

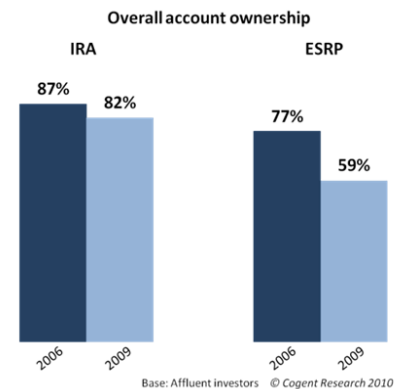
IRAs Now Trump 401(k) Assets

By Meredith Lloyd Rice

According to Cogent's recently released *Assets in Motion™ 2010: IRA & Retirement Marketplace Opportunities* report, wealthy Americans now hold more assets in IRAs than in workplace-based retirement accounts. The report, based on a nationally representative sample of 4,000 affluent and high net-worth investors, found that while allocations among existing 401(k) plan owners have remained relatively flat, ownership of employer-sponsored retirement plans has decreased by almost one quarter (23%) over the past three years. It appears that the majority of dollars that investors formerly allocated to ESRPs have been funneled into IRA accounts, and, to a lesser extent, bank accounts.

These findings may contradict other industry reports showing that the 401(k) market has actually been rebounding as a result of the resurgent stock market. However, while the Dow may be up and the employer match reinstated, in Cogent's opinion, a host of demographic, economic, and legislative factors will contribute to continued rollover momentum:

- The First Wave of Baby Boomers are beginning to retire
- The economy has caused many Americans to lose access to 401(k) plans as a result of job separation and many are choosing to roll these assets into IRAs
- There is a self-employment trend, particularly among Boomers starting their own businesses
- Some younger investors who may change jobs more frequently or have other competing priorities are choosing to bypass 401(k)s altogether after losing money in the market over the past decade
- Favorable legislative changes have made it possible for wealthier investors to convert from a traditional to a Roth IRA, providing even more flexibility and choice



While some of these trends may be mitigated by an improving economy, the effects of the changes that make it easier to convert qualified assets into a Roth IRA and the option to spread tax payments over three years remain to be seen. This new law could potentially have a huge impact, particularly among the affluent population who are more likely to be advised. A Roth IRA offers an alternative for wealthy investors who are concerned about future tax increases. They are also interested in using the Roth for estate planning purposes. For instance, the Roth can be used as a "stretch" IRA allowing maximum growth, with no required minimum distribution, resulting in higher potential balances for heirs.

In general, IRAs also offer other benefits that make them an attractive investment vehicle for affluent investors. These include:

- Offering the potential for more active management and advisor control
- Offering access to a broader range of investment options, including ETFs and individual securities, while workplace retirement plans are more likely to be limited to mutual funds

A broader investment line-up makes it easier for advisors to continually rebalance an IRA as part of an investor's broader portfolio. Many investors learned the importance of asset allocation the hard way in 2009 and remain unsure when or how to appropriately adjust their 401(k) plan allocation. The option for more active management and advisor control may be especially appealing for pre-retirees who did not fully understand the glide path of target date funds in their former or current workplace retirement plan or were too heavily invested in company stock.

With ongoing flux and conflicting information in the marketplace, it's difficult to forecast where we'll be next year. The 401(k) remains the primary, and even default, investment vehicle for many Americans, and data collected in Q4 of 2009 may be somewhat of an aberration. However, our insights indicate that 401(k) providers would be well served to start contemplating the challenges that lie ahead and how to best position themselves to maximize asset retention through well coordinated IRA campaigns.

To learn more about Cogent's *Investor Rollover Assets in Motion™* report, [click here](#).

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