*The* INVESTMENT LETTER

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# Leave Your Job, Not Your Money

If you're at or near retirement, changing companies or going through an acquisition or merger at your workplace, you'll want to continue reading. Chances are if one or more of the above are happening, you'll be getting a packet from your Human Resources department outlining your options with regard to your company sponsored retirement plan. This could apply to both 401(k) style plans or more traditional pension plans.

While it's good to have options, it's even better to know enough to make intelligent choices between them. We've taken some of the guesswork out of figuring out what to do with your account with simple explanations and the benefits and drawbacks of each option.

## Option 1 – Do Nothing

This is the most tempting selection because it obviously requires the least effort. The other side of the coin is that there are significant and possibly important repercussions to this head-in-the-sand approach.

If you choose to do nothing that does not necessarily mean the status quo prevails. Employers often have broad powers to do something on your behalf – and that may not necessarily be in your best interests. An employer that is cleaning up their plan may have the ability to remove accounts under certain circumstances. They could end up cutting you a check for the balance rather than allowing you to stay in.

Doing nothing sounds like a great option until you consider that if your account is liquidated you could be on the hook for taxes and possibly IRS penalties.

In some cases your employer could roll your company retirement plan account into an IRA at a financial services firm. This theoretically gives you more control over how the account is invested but the firm could be charging high fees or trading commissions so you're better off selecting a custodian that best works for you.

In some cases doing nothing results in nothing happening, but sometimes choices are made for you and that can cause even greater headaches in the future.

## Option 2 – Leave The Funds in the Plan

If you like your retirement plan and are satisfied with the range of investment choices, the costs and other ancillary services, then you may want to consider leaving your money where it is.

If selecting this option you'll want to first check with your HR department to ensure the account won't be liquidated or transferred to another institution as an IRA rollover. Your human resources department will be able to tell you if you're at risk for this happening or if you're likely safe staying in the plan.

Remember to not forget about your account.

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5225 East Cook Rd • Grand Blanc, MI 48439 • (800) 689-7897 • www.Invest-Counsel.com

Keep in mind that if you move you'll have to change your address with your former employer as well as possibly with the company managing the plan. Countless accounts lay dormant with owners that have forgotten about them and doing so could leave you way behind in your savings goals.

### Option 3 – Withdraw Your Money

When you withdraw money from a retirement account the IRS treats it as regular earned income. This means it gets taxed. If you're under age 59 and a half you will also be required to pay an additional 10% as a penalty for an early withdrawal.

This is the least attractive option and should be avoided as taxes and penalties can be costly and you lose the benefits of compound interest over time.

### Option 4 – Rollover Your Account Into an IRA

The rollover is the most advantageous option for most people faced with this conundrum. Sadly, it is also the most misunderstood. While rollovers can be somewhat complicated they don't have to be difficult. If the complexity is a concern for you, then consider working with someone who can explain the process and then do most of the legwork for you.

We've been managing portfolios since before the IRA rollover existed – 1929 to be precise. We work with many custodians and can suggest which ones are most appropriate for your account type and investment needs as well as determine the best asset mix and investment choices for your portfolio. We even make the paperwork simple, pre-filling as much information as we can. Many of our clients need do little more than provide a signature.

Additionally, since we get rollovers done quickly you never have to worry about missing the 60-day rollover window and losing tax advantaged status. You can also rest easy knowing we don't lock you into costly and inflexible investment products.

Knowing your rollover will be handled in a timely fashion and without any nasty taxes or penalties is a major stress relief for most people. Additionally, a proper allocation and the right type of investments and investment vehicles, along with proper re-balancing and ongoing management can drastically improve the investment outcomes over time.

Next time you are faced with a potential rollover situation we'd be happy to counsel you on the appropriateness of making a change. If it makes sense we can walk you through the process, allowing you to focus your energy on other things. ■

## Investment Counsel News

### *Inside the Office*

*If you're a user of Investment Counsel's phone app, you may have noticed some new features and changes we recently made. Check out your device's app marketplace to see for yourself.*

### *Outside the Office*

*Dorothy's son and daughter-in-law recently added baby Casey Claire to the family! Join us in congratulating Dorothy on her becoming a grandmother for the second time.*