Changing Jobs? What to do Next? Pitfalls to avoid

For the Employee

Abstract

So, you've decided to switch jobs
Or, your company is shutting down your office/plant
Or you're being laid off
What are the pitfalls to avoid when it comes to your money?

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"Don't confuse what you do, with who you really are." – Robert Laura

"Treat retirement like a camera by focusing on what's important. Be sure to capture the good times, develop from the negatives, and if things don't work out the way you expected, take another shot!" Unknown

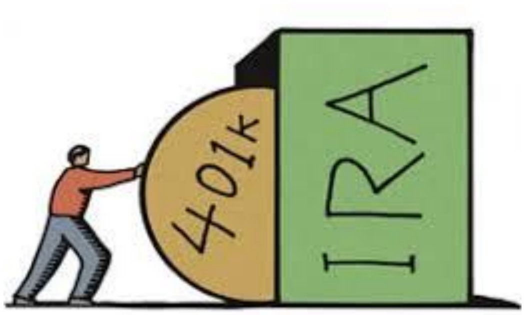
"Smart financial planning – such as budgeting, saving for emergencies, and preparing for retirement – can help households enjoy better lives while weathering financial shocks. Financial education can play a key role in getting to these outcomes." – Ben Bernanke

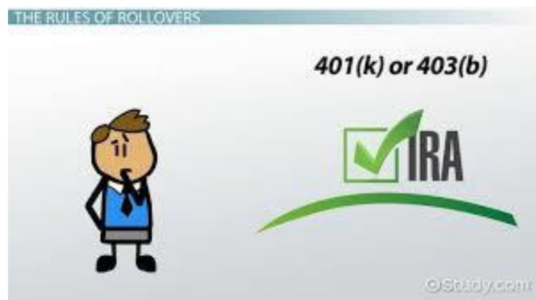
Things the employee should consider:

What kind of workplace retirement plan do I have? A 401k? Or a 403b? A Simple-IRA? Pension?

Should I rollover my money from my plan?
Should I roll my money over to my new company plan?
Should I roll my money over to a Traditional IRA? A Roth IRA?

This may be an exciting time if you've decided to go find greener pastures and you've landed a new job. Or this may be a difficult time if you've been laid off because your office/company/plant is closing. Either way, there are some pitfalls you want to avoid.





Pitfall #1: Leaving your money behind

Well it even simply *sounds* like a bad idea. And it is. Company savings plans, or "defined contribution" plans are great and should be utilized to the max. But after you leave your company, for any reason at all, it's definitely also time for your money to move on. Most company plans have a menu of investment choices. It's almost never clear what those choices are costing you. Even if they did tell you that, for example, fund A costs .75% per year management fee, is that good or bad? And why is there a menu of limited choices? What if you wanted to buy some Amazon stock? Ooops, that's not on the menu.

Pitfall #2: Rolling your money over to your new job's plan

All workplace plans are by definition limited in scope. They tend to offer you a menu of investment choices which is very limited, say 25 choices. There are almost countless funds available in the world. So, why did they pick only these 25 choices for your plan? At your new job, you should put as much new money as possible into your new workplace plan. Don't get caught putting old job retirement savings into new-job plan. Your new money will have to abide by their menu of choices, but there is no reason your old job retirement savings needs to also be limited.

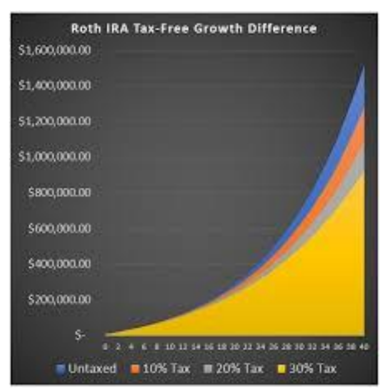
Pitfall #3: Taking out just some of the money now

It's so easy to think that you'll put it back later, but honestly, it probably won't happen. This means that you will likely end up paying income tax and possibly penalties on the money you put into your pocket. Yes, the new car is calling. The new kitchen is waiting. The new jet ski is warming up. But don't do it. You will pay income tax at your highest marginal rate plus if you are under 59.5 years of age, you will also pay a 10% penalty. The cost to access these funds could be as high as 40-50%. It's definitely not worth it.

Pitfall #4: Mishandling company stock (understanding NUA)

Company stock is a special category within your company retirement plan. Simply rolling the company stock into an IRA may not be the best idea. The advantage of company stocks is that if you wanted to withdraw or cash-in that stock, you would only pay relatively low capital gains instead of regular income tax rates. But to put this strategy in place you have to follow some rules. There is a unique tax arbitrage opportunity that we would like to discuss with you to: (1) leave the appreciated company stock behind in the old 401k (2) utilize any potential deferred comp plans at your new company (3) replace the income you defer by selling the stock of the old company. Another opportunity you should not miss regarding company stock is the opportunity to select specific share lots for distribution and roll over the rest. These specific share lots should be the lowest cost basis lots in your account. Maybe you weren't sure before, but now you know you need some help. Let us assist you in this confusing process.

Pitfall #5: Messing up the Roth portion of the rollover



Many retirement plans allow employees to save money in two categories, (1) the regular deferred tax category, and (2) after tax then tax-free. Often, it's not clear which funds fall into each category. You don't want to mis-handle funds in either category. You want to get your funds into the best tax situation possible by properly utilizing Roth and Traditional IRA accounts.

IRA Advantage #1: Choice

Most workplace retirement plans offer a menu of investment options, each investing in different parts of the market, and each with various costs. These costs tend to be higher in a workplace plan than in an IRA. In general, mutual funds charge you more than equivalent ETF funds available in IRAs. And since there are $0 trading fees (at Warren our clients haven't been paying anything for trades, but now TD, Schwab and Fidelity aren't even charging trading fees anymore), the cost to change your investments is nothing. And the menu is nearly infinite. In an IRA or Roth, you can invest in ETFs, individual stocks ($0 cost), and you still have mutual funds available if desired. However, with choice and opportunity comes the need for advice.

IRA Advantage #2: Low Cost

At Warren Financial, we setup accounts for our clients, such as IRA and Roth accounts at low cost brokers such as TD Ameritrade, Fidelity, or Schwab. These accounts typically cost you nothing to setup and have no fees. An SP500 fund in a 401k plan might charge up to .50% whereas an IRA has access to an SP500 ETF which only charges 0.04% - as close to nothing as you can get. Since you are paying much less for the funds and the account fees, now your money can afford some professional management via Warren Financial.

IRA Advantage #3: Advisor help

You really had some difficulty getting advice on your old workplace 401k. But now that your money is in a Roth and an IRA you have the ability to get better advice. Please, please, please read our white paper entitled "WF Selecting Your Next Advisor". A good advisor should also be a good investor and should help you achieve better returns. Let Warren Financial show you how.

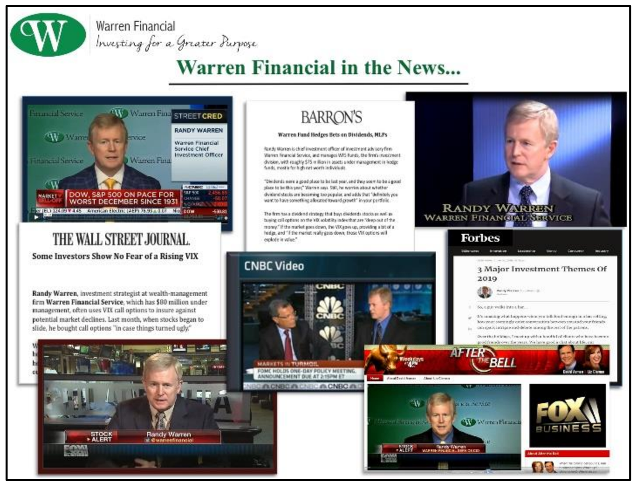
IRA Advantage #4: A well-managed IRA acts as a retirement piggy bank

As you move from one company to another, you should roll your retirement funds into one single, growing IRA account. This is the account that will hold the key to your retirement dreams. Don't leave it fragmented in tatters, scattered at various brokerages. Pull it all together and let the snowball grow faster. Keep in mind that an IRA can only contain your money. It can not be combined with your spouse's money. It can not be combined with inherited money, not even inherited IRA money. It can not (should not) be combined with Roth money. It can not be combined with a workplace IRA such as a SEP or Simple-IRA. There are many rules to follow. We're glad to help.

Now comes our job. At Warren Financial, our job is to help you achieve "Your Greater Purpose".

About Warren Financial: Since 1965, Warren Financial has been providing best in class services for wealth and investment management to high net worth individuals and couples. Building on the vision and legacy of the founder, Bill Warren – that each person has a unique purpose and desire to make an impact in their world – Warren Financial builds unique and focused plans for clients that deliver on the promise of serving our clients and enabling them to achieve their Greater Purpose tm. We believe that clients are unique and that their portfolios and investment strategies should also be unique. Using extensive research and analysis, including listening and understanding client needs and expectations, we create financial plans and models to best design the investment plan that best serves our clients' greater purpose. And then we execute. Consistently.

Don't miss Warren Financial on CNBC, in Forbes, on Fox or Bloomberg, Barrons, or the Wall Street Journal.



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