COMMENTARY

Research & Insights

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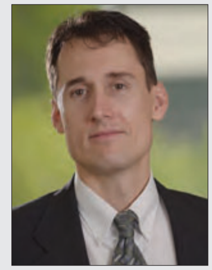

Capturing High-Balance Rollovers

Rollovers into individual retirement accounts (IRAs) from 401(k) and other workplace retirement plans make up nearly half a trillion dollars of the annual money-in-motion market. Both the size of the rollover market — and scrutiny of it — have risen over the past decade, and will undoubtedly continue to grow in the 2020s. Automatic enrollment provisions have resulted in more balances for a larger slice of the working population; default investments, including target-date funds, have put participants on a better path for long-term growth; fees have fallen, reducing the drag on performance; and recent job losses and early retirements have made more of these balances available for rollover than ever before. At the same time, rollovers face some headwinds. Many defined contribution (DC) plan providers have shifted their asset retention strategies toward an in-plan focus. Proposed and promulgated regulations have complicated the picture, making some advisors and distributors more selective in their attempts to capture rollovers.

> **“HBRIs place a priority on *control, choice,* and *consolidation* when deciding to roll balances from a DC plan to an IRA.”**

In this context, institutional and retail retirement providers must continually refine their marketing strategies — including segmentation — so that they can deploy limited resources effectively. One of the most straightforward ways to segment the rollover market involves the size of the balance being rolled to an IRA. Higher-balance rollover investors (HBRIs) are especially attractive because — aside from the gain in assets represented by the balance itself — they are more likely to be wealthier clients with more complex financial needs. While there is no universally accepted threshold, most institutions would consider a balance of $250,000 or more to be worth the effort to retain or capture it.

In a recent Secure Retirement Institute® (SRI®) study of individuals aged 40 to 75 who rolled a balance (of $5,000 or more) from a DC plan within the past two years, fewer than 1 in 4 (23 percent) were HBRIs who rolled at least $250,000. These rollovers represented 70 percent of all dollars rolled.

Compared with lower-balance rollover investors (LBRIs) with balances under $250,000, HBRIs tend to:

- Be older (74 percent aged 60 or older versus 54 percent of LBRIs) and/or retired (66 percent versus 51 percent of LBRIs), representing an opportunity for offering in-depth retirement transition planning.
- Have longer tenures at their former employers. Sixty-one percent of HBRIs were at their employers for at least 20 years, versus 24 percent of LBRIs. Longer tenures are linked to stronger familiarity and relationships with the DC plan provider (61 percent of HBRIs had “somewhat strong” or “very strong” relationships with the plan provider), thus providing a tactical advantage for providers’ in-plan and out-of-plan retention strategies.
- Be wealthier, with significantly higher household annual incomes and investable assets.

What motivates HBRIs in their rollover decisions?

SRI found that HBRIs place a priority on *control*, *choice*, and *consolidation* when deciding to roll balances from a DC plan to an IRA.

Forty-three percent of HBRIs indicate that rolling over gives them more control over their money; in contrast, only 30 percent of LBRIs cite control as a reason for their decision. HRBIs are about twice as likely as LBRIs (35 percent and 18 percent, respectively) to roll out of the plan to access a greater range of investment options, suggesting a greater comfort level with investing and dissatisfaction with the more restricted set of options within their DC plans. HBRIs also cite consolidation of assets with a single firm slightly more often than LBRIs (37 percent and 32 percent, respectively). Existing retail relationships exert a powerful influence on these decisions.[1] Being wealthier, HBRIs are more likely than LBRIs to have one or more accounts at firms other than the plan provider, making retention a challenge.

Similarly, the reasons for selecting destination firms for their rolled balances vary between the two types of investors. HBRIs, more often than LBRIs, pick IRA companies based on the investment choices they offer (30 percent and 20 percent, respectively) and to consolidate assets (36 percent and 25 percent). In addition, HBRIs are more inclined to choose a company because it has a good reputation, it offers useful retirement planning tools, and it helps through every step of the rollover transaction.

HBRIs often involve financial professionals (FPs) in their rollover decisions, and are more inclined to do so than LBRIs (52 percent and 41 percent, respectively). Compared with LBRIs, HBRIs are more likely to say that an FP had the greatest influence on their decisions, and less likely to say that employers, coworkers, family members, or friends exert the most influence. Furthermore, these FPs are more often someone with whom HBRIs already work to help make financial and investment decisions. In other words, the rollover decision is not a one-off, and is likely a part of ongoing services offered by the FP. Since more HBRIs than LBRIs begin thinking about their rollover decisions well in advance of leaving their employers (49 percent of HRBIs and 27 percent of LBRIs start thinking about the decision 90 or more days before leaving), they are probably consulting FPs during this time.

As competition for IRA rollovers continues to intensify, each company must develop and improve its strategies based on a deep understanding of its target markets. SRI research paints a clear picture of the characteristics and motivations of HBRIs for companies hoping to win their business. These older, wealthier investors often have established retail relationships with retail firms and FPs, and are seeking greater control over their money by consolidating assets where they have more selection, useful planning tools, and excellent service. Cultivating relationships before the rollover event is key.

[1] *Money in Motion: Understanding the Dynamics of Rollovers, Roll-ins, and IRA Transfers*, Secure Retirement Institute, 2017.