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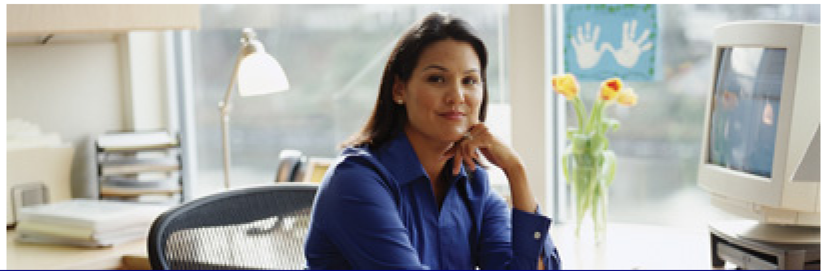

THE WHITE PAPER

Strategies for Managing Your Assets

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When Changing Jobs, It Pays to Keep Track of Your 401(k)

Americans are on the move, not only in their leisure pursuits, but in their jobs as well. According to the Bureau of Labor Statistics, about 38% of U.S. workers change jobs every year. If your employment situation changes, do you know what your choices are for managing the money in your 401(k) account?

Generally, workers have four options available to them: leave the money in their former employer's plan, transfer the money into their new employer's 401(k) (if allowed), roll the money into an IRA, or take a cash distribution. What many individuals don't realize is that if they fail to choose one of those options -- and their account balance is small enough -- the decision can be made for them. Specifically, current law allows employers to force participants with vested balances of $5,000 or less out of their 401(k) plans into an IRA without their consent. Further, if the account balance is less than $1,000 when the participant separates from the employer, the plan is allowed to cash out the account, triggering taxes and penalties if the participant does not take action in a timely manner to redeposit the money in another retirement account.

How prevalent are these practices? According to the Plan Sponsor Council of America, more than half (57%) of 401(k) plans transfer account balances of between $1,000 and $5,000 to an IRA when a participant leaves the company and/or cash out those accounts with balances of less than $1,000.[1]

High Fees, Low Returns

According to one study conducted by the Government Accountability Office (GAO), the trouble with these so-called "forced-transfer" IRAs is that most balances decreased over time if not transferred out and reinvested, due to the fees charged and the low returns earned by the conservative investments they are required to invest in.[2]

Specifically, the GAO studied 10 forced-transfer IRA providers, including information about the fees they charged, the default investments they used, and the returns earned. The typical investment return (prior to fees) ranged from 0.01% to 2.05%. That coupled with account initiation fees ranging from $0 to $100 and subsequent annual fees of $0 to $115 "can steadily decrease a comparatively small stagnant balance," the study found. Further, when projecting these effects on a $1,000 balance over time, the GAO found that 13 of 19 balances decreased to $0 within 30 years.[2]

Given these circumstances, it is easy to see how a worker who changes jobs frequently and accumulates several forced-transfer IRAs could be putting his or her retirement savings in jeopardy. Consider the following tips to help keep your savings growing, not stagnating.

- Make your wishes known -- an employer can only roll your account balance into a forced-transfer IRA if you provide no instructions as to what you would like to happen to your account balance.
- Keep contact information current -- when leaving one job for another, be sure you provide up-to-date contact information to the 401(k) plan administrator.
- Save more -- forced transfers only apply to low-balance accounts. By keeping your account above the $5,000 mark you ensure that it stays protected from any unintended or unwanted actions.

[1] *U.S. News, "How to Avoid Being Forced Out of Your 401(k)," January 13, 2015.*

[2] United States Government Accountability Office, "401(k) Plans: Greater Protections Needed for Forced Transfers and Inactive Accounts," November 2014.

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