

Skloff Financial Group

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Question of the Month

By Aaron Skloff, AIF, CFA, MBA

Q: I recently left my company. My spouse is still working for her company. What are the advantages of rolling over our 401(k) accounts into professionally managed IRAs?

The Problem – Getting Professional Advice to Optimize Return and Risk in Your 401(k) Account

Charles Schwab's '2024 401(k) Participant Study' found **61%** of retirement savers believe their financial situation warrants professional advice, compared with 55% in 2023. Even disciplined, experienced investors can end up with inappropriate risk levels and mediocre returns in their 401(k) accounts. Many are constrained by limited investment options and target date funds inconsistent with their needs.

The Solution – Professional Managed 401(k) Accounts and IRAs Can Generate 3% to 4% Higher Returns Net of Fees Per Year

Once you leave your company, you can complete a tax-free rollover of your 401(k) account to a professionally managed IRA account, regardless of your age. Many companies allow you to complete a tax-free in-service rollover of your 401(k) account to a professionally managed IRA once you reach age 59 ½, even if you are still working for your company. Professionally managed IRAs offer virtually unlimited investment options, which can be optimized to meet your needs.

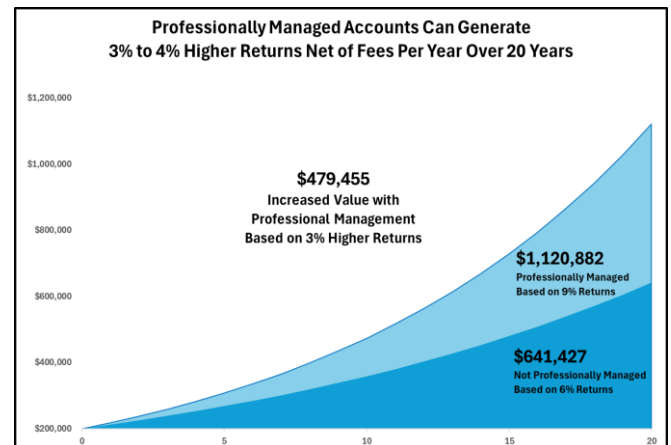
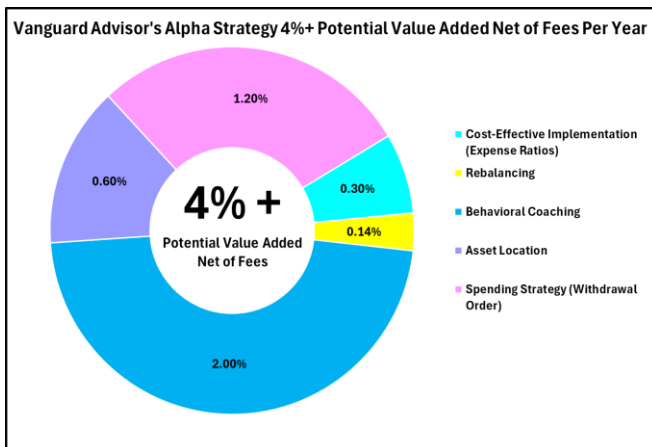
Vanguard's 2022 'Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha' study concluded that professionally managed accounts can add **3% to 4% higher returns net of fees per year**.

The Vanguard study attributed the higher performance to the following components. See the table and chart below.

Vanguard Advisor's Alpha Strategy		Typical Value Added for Client	
Suitable Asset Allocation Using Broadly Diversified Funds/ETFs	Greater than	0.00%	*
Cost-Effective Implementation (Expense Ratios)	Equal to	0.30%	
Rebalancing	Equal to	0.14%	
Behavioral Coaching	0 to	2.00%	
Asset Location	0 to	0.60%	
Spending Strategy (Withdrawal Order)	0 to	1.20%	
Total Return Versus Income Investing	Greater than	0.00%	*
Range of Potential Value Added		Up to	4.24%
* Value is deemed significant but too unique to each investor to quantify			

As seen in the table above, Suitable Asset Allocation is deemed significant. According to Vanguard, "a whopping **88%** of your experience (the volatility you encounter and the returns you earn) can be traced back to your asset allocation".

Professionally Managed Accounts Can Generate 75% Higher Values Over 20 Years. Applying Vanguard's study, 3% higher returns per year can generate a **75%** higher account value over 20 years. Let's look at an example of a \$200,000 401(k) account that is not professionally managed, based on 6% annual returns. Over 20 years, the account that is **not professionally managed grows to \$641,427**. Let's look at an example of a \$200,000 IRA that is professionally managed, based on 9% annual returns net of fees. Over 20 years, the **professionally managed account grows to \$1,120,882**. The **professionally managed account** has a \$479,455 higher value, equating to a **75% higher value**. See the chart below.



Action Steps

Rollover your 401(k) accounts from former employers to a professionally managed IRA. Complete in-service rollovers once you reach age 59 ½ to a professionally managed IRA. **A professionally managed IRA can generate 3% to 4% higher returns net of fees per year, resulting in a 75% higher account value over 20 years.** Work closely with your Registered Investment Adviser (RIA) to professionally manage your accounts.

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