Death Of DOL Rule Helps Drive Rollover Market, LIMRA Says

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With fears regarding the U.S. Department of Labor fiduciary rule in the rear-view mirror, rollovers are revving back up, according to data from the LIMRA Secure Retirement Institute.

The traditional IRA rollover market is expected to exceed $466 billion in 2019, with the figure growing to $505 billion by 2021, LIMRA said.

LIMRA adjusted its forecast downward with its most-recent data. Just a few years ago, researchers predicted a soaring rollover market would hit $550 billion by 2018, but the DOL rule had a chilling impact, LIMRA said.

Sales picked back up after a court decision killed the DOL rule early last year, LIMRA said.

Third-quarter sales of variable annuities were up 25 percent year-over-year to $25 billion, according to LIMRA. Fixed-index annuity sales were up 28 percent over third quarter 2017. Overall, LIMRA reported that 60 percent of annuities are bought with IRA rollover dollars.

Consumers choose advisors and companies to handle their rollovers based on a wide range of factors, according to the report, with company reputation topping the list at 36 percent.

Fees were not among the top motivators for people seeking a rollover advisor, LIMRA found.

“Companies that emphasize low fees to the exclusion of other aspects of their offerings may be limiting their potential,” the report authors wrote. “However, as the industry adopts more fee transparency, fees may become more important in rollover decisions.”

The top 15 broker-dealers are generally capturing about 60 percent of the rollover market, while insurance companies are receiving just 12 percent of the available rollover business, LIMRA found.

Most insurance companies face difficulties in capturing rollovers because they don’t have control over their distribution, LIMRA noted. Many rely on broker-dealer platforms and their representatives to present insurance products like annuities to potential rollover clients.

“Other hurdles like little brand recognition, lack of strong products, lack of robust narratives around guaranteed income, and detachment from end consumers force insurance companies to accept a minor role in the growing rollover market,” LIMRA said.

Also driving IRA rollovers is the fact that most American workers are at the tail end of the transition period from pensions to defined contribution plans they themselves have to annuitize, according to survey data from the Investment Company Institute.

The ICI survey found that traditional IRA owners cited multiple reasons for rolling over their retirement accumulations, including avoiding leaving assets behind with a former employer (64 percent), preserving the tax treatment of the savings (60 percent), consolidating assets (54 percent) and having more investment options (54 percent).

The ICI also found that 58 percent of traditional IRA-owning households, or 19 million households, indicated that their traditional IRAs contained rollovers from employer-sponsored retirement plans in 2018.

One-third of U.S. households owned IRAs in 2018, ICI found. More than eight in 10 IRA-owning households also had accumulations in employer-sponsored retirement plans. More than 60 percent of all households had either retirement plans through work or IRAs, or both.

Most traditional IRA-owning households have a planned retirement strategy, according to the ICI. Nearly two-thirds indicated they have a strategy for managing income and assets in retirement.

In 2018, the majority of IRA-owning households had incomes less than $100,000. Forty percent had incomes between $35,000 and $99,999 and 12 percent had incomes less than $35,000.
