

Trading 401(k) Spaces

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I ran across a statistic the other day that I thought was interesting. According to the Employee Benefits Research Institute, roughly one in three employees leave dollars in old employers' 401(k) plans when they move to a new job. My immediate thought was here is human nature at work. On average, people don't like to make changes and potentially risk their money, especially once they have become accustomed to their existing 401(k)'s performance.

Changing from an old 401(k) plan to a new one can sometimes feel like the reality T.V. show Trading Spaces. That's the show where neighbors swap keys for the weekend and each neighbor redesigns one room in the other neighbors home. Will your new 401(k) plan turn out like those rooms where interior designer Hildi has glued feathers or stapled cardboard to your walls, or painted someone's dining room walls black and painted their dining room set egg yolk yellow? She called those ideas art. I call them a nightmare!

The point is that when you change jobs and retirement plans, beyond fear of the unknown, there are some advantages and disadvantages to moving your money to your new employer's plan, versus leaving it in the old plan or transferring the dollars to a Rollover IRA account. Let's discuss them.

One advantage of leaving your money in a 401(k) versus rolling it into an IRA account is creditor protection. If you are sued, federal law prohibits creditors from taking money from your 401(k) account. Think of O.J. Simpson. He lost the civil trial against him but because most of his money was in his NFL pension it couldn't be touched. The opposite is true for an IRA. However, some states do protect IRAs from creditors.

If you stop working for your employer, due to termination or retirement, you can usually withdraw money from your 401(k) without the ten-percent penalty, provided you are at least age 55. Unless you qualify under specific exceptions, you must wait until you are 59 ½ to receive penalty free withdrawals from your IRA.

If your 401(k) account is valued at less than \$5,000, your former employer has the option of cashing your account out and sending you a check for the balance, if you have not moved your money within a set time limit. That law is changing as of March 28, 2005. The new law will state that if your account is valued between \$1,000 and \$5,000 the employer must automatically roll your money into a default IRA unless the employee wants the cash or requests a rollover to a different IRA account.

One advantage of an IRA account is typically a broader investment selection. In a 401(k) your investment choices are typically limited to the fund choices in the plan. However, because your IRA can be held in a brokerage account a broad range of mutual funds, stocks and bonds, along with other investments now become available to you.

Another advantage of an IRA is that it allows the employee to combine all of the dollars from prior retirement plans into one account. Someone who changes jobs frequently may wind up with

several 401(k) accounts with a variety of investment companies. Rolling all of your old 401(k) dollars into one IRA account will allow you to track your retirement plan performance more easily and will likely reduce the number of individual investments you have to follow.

Most 401(k) accounts today are regularly scrutinized for adequate performance and for investment diversification. Large corporations typically pay an unbiased third party every year or so to tell them whether the investment choices in their 401(k) plan are up to standard or not. Consider rolling your old 401(k)'s in with your current employers plan. It can be a hassle to fill out all the paperwork, but it will simplify your family's life if something was to happen to you, and will probably simplify your life if you have fewer investment accounts to track and worry about.

Of all the 401(k) plans I have seen over the past decade, some are more impressive than others, but none of them was as bad as coming home to a room designed by Hildi.