



Making the Most of Your Employer Sponsored Retirement Plan

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Your 401k – A Diamond in the Rough

You are probably like thousands of employees who took the advice of a parent, a colleague, a spouse, or a friend and began contributing to your employer sponsored 401k plan years ago. If so, you were smart to take advantage of this benefit offered by your employer. Many of these plans have incentives such as employer contributions or employer matching contributions that make them attractive investments. In most cases, it simply makes sense to take advantage of the “free” money offered by an employer in a 401k plan.

If you have contributed to your 401k over the years, you have probably accumulated a handsome sum in the account. Your contributions, coupled with your employer’s contributions (if applicable), and the investment performance of the plan have hopefully helped you grow your account as an important part of your planned retirement portfolio.

401k plans are certainly a tremendous asset for any individual and while employed with an organization that offers a plan, every employee should take advantage of this benefit. However, like with all investing, your 401k plan should be evaluated as part of your overall financial plan to ensure that it is helping you to achieve your financial and lifestyle goals.

Not all 401k plans are created equal. Some have great flexibility and solid investment choices. Others have limited investment choices and withdrawal or payout restrictions. In addition, others are based in company stock and though it may be a wonderful way to acquire the stock at a discount, it may be risky to hold only one stock as the primary asset in this account.

Your 401k account is a mobile asset. Though your 401k was established based on your employment at “XYZ” company, when you cease to be employed with that company your 401k account can go with you, in most cases. Moving your 401k might have tremendous advantages and should be considered as you depart an employer.

Whether you are young or old, just starting your career, or looking at winding down, your 401k account is an asset that you should handle with care. You have likely spent little time looking at this account over the years, but have faithfully allocated a designated amount from each paycheck to the account. They say a little pebble can make a great wave, and so it is in your 401k plan. The amount you have set aside each month has likely not been painful, but the accumulated value of the account may surprise and please you. Thus, you need to take stock of this asset and give it the attention it deserves to ensure that you maximize its ability to contribute to your dreams.

A Regular Review

We are all busy people with long “to do” lists and little time to spend on fruitless efforts, but a regular review of your 401k account with a financial advisor could be a most worthwhile use of time. It is

believed that about 80% of all individual investors have not had their 401k plan evaluated by a professional advisor.

In most cases 401k plans are company sponsored through a third-party. The plans are set-up to balance the directives and resources of the company and the needs of the employees who will participate. A review can help you identify strengths and/or weaknesses in your investment allocation or make sure you are aware of plan benefits and restrictions. The third party with whom your company has contracted to provide the 401k plan can and should give advice and guidance, but an independent review by a professional advisor will help to evaluate your 401k in the context of your broader asset portfolio and investment goals and in comparison with other options for retirement savings.

A professional review should help you understand the following characteristics of your 401k plan:

Investment Options – You should be aware of the number and variety of investment options available in your plan. Some plans offer a wide range of investment choices. Others have a very narrow selection or have options not considered very strong. It is important to know if any asset class is missing from the plan and to determine the existence and quality of any proprietary funds. Proprietary funds are funds set-up and managed by the 401k administrator. They are “in house” funds and sometimes these funds are not the best performing funds on the market. In addition, many 401k plans don’t offer commodity funds, REITS (real estate investments), TIPS – treasury inflation protected securities, sector funds, or bank loan funds. Think of investment options like a store. Your plan might be much like a corner store with a limited number of products, just the basics, and not many brand choices or it could be like a Super Wal-Mart, with so many options it is difficult to select the ones that best suit you. Having a clear understanding of your choices and your goals should help you optimize the investment performance of your account.

Employer Contributions – Many 401k plans have employer contributions or employer matching contributions. It is important to be aware of the eligibility and participation requirements to access these resources. Employer funds are one of the key characteristics that make most 401k plans worthwhile and you want to make sure you are getting the resources available to you.

Company Stock – Some 401k plans give employees the ability to purchase company stock. This can be an attractive option, but can also leave a plan at higher risk because of reduced diversification. It is important to balance the attractiveness of purchasing company stock and the risk factor associated with minimal diversity

Withdrawal Options – 401k plans usually offer a variety of withdrawal options, including systematic withdrawals, partial withdrawals, or a full payout. This is an important option to understand if you anticipate ever having to utilize funds in the 401k account or if you have terminated employment with the company. Limitations on the withdrawal options of a plan can limit your flexibility with the account resources and/or have costly penalties. Some plans even require the withdrawal of the entire balance of the account upon termination of employment, which can have a taxable implication.

Loan Information – Many 401k plans allow participants to take loans against the value of the account for personal matters. Using these resources is often to an individual's advantage as the loan rate is highly competitive and you are basically taking a loan from yourself. It is important to understand the loan repayment options before taking a loan because if you cease to be employed with your employer you may be required to pay the loan in full immediately upon departure or you may be restricted from rolling over the 401k due to the outstanding loan.

Special note. You may wonder whether a defaulted loan on a 401k account will hurt your credit in any way. The answer is NO, because the loan was your money which you borrowed from yourself. When you default on the loan, the unpaid balance turns into a taxable distribution, like an early withdrawal, but does not affect your credit rating.

Beneficiary Options – 401k plans have many different options for the spouse of a participant who passes away and for other beneficiaries. It is important to pay attention to this option. In many cases, a spouse can set up a beneficiary 401k account which they can then manage as it suits them best. However, many 401k plans do not give a non-spousal beneficiary the ability to set-up an account. Non-spousal beneficiaries can be forced to take a lump sum distribution or to take a five-year payout plan. Often these beneficiaries are younger and don't need the money immediately. For them, a lump sum payout would cause a tax nightmare. There is pending legislation which will give non-spousal beneficiaries more flexible options, but it's up to your employer to incorporate any changes into their own 401k plan.

Action Required Upon Leave – 401k plans differ on options available to employees when they leave the organization. Some allow you to stay in the plan, but with no further contributions. Other organizations force the participants to leave the plan.

Forced Payout – Some 401k plans force clients out at a set age, such at 65 or 70 ½. The force payout is done so that the plan does not have to deal with mandatory required distributions to the participant.

Understanding the options and rules of your 401k plan is important to making the most of plan and to knowing how it fits in your overall savings and investing portfolio. The knowledge will also help you evaluate the 401k account as our life situation changes.

Rollover Triggers

You've worked for "XYZ" company for ten years and you have consistently contributed to your 401k account. You've had the plan and your account reviewed by a professional advisor occasionally and you feel good about the performance of the plan. What might happen to trigger a rollover event?

There are several events that might create the opportunity for you to consider rolling over your 401k account to a qualified individual retirement plan (IRA).

Retirement – This is an easy one. When you retire from your current employer, you may want to consider rolling over your 401k plan into an IRA. If you have a pension plan from an employer, you may want to evaluate converting that asset as well.

Job Change – Whether you leave by choice or are terminated, when you leave an employer you are allowed to move your retirement dollars, unless there are some restrictions in the 401k plan.

Division Sale/Merger – Whenever companies merge or divisions are sold some employees are affected by the change. If you go from active status with an employer to non-active status this is considered a departure activity that will allow you to evaluate what you might want to do with your 401k dollars. Even if you hold the exact same job as you did before, the change in status of your position creates an opportunity for you to evaluate the status of your 401k account.

Age 59 ½ In-Service Rollover – When you turn 59 ½ you are generally allowed to roll over the money you have contributed to a 401k plan.

Plan Terminations – 401k plans are shut down for several reasons. If an organization ceases to operate or if they suspend offering a retirement benefit, a 401k plan can be terminated. When this happens, participants have only two choices: roll the funds into an IRA or take a taxable distribution.

Reasons to Consider a Rollover

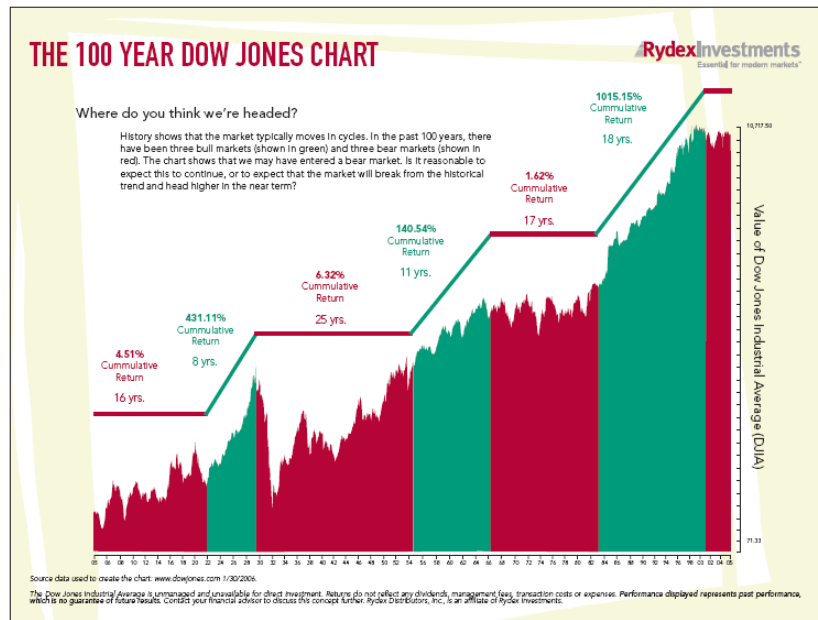
There are several reasons that might prompt an individual to consider rolling over assets in a 401k to an individual retirement account. Visiting with an independent financial advisor can help you wade through the options and restrictions of your plan and consider alternatives.

Consolidation of Assets – You may have worked for multiple employers during your career. If so you may have multiple 401k accounts with different investment allocations. It may be useful to consolidate your accounts under one roof. This would be advantageous as it would simplify the tracking of your assets and would enable you to better evaluate if your retirement accounts are invested according to your goals.

Increased Investment Options – Your employer based 401k plan has limited investment options based on the plans set-up. Converting your 401k plan to an IRA will likely increase your investment options. This may enable you to better meet your investment goals as it will increase your access to a broad variety of asset classes and to a different mix of investment funds. Your plan may not include some asset classes, such as commodities, hedge funds, private REITS, global bonds, gold, or silver. Your plan might be limited to several proprietary funds and not include top performing mutual funds. Understanding what investment options your 401k has and does not have may be important to understanding if you are able to build an investment strategy that works for you in your plan or if you need to convert these assets to improve your allocation, performance, and diversification.

Understanding your investment options is particularly important when we are in a “bear market.” It takes more expertise and oversight to perform well in a bear market than in a bull market. Increasing investment options and being able to select from a broad pool of asset classes can make the difference in the preservation and growth of your resources.

Source: Rydex Investments



Eliminate Restrictions on Selling

Investments - Some 401k plans restrict the matching money in a 401k account. This is very common with company stock. Participants cannot sell the company stock as long as it is in the 401k plan. One solution is to execute a direct rollover to an IRA, in which the shares of the company stock might be able to be sent over in share form, thus preserving the position. Once the shares are in the IRA, you can evaluate options on keeping or selling them. In addition, some companies limit the number of exchanges non-active employees can make. By moving your funds to an IRA, you can eliminate these restrictions or limitations.

Professional Guidance and Service – Let’s face it you can get investment advice from countless sources these days, but determining what advice to trust is more difficult and getting advice from your 401k administrator may be challenging. In most cases, it is rare to have had the opportunity to develop a personal relationship with anyone at this firm during your employment. The 401k administrator is simply a record keeper to most participants. Hopefully, in addition to your retirement savings, you have established other investment accounts and have developed a relationship with a financial advisor. This person knows you and your family; knows your goals and style; and is someone with whom you have built trust. In addition, they are normally someone who is just a phone call away – not an anonymous voice at the end of a service center phone line. A good financial advisor offers you exceptional customer service - 24/7 access, quarterly asset allocation strategy sessions, or annual updates to financial plans. In addition, you know the advisor and have a sense of his/her knowledge and investment philosophy, which increases your ability to trust in their guidance. In addition, he/she can bring a holistic perspective to your financial planning, since he/she understands more than just your retirement assets.

Simplify Your Income Sources – If you have had multiple employers and/or have established an individual retirement account, you may have distributions coming from a number of places. You can simplify your distribution stream by consolidating your accounts. By rolling your 401k assets into an IRA you can marry multiple accounts and enjoy one simple distribution.

Separation from Former Employer – Sometimes leaving a job is not a pleasant experience. You may retire, be forced to retire, or be terminated. If your departure from your former employer is not on good terms, you may wish to take your retirement assets with you. Although your 401k assets cannot be “touched” by your former employer, the employer still remains in charge of the plan and can change the plan as they deem necessary. They can change providers, alter the fee schedule, or remove investment options. In other words, the employer retains indirect control over your account and will make decisions about the plan based on its objectives not yours. Once you leave an employer, you may not want them to continue to have access to your retirement information and you may not want your assets to be limited to the scope of the plan.

Increase Withdrawal Flexibility in Retirement – 401k plans vary quite a bit as to their withdrawal flexibility. Some 401k plans do not offer any partial withdrawals for retirees. Others limit the number of withdrawals participants can take per year. On the other hand, IRAs offer unlimited withdrawal availability. Clients can pull out money as often as they like and in various amounts as needed, understanding that based on age these withdrawals may have taxable implications. You have worked hard to save money for retirement. It makes sense to invest your money in a vehicle that provides you with the flexibility to respond to changing needs over time.

Pro-Rata Withdrawals - When 401k clients take withdrawals, many times the money comes out pro-rata. This means the money is taken out of their account in the same percentages as it was invested in their 401k plan. The client is NOT allowed to select from what fund or funds within the plan to pull the withdrawal. This may force you into selling investments you like, such as company stock or a favorite fund. This is radically different from an IRA. With an IRA you can select from what funds to pull a withdrawal, which enables you to take the withdrawal in a way that is most effective for your goals and needs.

Penalty-Free Withdrawals for Higher Education – An IRA can be a method of helping your child with higher education costs. IRA accounts offer a waiver of the 10 percent early withdrawal penalty when the withdrawal is for higher education expenses. 401k accounts do not offer this. If you have children approaching college age and have not saved enough for their education, it might make sense to tap into an IRA penalty free. An early withdrawal for educational expenses is a taxable event, but it will not be additionally penalized as an early withdrawal.

Customized Tax Withholding – An IRA offers other withdrawal benefits. When you withdraw from a 401k plan, the administrator is required to withhold a minimum of 20 percent for income taxes. Customers can elect a higher amount be withheld, but they cannot elect a lower amount. IRAs allow you to determine how much to withhold from a distribution to cover taxes. So if you withdraw \$35,000 in January and want to only withhold 10 percent for taxes, you can. Why give the IRS more than you think you will owe and give it to them for 12 months.

Improve Transfer of Resources to Non-spousal Beneficiaries – 401k plans do not transfer to non-spousal beneficiaries well. In many cases non-spousal beneficiaries have to take a lump sum distribution or take distributions over a five-year period. This does not allow non-spousal beneficiaries to “stretch” the use of this money over an extended period of time. In addition, any distribution would be taxed at the beneficiaries’ income tax bracket, which depending on his/her age and work status could be a when the person is at the highest tax bracket they will attain. Converting your

401k to an IRA would improve the transfer of resources to a non-spousal beneficiary. An IRA allows individuals to defer withdrawals until they reach retirement and to stretch the withdrawals over their life expectancy.

Bypass Trust Problems – Do you have a Bypass or A/B trust that was set up by your attorney? Many estate planning attorneys recommend a Rollover IRA to prevent potential estate planning problems that may arise.

Summary

In summary, 401k plans are wonderful benefits offered by many employers, and employees should take advantage of these retirement vehicles. However, it is wise for employees to seek help with these plans while participating, and upon leaving an employer. It can be useful to look at whether or not leaving your money in the 401k plan is in your best long term interests.

If you've read this far, you're likely very serious about your finances and would like to ensure your plan for retirement is sound.

I can help you make the most of your opportunity, but first let me introduce myself.

My name is Braden Hill. I am the owner and Senior Financial Consultant of Pinnacle Hills Financial Services, LLC. I work with individuals who have recently started a new job and need to know what to do with their retirement plan at their former employer.

In addition to authoring this report, I have taught investment and retirement workshops throughout Northwest Arkansas to people just like you—teaching them in a plain and simple language that anybody can understand (much like this report) how to increase their investment income, greatly reduce taxes, and invest using advanced multiple asset class strategies used by large endowments.

I am a graduate of the University of Arkansas at Fayetteville with degrees in Finance and Management along with a Masters degree from the University of Arkansas. I have years of experience working at several major Wall Street firms learning these advanced investment strategies.

But most importantly, I have a great passion for sharing my knowledge and helping people invest better, smarter, and plan for a fulfilling retirement.

I can help you make the very best decisions with your employer sponsored retirement plan.

I am confident that there are financial moves available to you that could so greatly improve your financial positioning.

If in just 30 minutes, I can't suggest significant tangible improvements then you owe me nothing more than a wave goodbye!

**There's no catch—
And absolutely no cost or obligation to do anything else.**

Here's how it works:

Call my office toll-free at 1-866-631-9733 or 479-631-9700. Simply reference the report you've received. I will schedule a free 30-minute meeting and rush to you a questionnaire. You will need to bring the questionnaire to the meeting as complete as possible (this should take you around 10 minutes) if you want your evaluation to be accurate. When you bring your completed questionnaire into my office, I'll review it with you to analyze your overall portfolio.

So here's what to do:

1. **Pick up your phone and call toll-free at 1-866-631-9733 or 479-631-9700.**
2. **Schedule your appointment date and time.**
3. **Complete the short questionnaire (this should take no longer than 10 minutes).**
4. **When the questionnaire is complete, I'll review it with you at my office and analyze your portfolio.**
5. **You review the improvements that I identify and you decide what direction to go. There is no sales presentation and absolutely no obligation to do anything, period. It's entirely your decision.**

Let me assure you this is a free review

You will NOT get a sales presentation. You will not be asked to spend any money—in fact; I insist that you leave your checkbook at home. **You have everything to gain and nothing to lose.**

It's been a pleasure, do not procrastinate,

Braden Hill
Senior Financial Consultant

Pinnacle Hills Financial Services, LLC., an independent firm with securities offered through Summit Brokerage Services, Inc. Member FINRA & SIPC, and advisory services offered through Summit Financial Group, Inc., a registered investment advisor.