Retirement Income
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IRA rollovers in 2013 totaled $324 billion; $720 billion stayed behind

By Editorial Staff *Wed, Jun 25, 2014*

Besides providing quantitative rollover data, a new Cerulli Associates report provides qualitative survey data. One takeaway: People in their 50s don't think of themselves as 'pre-retirees.'

A combination of retiring Baby Boomers and a rising stock market helped total IRA assets rise by 17% or $324 billion in 2013, to $6.5 trillion, according to a new report from Cerulli Associates, the Boston-based global research firm.

In the “Evolution of the Retirement Investor 2014: Understanding 401(k) Participant Behavior and Trends in IRAs, Rollovers, and Retirement Income,” Cerulli examined the migration of assets and came up with observations designed to help financial services companies compete for this “money in motion.”

“We anticipate that IRA asset growth will continue through the remainder of the decade as defined contribution assets continue to roll into individual accounts,” said Shaan Duggal, analyst at Cerulli, in a release.

About 70% of the rollover money went to firms with whom the participant already had a financial relationship, though not necessarily to a 401(k) provider. Despite all the talk about rollovers, Cerulli pointed out, inertia still has a powerful effect. About two-thirds of the 401(k) money that was eligible for a rollover stayed in the plan in 2013. There was $720 billion that could have moved but did not.

“While asset values are climbing, so is the level of competition and noise surrounding rollovers,” added Chris Nadai, a senior analyst at Cerulli. “Firms must be creative with their marketing and adapt quickly as new sales program such as rollover cash incentives grab consumer attention.”

Nadai apparently referred to the offers by E*Trade and TD Ameritrade of “up to $600” to people who roll qualified money to their firms. Those ads have been shown to be highly misleading however. An investor must park hundreds of thousands of dollars in a brokerage account in order to qualify for a trivial bonus.

Regulators have told *RIJ* in the past that those firms can offer such ethics-bending come-on ads because they sell a service, not a registered security, as fund companies do.

Retirement plan recordkeepers are in a good position to compete for the assets. Cerulli suggests that recordkeepers need to invest in technology and market research that facilitate a positive customer experience.

“Outbound communication to participants who are changing jobs or retiring should use relevant data from their account information whenever possible, because participants are more likely to respond to a personalized approach,” Duggal said. “Customer service both online and by phone is of critical importance as complex concepts such as retirement income do not resonate well with individuals as they think about their finances and lifestyles.”

Job changers in their 50s evidently are not yet receptive to marketing messages that emphasize retirement income. “They do not consider themselves pre-retirees,” Cerulli noted. Therefore firms’ attempts to present themselves as the “retirement” company might not connect well with rollover candidates.

In rollovers, as in other businesses, it’s easier to keep a customer than to win a new customer. A recordkeeper’s investment in building a strong relationship with participants, and positioning itself as the most logical financial partner when participants separate, can be more cost-effective than trying to convince participants to save more. “This strategy can grow assets faster than trying to increase contribution rates,” the Cerulli report said.