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If a financial adviser wants to roll over your retirement savings, watch out

Follow your money: Older investors especially might end up in worse financial shape than if they did nothing

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> Rolling over a 401(k), IRA or similar plan can hit you with hidden fees, tax penalties, loss of investment options and other protections.

If you ask 10 financial advisers how and where you should invest your tax-advantaged retirement savings, you may get 10 different answers. There are many options and it's not easy to know which one makes the most sense.

The challenge grows if you're retired or nearing retirement. You may have accumulated a large nest egg, and advisers may recommend rolling over that pile of money into a different type of account.

But rollovers can backfire. The stakes are high, given that a rollover is among the biggest, most consequential financial decisions you could make.

The Financial Industry Regulatory Authority, or Finra, is increasing its scrutiny of advisers' rollover recommendations, especially those targeting retirees and seniors. When rolling over their retirement savings, older investors might unknowingly find themselves in worse shape than if they did nothing.

The good news: Broker-dealers and registered representatives must follow Regulation Best Interest (Reg BI) when making rollover recommendations to clients. That means their recommendations must meet a standard of care in which they act in the client's best interest.

Despite this regulation and Finra's oversight, risks remain. You may not realize that by agreeing to roll over funds (from, say, a 401(k), IRA or similar plan) into a different account, you can get hit with hidden fees, tax penalties, loss of investment options and other protections.

"Investors need to determine the total cost of a proposed rollover before they go ahead with it," said Craig Ferrantino, a financial adviser in Melville, N.Y.

Read: 'I really do not need the funds.' I'm 72 and facing RMDs in mere months, but I don't need the money or want the taxes. What's my move?

Follow your money

List all the fees and expenses and compare it to your current plan's cost. Confirm the proposed rollover would not trigger any tax liability or penalties.

and tax consequences of various accounts and rollover scenarios. You may want to take the printed proposal and seek counsel from your accountant, attorney and others whom you trust.

Consider how the adviser gets paid. Many of them charge an assets-under-management fee, typically around 1%.

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If you're urged to transfer all of your assets (including your retirement funds) to their firm, calculate the total cost. Beyond paying their fee, ask about the expense ratio of the underlying investment products they recommend (which covers the funds' operating expenses, marketing, record keeping, etc.).

Some advisers favor certain types of products or custodians, so make sure you understand the rationale for their rollover recommendation. They may funnel clients' retirement funds into one financial institution and get rewarded for their volume of business with that firm.

Question everything

Ask about the pros and cons of a range of different rollover strategies before you make a decision. And inquire about their motives.

"You should ask, 'Are there any sales incentives you get by recommending this?' and 'Do you have any conflict of interest in selling me this product?'" Ferrantino said.

Fred Reish, an attorney and partner at Faegre Drinker, a Los Angeles-based law firm, advises retirement-plan participants to ask their financial adviser the following questions before authorizing a rollover:

- Will you monitor the new investments after the initial recommendation?
- What are your fees, and do you get any money or benefits from anyone other than me?
- What do you think is the right investment strategy to help me meet my goals? Why do you think that?

"If the adviser doesn't give clear and comprehensive answers to these questions, that's a red flag," Reish said. For example, plan fiduciaries have an ongoing duty to monitor the

He adds that when comparing the total cost of the proposed rollover with your current plan, treat even slightly higher-percentage fees as significant.

“If the total cost of the proposal, which should include the adviser’s compensation, is much higher than your existing plan’s cost, make sure there are additional services that justify the difference,” he said. “Remember that an amount that seems small, say 0.5% or 1%, can add up to a lot of money over time.”

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