Roll Over and Play Fair

By Editorial Staff *Thu, May 18, 2017*

The LIMRA Secure Retirement Institute's study of participant behavior around rollovers comes at a time when financial advisors need to talk about rollovers more carefully than in the past.

To help financial advisors and firms navigate the “new normal” regarding their communications with plan participants about IRA rollovers, the LIMRA Secure Retirement Institute has conducted a study called, “Money in Motion: Understanding the Dynamics of Rollovers, Roll-Ins and IRA Transfers.”

LIMRA found that such communications are common. The study’s findings, released this week, showed that eight in 10 defined contribution (DC) plan participants who roll their assets into an individual retirement account (IRA) speak to someone before performing the transaction.

“The majority (58%) of these people rely on a financial professional when making this decision. Since so many of these transactions involve financial professionals, any changes to advisors’ business practices based on the Department of Labor’s fiduciary rule could have a significant impact on the direction of the rollover market,” noted Matthew Drinkwater, PhD., assistant vice president, LIMRA Secure Retirement Institute, in a release.

Competition for IRA rollovers is intense. The biggest recipients of rollovers are the biggest plan providers, Fidelity Investments and Vanguard. Forty percent of the participants who rollover to an IRA custodian other than their 401(k) provider (e.g., Vanguard 401(k) participants who roll over to Fidelity IRAs) go to just six firms: Fidelity, Vanguard, Edward Jones, Charles Schwab, Ameriprise Financial and Merrill Lynch, according to LIMRA.

The rollover world is also under a fog of uncertainty at the moment. No one knows exactly what the new regulatory normal will be, because the Trump administration is still studying the Obama Department of Labor’s fiduciary rule; the rule may be dramatically altered by year-end. But the current version of the bill shines a spotlight on communications between advisors and plan participants.

In the opinion of the Obama DOL, some advisors, while prospecting for clients, recommended rollovers to departing plan participants who might have been better off keeping their money in their 401(k) plans. The rule establishes that advisors are fiduciaries when talking to plan participants, and must act solely in the clients’ best interests.

The rule threw plan advisors and plan providers into turmoil, because they now risked a pension law violation if their communications with participants about rollovers crossed the line from education to advice and the advice turned out to be a solicitation for new rollover business.

The Trump administration is being lobbied by some financial industry groups to reverse what it considers some of the most onerous parts of the Obama DOL rule, including the scrutiny of rollovers, the new right of aggrieved IRA rollover owners to sue financial service providers, and the rules that require a legallybinding “Best Interest” pledge from sellers of indexed and variable annuities who take commissions from annuity manufacturers.

The top reasons plan participants gave for rolling over their DC assets into an IRA are:

- To gain more control over their assets.
- To access better investment options
- To achieve better returns.
- To consolidate their portfolio

“This is consistent with prior studies,” Drinkwater said. “Among all workers age 40-75, about 11% rolled money from their DC plan into a traditional IRA within the past two years. People age 60-64 with income of $100,000 – $249,999, were most likely to move their DC plan assets into an IRA.”

One third of participants said they had other accounts with the retail provider they had chosen to rollover their DC assets and another third say it is more convenient to do business with their chosen IRA provider. This motivation is more pronounced with those who have more than $1 million in household assets as nearly half (46%) cite consolidation as their reason to move their assets.

Whether or not the plan participant keeps their assets with the plan provider or moves it to another retail IRA provider often depends on the strength of the relationship with the plan provider. Only 11% of participants said they had a strong relationship with their plan provider before leaving their employer.

About half (54%) of those rolling over assets start thinking about the decisions 90 days or more before the leave their employer, the survey showed. Plan providers rarely know in advance that a participant intends to leave his or her employer. Retention rates are highest among younger participants, wealthier participants, and participants who had formed strong relationships with their plan providers.

The top three factors participants considered when considering a company were reputation (47%), recommendation by friends, family or co-workers (33%) and existing relationships—when a participant already has an account or products with the company (28%).

LIMRA Secure Retirement Institute conducted this survey in the fall of 2016. Subjects included more than 2,500 U.S. consumers ages 30-75 who were involved in the household’s financial decisions. The results were weighted to demographic characteristics to better represent the U.S. population.

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