

Retirement Directions

Spring 2014

Q Your Questions Answered

Can a Divorce Impact My Retirement Plan Account?

Money in your 401(k) or pension plan may legally be divided during a divorce. The divisible amount typically begins to accumulate on the day you are married and ends on the day you are divorced. Whether you are giving up assets or receiving them, you need to be aware of the rules that govern the division of assets.

You and your spouse can decide not to divide your 401(k) assets or pension plan benefits, but you should make this agreement in writing and include it as part of the settlement to prevent the courts from declaring the money divisible.

If you do decide to divide the assets, you will need to file a qualified domestic relations order (QDRO) with your divorce papers. A QDRO is a legal document that recognizes the existence of an alternate payee's (e.g., a spouse's) right to receive a designated percentage of your qualified retirement plan assets. The QDRO establishes for the court a spouse's co-entitlement to the assets and makes clear that the receiving spouse is responsible for paying the tax owed on his or her portion of the assets distributed from the retirement account.

Five Common Retirement Planning Mistakes

Only 13% of American workers say they are “very confident” they will have enough money to live comfortably throughout retirement.¹ To help reduce such uncertainty from your life, consider these five common investment pitfalls — and strategies designed to avoid them.

Mistake #1: Waiting to Maximize Your Contributions

The sooner you start contributing the maximum amount allowed by your employer-sponsored retirement plan, the better your chances for building a significant retirement account balance. By starting early, you allow more time for your contributions — and potential earnings — to compound, or build upon themselves, on a tax-deferred basis. For 2014, the maximum you can contribute to your 401(k), 403(b), or 457 plan is \$17,500. If you are age 50 or older, you can sock away an additional \$5,500, bringing the total to \$23,000. If you can't contribute the max, be sure to contribute enough to take full advantage of any company match contributions.

Mistake #2: Ignoring Specific Financial Goals

It is difficult to create an effective investment plan without first targeting a specific dollar amount

and recognizing how much time you have to pursue that goal. To enjoy the same quality of life in retirement that you have become accustomed to during your prime earning years, you may need the equivalent of anywhere between 60% and 100% of your final working year's salary for each year of retirement.

Mistake #3: Fearing Stock Volatility

It is true that stock investments face a greater risk of short-term price swings than fixed-income investments. However, stocks have historically produced stronger earnings over the long term.² In general, the longer your investment time horizon, the more you might want to rely on stock funds.

Mistake #4: Timing the Market

Some investors try to base investment decisions on daily price swings. But unless you have a crystal ball, timing the market could be very risky. A better idea might be to buy and hold investments for several years.

Mistake #5: Failing to Diversify³

Investing in just one fund or asset class could subject your investment portfolio to unnecessary risk. Spreading your money over a well-chosen mix of investments may help reduce the potential for loss during periods of market volatility. Diversification may offset

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Rollover Options: Into Your New Plan or Into an IRA



Have you switched jobs recently and are wondering how to handle the rollover of your old account? Which move is better for you: into your new employer's account, or into a rollover IRA? Here are some key factors to help you decide. Be sure to discuss your options with your personal tax advisor before making any decisions.

Potential Benefits of Your New Employer's Plan

Putting all your retirement savings into one 401(k) or 403(b) plan has its advantages:

- Rolling over your assets into your new employer's plan will make it easier for you to track the performance of your assets. You don't have to worry about coordinating your asset allocation and diversification among multiple accounts.
- Your new plan may offer more attractive and less costly investment options, as well as additional services such as financial-planning advice.

Potential Downsides

There are a number of disadvantages to rolling over into your new employer's plan, including:

- Not all plans accept rollovers, so workers must contact the new plan's administrator to determine if a rollover into the new plan will be possible.
- Many plans have waiting periods before processing a new employee's rollover, which vary by plan and can last weeks or months.
- Some plans may require a lengthy verification process for rollover funds to confirm they are tax qualified.
- Beneficiary distributions from employer-sponsored plans are generally taken in lump sums as cash payments.

Potential Benefits of Rollover IRAs

Moving your account to a rollover IRA may have the following benefits:

- As the IRA account owner, you make the key decisions that affect management and administrative costs, overall level of service, investment direction and asset allocation. You can develop the precise mixture of investments that best reflects your own personal risk tolerance, investment philosophy and financial goals.
- IRAs can be more useful in estate planning than employer-sponsored plans as the assets can generally be divided among multiple beneficiaries in an estate plan. Each of those beneficiaries can make use of planning structures such as the stretch IRA concept to maintain tax-advantaged investment management during their lifetimes.

Potential Downsides

While there are advantages to consolidated IRA rollovers, there are some potential drawbacks to keep in mind:

- IRAs tend to have higher-cost investment options than employer-sponsored plans.
- Assets in an employer-sponsored plan cannot be readily taken in many circumstances.
- You must begin taking distributions from an IRA by April 1 of the year after you reach 70½ whether or not you continue working, but employer-sponsored plans do not require distributions if you continue working past that age.

Efficient Rollovers Require Careful Planning

One common goal of planning for a lump-sum distribution is averting unnecessary tax withholding. Under federal tax rules, any lump-sum distribution that is not transferred directly from one retirement account to another is subject to a special withholding of 20%. This withholding will apply as long as the employer's check is made out to you — even if you plan to place equivalent cash in a rollover account immediately.

Keep in mind, too, that the 20% withholding is not your ultimate tax liability. If you spend the lump-sum distribution rather than reinvest it in another tax-qualified retirement account, you'll have to declare the full value of the lump sum as income and pay the full tax at filing time. In addition, the IRS generally imposes a 10% penalty tax on withdrawals taken before age 59½.

Remember, the laws governing retirement assets and taxation are complex. In addition, there are many exceptions and limitations that may apply to your situation. Therefore, you should obtain qualified professional advice before taking any action.

Dealing With the Risks of Investing

Investment risk comes in many forms, and each can affect how you pursue your financial goals. The key to dealing with investment risk is learning how to manage it. This three-step process will show you how.

Step 1: Understand Risk

Fear of losing some money is probably one reason why people may choose conservative investments, even for long-term assets. While investment risk does refer to the general risk of loss, it can be broken down into more specific classifications. Familiarizing yourself with the different kinds of risk is the first step in learning how to manage it within your portfolio.

Risk comes in many forms, including:

Market risk: Also known as systematic risk, market risk is the likelihood that the value of a security will move in tandem with its overall market. For example, if the stock market is experiencing a decline, the stock mutual funds in your portfolio may decline as well. Or if bond prices are rising, the value of your bonds may also go up.

Interest rate risk: Most often associated with fixed-income investments, this is the risk that the price of a bond or the price of a bond fund will fall with rising interest rates.

Inflation risk: This is the risk that the value of your portfolio will be eroded by a decline in the purchasing power of your assets, as a result of inflation.

Credit risk: This type of risk comes into play with bonds and bond funds. It refers to a bond issuer's ability to repay its debt as promised when the bond matures.

International investments also involve additional risks, including the possibility of fluctuating currency values (currency risk) and the risk that political and economic upheavals may affect a country's markets.

Step 2: Diversify¹

The process of diversification, spreading your money among several different investments and investment classes, is used specifically to help minimize market risk in a portfolio. Because they invest in many different securities, mutual funds may be ideal ways to diversify. Selecting more than one mutual fund for your portfolio can help further reduce risk.

Also consider the potential benefits of selecting investments from more than one asset class: When stocks are particularly hard hit due to changing conditions, bonds may not be affected as dramatically. In part, that may be because bond total returns may be tied more to income (which can cushion a portfolio) than price changes.

Step 3: Match Investments to Goals

Before you can decide what types of investments are appropriate from a risk perspective, you need to evaluate your savings goals. Is your goal preservation of principal, generating income for current expenses or building the value of your principal over and above inflation? How you answer this will enable you to find an appropriate balance between the return you hope to achieve and the risk you are willing to assume.

Examine your time horizon for meeting your goals, and consider how comfortable you may be riding out short-term losses in the value of your investments. Remember, the longer your time horizon, the more volatility you may be able to tolerate in your portfolio.

By devoting time to examining your goals, conducting some research, and working with a financial professional, you can learn how to manage risk in your portfolio by choosing appropriate investments.

¹Diversification does not guarantee a profit or protect against a loss.

Steps to Prevent Identity Theft

Millions of Americans fall victim to identity theft each year — and their financial losses are in the billions. In 2011 (the latest data available), an estimated 8.8 million Americans experienced identity theft, causing losses of more than \$13 billion.¹

What can you do to help reduce your chances of having your identity stolen? The steps below can help you prevent significant losses.

1 Check your credit reports every year. You have the right to obtain a free copy of your credit report every 12 months from each of the three credit reporting bureaus — Equifax, Experian and TransUnion. Check thoroughly to confirm that there aren't any unidentified accounts on your report.

2 Place a freeze on your credit reports. This can help stop an identity thief from opening a credit card account under your name. You simply contact the three credit bureaus and request a credit freeze. This prevents

lenders who don't already have a relationship with you from viewing your credit report. If they can't access your credit report, they won't issue a new account. There is often a fee to request a freeze, depending on your state of residence and whether you've ever been the victim of identity theft in the past.

3 Monitor your email. You want to be on the lookout for phishing scams, particularly those that appear to come from a credit card company, bank, retailer or anyone else you do business with. Many of these emails will direct you to a phony website that will ask you to input sensitive data, such as your account numbers, passwords and Social Security number.



4 Be careful online. When banking or shopping online, be sure to use websites that protect your financial information with encryption, particularly if you are using a public wireless network via a smartphone. Sites that are encrypted start with "https." The "s" stands for secure. Also be sure to use anti-virus and anti-spyware software.

5 Google yourself. See what information is available about you online. Be sure to check other search engines, such as Yahoo and Bing. This will help you identify potential theft sources and will also help you maintain your reputation.

¹Source: Bureau of Justice Statistics, October 2013.

Five Common Retirement Planning Mistakes (continued from page one)

losses in any one investment or asset category by taking advantage of possible gains elsewhere.

Now that you are aware of these five common investment errors, consider yourself lucky: You are ready to benefit

from other people's experiences — without making the same mistakes.

¹Source: Employee Benefit Research Institute, *2013 Retirement Confidence Survey*, March 2013.

²Source: Wealth Management Systems Inc. Stocks are represented by total returns from Standard & Poor's Composite Index of 500 Stocks, an unmanaged index generally considered representative of the U.S. stock market.

Bonds are represented by annual total returns of long-term (10+ years) Treasury Bonds. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest in any index. Past performance is no guarantee of future results. With any investment, it is possible to lose money.

³Diversification does not ensure a profit or protect against a loss.

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