April 1, 2013

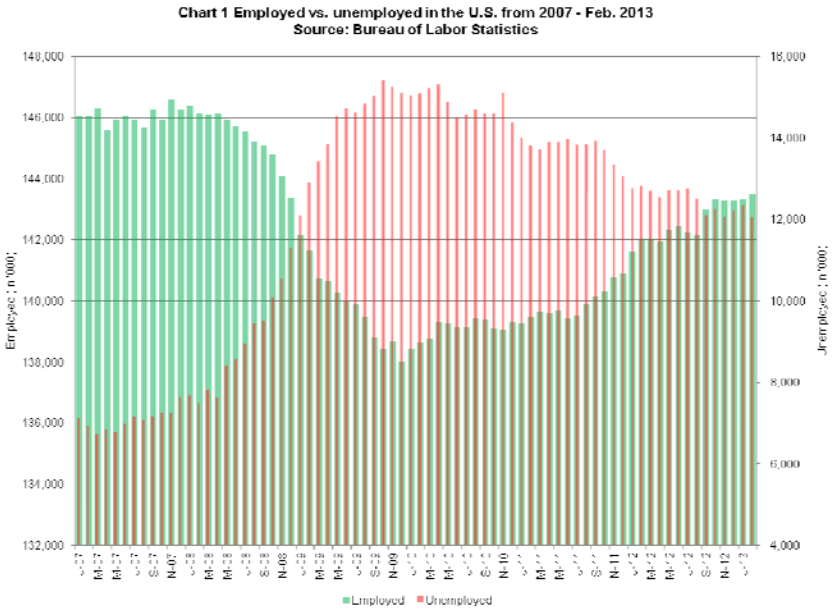
Did You Leave Something Behind?

When was the last time you changed job? Do you have a 401(k) somewhere?

Given the number of times, in the last few years, the U.S. economy has teetered on the edge of a financial meltdown, chances are you have been laid off and landed a new job. Even without a major recession, job-changing is more common than one might think. According to the Bureau of Labor Statistics, the American worker, on average, will have about seven careers[1] and a little over four years of tenure with each employer. The younger the worker, the more frequent of switching employment[2].

While this is understandable—job numbers are still way below pre-recession levels (see Chart 1) and the economic recovery, even with new record highs in the domestic stock markets, has been lackluster—what this means from a retirement planning perspective is that many workers, when leaving a workplace, may be leaving their most valuable assets behind: their retirement plan.

So what should you do?



As a starter, if your current employer offers a 401(k), find out whether you are eligible to be participating in the plan. If the answer is yes, then contribute, or defer, at the very least the percentage at which your company matches (usually is 3%). But do not stop there. Instead, step up the contribution amount to 7% so that along with the employer match you would be squirreling away 10% toward retirement. Actual amount of savings should depend on the feasibility based on your personal budget.

Once you are an active participant, second step is to find out whether your new 401(k) allows or accepts your old 401(k) assets. There are a couple of key merits to consolidate old 401(k) assets into the current one, particularly for older employees. 1) Penalty-free distributions out of 401(k) plans begin at age 55 rather than 59 ½ for IRA owners. For those who plan to tap on retirement assets or retiring early, 401(k) provides better flexibility. 2) On the other hand, if delaying retirement, and thus withdrawals, is in the

[1] Bialik, Carl. "Seven Careers in a Lifetime? Think Twice, Researcher Say." *The Wall Street Journal*. Sept. 4, 2010.

[2] Meister, Jeanne. "Job Hopping is the 'New Normal' for Millennials." *Forbes*. Aug. 14, 2012.

cards, 401(k) with your current, active employment may not be subject required minimum distribution (RMD) rules (except for those with at least 5% ownership in the firm). Other advantageous features include plan loans and hardship distributions, possibly better investment options and simplified retirement savings.

If rolling over to your current retirement plan is not an option, do not do nothing. Open up an IRA Rollover account and transfer those assets into it. Your investment menu in an IRA is not as limited to a list of mutual funds as it is in a 401(k). Apart from a small number of investments such as collectibles, you are free to invest in stocks, bonds, mutual funds, exchange-trade funds (ETFs), options and more.

Furthermore, a growing number of 401(k) plan sponsors are kicking terminated workers out of their plan to save on administrative costs, which industry experts estimate to be over 15% lower by maintaining large account balances[3]. These smaller balances are often a result of employers' auto-enrollment programs, with over half of the 401(k) sponsors now automatically enroll employees in the plan once they become eligible[4].

Our role in this is very simple. We are here to help you make an educated decision and decide what is best for you. It can be determining which investments to pick in your 401(k); it can be advising how much you should be saving (in conjunction with other saving strategies); it can be ensuring that the correct beneficiaries are registered; or it can be figuring out an optimal distribution option to minimize tax impact. Below you will find a summary of options when it comes to taking control of your most valuable retirement assets.

- *Henry Yu, CFP®*

[3] Salisbury, Ian. "Getting Dumped by Your 401(k)." MarketWatch.com. Mar. 26, 2013. http://www.marketwatch.com/story/getting-dumped-by-your-401k-2013-03-26

[4] Kujawa, Patty. "More Employees Driven to Auto-Enroll for Retirement Plan." *Workforce*. Mar. 28, 2013.

Table 1. Your 401(k) Options

	Advantages	*Drawbacks*	*How We Can Help*
Rollover to an IRA	• Choices of investment in stocks, bonds, funds etc. • Control of your investments. • Consolidation of retirement assets in one place. • Contributions can be made by April 15.	• Borrowing from IRA prohibited. • Lack of target-date funds for less-savvy investors. • RMD for owners over 70 ½.	• Overseeing of the administrative and transfer process to make sure it is done correctly. • Professional investment management, including access to institutional mutual funds and low-cost ETFs. • Making sure correct beneficiary is named. • Roth conversion and potential tax savings.
Leaving assets in the old 401(k)	• Better investment options that are not available elsewhere. • Access to institutional mutual funds with lower fees.	• Limited investment options. • No further contributions into the plan. • Getting "kicked" out if account balance is small (<$5,000).	• Review of and advice on plan's investment options. • Making sure correct beneficiary is named.
Transfer to another 401(k)	• Consolidation of retirement assets. • Access to institutional mutual funds with lower fees. • Borrowing from the plan allowed. • Higher contribution limit and catch-up amount.	• Limited investment options. • Waiting period (6 to 12 months).	• Review of and advice on plan's investment options as well as contribution levels. • Review of other available company benefits. • Making sure correct beneficiary is named.

Source: Vanguard, Charles Schwab