Investor Solutions
Investor Solutions is an independent fee only registered investment advisor serving individuals, families, trusts, not for profits and corporate pension plans.

Zombie Pension Accounts

When employees change jobs they often leave their pension accounts behind at their old employer. Reasons include inertia and lack of knowledge about the options available to them. In too many cases these pension accounts become orphans and later zombies.

On your way out the door it's all too easy to leave the pension decision for later. And too often later never comes. Left behind, the account is out of sight, out of mind, unmanaged, adrift and potentially untethered from its owner.

A recent survey by the National Association of Pension Advisors (NAPA) found that: "More than a third of Millennials have (already) left a retirement plan balance "behind" in a previous employer plan. Not that it's all that unusual – in addition to the 35% of Millennials, 43% of Gen Xers have left those balances behind."

If you have a balance of $5000 or more, you can leave your pension account with your past employers. And, there are certainly rare times when leaving behind a pension account is a good choice. For instance:

1. Your plan costs for administration and investment advisor fees is subsidized by the employer and
2. a wide variety of low cost index mutual funds allow you to diversify globally in an asset allocation that meets your needs.

On the other hand, there may be several problems with leaving an account behind.

1. It's expensive to run a pension account. Record keepers, investment advisors, and Third Party Administrators all have to get paid, and these fees are generally deducted from participant accounts.
2. Investment choices may be limited to expensive funds with sustained underperformance.
3. You may not be able to properly diversify your account with the limited fund choices.

But, it gets worse.

1. Left untended, as asset class performances diverge, your account may become seriously unbalanced.
2. If you are not paying close attention, the investments you had the day you left your old employer may no longer reflect your objectives or financial situation.
3. Over time the plan may lose you. Almost every medium to large pension has lost contact with plan participants as they move around and change addresses. As plan providers change or investment lineup morphs, the plan may have no idea how to allocate your funds. Without your input, your growth account might end up in a money market or GIC.
4. If you have several accounts left behind over your career, it becomes virtually impossible to properly manage them. With different mutual fund companies, different asset class

choices, different costs, and different paperwork and/or log in information the task gets overwhelmingly complicated. Few individuals can or will bother to wade through that level of complexity.

In the vast majority of cases, your best option may be to roll over all your past accounts into a single IRA. Of course, pick a company like Vanguard, Schwab, or Fidelity that have a full menu low cost passive funds or ETFs that will allow you to build a global asset allocation that exactly meets your needs. Your total costs might be below 0.25% per year, potentially saving more than 2% annually over leaving your account at a high cost 401(k). Those savings add up to really large amounts over the years.

And by consolidating your account management becomes dramatically simpler. That in turn should increase your probability for a great investment result.

If you are not able or willing to manage the account yourself, you can always hire a fiduciary to assist you. In that case check them out thoroughly and make sure he/she is willing to accept fiduciary status in writing. Then evaluate the tradeoffs between convenience and expertise versus the additional to for the account.

Don’t take personal possession of the funds. You will want to do a “trustee to trustee transfer” to insure that there are no draconian tax problems. Good news: the receiving institution will coordinate all that with your old pension plan for you.

Your retirement accounts are your future. Treat them with the care they deserve.