401K to IRA Rollovers
To Roll or Not to Roll: It's Your Choice

It used to be common for employers to encourage (or require) departing employees to withdraw their money from the company's retirement plan. Like most employee benefits, an employer-sponsored retirement plan is typically an expense for the employer.

We have seen a shift in the thinking of Corporate HR Departments on this subject. Employers are finding that the loss of large employee accounts can diminish their leverage when negotiating with plan administrators, possibly making their retirement plans less attractive to current and prospective workers. Consequently, some employers are encouraging departing employees to leave their retirement savings in the company plan **(to benefit the ex-employer)**.

If and when you leave your current job, either to retire or to take a new position, understanding the options for your retirement savings may help you make decisions that serve ***your*** interests and not those of a former employer.

Stay Versus Roll

Employees are under no obligation to leave money invested in a former employer's retirement plan but are free to roll it over to a traditional IRA. A properly executed IRA rollover can help preserve the tax-deferred status of retirement assets and avoid unwanted tax consequences and penalties. However, there are some subtle differences between IRAs and employer plans to be aware of before you decide how to proceed:

- **Investment options.** The investment options in an employer plan tend to be limited by the plan administrator. The investment options available in IRAs are nearly unlimited.
- **Early withdrawals.** If you think you might tap your retirement assets early, you may want to leave them in the employer plan. Normally, a 10% federal income tax penalty applies to distributions from traditional IRAs and employer retirement plans before age $59^{1/2}$. You may also be able to withdraw money from a former employer's plan or an IRA and avoid the early-withdrawal penalty by taking a *series of substantially equal periodic payments* (based on life expectancy) that continue for at least five years or until age $59^{1/2}$, whichever occurs later. Early withdrawals may be penalty-free in the event of death or disability. IRA exceptions to the penalty also include a first-time home purchase ($10,000 lifetime maximum), unreimbursed medical expenses that exceed 7.5% of adjusted gross income, and qualifying higher-education expenses. Withdrawals from traditional IRAs and employer-sponsored retirement plans are subject to ordinary income tax.
- **Keeping track of multiple accounts.** Over the course of your career, you could accumulate several retirement accounts. Rolling them all into a single IRA may give you a better perspective of your retirement portfolio and help reduce the potential for losing track of your money.
- **Creditor protections.** Employer plans have strong creditor protections enshrined in federal law. Money rolled into an IRA from an employer plan typically enjoys the same protections.

There is no one-size-fits-all solution. A careful evaluation of your circumstances could help you decide what to do with your retirement assets when you change jobs or retire.

Locust Capital is available to assist in the analysis of or your IRA strategy.

Sources- Securian Financial Network Publication 2012 (no affiliation to Locust Capital).

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