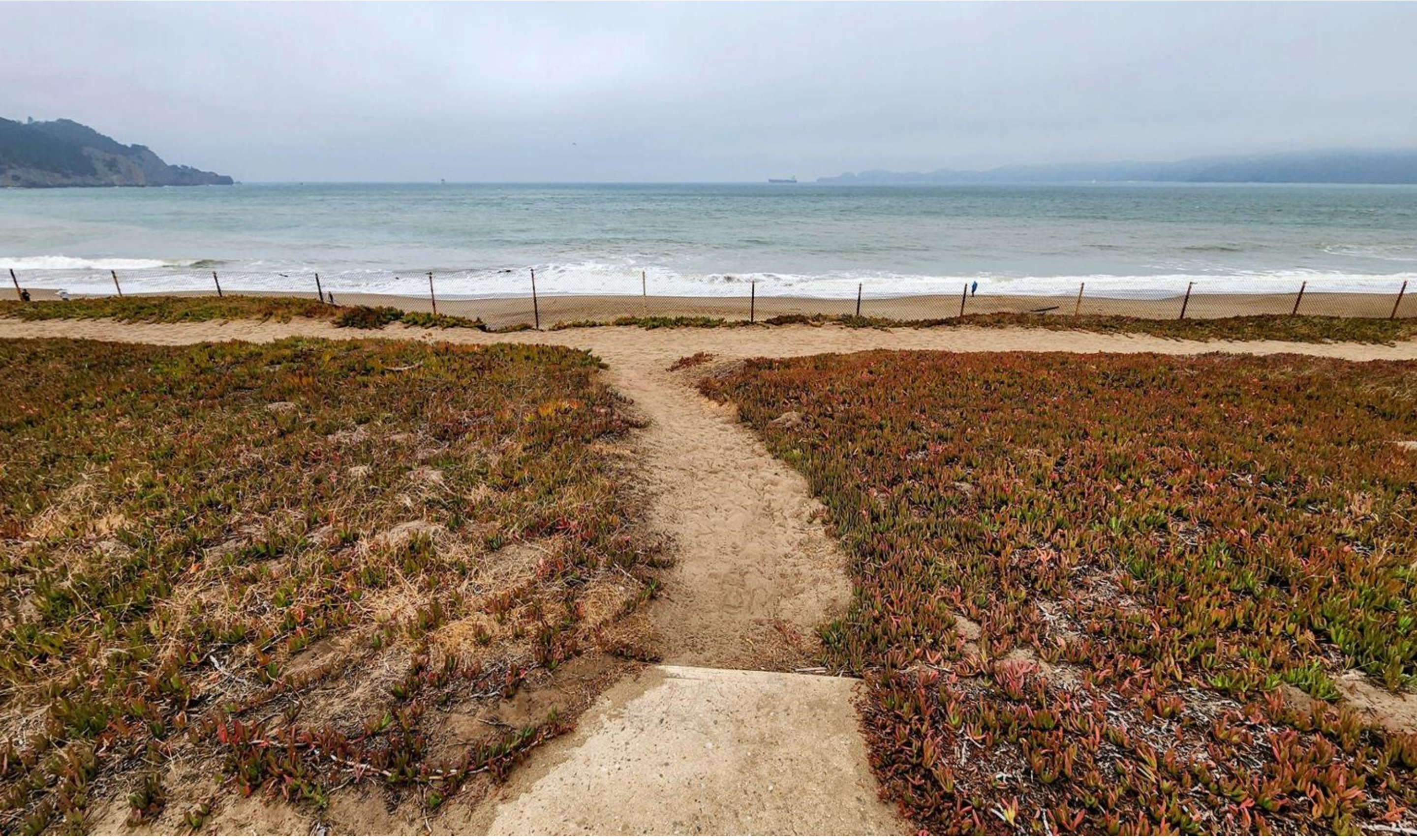


What Should I Do with My 401(k) When I Change Jobs?

Marshall's Beach, Presidio, San Francisco, CA

Are You *Showing the Love* to Your 401(k)?

Deciding to take on a new phase of your career is always a serious decision. For some, this means training for a new specialty or taking a job with a new employer. However, with the changes we all experienced over the last couple of years, it's no surprise that thousands of professionals are actively shopping their skills in the marketplace. And for many of us, one of the single largest investment accounts we have is our 401(k). In our work with clients over the past 20+ years, it is always surprising just how little attention these accounts can get from their owners! Don't let yourself fall into that group; rather, take a proactive approach to your retirement accounts and it will serve you very well as you reach that point of financial independence. If you have let your 401(k) languish, fear not - we have some ideas for how to get what might be your largest savings account on-track and feeling the love.

Leave Well Enough Alone

Let's start with what many believe might be the counter-argument to doing anything with your 401(k). First off, one of the big benefits to a 401(k) is that your employer (or former employer) takes on the majority of the expenses to run and administer the plan. Anytime you can have someone else foot the bill for a service, chances are you end up putting more in your pocket. However, the fee game is much different today than it was 10 or 20 years ago. Cost, as a component to investment returns, has never been lower. Back in the old days, 2-4% in overall cost to run a portfolio was commonplace. Today, that number could very well be 1/10th that amount. So, should you dismiss fees and costs when it comes to managing your money? Absolutely not. Should you spend a lot of your valuable time making sure you squeeze out every last cent of expenses? We think not - the juice is not worth the squeeze, as they say.

Washington Square Park, San Francisco, CA

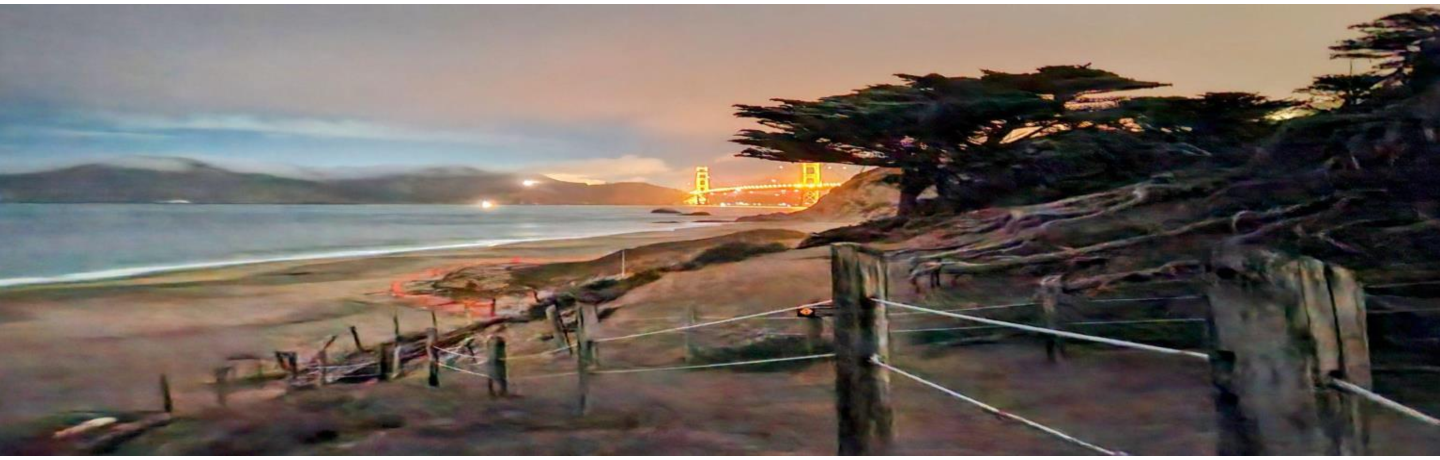
In Case of Emergencies

It is rarely a prudent decision to withdraw money early from a retirement account as it can impair your long-term retirement security by forgoing tax-deferred compound investment growth. Nevertheless, recognizing that employees need flexibility as they approach retirement, the IRS instituted the Rule of 55 guideline. This feature allows an investor to avoid paying the 10% early withdrawal penalty on 401(k) retirement accounts if the employee leaves a job during or after the calendar year in which they turn 55. If this applies to your age and situation, you may opt to Leave Well Enough Alone and leave the plan with your former employer as a bridge to retirement.

For those younger than age 55, we know life emergencies sometimes arise. If so, you might be able to utilize an IRS exemption rule known as a 72(t) distribution. In this case, you would not be charged the 10% early withdrawal penalty (if done before age 59 ½), but of course, you would still owe taxes on the distribution at ordinary income. Examples of permissible early withdrawals include: account holder death or disability, some medical expenses, first-time home purchases, and college tuition payments. Rule 72(t) can be applied to either a 401(k) or an IRA so this option is available to you regardless of the decision to perform a rollover or not.

Lastly, if you need to withdraw money for an emergency but will have cash in the future, 401(k) plans do offer a loan feature. Typically, you can borrow up to 50% of your vested retirement savings, capped at $50,000 maximum. The loan does accrue interest and generally has to be repaid within 5 years. You should be aware that if you leave your current job and have a loan outstanding, you will likely need to repay it in full very quickly. Be aware, the specific details of 401(k) loans can differ based on your employer or the custodian of the assets. IRAs - by contrast - do not offer a similar loan feature, however, there is a provision which allows for withdrawal or rollover such that it is redeposited or rolled over in full within 60 days. For this reason, only one rollover is permitted per year. If the funds are redeposited or rolled over within the 60 day window, it is treated as a distribution and taxed at ordinary income along with the 10% early withdrawal penalty.

As always, please consult your own financial advisor before making any investment decisions to understand how these situations may apply and affect you personally.



Baker Beach, Presidio, San Francisco, CA

Penny Wise and Pound Foolish

Now, leaving a 401(k) orphaned at your previous employer could be a bad thing if you only focus cost or if certain withdrawals are not applicable to you. Here's why:

1. the account is probably not aligned to your overall investment strategy, and
2. if it's out-of-balance, that could lead to over- or under-exposure to your target areas

Rollover a 401(k) to an IRA has advantages

Unfortunately, the hyper-busy world of today doesn't lend itself well to staying on top of our 401(k)'s. As a result, many investors chose to rollover their accounts into an IRA. Some of the advantages to withdrawing from your employer-sponsored plan include:

1. Many more investment options to build a portfolio than is found in a typical 401k plan,
2. potentially lower cost investment options from which to choose,
3. option to have your professional financial advisor give you advice on your IRA, and,
4. it's easier to align the investment strategy in the IRA with your overall investment strategy

Alcatraz Island, San Francisco, CA

The Big Myth About an IRA Rollover

The world of personal finance is not one that is necessarily easy to understand. We get this. One of the largest misconceptions surround a rollover is the below:

Doing a rollover to my IRA will cause me to pay taxes.

The short answer here is NO, a rollover to your personal IRA will not cause you to pay taxes, with one big caveat. There are two ways to handle a rollover - a direct rollover is when your account passes directly to the next custodian of the account, and the other is an indirect rollover. In the latter, you take physical possession of your account via a check and then forward that onto your IRA provider. For indirect rollovers, the IRS does not know if you will actually put the money into an IRA or not. Therefore, your employer is beholden to retain 20% of the account for taxes. The account holder can apply for a tax credit to get the taxes back, but you can imagine the needless effort spent trying to ensure this process goes smoothly. Clearly the direct rollover is nearly always the best choice for investors. Additionally, should the account owner fail to put the funds into an IRA or other qualified retirement plan, a penalty for early withdrawal might also be in the cards. Yet again, an indirect rollover is fraught with problems and those can be easily avoided by processing your rollover via the direct option.

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