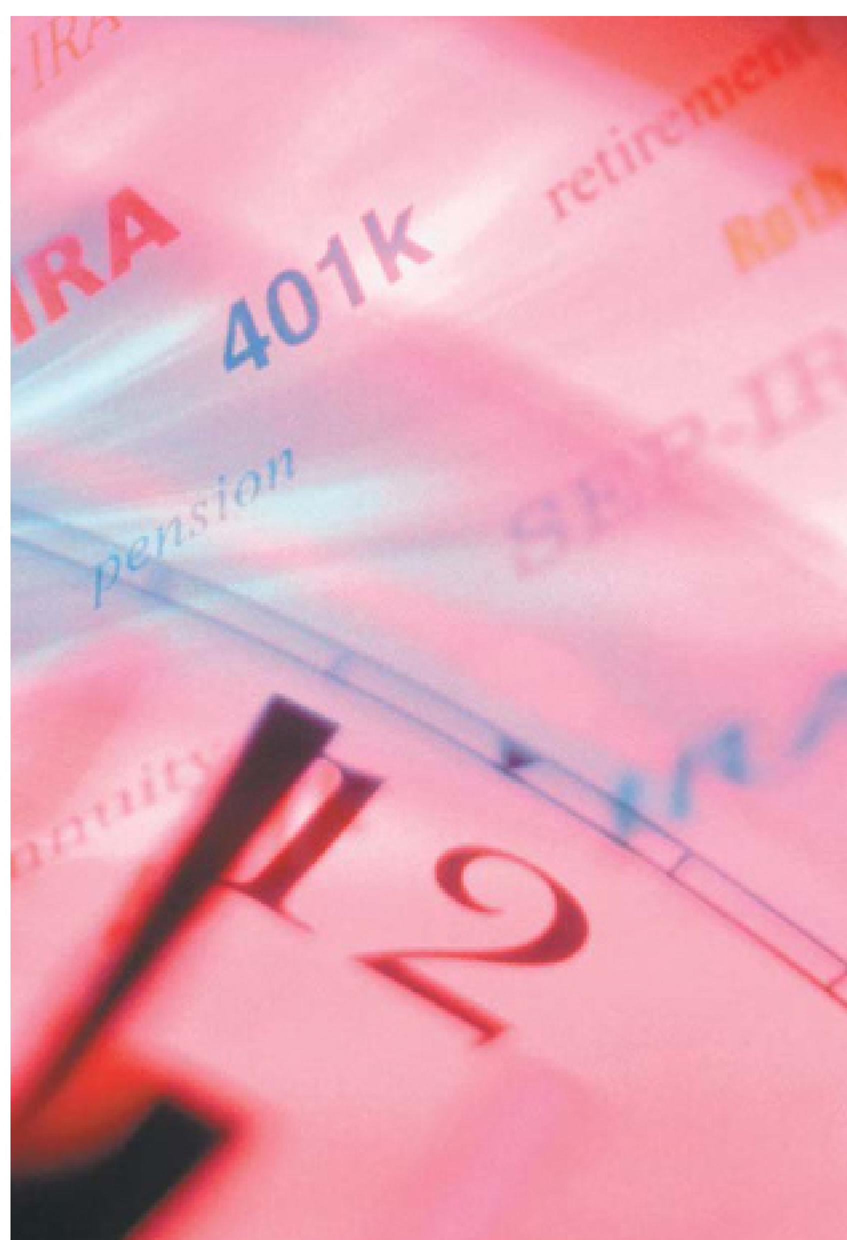
When it makes sense to rollover



With unemployment hitting multidecade highs, more people are leaving their employers and retirement plans now than ever. A 401(k) rollover refers to the transfer of funds from an employer-sponsored program to an IRA or other qualified plan.

A detailed analysis of your situation with respect to your 401(k) is warranted before taking action. Here are a few things to consider:

INVESTMENT SELECTION, CONTROL & EXPENSE

401(k) plans are typically set up with a limited menu of investments. Although there are typically adequate choices for diversification, you may have preferences that are not satisfied within the plan. Rolling it over to an IRA account may give you the additional flexibility you desire. In addition, you'll find internal fund expenses are a wildcard — sometimes they are higher in 401(k) plans, and sometimes they're not. While it's difficult to determine expenses for your 401(k), your plan administrator must give you the summary plan document upon request, which is a good starting point.

LIQUIDITY NEEDS

It's rarely a good idea to withdraw from your retirement account for emergency cash. However, it's nice to know you have options, should you need them. 401(k)s do not afford you the option to withdraw funds prior to age 59½ without incurring a 10 percent excise tax. IRA plans generally have the same restrictions but there is an out. You can utilize Rule 72t which allows you to take regular and on-going distributions. There are complexities to this, so speak to a professional prior to instituting.

ESTATE PLANNING

401(k) company-sponsored plans tend to be more restrictive with respect to beneficiary designations. An IRA will allow you to set up multiple beneficiary designations for various investment strategies. In addition, as noted above, IRA's allow you to use "stretch" distributions whereas most 401(k) plans require a lump-sum to be taken soon after death of the plan participant. This can potentially have adverse tax consequences for the spouse or beneficiary.

SIMPLICITY

Often overlooked, having one IRA rather than multiple 401(k)'s can assist a professional in making investment decisions.

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