



IRA ROLLOVER OPPORTUNITIES



While defined contribution plans, like the 401(k) plan, are essential for helping workers save for retirement throughout their working years, IRAs top the market for job changers and retirees by providing expansive investment, consolidation, and retirement income options. IRAs have actually held more assets than defined contribution plans since 2007.¹ Financial advisors and their firms that understand the factors driving the growing volume of IRA rollover activity will be in a stronger position to capture a share of the retirement savings flowing out of employer plans and into IRAs.

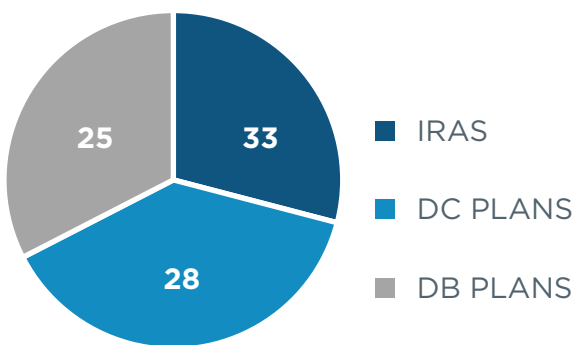
THE IRA MARKET

The 401(k) plan plays the lead role in retirement savings accumulations. Individuals can save a hefty portion of their paychecks in their employer-sponsored plans each year, up to \$19,000 for 2019 (\$25,000 for those age 50 and older). Many employers provide matching or profit sharing contributions to help boost employees' retirement savings accounts. At the end of 2018, defined contribution plans (i.e., 401(k), 403(b), governmental 457(b) plans) held \$7.5 trillion dollars of America's retirement savings.¹

But when an individual changes jobs or retires, the tendency is to disengage from the former employer. This includes pulling retirement savings out of the former employer's plan. The most recent available data shows that \$460 billion was rolled over from employer retirement plans to Traditional IRAs in 2015.² At \$8.8 trillion, IRAs held nearly 33% of all U.S. retirement savings at the end of 2018.¹

Although IRA owners can make annual contributions to their IRAs, the growth in IRAs has been driven primarily by rollovers from employer-sponsored retirement plans. By mid-2018, more than half (58%) of households owning a Traditional IRA had rollover dollars in their IRAs.² Of those with rollovers, 84% said they rolled over their entire retirement plan account balance to their IRA.²

U.S. Retirement Market¹



¹Investment Company Institute (ICI), "The U.S. Retirement Market, Fourth Quarter 2018," March 2019, www.ici.org

²Investment Company Institute, ICI Research Perspective, Vol. 24, No. 10, "The Role of IRAs in US Households' Saving for Retirement, 2018," December 2018, <https://www.ici.org/pdf/per24-10.pdf>

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Size of Rollovers²



84%
rolled entire
account

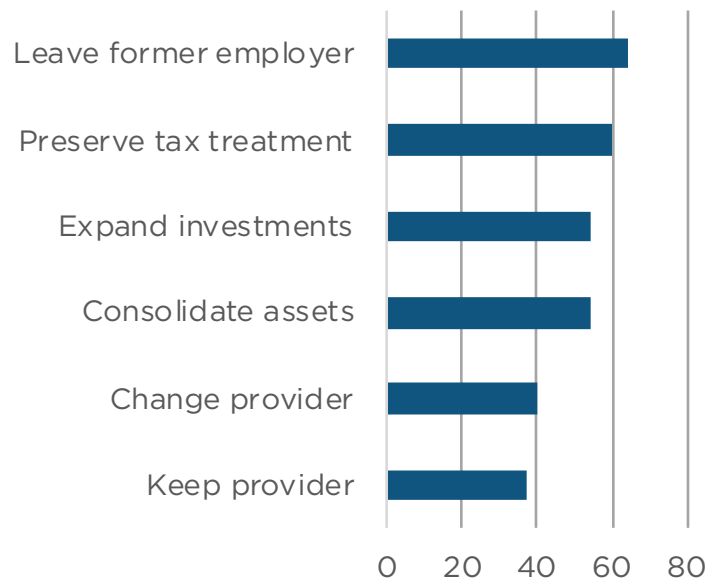
16%
rolled a
portion of
account

The majority of households with rollover assets made their most recent rollover within the last 18 years, including 63% who rolled over within the past 8 years.² IRA assets have grown \$3.78 trillion in those 8 years.¹ Most industry experts project continued growth in the IRA rollover market as Baby Boomers head into retirement, some say at a rate of 10,000 per day. Job changers are also fueling the growth in IRA rollovers. Workers age 25 and older have a median job tenure of just 5 years.³ Among IRA owners who have already chosen to roll over employer plan assets to an IRA, 70% say they did so after changing jobs or being terminated from employment, and 35% say the rollover occurred after retiring from work.²

WHY ROLL OVER TO AN IRA?

Nearly 7 in 10 workers expect their income in retirement to come from an IRA.⁴ When asked why they chose to roll over their retirement assets to an IRA, investors typically cite more than one reason.

Reasons for Rolling Over to an IRA²



➔ Although simply ending ties with a former employer seems to be a primary reason investors choose an IRA to hold their retirement savings, IRAs provide many other benefits, especially self-directed IRAs.

¹Investment Company Institute (ICI), "The U.S. Retirement Market, Fourth Quarter 2018," March 2019, www.ici.org

²Investment Company Institute, ICI Research Perspective, Vol. 24, No. 10, "The Role of IRAs in US Households' Saving for Retirement, 2018," December 2018, <https://www.ici.org/pdf/per24-10.pdf>

³U.S. Bureau of Labor Statistics, "Employee Tenure in 2018," September 20, 2018, <https://www.bls.gov/news.release/pdf/tenure.pdf>

⁴Employee Benefit Research Institute (EBRI), "2019 Retirement Confidence Survey Summary Report," April 23, 2019, www.ebri.org

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Benefits of Rolling Over to an IRA	
Consolidate multiple retirement accounts	In addition to reducing administrative fees, paperwork and passwords, consolidating retirement accounts can make it easier to manage an investor’s portfolio.
Tax diversification	With a combination of Roth and Traditional IRAs, investors can create streams of both taxable and tax-free income in retirement as well as creating tax-free assets for heirs.
Distribution flexibility	IRA owners are free to access their retirement savings at any time. Yet in mid-2018, only 5% of Traditional IRA owning households younger than age 59 had taken withdrawals. ² Additionally, IRAs can offer more distribution options, and IRA owners can aggregate their required minimum distributions (RMDs) from their IRAs to achieve various retirement income strategies.
No tax consequences	Unlike cashing out, rolling over retirement assets to a Traditional IRA is tax free, and a direct rollover avoids the mandatory 20% withholding on retirement plan distributions.
Tax-deferred growth	Keeping retirement savings in a tax-deferred savings vehicle continues the tax-deferred growth on investment earnings in a Traditional IRA and tax-free growth in a Roth IRA.
Additional contributions	If eligible to contribute, individuals may contribute up to \$6,000 for 2019 (\$7,000 if age 50 or older). One study found that 43% of investors who rolled over assets to a Traditional IRA also made contributions to their Traditional IRA. ²
Choice of IRA custodian	Investors have the freedom to choose the IRA custodian that offers the types of investments and services that best fits their retirement savings and retirement income strategy.
Expanded investment options	With a self-directed IRA, investors can access a wide variety of alternative investments including private stock, real estate, and precious metals to suit their specific retirement income and investment goals.

²Investment Company Institute, ICI Research Perspective, Vol. 24, No. 10, “The Role of IRAs in US Households’ Saving for Retirement, 2018,” December 2018, <https://www.ici.org/pdf/per24-10.pdf>

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ROLLOVER STRATEGIES BY AGE

Approximately 70% of IRA assets are held by individuals age 60 and older.⁵ It's the natural evolution of the retirement savings accumulation to decumulation life cycle as those nearing retirement look for a savings vehicle that can serve their retirement income needs. The oldest Baby Boomers (born 1946-1964) are age 73 and the youngest just 55. This cohort of retirement savers will be looking for many of the benefits of IRA rollovers now and in the coming years as they pass through their final years of saving aggressively and transition into planning how they're going to make those savings last throughout their lifetime. Advisors can help clients not only analyze investment opportunities, but also understand how IRA withdrawals (pre-tax and Roth) will affect their income tax liability in retirement. These clients will likely be looking for IRA and service provider solutions that offer flexible distribution options and retirement income planning support.

Gen Xers and Millennials are also active in the IRA rollover market. They tend to change jobs frequently and may be seeking guidance about consolidating their savings from multiple former employer plans.

➔ Many will be unfamiliar with retirement saving options outside of the 401(k) plan.

They will need assistance with evaluating investment models and fees in IRAs as well as the other factors that should be considered when selecting an IRA product. Millennials may also be especially interested in investment opportunities not typically offered within a retirement plan – for example socially responsible or sustainable investing.

BE AWARE OF THE REGULATORY ARENA

Financial advisors and other service providers in the IRA rollover market must stay up to date on the changing regulatory arena for capturing IRA rollovers and providing IRA investment support. Various agencies have been focused on making sure investors are receiving unbiased rollover advice and have included rollover practices in their regulatory and examination initiatives.

- The SEC proposed guidance that would create a new “Regulation Best Interest” standard for broker-dealers when providing individualized advice to retail investors, which includes IRA owners. This proposal would also create new disclosure

⁵ Cerulli, Press Release, “70% of IRA Assets Held By Individuals Age 60 and Older, Totaling Nearly \$6.5 Trillion,” June 2018

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rules for brokers and registered investment advisors.⁶

- The DOL is reconsidering its conflict of interest rules and prohibited transaction exemptions related to providing investment advice, which previously included compensation practices relating to IRAs and IRA rollovers.⁷
- FINRA issued guidance that reminds broker-dealers and advisors of the potential for conflicts of interest when recommending that an investor roll over plan assets into an IRA from which the broker or advisor will earn commissions or fees. FINRA states that recommendations to roll over plan assets to an IRA rather than keeping assets in a previous employer's plan or rolling over to a new employer's plan should reflect consideration of various factors.⁸

Factors to consider rolling over to an IRA⁸

- ➔ Investment options available in the IRA and the retirement plan
- ➔ Fees and expenses, both investment-related and administrative fees
- ➔ Services available (e.g., access to investment advice, planning tools, call centers, educational materials)
- ➔ Penalty-free withdrawals before age 59½
- ➔ Protection from creditors and legal judgments
- ➔ Required minimum distribution (RMD) requirements

PROVIDE SUPPORT TO IRA ROLLOVER PROSPECTS

Financial advisors should review their IRA rollover service model with their compliance department or legal counsel to make

⁶ SEC, Proposed Rule, "Regulation Best Interest," April 18, 2018, <https://www.sec.gov/rules/proposed/2018/34-83062.pdf>

⁷ DOL, Field Assistance Bulletin No. 2018-02, May 7, 2018, <https://www.dol.gov/sites/default/files/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-02.pdf>, Reginfo.gov, DOL/EBSA Unified Agenda, Fall 2018, Fiduciary Rules and Prohibited Transaction Exemptions, <https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=201810&RIN=1210-AB82>

⁸ FINRA, Notice 13-45, Rollovers to Individual Retirement Accounts, December 2013, <http://www.finra.org/industry/notices/13-45>

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certain they are following the firms' policies and procedures.

The complexity of the retirement savings market today ensures that most investors will need assistance in making educated decisions about what to do with their retirement savings and investments when they change jobs or retire. As investors continue to seek help with understanding not only their saving and investment options, but also the factors they should consider as they look toward planning their retirement income, advisors and financial services firms that want a stake in the IRA rollover market should have a strategy to provide this support.



For questions about rollovers with STRATA Trust, please contact us. For more information, visit www.StrataTrust.com

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ABOUT US



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STRATA Trust Company has quickly catapulted to become a premier national custodian for alternative assets and non-exchange traded investments in self-directed IRAs. Formerly known as Self Directed IRA Services, Inc., STRATA has been helping investors use their retirement account funds to invest since 2008. STRATA currently serves over 35,000 individuals nationwide with over \$1.8 billion in assets under custody.

With offices in Waco and Austin, Texas, our team's vast experience in handling the details and complexities that real estate transactions require is unrivaled. Our seasoned team's experience in the custody of alternative assets spans over 350 years. With a well-established reputation for honesty and integrity, STRATA is committed to delivering responsive, flexible and innovative solutions.

At STRATA, we work to ensure that the highest standards for safety and soundness are met. As a subsidiary of Horizon Bank, SSB, STRATA is a Texas-chartered trust company regulated by the Texas Department of Banking, which has long set the benchmark among state banking regulators. Strict controls are in place to ensure the safety of uninvested cash, and independent auditors are retained to conduct regular audits of our operations.

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