STOP BEING SOLD®

Transform the Way You Buy...Forever

401(k) ROLLOVER GUIDE

11 Must-Answer Questions BEFORE Making a Move

A roadmap for investors nearing retirement or recently retired who want to make calculated decisions for their future.

If you are recently retired or are nearing retirement – and you're reading this – you're wondering what you should do with your 401(k).

Most consumers pick up a phone and call a financial advisor who promptly says, "Let's roll it over. It won't take long."

But there may be a danger in this.

You see, **it's critical to your financial future to take a step back and look at the bigger picture BEFORE making a move.**

You first need to understand what you want your money to do for you in retirement.

If you don't know this info, you won't be in control of your roll over, and may take a financial hit that may put a significant dent in your retirement savings.

That's why we've come up with these 11 questions you need to answer BEFORE you even begin to think about 401(k) rollover options.

There are 401(k) roll-over marketing programs out there that target you based on your age because they know you're near retirement. Be careful of saying yes to whatever roll-over an advisor offers...unless you know what you want your money to do for you and understand why you're being sold a specific product.

11 MUST-ANSWER QUESTIONS

#1

Understand your options. This requires a little sleuthing . Go to your employer's HR department or plan provider to understand the process of rolling over your 401(k) plan.

While you're at it, see what other benefits you may qualify for, such as medical and pension benefits. If you participate in a group life insurance plan, find out the rules on converting that as well.

Does your 401(k) plan have their own paperwork that must be completed in order to roll over your 401(k)? ☐ Y ☐ N

Are you entitled to any other benefits? ☐ Y ☐ N

If so, what are these benefits?

#2

At what age will you retire (if you haven't already)?

How many years until you can take Social Security?

If you're retiring before full retirement age, do you plan on taking early social security? ☐ Y ☐ N

How many years until you reach RMD age (72)?

#3

What are your goals for these funds? Please be as specific as possible.

Short-term goals:

Long-term goals:

#4

Do you need income immediately to replace your paycheck? ☐ Y ☐ N

If so, how much do you need?

#5

Are you planning on moving in the near future? ☐ Y ☐ N

If so, does the state have state income taxes? ☐ Y ☐ N

#6

Will your tax base increase or decrease once retired?

If so, how much? If you don't know the exact percentage, write down an estimate.

#7

How much do you expect to get from social security each month?

***Tip: If you aren't sure, visit ssa.gov to get your most current statements.**

#8

If you're drawing from social security or have a pension, will it meet your debt obligations?

***Tip: Knowing this will determine if you need to withdraw from your 401(k).**

#9

What type(s) of contributions are in your 401(k) — Roth 401(k) or traditional, or both?

Pre-tax contributions (traditional 401(k): ☐ Y ☐ N

Post-tax contributions (Roth 401(k): ☐ Y ☐ N

#10

Do you have company stock inside your 401(k)? ☐ Y ☐ N

If so, how many shares?

#11

What is your risk tolerance?

401(k)
ROLLOVER OPTIONS

Now that you've answered the questions above, you should have a much better understanding of what you want your money to do for you in retirement.

Your next step is to review the 401(k) rollover types below.

TYPES OF ROLLOVERS

A rollover is the movement of funds from one retirement savings vehicle to another. There are two possible ways that retirement funds can be rolled over – an indirect rollover and a direct rollover.

INDIRECT ROLLOVER:

With this method, you actually receive a distribution from your retirement plan, and, then, to complete the rollover transaction, you make a deposit into the new retirement plan that you want to receive the funds.

You can make a rollover at any age, but there are specific rules that must be followed.

Most importantly, you must generally complete the rollover within 60 days of the date the funds are paid from the distributing plan.

If properly completed, indirect rollovers aren't subject to income tax.

But, if you fail to complete the rollover or miss the 60-day deadline, all or part of your distribution may be taxed and subject to a 10% early distribution penalty (unless you are age 59½ or another exception applies).

Further, if you receive a distribution from an employer retirement plan, your employer must withhold 20% of the payment for income taxes. After taxes are taken out, you will be sent the funds via check.

This means that if you want to roll over your entire distribution, you'll need to come up with that extra 20% from your other funds (you'll be able to recover the withheld taxes when you file your tax return).

Note that the IRS only allows for one indirect rollover per 12-month period.

DIRECT ROLLOVER:

The second type of rollover transaction occurs directly between the trustee or custodian of your old retirement plan, and the trustee or custodian of your new plan.

You never actually receive the funds or have control of them, so a trustee-to-trustee transfer is not treated as a distribution.

Trustee-to-trustee transfers avoid both the danger of missing the 60-day deadline and, for employer plans, the 20% withholding problem.

With employer retirement plans, a trustee-to-trustee transfer is usually referred to as a direct rollover.

If you receive a distribution from your employer's plan that's eligible for rollover, your employer must give you the option of making a direct rollover to another employer plan or IRA.

A trustee-to-trustee transfer (direct rollover) is generally the safest, most efficient way to move retirement funds.

Taking a distribution yourself and rolling it over makes sense only if you need to use the funds temporarily and are certain you can roll over the full amount within 60 days.

401(k) ROLLOVER OPTIONS

You now have a clear idea of your personal situation, goals, and what you want your money to do for you in retirement. And you now know the difference between indirect and direct rollovers and the pros and cons of each.

Now it's time to decide which rollover option is right for you.

You have several options when retiring and leaving your employer. You can roll over your 401(k) plan into an IRA or a Roth IRA, roll it over into an annuity, or cash it out.

Let's break down your options.

1 Rolling Over a 401(k) to an IRA

If you have a traditional 401(k), the transfer is simple, since those contributions were also made pre-tax. With an IRA, you will have to pay taxes when you withdraw the funds.

Required minimum distributions must start at age 72 – bumped up from age 70½ thanks to the SECURE Act, which was passed into law December 2019.

If you have both a traditional 401(k) and the Roth 401(k) provision, then you will need to set up two separate IRAs: a traditional IRA and a Roth IRA.

2 Rollover Over a 401(k) to a Roth IRA

If you have a Roth 401(k) provision, you will need to roll it over into a Roth IRA.

To take distributions from a Roth IRA without incurring penalties or taxes, the distribution must be qualified.

A qualified distribution must meet the 5-year rule, which requires funds to be intact in the account for a 5-year period. It also must be made after age 59½ or as a result of a disability.

Again, if you meet the qualified distribution guidelines, the money you take out is free of both penalties and taxes.

3 Rolling Over a 401(k) to an Annuity

Many financial advisors often recommend annuities because your investment grows tax-deferred and you pay no income tax on your gains until they are withdrawn.

However, rolling over your 401(k) to an annuity offers no additional tax benefits, as your money is already tax-deferred inside your 401(k).

Annuities are attractive because they guarantee income for life, but some may also come with hefty fees. This is why it's critical to read and understand the fine print, should you decide to roll over to an annuity.

In addition, some annuity plans have the option of paying you for life and then transferring the remainder of the contract to your spouse if you die first. Others do not allow you to pass on the remainder to your beneficiaries.

Read This If You Have Company Stock inside Your 401(k)

If you have company stock inside your 401(k) and you roll it over to an IRA, you may make a costly tax mistake without even realizing it.

There is a special rule that applies when you receive a tax distribution of employer stock from your plan. This rule is referred to as the Net Unrealized Appreciation, or NUA, rule.

NUA rule is a tax deferral opportunity, but if you rollover the stock into an IRA, the rule does not apply.

When you roll over your 401(k) to an IRA and receive distributions from that IRA, it's taxed as ordinary income.

If your distribution includes employer stock, you may be able to defer paying tax on the portion of your distribution that represents the net unrealized appreciation.

You won't be taxed on the NUA until you sell the stock. And when you are taxed, it will be taxed at long-term capital gains rates, which are typically lower than ordinary income tax rates.

If you want to take advantage of the tax savings, it's imperative you know what's in your 401(k) plan and speak to a qualified advisor before making your move.

Stop Being a Transaction

Stop Being Sold® is a community created to transform the way you buy, forever. We show you how to take back your power and stop being sold products you don't need or understand.

Check us out online at StopBeingSold.com