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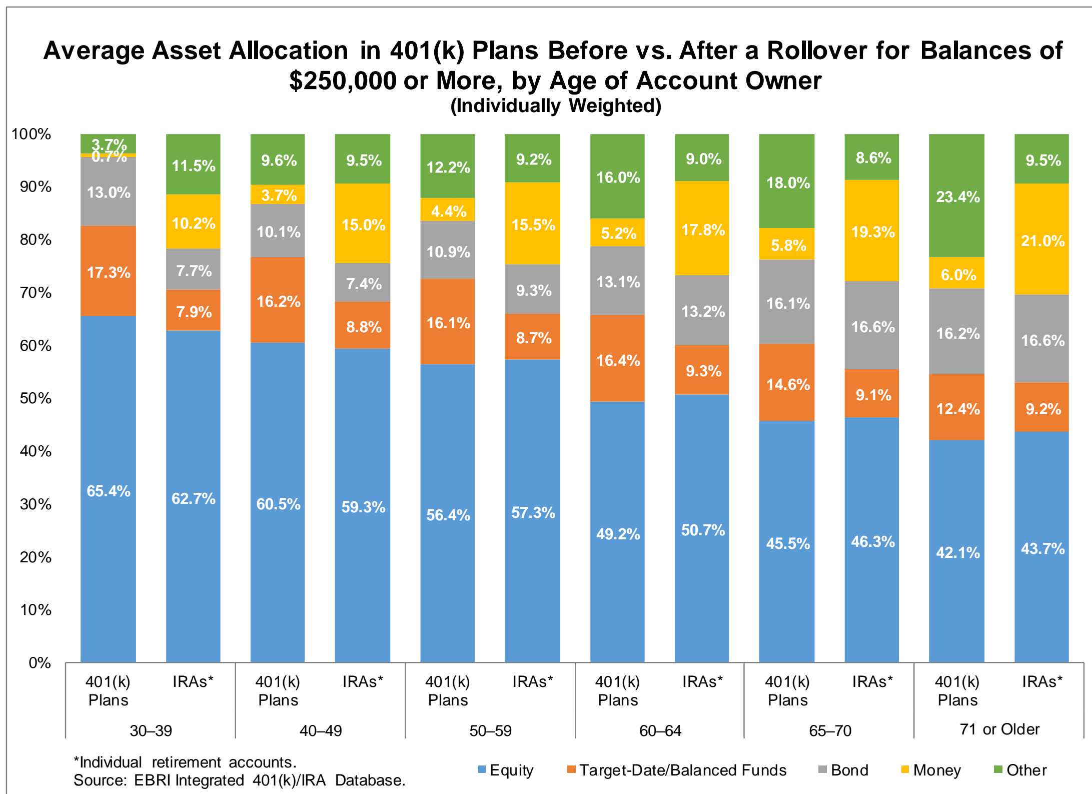
FAST Facts

Asset Allocation When Rolling Over Large Balances

The Employee Benefit Research Institute's (EBRI's) study, "Comparing Asset Allocation Before and After a Rollover From 401(k) Plans to Individual Retirement Accounts," showed that individuals' asset allocations changed — at times dramatically — when assets were rolled over from a 401(k) plan to an individual retirement account (IRA). In many cases, the changes resulted in completely different strategies or revealed a lack of a strategy. The most meaningful changes were decreases in allocations to target-date/balanced funds and increases to money in the IRAs. Furthermore, the majority of assets of small rollover balances (less than $5,000) were found to be invested in money, likely as a result of automatic rollovers to IRAs where the safe harbor default for this type of rollover is a money market fund. In contrast, for accounts of $5,000 or more, the average allocation to money decreased as the size of the rollover balance increased.

This is an intuitive result. The group of 401(k) plan participants that would most likely be expected to either have a better understanding of their finances or employ a financial advisor is those with large 401(k) plan balances — in particular those with $250,000 or more.

The figure below takes a closer look at asset allocation before and after a rollover to an IRA of those who had rollover balances of $250,000 or more. It shows that asset allocations before and after a rollover for those with these rollover balances are fairly similar, especially when it comes to the equity allocation. Still, some differences are evident, notably among the younger individuals.



*Individual retirement accounts.
Source: EBRI Integrated 401(k)/IRA Database.

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One consistent change across all age cohorts with large balances was the decreased use of target-date/balanced funds after rollovers to IRAs. This is an expected result; financial advisors who would work with individuals with such large balances would likely suggest a client-specific asset allocation instead of the predetermined one established in a target-date fund.

Another consistent change was an increased allocation to money after the rollover to the IRA. For those younger than age 50, the increased money usage in IRAs appears be a result of the decreased bond and target-date/balanced fund usage. As such, it could represent a genuine change in asset allocation strategy, but it may be inadvertent as well — namely, it may be the result of assets being left in money market sweep accounts within the IRA.

In contrast, for those ages 50 or older, and in particular those ages 60 or older, the increased money usage appears to result from a decreased usage of the "other" assets in the 401(k) plans. This may be attributable to differing available investment options for 401(k) plans and IRAs. The "other" asset category in 401(k) plans includes guaranteed investment contracts (GICs) and stable-value funds (SVFs), which are not available to IRA owners. According to the most recent results from the EBRI/ICI 401(k) Database, GICs/SVFs make up nearly 10 percent of the 401(k) plan assets of the participants in their 60s.[1] Consequently, money would be the closest comparable asset category in IRAs, and the decreases in "other" assets are comparable to the increases in money for the participants ages 60 or older. Therefore, the high money use in the plans with higher balances does not seem to be a specific change in strategy but a movement to the most similar fund option available in IRAs.

The above evidence shows that, because individuals with large balances are not defaulted into money market funds and are more likely to have access to financial advisors, these large-balance account owners are more likely to maintain their pre-rollover asset allocation, especially if they are older.

For more details about how the changes in asset allocation after a rollover were determined, the complete asset allocation definitions, and results across all balance sizes, see the *EBRI Issue Brief*, "Comparing Asset Allocation Before and After a Rollover From 401(k) Plans to Individual Retirement Accounts."

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[1] See Jack VanDerhei, Sarah Holden, Luis Alonso, and Steven Bass, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," *EBRI Issue Brief*, no. 458 (Employee Benefit Research Institute, September 10, 2018) for the complete asset allocation results. The EBRI/ICI study results are asset weighted vs. the individually weighted results in this study, which means on an asset-weighted basis, an account of $1,000,000 contributes four times as much to the average as an account of $250,000 compared with an individually weighted average where each participant is considered the same regardless of the balance size. However, this difference does not compromise the comparison, because those with lower balances would be expected to have higher GIC allocations, meaning their impact on an asset-weighted basis would be smaller and the approximate 10 percent would be at the low range of the individually weighted result of the full database.

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