

Don't follow money blindly to new job

401(k) ADVISOR

MICHAEL FRANCIS



Over the coming year, millions of Americans will change jobs. While there are many reasons for changing jobs, the most common motivation is

money.

If money is an element of why you're considering a change, there are a number of important retirement plan-related issues you should investigate before you make a move.

Knowing that the amount of money companies invest in their employee retirement benefits varies widely, start with a comparison of how much your current and prospective future employer will contribute, on average, to your retirement account.

Some employers chip in a few cents for every dollar their employees choose to save, while others lavish their employees with annual contributions equal to 15% or more of pay, regardless of whether employees save.

Understand that most retirement plans are designed to give the employer the flexibility to change how much they contribute each year. So when you inquire, you may get a response something like, "It varies from year to year."

My advice: Don't accept "it varies" for an answer. Find out what the company contributions have been over the past three years, expressed as a percentage of employees' salaries. This will give you a good idea of what to expect in the future.

To make an accurate comparison, you must understand the amount and type of company contributions to both your current and prospective employer's retirement plans. You may find the difference to be substantial.

While it may not be money you can spend today, it's still money going into your pocket that should be considered when evaluating an offer.

Money left behind

Company contributions to your retirement account are normally subject to a vesting schedule. Your plan's vesting schedule determines what percentage of those company contributions you're entitled to take with you when you leave the company.

Most plans fully vest employees after they've been employed for six years. If you've been at your current job for less than six years, there's a good chance you will walk away from some of the money the company has contributed to your account.

Understand how much you will leave behind, and importantly, how much longer you need to stay to become more fully vested.

Also be aware that some companies may require you to be employed on the last day of the year to be entitled to receive that year's company contribution. Bottom line, know your plans' vesting and employer contribution rules so that you don't inadvertently walk away from a large chunk of money that you would have received if you had stuck around a few more days.

Find out when you can start saving if you accept the new job.

Waiting can cost you

Look out for a lengthy waiting period, and if you're highly compensated, any restrictions on the amount you will be allowed to contribute. Being forced to wait a year, or restricted on the amount you are allowed to save in the plan, can meaningfully detract from your ability to build wealth for retirement.

While probably not important enough to keep you from accepting a new job, the performance and associated costs of an employer's retirement plan are worth comparing for two reasons. First, they have a significant impact on the rate at which your retirement savings grow. Second, a well-managed plan with low-cost, top-performing investment alternatives is an indication of a well-managed organization.

What should you do with your existing 401(k) account when you leave?

Generally, it's a good idea to roll your retirement savings into your new plan to keep it all in one place. This provides easier access to information and improves decision-making. Before you do this, however, there are a few questions to ask.

Does my new plan allow me to withdraw my rollover assets? If the answer is no, consider whether you want to turn an accessible retirement asset into an inaccessible one.

How do the investment alternatives compare in terms of diversity, performance, and cost? Here again, stick with quality wherever you can find it. If you determine that neither plan offers the type of investment choice you'd prefer then roll your former employer's plan assets into a self-directed IRA.

Changing jobs regularly has become an American way of life. But changing jobs should not prevent you from accumulating assets for retirement. Congress created 401(k) plans to benefit an increasingly mobile American work force. Recognize that there are significant differences in the features, quality and generosity of retirement plans from company to company. When considering a new job, be sure to evaluate the retirement benefits that come with it so that you make an informed decision.

Michael J. Francis, CIMA, JD is president and senior investment consultant of Francis Investment Counsel LLC, a registered investment adviser based in Hartland, WI. Mike Francis can be reached at michael.francis@francisinvco.com. The information contained herein is provided for informational purposes only. The preceding information has been obtained from sources Francis Investment Counsel believes to be reliable, but Francis Investment Counsel cannot guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes investment advice or a solicitation for the purchase or sale of any security. Past performance does not guarantee future results. Francis Investment Counsel does not offer personal tax or legal advice.