

401(k) Rollovers

Some Common Questions Answered



We've all heard, "Failing to plan is planning to fail." So, we open a 401(k), especially if an employer is matching. We try to take steps to prepare for retirement. But which steps are best when you're navigating the complexities of rollovers and distributions? Let us help shed a little light by answering some commonly asked questions.

Question #1

How can you roll a 401(k) over into an IRA? (And, how do you know which IRA to choose?)



Rollovers can be relatively easy. If you are retiring or leaving a current employer THEN Rollovers are relatively easy. Simply open an account with the custodian where you want your IRA to be held and make arrangements to transfer the funds to the IRA account. There are individual IRA and Roth IRA accounts. If you transfer funds from a 401k to an IRA the transfer is not taxable, but all distributions will be treated as ordinary income (and increase your taxable income). If you transfer to a Roth, the transfer will be taxed but all distributions will be non-taxable. Which option is best for you often depends on whether you are now in a lower tax bracket now OR will be in the future. If you are considering rolling over their current 401(k) balance but want to remain employed and still contribute to your plan – this would be considered an in-service partial distribution and must be allowed for in the 401(k) plan documents. (Note: many plans do NOT allow this.)

Question #2

Can you roll a 401(k) over into a new 401(k)?



Yes. The investment options, loans on the account balance, and withdrawal provisions such as in-service roll over options would be dictated by the current plan design and structure of the next plan. Generally it is a better option to rollover to an IRA. It provides more investment options and the potential to have lower fees. One of the reasons to rollover to another 401k is if the 401k has superior investment options not available to the general public and when you plan to work beyond the age when Required Minimum Distributions start (as distributions are not required from 401k plans if the individual is employed with that company during the entire year).

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Question #3

Can you keep your 401(k) with an employer once you leave that job? When is this a good idea, and what do investors need to know?



Typically, you can keep your 401(k). One reason to do so is if the current employer 401k plan has superior options you wouldn't be able to get otherwise (options not available to the general public, etc.).

Note: Some plans require you to move your assets within a certain time frame after you leave the company.



Question #4

Should you consider cashing out a 401(k) when you leave a job?

It's always important to consider ROLLING a 401(k) to an IRA. Cashing it out creates a taxable event—it is taxed as ordinary income and is subject to a 10% penalty if the individual is younger than 59½.



We all want a wonderful, worry-free retirement with enough money to achieve our goals, hopes and dreams for this new season. But failing to plan really does mean planning to fail when it comes to retirement.

Have questions about minimizing your tax burden, or need help with your financial plan? We're here to help! Simply call or email to schedule a complimentary consultation today!

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