

Growth opportunities in IRAs

Don't overlook potential revenue from plain-Jane investments

By **Mike Weldon**
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To paraphrase Yogi Berra, individual retirement accounts are so popular that many advisers don't pay attention to them anymore.

But even focusing just a little more on IRA basics will likely result in a big difference to the bottom line.

Of the three pools of retirement assets — defined contribution, defined benefit and IRAs — the latter are the largest, with \$4.5 trillion as of June. And that will grow 8.5% through 2013, according to Cerulli Associates Inc. of Boston.

For advisers, the attractiveness of IRAs is that nearly every working American is eligible to contribute.

Advisers can increase their success in the IRA market by asking a few extra questions in the course of everyday conversations with clients and prospects. Generally, those questions will fall into three areas: accumulating wealth, consolidating wealth and generating income.



Mike Weldon

The first conversation centers on accumulating wealth in IRAs. This involves encouraging investors to make annual contributions for themselves and their spouses.

Advisers shouldn't underestimate the power of asking, "Do you have an IRA?" or "Do you know that you may be able to contribute to an IRA?" According to data from the Investment Company Institute in Washington, just 14% of eligible taxpayers contributed to an IRA in 2007.

Because the maximum contribution is relatively small, advisers tend to ignore starter IRAs and neglect to ask about annual contributions. But as many advisers have come to appreciate, small IRAs eventually grow quite large.

Between 2008 and 2013, Financial Research Corp. of Boston estimates that \$2.3 trillion in IRA assets will be eligible for rollover. And about 73% of rollovers exceeding \$100,000 go into existing IRAs, according to a study conducted by New York-based Merrill Lynch & Co. Inc. in 2006.

Conclusion: The key to more rollovers is the contributory IRA.

Another conversation that can potentially offer fertile ground for IRA opportunities, particularly among investors who are still in the work force, is consolidating IRAs.

Today's work force is much more mobile than it was in the past.

Another factor of which advisers should be aware is that one in three high-net-worth individuals leave money behind in a prior employer's retirement plan. The average balance of those accounts is \$259,000, according to Cogent Research LLC in Cambridge, Mass.

While younger investors need your IRA advice, perhaps the biggest opportunity lies with investors over 50. These investors often have significant retirement assets, either through IRA contributions or employer-sponsored plans, but many don't remember or aren't aware of the specific arrangements that they have made regarding beneficiaries.

Here, an adviser can be of help simply by asking about beneficiary designations. This is an opportunity to combine multiple accounts and to talk about deeper issues, such as how an investor may want their assets to be passed on and used after they are gone.

Finally, advisers should have conversations with their clients about retirement income and maximizing distributions of assets to their beneficiaries.

When managing retirement income, retirees face several challenges.

Chief among these is life expectancy. Most people will spend 25 years or more in retirement, which means that inflation likely will have a significant effect on their portfolio.

Generating a growing income stream from an IRA that can withstand the ravages of inflation will be paramount for retirees.

In addition to providing income, many investors are using their IRAs to provide a legacy. A report from the ICI last year found that 75% of IRA holders over 70 are taking only the minimum required distribution from their accounts.

One way to address this group is to make sure that they are aware of the simple beneficiary designation strategy that allows an IRA holder to "stretch" payments over multiple generations. The stretch IRA is appropriate for those individuals who plan to take only the required minimum withdrawal, and wait until the law requires it, without penalty, at 70½.

Mike Weldon is director of retail marketing at Lord Abbett & Co. LLC in Jersey City, N.J.