PlanPILOT | Better Outcomes, Less Risk

“To Roll Over or Not to Roll Over?” That is the Question!

PlanPILOT
223 W. Jackson Blvd., Suite 800
Chicago, IL 60606
www.planpilot.com

EXECUTIVE SUMMARY

Employees who are either joining or leaving your organization may seek your guidance on challenging decisions related to their benefits. One question you may receive from both new and departing employees is "What should I do with my existing retirement plan balance"?

First, we provide a word of caution to all retirement plan fiduciaries. When it comes to a participant's decision about what to do with their retirement dollars, whether it relates to dollars held in your organization's plan or elsewhere, you want to refrain from making a recommendation, which could be construed as giving investment advice. Providing investment advice to your retirement plan participants constitutes a fiduciary act, whether they are actively employed or separated from employment. Stated another way, **you take on personal liability by providing investment advice.**

With that said, how do we recommend you respond to participants' requests for assistance? **PlanPILOT strongly encourages you to provide only education, and not advice.** You can provide educational assistance by simply identifying key factors that should be considered in the decision process. This paper will highlight what we believe to be those key decision factors.

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To Roll Over or Not to Roll Over?

Given the potential negative tax consequences of taking an immediate plan distribution, we will focus on the following two options:

1. Leaving the money invested in a former employer's plan; or
2. Rolling the balance over to another plan or individual retirement account (IRA)

As long as the separated employee has at least $5,000 invested in a former employer's plan, they have the option to keep their money in the plan. It is also important to recognize that some separated employees may have the option of rolling their plan balance over to their new employer's plan.

So, how does one go about deciding which is the best option? We believe there are **three key factors that should largely drive each individual's decision**.

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To Roll Over or Not to Roll Over?

Investment Options: When reviewing the investment options that are available through the retirement plan versus an IRA provider or another plan, differences in investment costs should be considered, as well as the available selection of investments.

Available Services: Retired or separated employees likely have access to all of the same products and services within their former employer's retirement plan that were available to them as active employees. It is important to compare all available services within the retirement plan against those that are offered by an IRA provider and/or the investment advisor that will manage their assets in an IRA. The same comparisons should be made when considering a rollover to another retirement plan.

Costs: When comparing costs, it is important to ask the right questions to help fully determine all costs that are paid under each option. Completing this step will likely require some work to fully determine all costs, including investment expenses.

- **Retirement Plan Costs:** All investment and recordkeeping costs will need to be determined, as well as additional costs that may apply to optional services and products offered within the plan.
- **IRA and Related Advisory Costs:** In addition to understanding the investment costs, it is important to know what the IRA provider or advisor will charge for their base services. It is also important to determine any and all costs for any additional services that may be utilized or products that may be purchased.

Example: Let's run through an example of a decision process, factoring in costs, investment options, and available services. Below we highlight some of the key points to be considered.

Investment Options

Retirement Plan

Investments – A diversified but limited selection including a stable value fund, fixed income and stock mutual fund options, and target date funds.

Available Services – The plan offers one-on-one investment advice sessions at no additional charge, and a managed account solution at an additional charge to the individuals who opt in for this service.

Costs – Participants pay a fixed expense ratio on all investments that covers both the investment management and recordkeeping costs. If the participant elects to utilize the managed account service, they pay an additional 0.30% of their account balance for this service.

Individual Retirement Account

Investments – An expansive selection of fixed income and stock mutual fund options, exchange traded funds (ETFs), and other non-traditional investment options.

Available Services – Ongoing investment management provided through a dedicated advisor who meets with clients semiannually to review and discuss their investment strategy. Tax and estate planning assistance is also included under the advisor's base fee.

Costs – The client pays a fixed expense ratio on all investments, as well as fees for trades made by the advisor. The advisor charges a 1.00% ongoing management fee for their base services. Additional fees may apply to other products and services offered through the advisor – e.g. conversion of assets to annuity income or the purchase of a non-traditional investment option.

CONCLUSION

For the example described above, the individual investor must weigh the following:

- Am I satisfied with the investments offered within the retirement plan, or would I like to have access to additional investment options?
- Are there significant cost differences between the investments offered in the plan versus the investments offered through the investment advisor?
- What value do I place on the ongoing investment management and other services that will be provided by the advisor versus what is available within the retirement plan?
- In summary, what value do I place on the additional investment options available to me and the services offered by the investment advisor?

In completing this assessment, we believe it is important to compare projected costs on an actual dollar basis. **While a 0.50% annual cost difference may sound like a small amount, this equates to a $5,000 per year difference on a $1 million account balance!**

In conclusion, we encourage all individuals to carefully assess their available investment options, services, and costs when determining whether to roll over their retirement plan balance or remain in their former employer's plan. For retirement plan fiduciaries, we strongly advise against making any specific recommendations to your plan participants, as it could result in personal liability.

Should you have questions, or if you are seeking additional information, please do not hesitate to contact PlanPILOT at (312) 973-4911.

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Contact

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info@planpilot.com
www.planpilot.com