Ten Reasons to Roll Over Into Your Plan Versus an IRA

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Do you have employees in a prior employer's retirement plan? Should they transfer these assets to a personal IRA or into your employer-sponsored retirement plan?

Review the pros and cons of an individual retirement account (IRA) versus consolidating into the current retirement plan with your employees to help them make this decision.

1. Performance results may differ substantially.

As an institutional buyer, a retirement (401(k), 403(b), 457, etc.) plan may be eligible for lower cost versions of most mutual funds. Cost savings with institutional share classes can be considerable and can have significant impact on long-term asset accumulation.

One recent study by the Center for Retirement Research indicated that the average return retirement plan participants experienced was nearly 41 percent greater than other investors. Share class savings likely contributed to this result.

2. The IRA rollover balance may be too small to meet minimum investment requirements.

Many of the low expense mutual fund share classes available to investors outside of retirement plans have minimum investment requirements in excess of $100,000. Some are $1 million or more. As a result, the average retirement plan participant who rolls a balance into an IRA may not have access to certain investments and/or will often end up investing in one of the more expensive retail share classes.

3. IRA investment advisors may not be fiduciaries.

In a 401(k) or 403(b) plan (and even many 457 plans), both the employer and the plan's investment advisor may be required to be a fiduciary. This means that investment decisions they make must be in the best interests of plan participants. This is the golden rule of fiduciary behavior and if not explicitly followed can lead to heavy economic impact to those organizations.

A non-fiduciary IRA broker or advisor is not necessarily required under law to act in the client's best interests, and as a result, there is the possibility that their recommendations may be somewhat self-serving.

4. Stable value funds are not available.

While money market funds are available to IRA investors, they do not have access to stable value funds or some guaranteed products that are only available in qualified plans. Historically money market fund yields have often been below that of stable value or guaranteed interest fund rates.

5. IRAs typically apply transaction fees.

6. Many IRA providers require buy/sell transaction fees on purchases and sales. Retirement plans typically have no such transaction costs.

6. Qualified retirement plans (like 401(k), 403(b), and 457) offer greater protection of assets against creditors.

Retirement plan account balances are shielded from attachment by creditors if bankruptcy is declared. In addition, retirement balances typically cannot be included in any judgments.

7. Loans are not available in IRAs.

Loans from an IRA are not allowed by law, unlike many qualified retirement plans which may allow for loans. Although we do not generally recommend participants take loans from their retirement plan, as they may hinder savings potential, some individuals prefer having such an option in the event they run into a financial emergency. Also, as a loan is repaid through payroll deduction, participants pay themselves interest at a reasonable rate.

8. Retirement plan consolidation is simple and convenient.

It is easier and more convenient for participants to manage their retirement plan nest egg if it is all in the same plan rather than maintaining multiple accounts with previous employers or among multiple plans and IRAs.

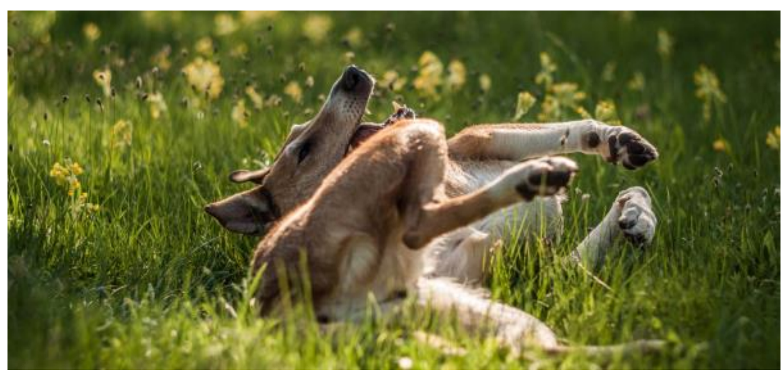
9. Retirement savings via payroll deductions are convenient and consistent.

The convenience of payroll deductions is very helpful for consistent savings and achieving the benefit of dollar cost averaging.

10. For present retirement saving strategies retirement plans can provide greater savings than IRAs.

The law allows you to make a substantially larger contribution to many retirement plans than can be saved with an IRA.

Although personal circumstances may vary, it may be a good idea for participants to roll over their balance in a former employer's retirement plan into your current plan rather than an IRA. It could be a mutually beneficial decision as your plan's assets will grow and your employees' savings potential will not be as limited as with an IRA.



About the Author, Michael Viljak

Michael joined RPAG in 2002 and has over 30 years of experience in the retirement plan industry, on both the wholesale and retail levels, focusing on retirement plans ever since their inception in 1981. Michael has an interest in fiduciary-related topics and was part of the team that created RPAG's proprietary Fiduciary Fitness Program. He also authors many of the firm's newsletter articles, communication pieces and training modules.

Loss Aversion and Fighting Fear

Loss aversion sounds like a good thing — trying to avoid losing. What could be wrong with that? Unfortunately, if taken too far, it can actually be a threat to retirement plan participants' long-term financial health. Loss aversion is the tendency to prefer avoiding potential losses over acquiring equal gains. We dislike losing $20 more than we like getting $20. Yet, this common bias can come with a heavy cost.

Excessive risk avoidance can hurt participants when, for example, it keeps their money out of the market and tucked away in low-risk, low-interest savings accounts — where purchasing power can be eroded by inflation over time. Delaying enrollment in an employer-sponsored retirement plan due to fear of market downturns can cripple opportunities for future growth.

Loss aversion can also lead to undue stress and anxiety. Participants stay invested, but worry constantly, which can

create health and other problems. Finally, it can result in short-sighted decision making, causing participants to jump ship during volatile and down markets rather than staying in for the long term. All these things can greatly compromise retirement preparedness.

Fortunately, the fact that people are susceptible to loss aversion doesn't mean they have to succumb to it. It's especially important not to during periods of high market volatility. Here are five things you can recommend your participants do to fight the fear.

- **Understand it.** Merely knowing about and identifying loss aversion tendencies can give greater insight and conscious control over decision making. Your participants should consider the potential consequences of loss aversion before making important financial decisions.

- **Take the long view.** Maintaining a long-term outlook on markets can be helpful. Let your participants know they should look at historical trends and how investments have performed over extended periods of time. Otherwise, it's just too easy to get caught up in the latest financial fear mongering on the nightly news.

- **Don't obsess.** Recommend setting limits on how frequently your participants check the performance of their portfolios and limiting consumption of financial news reporting. If the daily ups and downs of the stock market make their stomachs turn, suggest trying to limit reviews to quarterly performance reports instead.

- **Get an outsider's perspective.** Your participants should consider speaking with your advisor — someone with more experience and greater objectivity. Participants tend to get very myopic when it comes to their own finances; it can help to seek out the advice of experts when they may be losing perspective.

- **See the big picture.** Take a balanced view of the overall economy, which comprises a lot more than stock market performance. Factors like increased growth, low unemployment and low interest rates are all favorable economic indicators during periods of volatility.

No one likes to lose, that's for sure. It's perfectly normal to prefer upswings over downturns, but the lesson is to not let fear take hold when it can compromise financial decision making and hurt long-term best interests.

Hey Joel! – *Answers from a recovering former practicing ERISA attorney*

Welcome to *Hey Joel*! This forum answers plan sponsor questions from all over the country by our in-house former practicing ERISA attorney.

Hey Joel,

Should we consider life insurance in our retirement plan?

-Beefin' up my plan in Buffalo

Dear Beefin',

I'm not a fan of having this type of "investment" within a retirement plan. I often explain my position by asking a client what the purpose of their retirement plan is. Most will answer that it is a vehicle that helps their participants save towards retirement at or around age 65. When you introduce insurance into the plan, you are increasing your fiduciary liability by offering a product that in most cases becomes an important investment after retirement. In other words, you're introducing a product that is designed to assist during the payout period, which could be measured in 10-20 years (or more) beyond when they actually worked for you. You have to monitor the insurance product, just like a mutual fund. If it doesn't perform well, as a fiduciary, you may have to choose an alternative. In addition the credit worthiness of the insurance provider can come under question, and this can happen many years after introducing the product. This becomes problematic if participants have accrued a benefit in an insurance product that they may lose if a change takes place. If a mutual fund has an issue it is very easy to change it.

I do feel there is a place for insurance for many people, but let them do it outside of their retirement plan. Once that money leaves the plan, it is no longer a concern of fiduciaries.

One of the benefits of having life insurance in the plan is that it provides a "floor" value for a participant's account that can limit the impact of market downturns. The fees are so high though, that the investments score a watch-list amount. Performance is mediocre at best. Those that offer it often see the exposure it adds to their plan - sometimes their out-side counsel also will have concerns, sometimes the plan sponsor must consider a freeze of this and no longer allow participants to add to the product and sometimes they experience poor service with their recordkeeper, who is also the insurance provider, and this is limiting their ability to find a new recordkeeper. If the plan sponsor leaves, they may force participants to cash out of this. These companies may use this to lock in a client and it becomes difficult to do anything different.

There are other plan design alternatives you may discuss with your plan advisor to beef up your plan in other ways.

The Pumpin' up plan sponsors,

Joel Shapiro

<u>*About the Author, Joel Shapiro, JD, LLM*</u>

As a former practicing ERISA attorney Joel works to ensure that plan sponsors stay fully informed on all legislative and regulatory matters. Joel earned his Bachelor of Arts from Tufts University and his Juris Doctor from Washington College of Law at the American University.

This month's employee memo reminds participants about the annual tax savers credit. Download the memo from your Fiduciary Briefcase at fiduciarybriefcase.com and distribute to your participants. Please see an excerpt below.

Participant

You may be eligible for a valuable incentive, which could reduce your federal income tax liability, for contributing to your company's 401 (k) or 403(b) plan. **If you qualify, you may receive a Tax Saver's Credit of up to $1,000 ($2,000 for married couples filing jointly) if you made eligible contributions to an employer sponsored retirement savings plan.** The deduction is claimed in the form of a non-refundable tax credit, ranging from 10% to 50% of your annual contribution.

Remember, when you contribute a portion of each paycheck into the plan on a pre-tax basis, you are reducing the amount of your income subject to federal taxation. And, those assets grow tax-deferred until you receive a distribution. If you qualify for the Tax Saver's Credit, you may even further reduce your taxes.

Your eligibility depends on your adjusted gross income (AGI), your tax filing status, and your retirement contributions. To qualify for the credit, you must be age 18 or older and cannot be a full-time student or claimed as a dependent on someone else's tax return.

Use this chart to calculate your credit for the tax year 2019. First, determine your AGI – your total income minus all qualified deductions. Then refer to the chart below to see how much you can claim as a tax credit if you qualify.

Filing Status/Adjusted Gross Income for 2019			
Amount of Credit	Joint	Head of Household	Single/Others
50% of amount deferred	$0 to $38,500	$0 to $28,875	$0 to $19,250
20% of amount deferred	$38,501 to $41,500	$28,876 to $31,125	$19,251 to $20,750
10% of amount deferred	$41,501 to $64,000	$31,126 to $48,000	$20,751 to $32,000

Source: IRS Form 8880

For example:

A single employee whose AGI is $17,000 defers $2,000 to their retirement plan will qualify for a tax credit equal to 50% of their total contribution. That's a tax savings of $1,000.

A married couple, filing jointly, with a combined AGI of $39,000 each contributes $1,000 to their respective company plans, for a total contribution of $2,000. They will receive a 20% credit reducing their tax bill by $400.

With the Tax Saver's Credit, you may owe less in federal taxes the next time you file by contributing to your retirement plan today

Call or email your plan consultant if you have questions or need assistance.

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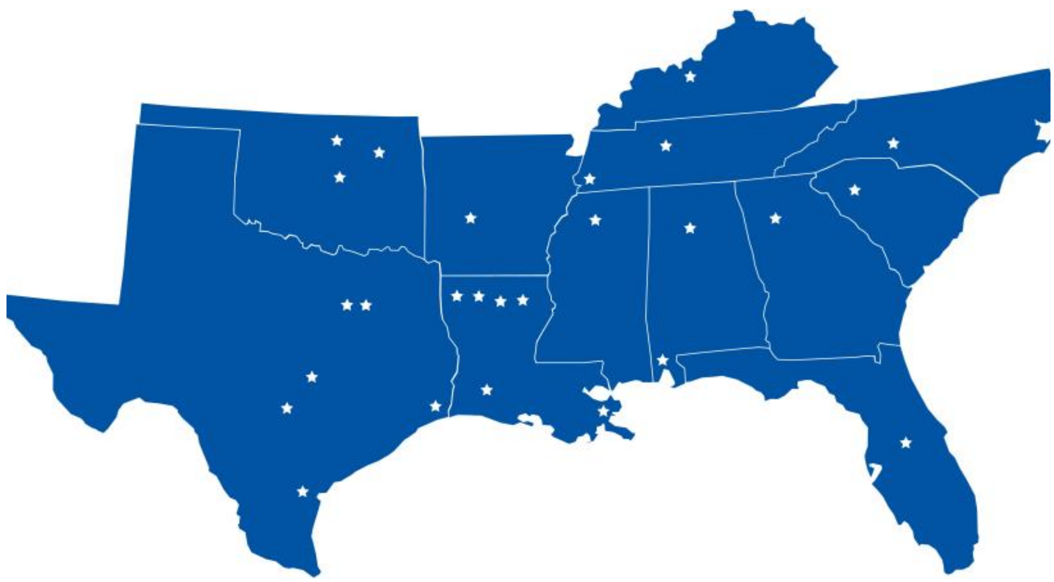

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