NORTHERN TRUST
ASSET MANAGEMENT

IRA ROLLOVERS CAN HELP GROW YOUR BUSINESS AND BENEFIT YOUR CLIENTS

DREW MARESCA
Head of Research,
Retirement Solutions

Northern Trust Asset Management

NTAMInvestmentInstitute.com

June 2022

More than $500 billion moved from defined contribution (DC) plans to Individual Retirement Accounts (IRA) in 2019 via rollovers, providing millions of individual investors conveniences and investment options that were otherwise unavailable to them.[1] Industry predictions suggest that rollovers will increase dramatically in the coming years as well. To ensure that clients and prospects understand all of their options, and as a means of growing your business, financial advisors can look to prioritize rollovers.

Let's first discuss the drawbacks of IRAs and rollovers. Typically, IRA investment options like mutual funds charge retail share prices, which are higher than the institutional pricing offered in DC plans. There are also some investment options, like stable value funds, that are less accessible to IRAs. Loans also present challenges as outstanding DC loans must be repaid prior to rolling over a balance, and loans cannot be initiated from IRAs – so if your clients plan to access DC balances via loans, an IRA rollover may hurt their ability to do so.

But for some, the benefits outweigh the drawbacks. Generally, IRAs offer investors more investment options than DC plans. And given that investors and/or advisors proactively complete rollovers, they are less likely to be lost or forgotten than DC balances. A recent analysis done by the Center for Retirement Research at Boston College revealed that over 24 million forgotten 401(k) accounts with upwards of $1.35 trillion have been left behind, and another 2.8 million join them annually.[2]

These concerns are more abstract – and in some cases, intentional (e.g., some investors intentionally leave accounts with former employer plans.) But there are tangible and concrete drawbacks, as well, beginning with income and withdrawal options for recently retired and near-retiree clients.

Generally, withdrawal options are limited in DC plans; they are actually more a product of plan design and, therefore, the rules governing them are mostly left to the plan sponsor. Most plan sponsors attempt to serve their participants in accumulating assets; decumulation is less of a priority. Lots of plans restrict withdrawal options to either lump sum withdrawals or annual withdrawals.

Conversely, IRAs allow for a more customizable withdrawal plan, and they enable access to the full spectrum of income options, like annuities. The SECURE Act technically made annuities more accessible to DC plans, but the range of annuities available to plan participants remains to be seen. Therefore, while not appropriate for everyone, IRA rollovers should be discussed with your retiree and near-retiree clients – especially those with existing DC balances – to unlock all income and withdrawal options.

Another limitation on the part of DC plans in serving income needs is their limited investment menus. In the last decade or so, DC plans proactively trimmed their investment menus as a means of simplifying the investment process for less knowledgeable participants – another feature that is more suited to accumulation.

NTAC:3NS-20

But in transitioning to decumulation, a limited plan menu can inhibit an income strategy. For example, if using the bucket strategy, three or more "buckets" are necessary. The flaw in leaving funds in a DC plan when using such a strategy is that there are insufficient investment options.

Furthermore, target date funds (TDFs), while popular, are a particularly bad choice for retirees drawing income, especially in times of market volatility.

This is because the underlying concept of TDFs is risk reduction over time delivered in a single solution, which again works well for accumulation. However, TDFs inhibit investors from capitalizing on creative withdrawal strategies. Instead, TDFs force them to withdraw equally from all asset classes, regardless of market conditions. For example, if a retiree in a TDF wishes to withdraw 4% annually, he or she must sell 4% of all holdings, including equities. This is especially damaging when the market is unstable or significantly off its highs.

Ultimately, DC plans are great for accumulation, but they're not nimble enough to meet the income needs of all retirees – and they don't have to be given the existence of advisors, rollovers, and IRAs. One of biggest benefits of working with a financial advisor is access to objective advice. For fee-based advisors, it is especially important to mention to clients and prospects that, as a fiduciary, you cannot suggest anything not in their best interest. Therefore, a suggestion to complete a rollover and/or re-allocate holdings is in their best interest – assuming that's your determination.

NORTHERN TRUST RETIREMENT SOLUTIONS

As one of the largest managers of retirement assets in the United States, our team has deep expertise in developing innovative answers to challenges faced by many plan sponsors, retirement advisors and individual investors. We take a consultative approach to addressing our clients' needs and offer a suite of solutions aimed at improving retirement outcomes.

NORTHERN TRUST ASSET MANAGEMENT

As a leading global asset management firm, our investment expertise, strength and innovation have earned the trust and confidence of the world's most sophisticated institutional and individual investors.

With $1.2 trillion in total assets under management,[3] and a long standing history of solving complex challenges, we believe our strength and stability drive opportunities for our clients. Our comprehensive asset class offering includes passive, factor-based, fundamental active and multi-asset class solutions that are available in a variety of investment vehicles.

[1] Investment Company Institute, 2022. "The US Retirement Market, Fourth Quarter 2021. www.ici.org/info/ret_21_q4_data.xls.
[2] NEPC "Defined Contribution Plan Trends and Fee Survey". 2021.
[3] Asset under management as of March 31, 2022.

NTAC:3NS-20

LET OUR EXPERTS BE YOUR EXPERTS

To learn more about growing your business with retirement planning services, contact your Northern Trust Relationship Manager or send an email to NTAMIISolutionsExperts@ntrs.com, or visit us at NTAMInvestmentInstitute.com

The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. Opinions and forecasts discussed are those of the author, do not necessarily reflect the views of Northern Trust and are subject to change without notice.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, adviser risk and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe Northern Trust's efforts to monitor and manage risk but does not imply low risk.

Past performance is not guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by Northern Trust. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For additional information on fees, please refer to Part 2a of the Form ADV or consult a Northern Trust representative.

Forward-looking statements and assumptions are Northern Trust's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

If presented, hypothetical portfolio information provided does not represent results of an actual investment portfolio but reflects representative historical performance of the strategies, funds or accounts listed herein, which were selected with the benefit of hindsight. Hypothetical performance results do not reflect actual trading. No representation is being made that any portfolio will achieve a performance record similar to that shown. A hypothetical investment does not necessarily take into account the fees, risks, economic or market factors/conditions an investor might experience in actual trading. Hypothetical results may have under- or over- compensation for the impact, if any, of certain market factors such as lack of liquidity, economic or market factors/conditions. The investment returns of other clients may differ materially from the portfolio portrayed. There are numerous other factors related to the markets in general or to the implementation of any specific program that cannot be fully accounted for in the preparation of hypothetical performance results. The information is confidential and may not be duplicated in any form or disseminated without the prior consent of Northern Trust.

This information is intended for purposes of Northern Trust marketing of itself as a provider of the products and services described herein and not to provide any fiduciary investment advice within the meaning of Section 3(21) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Northern Trust is not undertaking to provide impartial investment advice or give advice in a fiduciary capacity to the recipient of these materials, which are for marketing purposes and are not intended to serve as a primary basis for investment decisions. Northern Trust and its affiliates receive fees and other compensation in connection with the products and services described herein as well as for custody, fund administration, transfer agent, investment operations outsourcing and other services rendered to various proprietary and third party investment products and firms that may be the subject of or become associated with the services described herein.

Northern Trust Asset Management (NTAM) is composed of Northern Trust Investments, Inc. (NTI), Northern Trust Global Investments Limited (NTGIL), Northern Trust Fund Managers (Ireland) Limited (NTFMIL), Northern Trust Global Investments Japan, K.K. (NTKK), NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC, Northern Trust Asset Management Australia Pty Ltd and investment personnel of The Northern Trust Company of Hong Kong Limited (TNTCHK) and The Northern Trust Company (TNTC).

© 2022 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

F-062922-2264186-062923

NTAC:3NS-20