Registered Investment Advisor Firm

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Can You Spare a Twinkie?

First major lesson for 2015 - don't trust your employer to do what is best for your retirement – always trust yourself!

In 2012, the bankrupt Hostess Brand's, home of the Twinkie, CEO allegedly admitted the company had used their workers' pensions fund to pay for company operations. They appear to have diverted the money to pay for CEO and executive workers compensation packages – essentially company operations.

As if this was not bad enough, not only did the company misuse the retirement funds, they also missed more than $20 million in pension payments. Ouch!

A "pension" is typically a defined-benefit plan, and if you're over 40 years old, you may still be working for a company that offers such a plan. However these numbers a dwindling in favor of the defined-contribution plan, such as a 401(k).

The defined-benefit plan is a retirement account that your employer controls and funds on your behalf. When you finally retire, your employer agrees to give you either a lump sum of money or monthly payments, typically for life.

So besides the possibility of a company diverting your retirement funds, how is this a problem?

As I previously mentioned, with a pension or defined-benefit plan, you – the employee – have ZERO control over what happens.

You don't have an option to increase or decrease the amount that's being invested, or where and how it's invested. The employer hires managers who oversee where the pension money is being invested, and what the management fees will be charged. These fees directly dilute your return.

Though not too common, some plans state that if you die right after you retire, your dependents might not be entitled to anything.

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So how can you protect yourself from potential employer abuse or shortcomings of your plan where it involves your dependents?

The first thing that you can do is to see if your plans funding is at risk. Ask for a copy of your plans annual report, it's called a Form 5500. There you will want to look for the funding ratio. You will want to see a ratio greater than 80%.

You can also ask your employer if you have the option of a lump sum buy-out. If you have a pension you may already be familiar with this through the occasional receipt of letters asking if you'd be interested in ultimately receiving your pension amount on a monthly basis, or if you'd rather receive a one-time pay out from the plan. This absolves the plan from having any future obligation to you.

If you have that option, you should run the numbers to make sure which option makes financial sense for you.

You can also move the money from your pension into a self-directed IRA.

A self-directed IRA gives you total control of your money. You not only get to grow your money tax-free, just like with a pension, but there's no limit on how much you can make if you invest wisely.

A self-directed IRA is exactly what it sounds like. It's an IRA that puts you in charge of what you invest in.

A fully self-directed IRA allows you to invest in stocks, bonds, mutual funds and ETS, as well as many other assets, including real estate, private stocks, businesses, and even precious metals.

You can invest in just about anything, as long as it's not employed for your personal benefit. This simply means you must avoid any conflicts of interest.

You can't, for example, invest in companies you have a 50% interest in. But you can buy the house next door through your IRA and then rent it to a neighbor. You can also invest in a local small business, as long as it's not your own.

When you buy and sell, including option trades involving covered calls within your IRA, you don't have to report the trades to the IRS. The aim is simply to maximize your total returns as quickly and as easily as you can, and to get better returns than a traditional pension could offer.

Ready to make the move? There are two ways to move your pension to an IRA.

One is to "roll over" your pension directly into an IRA. The broker or custodian you're opening an IRA with should have all the necessary forms for you to complete. At DIG we custody all assets with Charles Schwab.

You can also take a lump-sum payment on your pension and then move the funds into an IRA. Use caution if you select this option. If you do this and fail to have the funds reinvested within 60 days of taking the lump sum, the IRS will consider the distribution amount to be a withdrawal subject to income tax

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and possibly a 10% early withdrawal penalty. The safest way is to just roll over the pension directly, you don't risk incurring taxes and penalties.

However you decide to do it, don't wait. It's your money and your retirement. Why leave the money you're counting on for retirement in someone else's hands?

Answer Forum

Questions were slim this month, though if a theme were to be identified, it would have to be related to Required Minimum Distributions (RMD) from retirement accounts.

If you are someone that will be turning 70 ½ in 2015, you will be required to begin your RMD. You have a grace period in the year you turn 70 ½ allowing you to delay the distribution until April 1st of the following year.

So if you turn 70 ½ in 2015, you could wait until April 1, 2016 to take your RMD, but you will be required to take two RMDs in 2016. Taking two in the same year is not necessarily a problem, but remember these distributions will be considered ordinary income for taxing purposes.

If you have any questions or concerns, send me an email or call. I'd be happy to try and answer any questions or concerns.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me directly at (925) 360-6819 or through my email address at: Bud@DavisInvestmentGroup.biz

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