metric financial

lower costs. better results.

The Retirement Plan Rollover Debate

When employees leave a company, voluntarily or otherwise, they have the option of taking many of their benefits, including their retirement plan (i.e. 401(k), 403(b), 457), HSA, etc., with them. 401(k) plans are governed by a set of rules called The Employee Retirement Income Security Act of 1974 (ERISA), whose provisions are the jurisdiction of the Department of Labor (DOL). Recently, the DOL has proposed a new rule that could impact 401(k) rollovers by making them a "prohibited transaction". This does not mean they can't be done – it just means financial advisors need to take extra steps to ensure the client understands the costs and benefits of leaving the plan where it is versus rolling it over. Why is the DOL considering this proposed new rule?

Disclosure

401(k) balances have blossomed over the decades as employees have saved more, stock markets have risen, contribution limits have risen, and employer matching has proliferated. According to Vanguard, the average 401(k) balance is over $90,000. For those 55-64, it is over $170,000 and for those over 65, it exceeds $190,000. Financial advisors are anxious to get those assets in-house so they can charge an advisory fee on them. Oftentimes, they are in a rush to do so and don't apprise clients of any new fees they will pay or how their investment options and actual portfolio will change.

Protection

Another source of confusion for investors is creditor protection. The company with the 401(k) plan often encourages employees to leave their money in the Plan because those assets are protected from creditors. However, for employees that would like to make the move, it should be known that IRAs are offered the same protections in bankruptcy court. So, the ERISA protection is broader for 401(k) plans, but it is untrue to say IRAs are unprotected.

With all this confusion, why would anyone want to roll over their 401(k) into an IRA? We offer the following:

1. **Help:** a 401(k) plan cannot give any advice or recommend any funds offered in the plan. It is up to the employee to decide. Moving to an IRA with a financial advisor offers the individual portfolio (not just fund) management;
2. **Investment options:** 401(k) plan menus are decided upon by a record-keeper with various reasons for selecting them. They tend to be dominated by mutual funds – often active mutual funds with just a couple index options. An IRA on the other hand, depending on the custodian, offers an almost unlimited universe of investment options, including low-cost exchange-traded funds (ETFs). Knowing which funds to select can be a challenge to say the least;
3. **Cost:** While the cost of advice goes up if an employee rolls over their 401(k) assets to an IRA for management by a financial advisor, that's kind of the point – an employee would do this because they seek help. Depending on what investment options the employee and the financial

advisor select, the cost of the investments may go down, partially offsetting the increased cost of advice.

To simplify it, the employee really has 3 options: (1) leave the plan where it is; (2) move the plan to a do-it-yourself IRA; or (3) move the plan to an IRA with a financial advisor. At Metric Financial, we have tried to ease the burden of the latter on investors who would like help. We set our fee schedule to start almost 40% below the industry average*. However, our focus is on investing, not product sales – you get a portfolio designed and built by a manager with the Chartered Financial Analyst (CFA) designation and 24 years of investment industry experience. Finally, we are focused on lower cost and transparency. Many don't know the cost of the funds in their 401(k) plan. We can help elucidate them and offer lower cost alternatives in ETFs. Oftentimes, our lower investment costs offset our management fee, such that, compared to the cost of the 401(k) funds, investors don't experience an overall fee increase.

We offer no-cost, no-obligation portfolio evaluations and consultations. To learn more, visit www.metricfin.com or contact us at info@metricfin.com or 860-256-5895.

*Source: AdvisoryHQ