

## Focus on Funds: Protecting Against an Unpleasant Surprise to Your Fund Savings

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Many investors are unaware of new changes to the rules governing when and how retirement savings accounts are deemed “abandoned” by the investor—and taken by their state government. ICI offers advice and resources to help investors safeguard their assets. In the February 22, 2019, edition of *Focus on Funds*, ICI Associate General Counsel Tami Salmon offers details.

#### Transcript

**Stephanie Ortvals-Tibbs, ICI director of media relations:** Did you know that there are certain circumstances under which your IRA [individual retirement account] or other mutual fund assets could wind up falling into the hands of your state treasury? It’s a complicated, difficult issue that ICI has been following for funds and investors for years. And I recently got an update from our expert on the issue: ICI Associate General Counsel Tami Salmon.

**Tami Salmon, ICI associate general counsel:** The states have changed how they deem accounts abandoned. It used to be they deemed them abandoned if somebody had moved and had not left a forwarding address. So any mail that financial institutions send to that shareholder gets sent back to the financial institution. They don’t know where this person is; they have to try to find them. If they can’t get a good address, that account is presumed abandoned.

The states have changed that, though, such that now, a person can be living at the same address, change nothing about their account status. And yet because they have not affirmatively reached out and contacted that financial institution at least once every three years, they’re deemed to have abandoned that account even if they’re getting the statements—even if everything’s fine, even if they have no reason to contact that financial institution.

**Ortvals-Tibbs:** So it sounds like there’s kind of a second unpleasant surprise lurking now in this issue.

**Salmon:** So let’s presume a shareholder has an IRA account, and they’re living in a state where they’re supposed to contact that financial institution every three years. They don’t know the rules have changed; they’re not contacting that institution. They’re getting their statements—everything is fine.

What the Internal Revenue Service [IRS] is now saying is when that account escheats—and again, as a result of them not contacting the state—that oh, by the way, if it’s an IRA account, you owe a 10 percent penalty on that account. Which means that the holder of

that account—the mutual fund—is supposed to liquidate that IRA position, pay 10 percent to the Internal Revenue Code, give 90 percent to the state. And when that shareholder finds out—“Where’s my IRA account? Oh, it’s gone to the state”—they contact the state to get it. They’ve lost out on this 10 percent penalty that they had no control over.

It really puts a burden on a shareholder that they’ve never had before to affirmatively contact their financial institutions to preserve their accounts.

**Ortbals-Tibbs:** So, this is something both for the investor or possibly their children [or] their grandchildren. They should be keeping an eye on it. And they should know that of course, ICI continues to engage with the states and try to convince them to really think reasonably about these rules.

**Salmon:** Absolutely; we’re doing what we can. But the shareholder really has to play a role in this to really protect their accounts.

## Additional Resources

- [How to protect yourself from being deemed a “lost” mutual fund shareholder](#)
- [Focus on Funds: Fund Investors Should Be Alert to "Abandoned Property" Risk](#)