

When You're Serious...

by Bradley R. Newman, CFP®

Can I Improve on my Retirement Plan?

As you prepare for the inevitable barrage of articles associated with planning for the New Year, let's take a look at an underutilized strategy for enhancing the management of your retirement plan dollars. While most end of year and beginning of year recommendations focus on ways to increase retirement savings, which is certainly not a poor recommendation, let's take a minute to focus on the impact of managing the dollars that you have already accumulated in the most advantageous fashion via an in-service distribution.

The fact that you can rollover retirement plan assets into an IRA when you leave your current employer is widely known; however, the ability to rollover retirement plan assets while you are still employed via an in-service distribution option is a relatively unknown, but very powerful tool.

Recently, the news has been teeming with articles discussing the high costs associated with retirement plans, as well as instances where the plans are not providing anything close to best in class investment options – each issue will impair your returns. What isn't discussed regularly is the fact that your retirement plan is most likely the largest retirement asset you own and the need to re-position the investment strategy toward income creation well before your retirement date.

Reduced Fees

Even when the administrative fees inside a retirement plan are reasonable, eliminating them is better for your bottom line; however, the relatively new ERISA rules, 408(b)(2) and 404(a)(5), for disclosure of retirement plan expenses have shed a bright light on how high the fees actually are. As I mentioned in a previous article, Fidelity just agreed to a 12 million dollar settlement for, among other things, overcharging administrative fees to its own employees by roughly three times what was deemed as 'customary' by industry standards.

Investment Choice and Expertise

Another benefit of the in-service distribution is the ability to significantly expand your investment choices. Many retirement plans offer somewhere between 15 – 30 investment options, versus an IRA that will allow you to invest in virtually any mutual fund, exchange traded fund (ETF), individual stock or individual bond that you choose.

Once retirement plan dollars have been transferred to an IRA, you now have the ability to hire an independent investment advisor to coordinate the management of these dollars with your specific situation and post-retirement income needs. Be certain to utilize an advisor who will act as a fiduciary on your behalf.

Control and Flexibility

The in-service distribution option will also provide you with greater control and flexibility in managing your retirement plan dollars. The opportunity to utilize individual stocks and bonds will give you the ability to manage downside risk while optimizing overall returns by having better control of income generation, diversification, equity investment style and fixed income duration.

The Downside

Okay, what's the catch? There are a few potential issues or limitations to consider; most notably, the in-service distribution must be included as an option in your retirement plan and, in most plans, it is only available for employees over age 59 ½.

Some other issues to consider are that IRAs do not contain the loan provision that many retirement plans offer and IRAs do not provide as high a level of creditor protection as most retirement plans.

What To Do Next

Mechanically, it is fairly straightforward: determine your eligibility with your retirement plan; your human resources department will know the answers. Then, establish a rollover IRA, if you do not already have one, to receive the assets that you plan to take as an in-service distribution and submit the necessary paperwork to your human resources department.

At the broad level work with a qualified investment advisor and CPA to make certain this is a prudent option for you. If it is, create a detailed investment strategy that matches your precise circumstances and needs.

Bradley R. Newman, CFP® is with Roof Advisory Group, Inc., an independent investment management and financial advisory firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that provides portfolio management and financial planning services for individual and institutional clientele. The firm's email address is invest@roofadvisory.com.