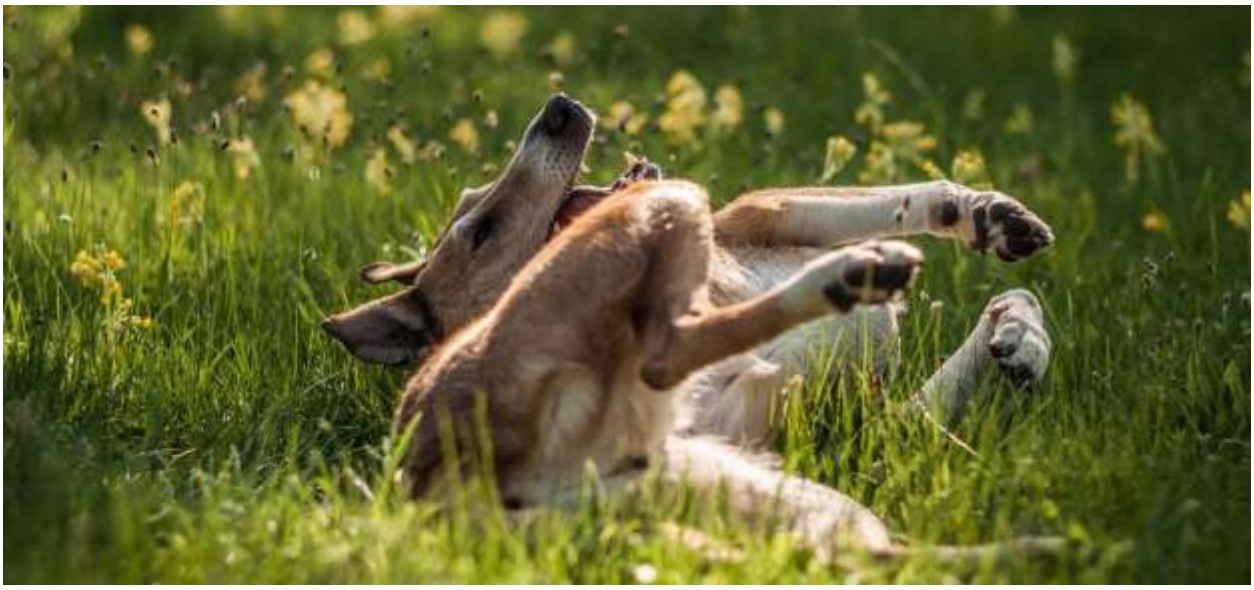
GATEWAY
RETIREMENT CONSULTING



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 you can be saved with an IRA.

Although personal circumstances may vary, it may be a good idea for participants to rollover 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.

About the Author, Michael Viljak

Michael joined RPAG in 2002 and has over 30 years of experience in the retirement plan industry, on both the wholesale and retail levels, focusing on retirement plans ever since their inception in 1981. Michael has an interest in fiduciary-related topics and was part of the team that created RPAG's proprietary Fiduciary Fitness Program. He also authors many of the firm's newsletter articles, communication pieces and training modules.
