Destination: Retirement

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Questions?

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Remaining Calm in Volatile Times

There are several certainties in life—death, taxes, and, yes, market volatility. Fluctuations in your 401(k) or workplace retirement savings account can stir up feelings of stress, panic, and anxiety, particularly when your hard-earned retirement dollars are at stake. But overreaction to these fluctuations is one of the biggest risks that retirement investors face. So, in turbulent financial times, resist the urge to hit the panic button and instead stay focused on your long-term savings goals. Here are some tips to help you remain calm in the midst of market volatility.

- **Be in it for the long haul.** Saving and investing for retirement should be approached with a long-term mentality. In fact, for most of us, it is essential to helping achieve financial goals. So, maintain the long view and construct a well-diversified portfolio to take advantage of investment opportunities and hedge against market risk.
- **Stay true to your plan.** Even when your 401(k) account balance declines in value, it pays to stick to your retirement savings plan. Allowing emotion to drive your investment decisions could mean missing out on gains when the market stabilizes and swings upward, which, inevitably, it will.
- **Don't try to time the market.** When you stray from your well-thought-out plan in an effort to boost retirement savings, your investment performance is likely to get worse, not better. In fact, research has shown that chasing returns can cost the average investor around 2 percent annually—a significant figure, especially when compounded over time. Instead, as previously mentioned, diversify your portfolio using a wide range of investments or a target-date fund and trust your long-term strategy.

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- **Keep contributing to your workplace retirement plan.** The actions we take in the immediate aftermath of turmoil often turn out to be ill advised. The same can be true when saving for retirement. Although your first instinct when faced with negative returns may be to pull the plug on your 401(k) contributions, don't! Take a deep breath and think about the consequences. You may be leaving employer-matching dollars on the table or losing your ability to benefit from the magic of compound interest.
- **Get coached up.** Just as a nutritionist can guide you in achieving your health goals, a financial advisor can coach you in investing in order to reach your retirement goals. Being able to lean on someone who has the experience and know-how to apply the tips described above can be invaluable as you march steadily toward retirement. Engaging an advisor can also help you feel more confident about your long-term, big-picture investing strategy.

Finding a Home for Your Old 401(k) Account

Working Americans are changing jobs more regularly. Consequently, many are leaving behind savings in their former employers' 401(k) or 403(b) plans. Are you among these individuals? If so, here are a few choices to consider for that old 401(k) account.

- **Do nothing!** If your former employer allows it—and most do—you may leave your old 401(k) assets invested in your former employer's plan. But be careful. If your account balance is under $5,000, your former employer may elect to roll your assets over to an IRA of its choosing. Further, if the balance is under $1,000, the employer could involuntarily cash out your balance and send the proceeds to you in the form of a check. When pretax retirement assets are distributed to you, you'll have to pay income tax. In addition, if you're younger than 59½, you'll be assessed a 10-percent early withdrawal penalty* for the distribution!

- **Roll your old account into your new employer's plan.** By rolling over your old retirement account into your new employer's

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retirement plan, you'll preserve the account's tax-favored status and stay clear of the early withdrawal penalty*. Additionally, your new employer's plan may offer more investment options, such as lower-cost index funds or professionally managed target-date funds. The administrative fees for the new plan could also be lower than those of your former employer's plan.

- **Roll your old account into an IRA.** If you pursue this course of action, you'll also maintain your tax-favored status and avoid any early withdrawal penalties*. Further, you'll enjoy increased freedom of choice because you'll be able to shop around for the most cost-effective IRA custodian.
- **Request an indirect rollover.** When you indirectly roll over your old retirement assets, you'll be issued a check—made payable to you—for the balance of your account. But here's where this can get tricky. You then need to complete the transaction by depositing your funds into a workplace retirement plan or IRA within 60 days. If you fail to do so within that time frame, you'll owe taxes, as well as the 10-percent early withdrawal penalty* if you're younger than 59½.
- **Take the cash—but think twice before you do so.** Keep in mind that retirement assets are accumulated for retirement and that withdrawing those assets prematurely could set you back in your savings goals. Also, if you pursue this course, you'll need to pay taxes and perhaps the early withdrawal penalty*. So, although the prospect of having all that cash on hand may be tempting, preserving the assets for your retirement nest egg should be your primary goal.

When deciding what to do with an old 401(k) or 403(b), compare the benefits and features of all available choices, including investments and fees, before taking action. A financial advisor can help you sift through your options to arrive at the best path to follow for achieving retirement-saving goals.

*In general, early withdrawals are assessed a 10-percent early withdrawal penalty; however, some exceptions may apply. To learn more, visit Exceptions to Tax on Early Distributions.