LETTERS TO THE EDITOR & RESPONSES

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Letter to the Editor, Pittsburgh Post-Gazette: Pennsylvania Wants Your Retirement Account

Pennsylvania Wants Your Retirement Account

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In July, Pennsylvania legislators made a quiet change to a law and put your retirement savings at risk. Few people know how this law works—but the danger to Pennsylvanians' retirement accounts is very real.

The change relates to an issue called "escheatment." Every state has escheatment laws, which require financial firms to turn over to the state financial accounts deemed "lost," "abandoned," or "unclaimed."

In theory, states enact these laws because state agencies have greater resources at their disposal than financial firms to locate lost owners of abandoned accounts. In practice, an owner may not actually be lost, and states are instead use these laws to gain revenue and fill budget shortfalls.

According to the National Association of Unclaimed Property Administrators, as of 2011, some $40 billion had been turned over to states—and only one-third of that money was returned to the rightful owners.

Until now, one type of investment had been granted special protection from these laws: your retirement account. Not anymore for Pennsylvanians. In the state budget passed in July, a new provision removed this barrier between your retirement savings and the state treasury.

Under Pennsylvania's previous law, assets in a retirement account could be deemed lost and then claimed by the state only if two conditions were met. First, the owner of the account had to have reached the age of 70-and-a-half. Second, the financial institution had to have lost contact with the owner for a period of three years. If the account owner had not been in direct contact with his or her financial institution during that time, or if mail from the financial institution had been returned as undeliverable, state law required that the account be turned over to the state and liquidated—enabling the state to use the account proceeds.

This sensible age restriction was included in the original law to ensure that these accounts were available to help support retirees when they reached retirement age. But the new state budget remove that age requirement, as of Sept. 10. As a result, retirement accounts will be eligible to be deemed abandoned after three years, regardless of the age of the account owner.

With this change, every retirement account owned by a Pennsylvania resident will be at risk of being deemed abandoned and liquidated by the state.

As most retirement savers know, withdrawing funds from a tax-advantaged retirement account—such as a 401(k) or individual retirement account (IRA)—before retirement age results in tax penalties. Those penalties still apply when retirement accounts are prematurely liquidated by the state—and the investor is on the hook for them!

To make matters worse, when the state receives and liquidates an “abandoned” account, the assets in the account stop growing—the state doesn’t add interest, dividends or gains from the stock market’s rise to the balance.

What does this all mean? People of all ages could now lose their retirement savings and any potential growth in those accounts while remaining liable for the taxes and tax penalties resulting from state actions. And where do the proceeds of these “abandoned” accounts go? Into the state’s coffers, for the state’s use.

Why has Pennsylvania, alone among all the states, decided to impose such dire potential consequences on residents saving for retirement? Ask your governor and state legislators. Because the change was slipped into the state’s budget bill during the waning hours of the General Assembly, there’s been no legislative debate or public record explaining it.

Pennsylvanians saving for their retirement must protect their savings by contacting their financial institution to indicate an interest in the account every three years or by making sure that the mailing address on file with their financial institution is current at all times. Failure to do so puts your retirement accounts in jeopardy. Our website, ProtectYourFinances.org, has more information on how to protect your accounts in Pennsylvania and in other states.

We hope that, during the 2017 legislative session, the governor and the General Assembly right the wrong they have done to Pennsylvania’s retirement savers—but there’s no guarantee they’ll restore previous protections. Every person in Pennsylvania who is saving for retirement and wants to preserve their accounts should contact the governor and their state representatives and ask them to undo the worry, inconvenience and potential financial damage they have hung over the heads of tomorrow’s retirees.

The money in your retirement account should be waiting for you when you retire—not sitting in state coffers for lawmakers to spend as they will. Until the law is changed, it is crucial that all Pennsylvania resident protect themselves and their retirement nest eggs.

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