of left-behind small accounts grows rapidly.

Roughly 50 million Americans switch jobs each year. In 2025, 20 million workers will have balances small enough to be forced into Safe Harbor IRAs. Most will be unaware that their savings are at risk.

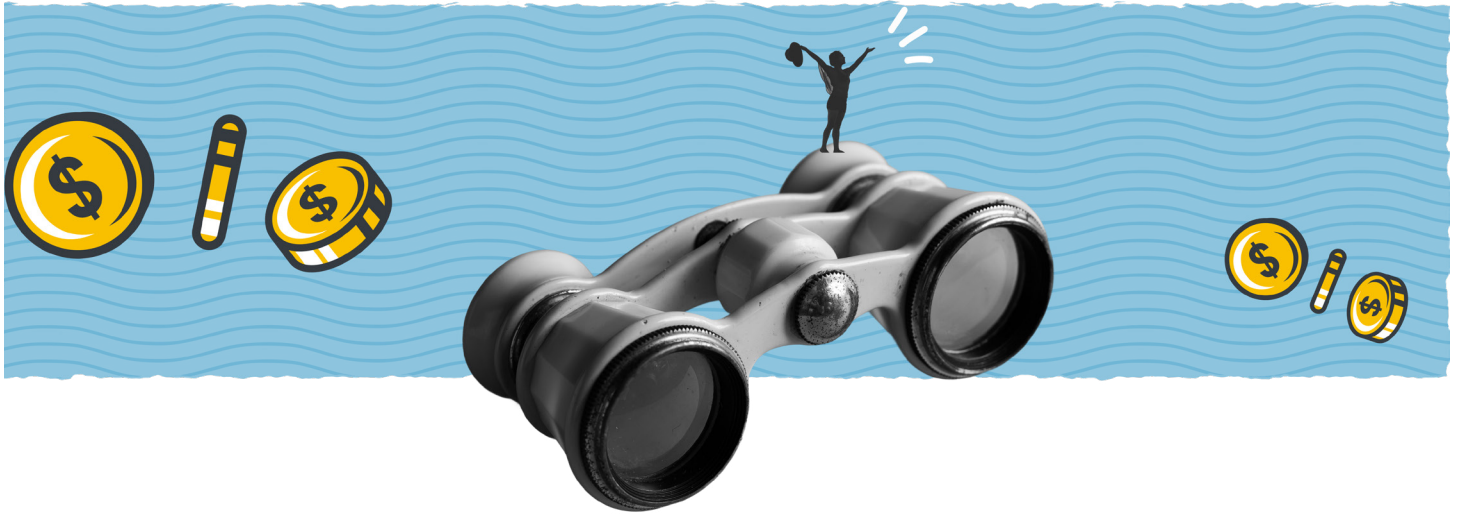
By 2030, analysts project there will be 22 million defined contribution accounts with \$1,000 up to \$7,000 - the threshold for automatic rollovers when workers change jobs and leave accounts behind. Those leaving their jobs will contribute to the 13 million expected to be automatically rolled over into Safe Harbor IRAs, holding roughly \$43 billion of retirement wealth in languishing accounts.

✓ Reality check

This represents over 90% growth in the eight years since 2022, when assets stood at \$22.3 billion.

The staggering increase in total assets comes from not a few large accounts but from a massive population of small accounts and a rapidly accelerating number of Americans who are increasingly vulnerable.

Portability that Actually Works



Employers widely accept Safe Harbor IRA providers, rarely checking how accounts fare over time. That practice exposes workers to potential financial losses and plan sponsors to potential fiduciary risk.

After twenty years, these Safe Harbor IRAs have revealed a market where providers may profit from participant confusion and inertia rather than supporting true long-term retirement growth. Safe Harbor IRAs are not the only issue. They mirror wider structural failures in the retirement system, from portability gaps to poor account consolidation.

The same issues that exist in the Safe Harbor IRA market also weaken retirement security everywhere:

- Employers undercommunicate
- Participants don't understand their options
- Processes are complex, often without adequate support
- Provider incentives don't always align with saver outcomes

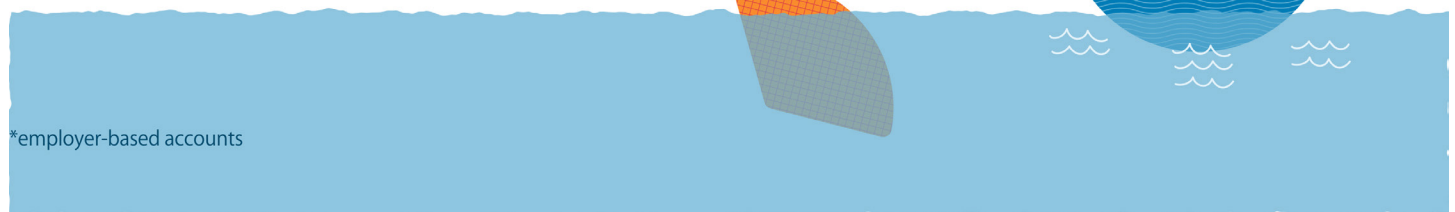
Most plan sponsors and providers follow the rules. But when the rules allow \$43 billion to flow into accounts that may cost more, may do less, and let the accounts languish at scale, then maybe the rules are the problem.



This requires rethinking retirement infrastructure to support how Americans actually work today, rather than the static workforce of the past.

1 in 3 active retirement accounts* is within the force-out threshold

and at risk if it were to be left behind



*employer-based accounts

What Employees Can Do Now

Employees need to know the risks of leaving behind an account, no matter how small. They should be encouraged to keep contact information current, proactively select an IRA home, and track down left-behind accounts before fees erode them.

What Employers Must Do Now

Employers should prioritize stronger off-boarding processes and communication, and regularly review Safe Harbor IRA partnerships - both to protect former employees and to mitigate fiduciary liability.

What Policymakers Must Fix

Policymakers must update frameworks that still assume a static career model. Reform should require low-fee default destinations and enforceable transfer standards between providers.

The Role of the Financial Services Industry

The Financial Services Industry must commit to seamless, low-friction 401(k) transfers instead of profiting from account displacement. This requires standardized transfer protocols to reduce friction and errors, enhanced communication technology to maintain worker connection across job changes, and consolidated platform solutions designed for mobile careers rather than static employment.

From Parking Lot to Graveyard

System-Wide Losses Across Millions of Accounts

Safe Harbor IRAs were meant to be short-term parking lots for small accounts. Instead, they've become permanent graveyards for retirement savings. Without reform, the system designed to protect small savers will quietly destroy their futures.

Three urgent steps:

- **Cap fees and ban penalties.** Small balances shouldn't face higher effective costs.
- **Reform** Safe Harbor IRA investments to focus on long-term growth.
- **Build real portability.** Workers should be able to take savings with them seamlessly.

The modern workforce is mobile. Our retirement system must be too.

Methodology:

This report draws on data and projections from the Employee Benefit Research Institute (EBRI), a leading independent authority on retirement and health benefits research. The analysis leverages EBRI's DC plan and IRA databases, combined with IRS and Department of Labor Form 5500 data. Projections incorporate stable five-year averages for gender, age, and initial account balances, along with recent three-year averages for small account distributions and account attrition. Total Safe Harbor IRA assets were calculated by applying these averages to reported account volumes, then projected forward using account growth, attrition patterns, rollover activity, and an assumed net rate of return.

Addendum:

The following charts provide a visual summary of PensionBee's market review discussed in section V.

Table 1: Provider fees and returns on a \$2,500 account

Provider	Annual \$ and % fees	Effective Annual Fee on \$2,500 account ¹⁰	Annual Interest paid to customer ¹¹	Net customer return	Retained Interest (as % of total investment return) ¹¹	Account balance after 5 years	Account balance after 20 years
Provider 1	\$68 + 0.5%	3.2%	4.25%	1.05%	Undisclosed	\$2,639	\$3,246
Provider 2	\$35 + 0.3%	1.7%	2.27%	0.57%	Up to 75%	\$2,558	\$2,823
Provider 3	\$35	1.4%	0.46%	-0.94%	Up to 90%	\$2,346	\$1,971
PensionBee	0.85%	0.85%	4.71%	3.86%	0%	\$3,021	\$5,332
Provider 5	0.39%	0.39%	4.52%	4.13%	0%	\$3,056	\$5,584

Table 2: Provider fees and returns on a \$1,000 account

Provider	Annual \$ and % fees	Effective Annual Fee on \$1,000 account	Annual Interest paid to customer	Net customer return	Retained Interest (as % of total investment return)	Account balance after 5 years	Account balance after 20 years
Provider 1	\$68 + 0.5%	7.3%	4.25%	-3.05%	Undisclosed	\$835	\$114 (\$0 in 22 years)
Provider 2	\$35 + 0.3%	3.8%	-1.53%	0.57%	Up to 75%	\$904	\$607 (\$0 in 42 years)
Provider 3	\$35	3.5%	0.46%	-3.04%	Up to 90%	\$811	\$326 (\$0 in 30 years)
PensionBee	0.85%	0.85%	4.71%	3.86%	0%	\$1,208	\$2,133
Provider 5	0.39%	0.39%	4.52%	4.13%	0%	\$1,223	\$2,234

¹⁰ Effective annual fee calculations are based on an average balance of \$2,500. Additionally it is common for providers to charge a wide range of fees on enrollment, distributions, account closures, paper mail, account tracing services, and other services. Not all fees are publicly available. These fees have been excluded from the above calculation, but erode balances further.

¹¹ Annual interest paid to customer is based on product disclosures and the disclosed return for the past year.

¹² Retained interest is based on the difference between (A) the 4.33% annual prevailing interest rate reported by the Federal Reserve Bank of New York at the time of this report, which is assumed to be the full rate of earnings, and (B) the annual interest paid to the customer.