



*Plan Well ... Retire Well*

## **How to Plan an Exit Strategy for Your 401(k)**

Layoffs happen... Angela, a senior manager at a telecommunications company, recently learned she and two other executives would be laid off due to a restructuring. At 54, she had planned to work another two years before becoming a part time consultant during retirement. The layoff derailed her plans, and it posed Angela with a new challenge - what to do with the nearly \$300,000 in her company- sponsored retirement plan and her severance package until she figured out her next move.

Her situation isn't unusual. Many workers automatically invest part of their paychecks over the years and, thanks to the magic of compound interest and company matches, they amass sizeable nest eggs. If they don't have a strategy to protect that money and they end up in Angela's situation, they could be forced to take a lower salary or find some kind of interim part-time employment.

But investing that money now can affect future quality of life. So there are some issues to consider when planning an exit strategy for a 401(k) plan:

- Avoid being over-invested in your company's stock. Despite the lessons of Enron and WorldCom, a study by the Employee Benefit Research Institute found that 13 percent of employees surveyed had 80 percent of their 401(k)s allocated in company stock. Long-term employees tend to be guilty of this because they set up automatic deductions to purchase company stock plans that accumulate year after year. Their companies often sweeten the deals by offering the stocks at discounts or as company matches.

It's easy to understand why this happens. After all, you know your company better than any other business, and you link your professional success to the company's bottom line. It pays off for a number of workers and a good example is the economic study cited by the Seattle Times that estimated Microsoft employees had \$3.5 billion in stock-option income on top of \$2.4 billion in wages. It estimated the number of Microsoft millionaires at about 10,000.

Despite wishful thinking, the odds are against your company becoming the next Microsoft. The conventional wisdom is that an adequately diversified portfolio should have no more than 10 percent of total investment assets in company stock. This provides some protection from a stock price that suffers a substantial decline.

- Roll it over into another plan with an independent financial advisor. Why? Chances are the employer has done very little to educate their employees. Providers of 401(k) plans often times cannot give specific recommendations on self directed plans and their presentations are often limited. For no additional cost an independent financial advisor can make specific recommendations based on your personal investment profile. After all, if we find that we can help our clients in pre-retirement years, the transition into a retirement plan with us will be that much easier. Additionally, company plans can have disadvantages for those who are over 40 and should be getting serious about estate planning. For example, investment choices are often limited to a basket of mutual funds within the plan. No matter what investment products you choose, learn about the risks and costs involved, and remember that past performance does not guarantee future results.

Additionally, IRAs may give you greater flexibility in transferring your money to your beneficiaries, including allowing your heirs to withdraw funds over a period of time rather than taking a lump sum and avoiding a substantial tax liability.

- Consolidate your retirement holdings. If you have accounts outside your 401(k) or IRA, like brokerage accounts, it may help to consolidate those accounts to keep track of your holdings.
- Ask for help. Financial planning takes into account many things, including your risk tolerance, other assets you may own and when you plan to retire. Don't hesitate to ask a financial advisor just as you would an accountant or attorney for advice.

The issues surrounding an exit strategy for your 401(k) can be complicated. Therefore, Townsend Retirement Specialists offers valuable tips and reports on our website entitled 401(k) Help. We offer our clients exclusive events throughout the year including educational client conferences, webinars, workshops, newsletters and womens seminars to name a few – all at no additional cost. All told, a *First Class Experience* like no other.

Call us today to schedule a complimentary appointment and begin your journey toward a *First Class Retirement*. Remember . . . Plan Well...Retire Well.



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