

Your Guide to Rollovers



The money in your company retirement plan may be one of your largest single assets and is an essential part of your financial future. But when it comes time to retire or leave your employer, what will happen to your retirement plan assets?

Let's explore the options available to ensure you make an informed choice that aligns with your financial goals.

What Is a Rollover?

A rollover occurs when you transfer the assets from your retirement plan, such as a 401(k) or 403(b), into another retirement account. This move can help you consolidate your savings, keep tax-deferred status, and potentially access a broader range of investment options.

Here are the four main options for rolling over your retirement assets:

1. Roll Over an IRA

Rolling over your 401(k) to a Traditional IRA may give you more flexibility in managing your savings. Traditional IRAs are tax-deferred retirement accounts.

Benefits

Tax Deferral: Your retirement savings can continue to grow tax deferred.

More Investment Choices: IRAs often offer a wider range of investment options compared to employer-sponsored plans.

Control and Flexibility: You have more control over your investments and can choose from various custodians. You may also be able to join multiple retirement accounts into a single IRA to simplify management.

Potential Lower Fees: Depending on your IRA provider, you may enjoy lower fees than an employer-sponsored plan.

Considerations

Required Minimum Distributions (RMDs): Starting at age 73, you must begin taking RMDs from traditional IRAs.

Access to Funds: You can't borrow against an IRA as you can with a 401(k).

2. Roll Over to a New Employer's Plan

Rolling over your retirement plan into a new employer's plan can be a good option, assuming you like your new plan's features, choices, and, of course, costs.

Benefits

Consolidation: Keeping your retirement assets in one place can simplify management and tracking.

Loan Options: Some employer plans allow loans, which IRAs do not.

Required Minimum Distributions: RMDs may be delayed beyond age 73 as long as you continue to work at the company sponsoring the plan.

Considerations

Investment Choices: Employer plans may have limited investment options compared to IRAs.

Plan Rules: Each employer plan has its own rules regarding rollovers, loans, and withdrawals.

3. Leave Your Assets in Your Old Employer's Plan

If you have more than \$7,000 invested in your 401(k), most plans allow you to leave it where it is even after you have left that employer.

Benefits

Familiarity: You know the plan's investment options and administrative processes.

Institutional Benefits: Larger plans may offer institutional investment options with potentially lower costs.

Considerations

Limited Control: Your former employer controls the plan's rules, investment options, and fees.

Taxes: If you are age 55+ and need a distribution, the qualified plan — 401(a), 401(k), or 403(b) — will not subject the distribution to 10% penalty tax.

Accessibility: Some plans may restrict access or charge higher fees for former employees.

4. Cash Out Your Plan

Your retirement accounts are your lifeline to the life you are dreaming about in your golden years. Is there ever a good time to cash out your retirement plan?

Benefits

Immediate Access: You get immediate access to your retirement funds should you need emergency access to cash – such as avoiding bankruptcy.

Considerations

Taxes and Penalties: You'll owe income tax on the withdrawal, and if you're under 59½, you might incur a 10% early withdrawal penalty.

Lost Growth Potential: Cashing out means losing the future growth potential of your retirement assets.

Types of Rollovers

Direct Rollover/Direct Transfer

- Assets from an existing retirement account are paid directly to the qualified plan or IRA Custodian/Trustee, not to you.
- You are given a check, made payable to an IRA custodian, for your benefit.
- There is no tax liability as there is with a distribution.

Indirect Rollover

- You are given funds from an existing retirement plan via check made payable to you. It is then up to you to redeposit the funds into the new IRA.
- There is a 60-day period to reinvest the funds. Any amount not reinvested within this time is subject to taxes and possible IRS penalties.

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Making the Right Choice

The best option for rolling over your retirement plan assets depends on your financial situation, retirement goals, and comfort with managing investments. Consider consulting a financial professional to help evaluate your choices and ensure they align with your overall retirement strategy.

Additional Topics



Navigating Retirement Through All Stages of Life

Making the right choices at the right times of your life can help you achieve your retirement aspirations.

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