



401(k) Versus IRA

To roll over or not to roll over? That's the question facing retirees who need to decide whether to keep their savings in a company retirement plan, move the cash into an IRA, or take the money and run. Each choice has significant implications for taxes, estate planning and investment growth.

The Argument for Moving

In most cases, retirees and job-switchers are best off rolling their money over into an IRA. The typical company offers employees and former employees only a handful of investment choices. But by holding an IRA in a bank or brokerage house, you can put money in just about any investment you want.

Of course, you may feel uncomfortable taking control over your finances. But if you intend to leave your money to your spouse and children, you could lose a big estate-planning break: the chance for your heirs to stretch out payments over their lifetimes.

If you bequeath an IRA, your beneficiaries can take out their required minimum distributions and allow the rest to grow tax-deferred. Most 401(k) and other company plans force heirs to take the assets soon after the account holder dies. "Employers don't want to be married to the employee's family forever," says Natalie Choate, a retirement-planning expert based in Boston.

Another estate-planning advantage of the IRA is the ability to establish separate IRAs with different investment strategies for each beneficiary, says Marvin Rotenberg, director of individual retirement services for Bank of America. For instance, you could choose conservative investments for the IRA that you leave to your spouse, while opting for investments with longer time horizons for your children.

When to stay put

Still, there are times when keeping the money in your 401 (K) is the way to go. If you're between 55 and 59½ when you retire, decide whether you need the money for living expenses before you make a move. If you're 55, you can withdrawal the money from the company plan without having to pay an early-withdrawal penalty. If you move the money to an IRA, the 10%

penalty lingers until you're 59½.

A different strategy is to move some money into an IRA for investment and estate-planning purposes while keeping enough money in the 401(k) to meet immediate cash needs.

"Sometimes people want to put money in an IRA because they want the flexibility, but they are leery because they may need the money," Rotenberg says.

Also, while you can't borrow from your IRA, many company-sponsored plans will allow you to take a loan. You can borrow the lesser of \$50,000 or 50% of the vested account balance.

If you're 70½ and still working, there's an advantage to the staying-put strategy: You don't have to take minimum distributions from your employers 401 (K), unless you own more than 5% of the company. (With an IRA, you must start taking distributions after you reach the age of 70½.) Staying put is a good option if you already have an IRA and you're now working in a late-career job.

Assuming you're not desperate for the money, the worst thing you can do is cash out. You'll lose the benefit of tax-deferred growth as well as a big portion of your nest egg. And if you're younger than 55 when you take out the money, you'll pay a 10% early-withdrawal penalty on the total amount. One exception: If you have appreciated company stock in your plan, you may want to sell it or move it to a taxable account.

If you decide to do a rollover, set up an IRA and instruct your company-plan administrator to directly transfer your balance to the account. If you take the distribution yourself, your company is required to withhold 20% of the total for the IRS- even if you plan to roll over the entire amount. That means you'd have to come up with the other 20 % from another source to roll 100% of the distribution into the IRA. (You get back the 20%, but not until you file a tax return for the year in question.) When you shepherd the money yourself from your 401 (K) to an IRA, you also face a 60-day deadline to get the job done. After that, the IRS will tax the entire amount, and you will lose any chance for tax-deferred growth. You avoid those worries with a direct transfer.

But Choate warns that even direct rollovers often get bungled. So keep an eye on the new account to ensure the money is moved before the 60-day deadline. "This is not the time to have an operation or take a three-month trip to the jungle," Choate says.

Source: 1031 Exchange; Kiplinger News



**Matt
Grainger**
Ext. 1031

(310) 470-7103
(888) 288-9876



EQUITY TITLE
COMPANY