



## **If You Are Laid Off, Don't Neglect Your 401(k)**

By Dan Greenshields, CFA

Nearly 600,000 more Americans joined the ranks of unemployed in January. As the recession deepens, analysts predict that more job cuts are on the way. If you're among those who recently lost their jobs, finding a new job is surely your daily focus.

During that tough process, it's important to keep sight of your 401(k). As stressful and upsetting as it is to lose a job, your retirement savings is still *your* money. So take action to control your future.

### **Don't Cash Out – There Are Other Options**

Even in good times, 60 percent of employees who leave their job and take lump sum distributions of their 401(k) don't roll all of it into a tax-qualified savings account, according to a recent newsletter from the Employee Benefit and Research Institute. As big a temptation as this is, don't do it! Money drawn from a 401(k) counts as income on your taxes and if you're under age 59 1/2, you'll be penalized an additional 10 percent by the IRS.

So before "borrowing" from your retired self, take a personal financial inventory.

Review all your accounts -- savings, checking, brokerage, as well as any unused available line of credit on your home. You may also own plenty of things that can easily be converted into cash on EBay, like baseball cards, jewelry, and other collectibles. One man's junk is another man's treasure.

Unless it's your absolute last resort, don't cash out.

### **Take Action**

Taking no action has consequences. So don't just leave your 401(k) with your old employer.

If you have less than \$5,000 in your 401(k), your employer can cash you out or roll your money over into an Individual Retirement Account (IRA). If you don't specify a brokerage, your employer will choose one for you.

Don't let that happen. Take control of your money by opening an IRA or another tax qualified plan such as an annuity and roll your retirement savings into that account.

### **Choose the Right Home for Your 401(k) Rollover**

For most folks, rolling your money into an IRA is for the best choice. And it's also the most flexible. It ensures that your money will continue to grow tax-deferred and that you can continue to build up your retirement. Plus, rolling into an IRA gives you a broader selection of potential investments to choose from.

But not all brokerage houses are created equal. Familiarize yourself with the fees they charge. These fees -- including annual account fees, minimum balance fees, administration fees, transaction fees & commissions -- can vary greatly and, if not contained, will seriously erode your account's value over time.

To help your money work harder, look to minimize these fees. Find a brokerage that has no account maintenance fees, requires no minimum balance on your investments, and offers competitive commissions. Always ask for a fee and pricing schedule.

## **Help Your Money Work Harder**

Once you've chosen a broker and rolled over your 401(k), you'll need to decide how to invest those assets. Experts generally recommend funds with low expense ratios.

All funds charge fees, usually referred to as expense ratios, to cover fund expenses. Expense ratios typically range from 0.10-2.00 percent, and are taken off the top as a percentage of the funds assets. These fees are collected whether or not the fund goes up or down. High expense ratios, especially when compounded over many years, can severely chip away at your nest egg.

Typically you can find low expense ratios in exchange traded funds (ETFs). ETFs tend to be very diversified and most are indexed, meaning they seek to achieve the same return as a particular market index like the S&P 500, Dow Jones Industrials, or the Russell 2000. Because ETF's are pegged to an index and therefore not actively managed, they tend to have relatively low expense ratios. There are now over 280 ETF's offered on just about every index and industry.

## **It's Your Money**

Whether you have \$500 or \$50,000 in your 401(k), remember that it's your money. You've worked for it, you've earned it, and you're entitled to it -- so don't ignore it. Whether you plan to retire in 5 or 35 years, the sooner you take control of your retirement funds, the better off you'll be.

*Dan Greenshields, CFA is President and CEO of ShareBuilder Corporation*