CONSERVATIVE FINANCIAL SOLUTIONS

Should I Do A Rollover?

Many employees are fortunate to have the opportunity to be a participant in an employee sponsored retirement savings plan. Employee sponsored plans come in all shapes and sizes. Some of the most popular plans are the 401(k), 403(b), 457, Thrift Savings, and SIMPLE IRA. These plans provide a tremendous service to employees by making it easy for them to set money aside for retirement—typically growing tax deferred until it is used for income in retirement. However, with these noted benefits, there are some potential drawbacks to these plans.

#1 Potential for Underperformance

A participant of an employee sponsored plan has limited investment choices. In other words, the participant can be cut off from the entire universe of investment choices. Instead of being able to pick from the best in every category, the participant is forced to pick the best from the options available. This can create a greater potential for underperformance in the market and comparative benchmarks.

#2 Lack of Service

Most employee sponsored plans are outsourced to a third party service, leaving the participant to be a number, not a true person. Often times, participants will only meet with the plan administrator initially to set up their investment options and then receive minimal if any support in the future when it comes to taking advantage of ever changing market conditions.

"Employee sponsored plans can be a great retirement savings tool... but some drawbacks need to be addressed to avoid some pitfalls." — *Roger Ford*

#3 ERISA

Employee sponsored plans fall under the rules and regulations of the Employee Retirement Income Security Act of 1974 (ERISA). One of the biggest pitfalls of ERISA is that it is not designed for contingent beneficiaries. For example, a husband lists his wife as the primary beneficiary of his 401(k) plan. If he passes away, his wife can assume the 401(k) without having to draw all the money out at once. However, if a husband and a wife are in a tragic car accident, and the husband had his wife listed as the primary beneficiary of the 401(k) with his children listed as the contingent beneficiaries; the children will have to take the proceeds from the 401(k) in a lump sum. For the children, this is not advantageous because they have to pay all the tax owed up front and run the risk of being bumped into a higher tax bracket.

A final important note to share, these employee sponsored plans usually allow for an "in-service rollout" once the participant reaches age 59 ½ or when employment has ended. An in-service rollout allows the participant to move from the employee sponsored plan to an IRA that is in their care, custody, and control. By doing this, it allows for more investment options, creates the opportunity to develop a personal relationship with an investment advisor, and solves the contingent beneficiary rules under ERISA to be eliminated. Even after completing an in-service rollout while still employed with the company, some employees may still be eligible to receive the company match.

If you are over age 59 ½ or have money with a previous employer and would like more information, we would be happy to sit down with you and discuss your options.

Employee sponsored plans can be a great retirement savings tool, and I don't want to sell them short, but some drawbacks need to be addressed to avoid some pitfalls.

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