COMMENTARY

FOCUS

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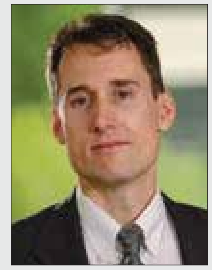

The Significance of Rollover Timing

Being in the right place at the right time is a central component of success in many endeavors. In the retirement industry, companies and financial advisors who provide their customers with products and services at the right time, based on age, life events, or life stage, will thrive. Those who show up late to the game will not.

Leaving or retiring from a job is a key life event that often triggers a cascade of financial decisions. In particular, those who have participated in their employer's defined contribution (DC) plans (or in defined benefit pension plans with cash distribution options), must address the question of how to access their plan balances — or leave them where they are. In many cases, the participants will decide to roll their balances to individual retirement accounts (IRAs).

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Rollovers are significant whether examined at the micro or macro level. At the micro level, for long-time employees who have amassed a substantial DC plan balance, the rollover may be the single largest financial transaction of their lives. This rollover decision requires choices about the destination of the rollover, as well as how the money should be invested. Making the best decisions will depend on multiple factors, such as the desire to consolidate, gain greater control of, or more conveniently manage the money, as well as relationships with their former employer, DC plan provider, and destination IRA company. Financial advisors may play a central role in helping clients sort through the pros and cons of different options.

At the macro level, annual IRA rollovers are approaching a half a trillion dollars, representing by far the largest flow within the broader tax-qualified money-in-motion market. In 2016, about 63 percent of rollover dollars were associated with people aged 55 to 69, whose balances averaged around $160,000.[1] Competition for these rollovers remains intense among institutional and retail retirement providers — hence the need for rigorous strategies deployed at the correct time.

So, for companies and advisors focusing on capturing retirement-triggered rollovers, when is "the correct time"? Does most asset consolidation happen well before retirement? According to Secure Retirement Institute® (SRI™) research, the answer appears to be no. Instead, rollovers tend to occur shortly *after* retirement. This is obviously the case for any balances associated with the employer from which the employee is retiring — and as past SRI research demonstrates, when money becomes available for rollover, most of the assets will be withdrawn after 12 months. But, even for balances associated with prior employers, which could have become available for rollover decades earlier, people may wait until they have entered retirement before rolling. For example, among individuals within 5 years of their anticipated retirement, 5 percent had rolled a DC plan balance to an IRA within the previous 12 months, and 71 percent had one or more DC plan balances at other employers' plans. Among individuals who had retired within the previous 5 years, 8 percent had recently rolled, but only 32 percent still had balances at other employers' plans.[2]

Although much rollover activity does occur after retiring, it certainly doesn't follow that companies and advisors should do nothing or be passive before that point. One approach may be to do rollovers collectively when rearranging assets, as part of a comprehensive plan covering income, expenses, and assets in retirement. Even among retirees who did a rollover in the past 12 months, three quarters still have money in a former employer's plan, meaning that potential exists for future rollovers. Advisors should request updates from clients on their anticipated and actual retirements, as good timing is a necessary condition for success.

1 *The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2016*, Investment Company Institute, September 2018. < https://www.ici.org/pdf/rpt_18_ira_traditional.pdf>

2 Based on analysis of a 2019 Consumer Survey, Secure Retirement Institute, 2020.