Focus on Funds: Fund Investors Should Be Alert to "Abandoned Property" Risk

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Pennsylvania and other states are changing the laws governing when and how retirement savings accounts are deemed “abandoned” by the investor—and taken by the state government. In response, ICI has created resources to help investors safeguard their assets. In the September 30, 2016, edition of *Focus on Funds*, ICI Associate General Counsel Tami Salmon offers details.

Transcript

Stephanie Ortbals-Tibbs, ICI Director, Media Relations: The words “abandoned property” may make you think about a neglected car or abandoned house, but they should also have you thinking about your retirement account and other financial savings. States across the country have taken new steps, which could treat these accounts as abandoned and take the money into the state treasury until you claim it. ICI Associate General Counsel Tami Salmon, an expert on the matter, shares the latest on what investors need to know.

Tami Salmon, ICI Associate General Counsel: We’ve been really concerned about investors losing account money to the states, because the states are aggressive in deeming it abandoned property. One of the things we’ve done is to establish a resource center on ICI’s website—this is our public website, so it is available to anybody. What it does is explain to investors what these laws do, and it also provides investors the ability to contact their mutual fund companies to make sure their accounts are not deemed abandoned. It’s really important for investors to know they need to contact their mutual fund companies at least once every three years in order to avoid those accounts being deemed abandoned property.

Ortbals-Tibbs: Tami, I think so many of us relate to this, because we see that this could happen to us.

Salmon: What’s particularly concerning is, even though mutual funds have to send out quarterly statements to their shareholders, and even though you as a shareholder are getting those statements—looking at them, everything is fine so you’re filing them away—a state could say that you had abandoned that account because you had not affirmatively contacted the mutual fund company to express an interest in your account. I think that’s the real rude awakening for shareholders.

Ortbals-Tibbs: It really is a rude awakening. And there’s one particular state we need to pay attention to right now, where things are quite active. Tell me about that.

Salmon: Yes, absolutely. In July, the state of Pennsylvania included in their budget bill changes to their abandoned property act. In the past, retirement accounts used to not be deemed abandoned until the owner of that account reached the age of 70½, which is the age that under federal law you had to begin taking distributions from a retirement account. Pennsylvania eliminated that age trigger for deeming these accounts abandoned, which means any person in Pennsylvania saving for retirement can have their account deemed abandoned and turned over to the state regardless of their age. Pennsylvania is the only state that's done that, and we're very, very troubled by this.

Ortbals-Tibbs: So what do people in Pennsylvania need to do?

Salmon: Again, what they need to do is contact their financial institution, whatever institution is holding that account. Make sure you're contacting that institution at least every three years. The problem is, when that account gets turned over to the state, the state is going to liquidate it. If you don't realize for five, 10, 15, 20 years that the state has taken control of that account and you go to claim it, you'll get the value of that account as of the date it was liquidated. It will not be what you were expecting to get out of that. Plus, you may owe tax penalties on that account if it was abandoned before you ever reached the age of 70½.

Ortbals-Tibbs: And this is very serious.

Salmon: It's very serious. We're trying to do a lot of outreach in the state of Pennsylvania to warn Pennsylvania's residents about what's going on.

Ortbals-Tibbs: What's our advice to investors right now?

Salmon: Our advice to all investors is to contact your financial institution every three years because you don't know if your state is going to be aggressive in seizing that property or not—and if they are aggressive and they do seize it, you will be adversely affected by that.

Additional Resources

- How to protect yourself from being deemed a "lost" mutual fund shareholder
- "Pennsylvania Wants Your Retirement Account": Letter to Pittsburgh Post-Gazette Editor

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