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TAKING CLIENTS FROM ACCUMULATION TO PRESERVATION



[The Rollover Boom is Here](#)  
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The first baby boomers are turning 59½. Are you prepared to capture the retirement assets of this affluent group and serve their distribution needs?

*by Dan Rafter*

And you thought turning 16 was the greatest birthday of your life. Charles Fitzgerald, a financial planner with the Maitland, Fla., office of Spraker, Fitzgerald, Tamayo & Moisand LLC, thinks otherwise. These days, many of his baby boomer clients are hitting the magic age of 59½, allowing them to withdraw from their tax-deferred retirement savings accounts without paying penalties.

These clients are also nearing retirement, and many face choices that their parents may not have encountered.

“It used to be that most companies offered their employees a defined benefit pension plan,” Fitzgerald says. “At retirement, they would get a gold watch and an annuity check.”

But times have changed. Today, instead of offering traditional defined benefit plans, most employers have shifted to less expensive defined contribution plans, usually in the form of a 401(k) or 403(b). As a result, more consumers must take on more responsibility for the accumulation of their retirement assets. And when they retire, they’ll face more decisions about what to do with those assets.

That’s where Fitzgerald comes in. When his clients reach 59½, he offers guidance on what to do with that money. He often

advises clients to roll the retirement accounts over into IRAs, annuities and other investment vehicles.

“We are going to see a huge amount of rollover business in the next couple of decades,” Fitzgerald says. “This is just the beginning.”

“The opportunities for more (IRA rollover) business are certainly there,” says Don Patrick, managing director of Integrated Financial Group in Atlanta. “On the other hand, there is going to be increased competition for that business. Everyone knows that’s where the money is.”

Beyond the obvious benefits of capturing assets, advisors anticipating the rollover boom are excited that clients now have a chance to open their savings to a wealth of investment opportunities that were not previously available in their company’s retirement plans.

So how should you approach your clients’ rollover issues, and how can you capitalize on the boom as it unfolds before you? Consider these strategies from financial advisors who offer insight on how to position your firm and prepare your clients to maximize the opportunities of the rollover boom.

### ***Become a Distribution Expert***

If you want to earn rollover business, you must learn to switch from the wealth-accumulation model of financial advising to a mode that includes tackling the wealth distribution issues your clients face.

“The advisors who become distribution experts will be the ones who differentiate themselves from the rest of the pack,” says Patrick. “It’s a totally different mindset, going from accumulation to distribution. Very few advisors out there fully understand the implications of distributing. It really turns what everyone is used to doing upside down.”

Being a distribution expert requires more than knowing how to move a client’s retirement savings into an IRA. There are a variety of ancillary factors to consider. For one, boomers are living longer, so making their money last is more important than ever.

“The upsurge of technology and medical advances are having a major impact on financial planning,” says Tom Menzel, principal and majority owner of Bloomington, Minn.-based Legacy Financial Advisors. “You have to think that your clients are going to live 30 to 35 years in retirement now.”

Continued employment is another distribution issue you must weigh. Many of Menzel’s boomer clients are retiring from one job, only to start work in a lower-paying one, sometimes as consultants or part-time employees. This, too, can alter a distribution strategy, which could also alter rollover decisions.

Boomers who elect to work part-time after “retiring” may be in danger of receiving reduced benefits from Social Security. And clients who receive both Social Security benefits and income from a part-time job could find themselves in a new, less beneficial, tax bracket.

Other clients may choose to ease into retirement by cutting back hours with their full-time employers. In such scenarios, it makes sense for clients to continue to funnel dollars into their retirement accounts, if their companies allow. After all, the more money clients save, the more they have to spend during their retirement years, points out C. Zach Ivey, a financial planner with First Financial Group of the South in Birmingham, Ala.

“It’s natural for people to have a lot of anxiety about retirement and about switching from their last paycheck to this new unknown of living off an investment account,” Ivey says. “It makes sense for people to continue funding their retirement years for as long as they can.”

To hone your focus on distribution, as opposed to accumulation, you must bone up on the ins and outs of IRAs, annuities and other products that help fund your clients’ retirement years. Consider taking continuing education classes and explore designation programs that focus on these issues.

*TIP: The American College ([www.TheAmericanCollege.edu](http://www.TheAmericanCollege.edu)), for example, has a designation program that specifically addresses the issues of the aging baby boom population. The Chartered Advisor for Senior Living program includes courses on financial decisions for retirement, health and long-term care financing and understanding the older client.*

### ***Broaden Your Client’s Horizon***

Clients who limited their investment activity to company-sponsored defined contribution plans may have had few choices, so a rollover can truly broaden their investment horizons.

“It is virtually unlimited,” Ivey says. “They can now invest in mutual funds, stocks, variable annuities — anything that might better suit their investment needs. That is a big difference from the limited options they have in most 401(k) plans.”

Jason Papier, principal with San Jose, Calif.-based wealth-management firm PW Johnson, says many 401(k) plans contain underperforming funds. “Most have very limited choices,” he says. “Some may not have access to mutual funds in some core asset classes, which is frightening,”

Papier encourages advisors to compare clients’ 401(k) investment options with the opportunities allowed through a rollover, to get clients pumped up about the exciting opportunities created by rolling over those funds.

### ***Remind Clients of Your Expertise***

Most employees have no relationship with the providers of their company’s 401(k) or retirement plan. This means they’ve taken a largely hands-off role in investing. If you plan to take advantage of the rollover boom, you need to remind clients of the expert advice you can offer.

After spending years receiving complicated 401(k) statements and confusing letters about open enrollment periods, that guidance is something many consumers crave.

“A lot of people have taken a very random approach to investing in their company’s retirement plans,” Papier explains. He says many of these clients acknowledge that they don’t know what they’re doing, and they worry that they’re not making the best decisions.

“If they get an opportunity to roll their plans into IRAs and work with a financial planner who can give them clear, solid direction, they’re going to be thrilled,” he says. “It’s the planner’s job to promote this.”

### ***The Benefits of IRA Rollovers***

Of course, getting business from the rollover boom and serving clients well are two different issues. Advisors who want to make the full range of investment options available to their clients must first be able to offer a rollover strategy that fulfills the clients’ goals, which means rollovers must be appropriate for clients in the first place.

According to Ivey, it makes sense for most clients to move their retirement funds from their company retirement plans into IRAs because of the investment opportunities and greater flexibility available when it comes to naming beneficiaries.

“In my city, several of the major employers limit who their 401(k) participants can name as beneficiaries,” Ivey says. “Often, they only let you leave your money to a spouse, and you can’t go beyond that. Your ability to take advantage of things like stretching an IRA may be limited.”

Clients who want to name someone other than their spouse as a beneficiary — a child or other relative, for example — are ideal candidates for the stretch IRA strategy, as it allows the owner to extend the duration of traditional and Roth IRA beneficiary distributions beyond the death of an original designated beneficiary.

For Menzel, most of his boomer clients nearing retirement are solid candidates for rollovers, as long as they’re 59½ and want to see their Social Security benefits supplemented by an income source that will grow steadily and provide them with extra funds whenever they need it. Rollovers especially make sense for boomers who have retired from one career and plan to move into a new one.

Menzel has a client who retired from her corporate job where she was earning six figures annually. Her “retirement” consisted of moving into a lower-profile, less-stressful position with a smaller firm. While she earned far less money, she was able to supplement her income with the funds she rolled over from her retirement account.

It might make sense for some clients to fund their IRAs with annuities. IRAs, of course, already boast the advantages of income-tax deferral, but clients who use annuities to fund their IRAs are guaranteed income and death benefits not available from other funding vehicles such as mutual funds. Clients interested in providing for spouses or other beneficiaries might be well-served to consider an annuity when its time to fund an IRA.

### ***When It’s Time to Stay Put***

There are reasons for a client not to roll over. For example, if their retirement plan includes a guaranteed interest account that pays a high rate of interest, it may be best to stay put. Other clients may simply feel more comfortable holding onto a familiar plan.

“They understand the investment options, and they’re comfortable with them,” Ivey says. “I’m not going to knock that.”

The “55 rule” (IRS Code 72(t)(2)(A)(v)) is another “reason a client may be better off keeping his money in a 401(k). If he retires at age 55,

he can pull money out of his 401(k) plan without penalty.

“In this situation, I would do a partial rollover,” Fitzgerald says. “How much does the client think he’ll need to pull out until he turns 59½? We’ll leave that much in the 401(k) and then roll the rest into an IRA because of all the other advantages that come with an IRA.”

Advisors who take the time to study the retiring boomer market will certainly nab more rollover business in the next decade. And those who frame their business to address clients’ distribution needs will create a competitive advantage for themselves.

“I’ll be honest with you, my guess is that many of the planners out there are not ready to focus on distribution right now,” Patrick says. “You are starting to see some attention being paid to this in the press, and some movement to understanding distribution. But there are a lot of planners who just aren’t there yet.”