

# WISERWoman

A QUARTERLY NEWSLETTER FROM THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Specially Prepared for the Center for American Nurses

## Decisions! Decisions! Preserving Retirement Funds: The How's and Why's of Rollovers

Retirement plans are meant to promote financial security in retirement by encouraging workers to accumulate assets. But there are several different decision points in your life when you may need to figure out how to deal with a lump-sum of money in a retirement account. Perhaps you are changing jobs, and your employer tells you that you can access your funds. You could take the money and spend it, open an individual retirement account, or even roll funds into a new employer plan.

Sometimes people face unexpected expenses, such as starting a new business, and think about withdrawing retirement money during their working years to pay those expenses. A job change is the most tempting opportunity to get at your savings. Remember, though, just because you *can* take money out before retirement, doesn't mean that you *should*! Every financial expert will tell you not to take the money out—it's a mistake that you cannot afford to make. Despite this warning, more than one half of all women spend at least some portion of the retirement money when they have early access to it.

Taking money out before retirement can trigger immediate income taxes and penalties. You miss out on tax-deferred savings and compound interest, and it's very difficult to make up the lost ground later. Spending it early may also mean that you won't be able to retire when and how you would like to. Whatever you do, don't spend the money!



If you are moving to a job with a 401(k) plan, you'll need to make some decisions. Typically, you can choose to leave your current funds where they are, or make a "rollover," that is, move your savings to the new employer's 401(k) plan or to an IRA. Many financial planners recommend moving the funds to

your new workplace plan, because of several advantages:

- \* Rolling over the funds means that you don't have to be concerned with what is happening at your former workplace. It may also give you more investment choices.
- \* You can minimize fees that eat away at your returns by consolidating and choosing plans with lower fees.
- \* Your investment statements will show the complete picture of all of your investments. There's also less risk that you'll lose track of your funds over the years.
- \* On the other hand, sometimes there are good reasons to leave your investments where they are when you change jobs.

Gaining more control over your investments sounds great, but in reality many people just end up giving control to someone else or they seek out a financial planner without knowing how the investment game is played. It's important to investigate charges and learn about the fees in whatever funds you choose.

Unless you are a knowledgeable or savvy investor, using the funds to make investments on your own could have disastrous consequences. Many smart women have taken their funds from an employer-sponsored plan and lost all or most of it trying to invest on their own. Think realistically about your investment knowledge, your choices, and the costs of a prospective new fund before you roll over your money.

✧ If your old 401(k) plan is better than the new employer's plan and gives you access to investments you otherwise wouldn't have access to, then it might be better to leave your money where it is. If your returns are good in your current plan, you should compare carefully the options in a new plan before moving your money.

Consider the case of Pauline – one of hundreds of stories that we have heard at our workshops:

*Pauline was forced to leave her job when the company where she had worked for over 20 years went out of business. She could have taken the money as an annuity—a stream of payments over her lifetime—but she didn't trust anyone at that point and took the money as a lump-sum payment. Pauline paid quite a sum to taxes as she was only in her early 50s and chose not to take advantage of the rollover option and defer her taxes. Her decision was based on the fact that she was determined to pay off her mortgage. It seemed like a good idea as she would have one less bill to worry about while she looked for another job.*

*But then a friend suggested that she put the money in the stock market so it would be working for her instead of just sitting in her home earning nothing.*

*Sadly, not only did she pay taxes on the money, but she then lost most of it. The fund her friend suggested was aggressive, and she put all of her nest egg into the one fund which then plummeted.*

### **What you can do:**

Make sure that when you rollover your funds that you set it up so that you have “clean hands.” What that means is that the trustee of the old plan sends your assets directly to the trustee of the new plan. (If you put the funds into an Individual Retirement Account (IRA), whatever company you choose can help you with the process.)

### **On the Job! Five Ways to Improve Your Retirement Now.**

- 1. Collect all of the papers you've been given over time about retirement plans and any other insurance benefits.**
  - Open the envelopes and read the documents.
  - Make the most of your benefits by signing up as soon as you are eligible, or you could be missing out on free money.
- 2. If you are already enrolled in your company's retirement plan:**
  - Check your statements to make sure they are correct.
  - See if your asset allocation is appropriate for your age and risk tolerance. **A very general rule is** to subtract your age from 100 and put that percent into stocks/equities.  $100 - \text{age } 45 = 55\%$  in stocks or lifestyle funds.
- 3. When you receive a pay increase, increase the amount you contribute to your retirement plan.**
  - Additional savings, invested and compounded add up to big gains over the long run.
  - Make sure you are taking advantage of the full match from your employer: If the employer will match up to 4% of your salary, make sure that's what you contribute to the plan.
- 4. Check and update your beneficiaries on your retirement, 401(k) and life insurance plans.** Many people forget to name new beneficiaries when their marital status changes, they have children or they experience other life changes.
- 5. If your new employer does not offer a retirement plan, open an Individual Retirement Account.** It's important to save continuously for retirement so put away whatever you can—today.

## The Female Factor: Why Women Face Greater Retirement Risk

A recent study by *WISER* and *Americans for Secure Retirement*, analyzes the reasons why women face a much greater risk than men of living in poverty in old age and recommends potential solutions. The report points out that as the baby boom generation moves into retirement, the traditional sources of retirement income are no longer adequate, particularly for women.

While the good news is that there are more women in the workforce now than at any other time in history, they continue to earn less than men, are more likely to work part-time, and to leave the workforce temporarily to serve as caregivers. The current picture of elderly female poverty is unlikely to change in the near future. Why?

- \* **Women live longer than men** and therefore have to prepare for a longer retirement.
- \* **Women have less income than men** to stretch over a longer number of years in retirement.
- \* **Women are much more likely to spend some of their retirement years alone** due to widowhood or divorce.
- \* **Women are less likely to receive benefits** from employer-based retirement or health plans due to fewer years in the workforce.

These challenges make it harder for women to lay the groundwork for a financially secure retirement.

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To overcome these challenges, the report urges a greater effort at public education to show women that one unique solution is offering lifetime annuities to ensure that women have a stream of income that is guaranteed to continue for a lifetime, insuring against women outliving their savings. Married couples can choose an annuity with a survivor benefit to provide continuing benefits for a widow or widower. Annuities also provide security against investment risk. For more information on annuities, see

WISER's fact sheets at [www.wiserwomen.org](http://www.wiserwomen.org) on the *Saving and Investing* page. ☒

### *Supporting Your Parents? Consider a tax deduction.*

Caring for an elderly parent can be expensive, and the out-of-pocket costs can prevent you from saving enough for your own retirement.

If you provide more than half the costs of your parents' support in a given year, you can claim your parents as your dependents on your taxes, even if they don't live with you. The value of the dependency exemption is \$3,300 in 2006 for *each* dependent. Talk to a tax advisor for more details.

*Rollover* continued from page 2

- \* If you receive the money directly as a check from your former plan, a 20% income tax deduction will be taken out. Plus you will pay a 10% early withdrawal penalty when you file your income tax return unless you are age 59<sup>1/2</sup>.
- \* You can try to recoup these taxes by depositing your balance into an IRA or your new 401(k) plan within 60 days, but you will have to come up with the 20% that was withheld, and then wait for reimbursement when you file your income tax return.

- \* Your best bet is to have the money go directly from the old plan to the new one, without coming to you in between.

It may be very tempting to spend your retirement savings during your working years, but avoiding this temptation can make a big difference in how much money you have to live on when you retire. ☒

