

## “What to do with an old 401k”

Before I introduce my second article of *Retiring the Month with Mike*, I wanted to thank all of you for the kind words you shared with me from my first post. They mean more than you know, and I hope to keep topics of interest coming your way! This month's topic I will be discussing: What to do with an old 401(k). In researching material I thought would be helpful in this post, I came across a client approved piece provided to me by National Financial Services which insightfully discusses about the topic, so I figured it best to pass it along as is.

"Leaving your current job can be challenging in any environment. For many of us, it can also be a bit overwhelming. That's why it's comforting to know that choosing a direction for your retirement plan savings can be one of the easiest steps you'll have to take. Whether you are changing jobs or beginning your retirement, a Rollover IRA may be a great way to keep your money working for you".

A rollover is only one of your options. Please read through the included brochure to review all of your options and see if it is right for you. Thanks to the power of tax-deferred compounding, there is no better time than the present to begin your retirement savings to accumulate wealth over time. This includes a disciplined investment strategy tailored to your risk tolerance and investment objectives.

# How you take your money matters most

Consider all of your retirement plan distribution options and consult your investment professional to help you make the best decision for yourself.

## Four options for distributing your employer-sponsored retirement plan

### 1 DIRECT ROLLOVER TO A ROLLOVER IRA

A Rollover IRA allows you to move eligible rollover money from your employer's retirement plan directly into an IRA—without paying current taxes or penalties.<sup>1</sup> This means that you can keep more of your money invested and working for you longer, on a tax-deferred basis.

### 2 LEAVE THE MONEY IN YOUR FORMER EMPLOYER'S PLAN

Generally, this option is available if the plan allows it and your vested account balance in the plan is greater than \$5,000. You may elect to take your money at a later date or keep the money in the plan until Normal Retirement Age. Check with your plan administrator for details.

While this may be the easiest course of action to take now, you may want to consider a few points, including that later on you may find it too restrictive. Your former employer's plan may offer limited investment options, restrict access to money, constrain the number of permitted exchanges, or charge inactive participants a fee.

### 3 DIRECT ROLLOVER TO YOUR NEW EMPLOYER'S PLAN

If you are changing jobs and your new employer sponsors a retirement plan that accepts rollovers, you may opt to move your eligible rollover money directly into your new employer's plan. Doing so would enable your eligible rollover money to remain invested on a tax-deferred basis. You would also avoid paying current income taxes or penalties. Before you make this decision, it's important to talk to the plan administrator at your new company, as rules and investment options vary among retirement plans.

### 4 TAKE A CASH DISTRIBUTION

If you decide to take your retirement distribution in a single payment (and do not subsequently roll over these assets within 60 days of receipt),\* you may end up with much less money than you were expecting. That's because your distribution will be subject to:

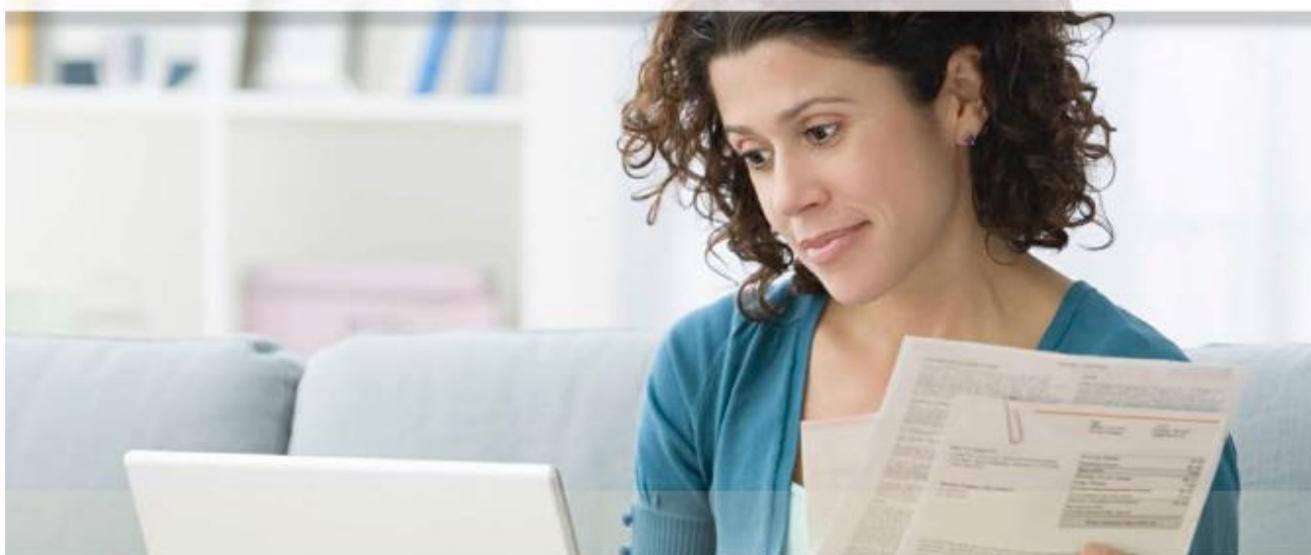
- **20% automatic withholding**—Your employer is required by the IRS to withhold 20% of your eligible distribution for prepayment of federal income taxes.<sup>2</sup>
- **Additional federal income taxes**—In addition to the 20% mandatory withholding, you may owe additional federal income taxes, depending on your tax bracket.
- **Early withdrawal penalty**—If you're younger than age 59½ or have separated from service before age 55, you may owe another 10% of your distribution as an early withdrawal penalty.
- **State and local income taxes**—If applicable, you may also owe state and local income taxes on your distribution.

In all, these taxes and penalties could add up to as much as **43% or more of your total distribution**.

\*With a cash distribution, you have the option to complete an "indirect" or 60-day rollover. If you received a distribution check made out to you from the plan, and 20% of the taxable portion was withheld for income taxes, you have the option to roll the eligible assets over to an IRA or another employer plan that permits rollovers. To do this, you need to replace the 20% that was withheld with money from another source—within 60 days of receiving the distribution. If you do, the 20% that was withheld is credited toward your income tax liability when you file your tax return. However, if you don't have the cash to make up the 20% withheld, the IRS will consider that 20% as a distribution, making it subject to taxes and a possible 10% early withdrawal penalty if you are under age 59½.

Protection of your retirement assets from creditors may also be an important consideration for you. The rules vary, depending on the account type(s) holding your assets. You may want to discuss this with your investment professional and/or your legal advisor before initiating a rollover or distribution.

## Take the next steps



Now that you have a better understanding of a Rollover IRA and several of the other most commonly available distribution options from an employer-sponsored retirement plan, you are well on your way to making a sound decision. If you will be initiating a distribution in order to establish a Rollover IRA from your employer's plan, the steps below are intended to help guide you through the process.

### STEP 1

If you choose to directly roll over your retirement distribution, consider a direct rollover to a Premiere Select Rollover IRA.

### STEP 2

After consulting your investment professional, request a direct rollover from your employer-sponsored retirement plan to a Premiere Select Rollover IRA.

### STEP 3

To establish a Premiere Select Rollover IRA, complete the IRA Application and return it to your investment professional. Once you know your Premiere Select Rollover IRA account number, have your former employer's plan make the check payable to National Financial Services LLC.\* It is also a good idea to follow up with your employer to make sure your distribution request has been processed and to confirm the time frame for completion.

### STEP 4

If you have money remaining in any other retirement plans, now may be a good time to consult your investment professional about consolidating your eligible money into a Premiere Select Rollover IRA.

\*National Financial Services LLC acts as agent for Fidelity Management Trust Company, the IRA Custodian.

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