401(k) rollovers

How to manage your options when changing jobs

INTERVIEWED BY ROGER VOZAR

job change can be a stressful, busy time, which is why many people forget about 401(k) funds and simply leave them in a former employer's plan.

"I can't emphasize enough that people need to properly educate themselves about their options," says Robert D. Coode, a principal at Skoda Minotti Financial Services. "Most people we encounter are hesitant to rollover old 401(k) funds because they aren't aware of their options."

There also is a tendency to think amounts aren't significant enough to warrant attention. The average person holds 11 jobs between the ages of 18 and 44, according to the Bureau of Labor Statistics, so each 401(k) account might not be substantial. "But when you start consolidating plans, they become more meaningful," says Bob E. Coode, CSA, a partner with Skoda Minotti Financial Services.

Smart Business spoke with Robert and Bob Coode about options available for 401(k) plans when you leave a job.

Why shouldn't you leave 401(k) funds with a former employer's plan?

Many people wind up with up to seven retirement accounts during the course of their careers. That poses a problem with record keeping. But the bigger problem is not having anyone to help you manage these accounts. It makes sense to consolidate them into one IRA.

Some people think that having multiple plans makes them diverse. But, if there's significant overlap among the accounts, it actually defeats the purpose.

When leaving a job, what options are available regarding 401(k) plans?

The options are:

■ Leaving funds in the old plan.

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FOLLOW UP: Ready to move your old 401(k)? Call Robert and Bob Coode at (440) 605-7119, or visit them online at http://financial.skodaminotti.com.

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- Transferring funds to the new employer's plan.
- Directly rolling over money into an IRA.
- Taking a taxable distribution.

Taking a distribution is not recommended; too many people see old 401(k) accounts as found money. While some people don't have a choice, many will regret taking the money early and having less money set aside for retirement. The distribution could drive up a person's tax bracket, cost more in federal taxes, and impose a 10 percent penalty if the participant is under 591/2 and there is no hardship, such as medical expenses or an impending foreclosure.

Usually, the recommended option is a direct rollover into an IRA, which provides freedom of choice. In employer-based plans, the employer or the company managing the plan makes all the decisions about the number and types of investments. Typical 401(k) plans offer 15 to 20 investment choices. An IRA rollover gives access to a much wider array of investments.

Every IRA account should have a combination of equity, bonds and fixed income, and alternative investments to varying degrees, depending on the person's age and risk appetite.

What are alternative investments?

Examples are long/short mutual funds, managed futures, real estate, commodities and currencies.

People may be wary of the word 'alternative,' but these are simply investments that don't necessarily correlate with the market. Alternative investments are favored primarily because their returns have a low correlation to the three traditional asset types — stocks, bonds and cash.

These investments have been available to large endowments and high net worth investors for a long time and worked so well that fund companies made them available to retail investors.

With a traditional equity mutual fund, all investments are long term. Managers are required to keep 85 to 95 percent invested in equities at all times. If the market is due for a correction or a bear market is anticipated, they can't short a stock or move into cash to protect the investor. A long/short mutual fund, which can be considered an alternative investment, has the ability to hold stocks for a long time or short the market if a correction is due.

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