

THE RETIREMENT INCOME COMPASS

WHAT TO KNOW . . . HOW TO GO

Planning Challenge/Compass Advantage

What to Do with Your Old 401k? It's Much More Than a \$64,000 Question

Cashing out is an option, but don't do it. Look at what you'll be giving up.

Suppose you have \$64,000 in a 401k

* IF YOU CASH OUT

20% federal withholding	-\$12,800
5% additional tax (25% tax bracket)	-\$3,200
10% early-withdrawal penalty	-\$6,400
Illinois state income tax rate is 3%	-\$1,920

Balance: \$39,680

WHAT THIS GETS YOU

New automobile (trade in)	-\$32,680
Plasma TV	-\$3,000
Ten-day island hop	-\$4,000

***You'll be left with
a bad sunburn and \$0**

* IF YOU ROLL IT OVER

Keep the \$64,000 in a tax-deferred plan and earn 8% a year.

WHAT THIS GETS YOU

In 20 years, you'll have
\$298,301

**You can
start withdrawing
\$15,000 a year**

Investment return is hypothetical, and not necessarily indicative of future results.

Planning Challenge

If you're like many Americans, you've changed jobs a few times during your career. When you left, you may have kept your 401k in place. One-fourth of Americans maintain at least one account with a former employer, according to Fidelity Investments.

And we're not talking small sums. The average account balance in a former employer's plan is \$64,000, and nearly 17% of those surveyed reported balances of more than \$100,000. Half didn't even know how their money was being invested—not a good predictor of retirement income success.

What to do with a \$64,000 401k at your former employer? The graphics above compare the possible difference between 1) cashing out your 401k, paying taxes and penalties, and doing a few nice things for yourself now, versus 2) rolling it over to have almost \$300,000 in 20 years.

Compass Advantage

If you conclude that cashing out your old 401k is bad, here are your three options to keep it invested:

- Stay with the old 401k. Remaining with your former employer's plan makes sense if it offers great options like institutionally priced index funds and offers one-on-one advice.
- Rollover to your current employer's 401k. Your current employer's plan gives you superior low-fee investment choices and advisor access—if you choose to use it.
- Rollover to an IRA account, where your 401k assets continue to grow tax-free. A Rollover IRA is the type of account you'll eventually have at retirement from which you'll manage your monthly withdrawals. Open the account with a low-cost index fund provider, such as Vanguard or Fidelity. Do not get sold a variable annuity.

The Challenge

Your retirement income success is built on critical decisions in each of the four Compass Points:

- Planning
- Investing
- Managed Withdrawals
- Navigating

Planning—Advisor Value

You've hired the Madden organization and me and to provide help for your planning decisions; 1) define your destination—Your Numbers, & 2) create a plan to get there:

- Your Number at Retirement—The portfolio value you'll need to start monthly withdrawals;
- Your Number in Retirement—Total expected withdrawals thru your retirement years;
- Savings rate and return you'll need to reach Your Numbers.

—Mike Madden

THE RETIREMENT INCOME
COMPASS
BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

What to know...
and how to go

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