

401(k) ADVISER
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Protecting your large retirement nest egg



It's a nice problem to have, deciding what to do with a large retirement nest egg when you retire.

Most assume the wise move is to roll your savings into a self-directed IRA. But before pulling the trigger, here are four things to consider: your plan's distribution rules, relative cost, quality of available investments and the source of your advice.

Distribution rules

The law allows 401(k) participants with account balances of more than \$5,000 to leave their money in their former employer's plan up to age 70½, when the IRS' mandatory distribution rules kick in. Despite this rule, companies have a lot of control over how they allow former employees to withdraw their savings.

Some companies encourage retiring employees to remove their retirement assets by allowing "lump sum distributions" only, while others allow terminated employees the flexibility to withdraw their savings in increments or via regular distributions.

If you have special circumstances, you may want to consult with an attorney or tax adviser about the wisdom of leaving your 401(k) assets in your employer's plan so that you don't lose certain privileges they afford.

For example, if you are over 55 years old but not yet 59½ and looking to begin taking periodic distributions, you may be better off leaving your savings in your employer's plan to avoid the IRS' 10% early withdrawal penalty tax on IRA distributions.

If you are someone with a high 401(k) account balance and fear a lawsuit or personal bankruptcy, it's also worth discussing the added legal protection

afforded 401(k) plan assets over IRA assets in some states.

Cost

If you work for a midsize to large company, there's a good chance your employer has worked hard to lower the investment expenses of the funds offered in your 401(k) plan.

So before you roll your retirement assets out of your employer's 401(k) plan, it's extremely important to know: "What are my annual expenses if I leave my money invested in the plan?"

Only when armed with this critical information, can you fairly assess an alternative investment strategy.

The critical question you need to be able to answer is, "Will the alternative investment strategy I am considering meaningfully change my annual investment expenses?"

If the move means higher expenses, then you have to ask whether this extra expense adds value in terms of services, convenience or expected returns that can justify the expense.

Quality of alternatives

Investment advisers frequently cite the lack of investment choice as a primary reason to roll money out of a former employer's 401(k) into a self-directed IRA. But experience shows that it's quality not quantity that's important.

That's why it's important to investigate whether your employer's plan offers you access to any investment vehicles that cannot be replicated in a rollover IRA. Examples include the Vanguard Primecap Fund or other excellent equity mutual funds that have closed to new investors.

Another example may be your plan's stable value fund option.

Stable value funds are investment vehicles available only in 401(k) plans that

offer the safety and liquidity of a money market fund with a higher return in today's low interest rate environment.

We have spoken with numerous conservative 401(k) investors looking for a similar alternative to their employer's stable value fund outside of their plan. The simple answer is, there are no money market-like investment alternatives currently yielding 2% to 3%.

Source of advice

Deciding whether to roll your savings into an IRA is a complex issue.

While some people are just looking for someone to tell them what to do, beware that the advice offered can be tainted by a salesman's strong desire for you to buy some financial product or service.

While many advisers are highly motivated to tell you why it's a good idea to roll your retirement savings out, they often are not interested in exploring the reasons why it may make more sense for you to leave it invested in your employer's plan.

So if you want to rely on someone's advice regarding this important decision, look for someone who has nothing to gain from your decision to roll this money over to an IRA or leave it in your employer's plan.

Rolling your 401(k) assets over to a self-directed IRA is often a good move, but before you sign that authorization form, take time to investigate these issues. It could help prevent you from making a costly mistake.

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