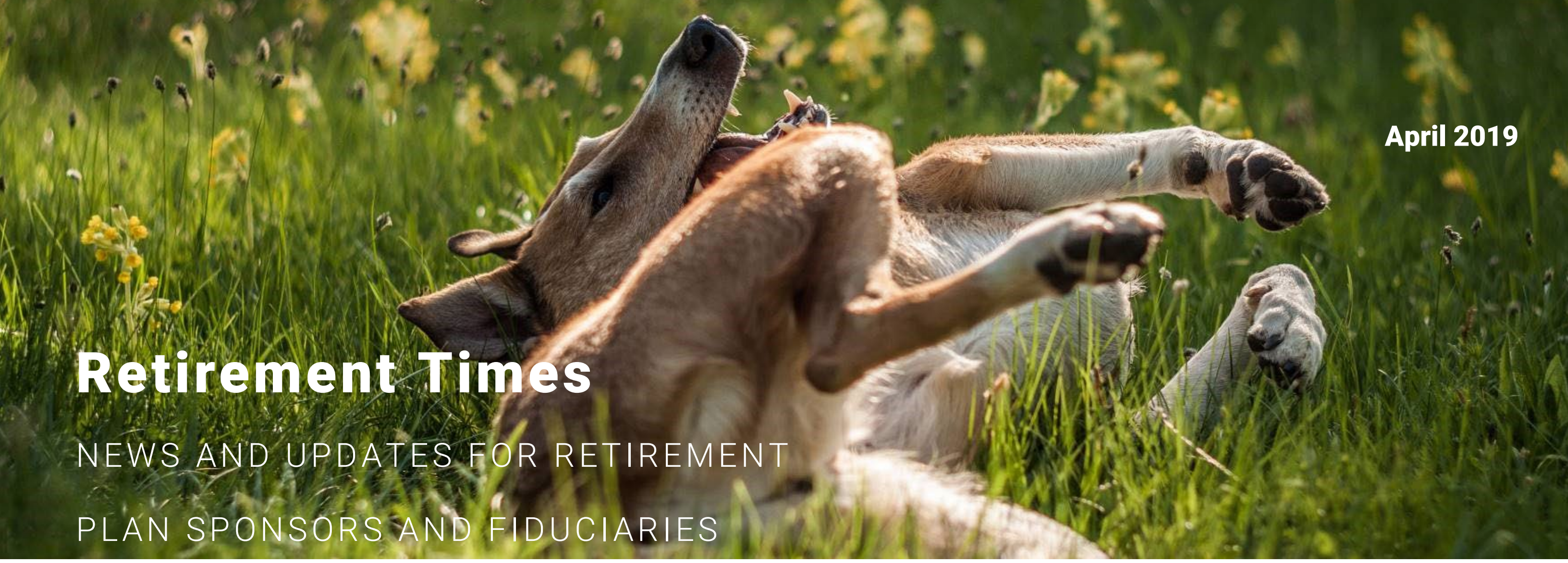

Ten Reasons to Roll Over Into Your Plan Versus an IRA

Do you have employees in a prior employer's retirement plan? Should they transfer these assets to a personal IRA or into your employer-sponsored retirement plan?

Review the pros and cons of an individual retirement account (IRA) versus consolidating into the current retirement plan with your employees to help them make this decision.

1. **Performance results may differ substantially.**

   As an institutional buyer, a retirement (401(k), 403(b), 457, etc.) plan may be eligible for lower cost versions of most mutual funds. Cost savings with institutional share classes can be considerable and can have significant impact on long-term asset accumulation.

   One recent study by the Center for Retirement Research indicated that the average return retirement plan participants experienced was nearly 41 percent greater than other investors. Share class savings likely contributed to this result.

2. **The IRA rollover balance may be too small to meet minimum investment requirements.**

   Many of the low expense mutual fund share classes available to investors outside of retirement plans have minimum investment requirements in excess of $100,000. Some are $1 million or more. As a result, the average retirement plan participant who rolls a balance into an IRA may not have access to certain investments and/or will often end up investing in one of the more expensive retail share classes.

3. **IRA investment advisors may not be fiduciaries.**

   In a 401(k) or 403(b) plan (and even many 457 plans), both the employer and the plan's investment advisor may be required to be a fiduciary. This means that investment decisions they make must be in the best interests of plan participants. This is the golden rule of fiduciary behavior and if not explicitly followed can lead to heavy economic impact to those organizations.

A non-fiduciary IRA broker or advisor is not necessarily required under law to act in the client's best interests, and as a result, there is the possibility that their recommendations may be somewhat self-serving.

4. Stable value funds are not available.

While money market funds are available to IRA investors, they do not have access to stable value funds or some guaranteed products that are only available in qualified plans. Historically money market fund yields have often been below that of stable value or guaranteed interest fund rates.

5. IRAs typically apply transaction fees.

Many IRA providers require buy/sell transaction fees on purchases and sales. Retirement plans typically have no such transaction costs.

6. Qualified retirement plans (like 401(k), 403(b), and 457) offer greater protection of assets against creditors.

Retirement plan account balances are shielded from attachment by creditors if bankruptcy is declared. In addition, retirement balances typically cannot be included in any judgments.

7. Loans are not available in IRAs.

Loans from an IRA are not allowed by law, unlike many qualified retirement plans which may allow for loans. Although we do not generally recommend

participants take loans from their retirement plan, as they may hinder savings potential, some individuals prefer having such an option in the event they run into a financial emergency. Also, as a loan is repaid through payroll deduction, participants pay themselves interest at a reasonable rate.

8. Retirement plan consolidation is simple and convenient.

It is easier and more convenient for participants to manage their retirement plan nest egg if it is all in the same plan rather than maintaining multiple accounts with previous employers or among multiple plans and IRAs.

9. Retirement savings via payroll deductions are convenient and consistent.

The convenience of payroll deductions is very helpful for consistent savings and achieving the benefit of dollar cost averaging.

10. For present retirement saving strategies retirement plans can provide greater savings than IRAs.

The law allows you to make a substantially larger contribution to many retirement plans than can be saved with an IRA.

Although personal circumstances may vary, it may be a good idea for participants to roll over their balance in a former employer's retirement plan into your current plan rather than an IRA. It could be a mutually beneficial decision as your plan's assets will grow and your employees' savings potential will not be as limited as with an IRA.

LOSS AVERSION AND FIGHTING FEAR

Loss aversion sounds like a good thing — trying to avoid losing. What could be wrong with that? Unfortunately, if taken too far, it can actually be a threat to retirement plan participants' long-term financial health. Loss aversion is the tendency to prefer avoiding potential losses over acquiring equal gains. We dislike losing $20 more than we like getting $20. Yet, this common bias can come with a heavy cost.

Excessive risk avoidance can hurt participants when, for example, it keeps their money out of the market and tucked away in low-risk, low-interest savings accounts — where purchasing power can be eroded by inflation over time. Delaying enrollment in an employer-sponsored retirement plan due to fear of market downturns can cripple opportunities for future growth.

Loss aversion can also lead to undue stress and anxiety. Participants stay invested, but worry constantly, which can

create health and other problems. Finally, it can result in short-sighted decision making, causing participants to jump ship during volatile and down markets rather than staying in for the long term. All these things can greatly compromise retirement preparedness.

Fortunately, the fact that people are susceptible to loss aversion doesn't mean they have to succumb to it. It's especially important not to during periods of high market volatility. Here are five things you can recommend your participants do to fight the fear.

1. Understand it. Merely knowing about and identifying loss aversion tendencies can give greater insight and conscious control over decision making. Your participants should consider the potential consequences of loss aversion before making important financial decisions.

2. Take the long view. Maintaining a long-term outlook on markets can be helpful. Let your participants know they should look at historical trends and how investments have performed over extended periods of time. Otherwise, it's just too easy to get caught up in the latest financial fear mongering on the nightly news.

3. Don't obsess. Recommend setting limits on how frequently your participants check the performance of their portfolios and limiting consumption of financial

news reporting. If the daily ups and downs of the stock market make their stomachs turn, suggest trying to limit reviews to quarterly performance reports instead.

4. Get an outsider's perspective. Your participants should consider speaking with your advisor — someone with more experience and greater objectivity. Participants tend to get very myopic when it comes to their own finances; it can help to seek out the advice of experts when they may be losing perspective.

5. See the big picture. Take a balanced view of the overall economy, which comprises a lot more than stock market performance. Factors like increased growth, low unemployment and low interest rates are all favorable economic indicators during periods of volatility.

No one likes to lose, that's for sure. It's perfectly normal to prefer upswings over downturns, but the lesson is to not let fear take hold when it can compromise financial decision making and hurt long-term best interests.

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