

Getting ready for a rollover

Generally, if you are a participant in a 401(k) or other company retirement plan, the income earned from your investments escapes tax for as long as you remain a participant in the plan.

When you change jobs or retire, you will have several options. You may be able to keep the money in your former employer's plan or transfer your funds to your new employer's plan (if permitted). Two other choices also are available to everyone: One choice is to take the money in hand, paying tax (and possibly penalties, depending upon your age) in the year that you receive the money. The other is to continue to avoid all current tax and potential penalties by opening a Rollover IRA.

What may be rolled over

You are permitted to roll over the full amount of your plan payout (a "lump sum distribution") or a part of it. You cannot roll over: amounts that represent a return of your after-tax contributions; a payment that is part of a series of payments that lasts for your life expectancy or ten or more years; or minimum distributions that you are required to withdraw from an IRA after you have reached age 70 1/2.

Opening a Rollover IRA

Once you choose the rollover option, the most important point to keep in mind is to make advance arrangements with us to receive your distribution directly from your employer. Don't accept the check yourself. Why? If you receive the money, your employer, by law, is required to withhold 20% of your distribution for income taxes.

One of our Rollover IRA specialists will be glad to explain how the rollover process works, assist you with the paperwork and answer any questions that you may have.

What happens if you don't arrange for a direct rollover? Don't worry, all is not lost. If you receive a check from your plan, you still can roll over your money into an IRA, as long it's done within 60 days. You also are allowed to contribute the amount withheld for taxes. (You will be entitled to a tax refund for the amount withheld.) If you don't add in the withheld amount, it's considered a distribution and taxed as ordinary income.

The "life" of your Rollover IRA

If you are still in your working years, you may be able to move your Rollover IRA funds into a new employer's plan, as long as the new plan allows contributions from other employer plans. If that's your strategy, it's best not to "commingle" funds from any other IRAs that you own or make your own contributions to your Rollover IRA.

During the life of your Rollover IRA, you are free to make withdrawals at any time. With a minimum of exceptions, there will be a 10% penalty in addition to the tax owed on any amounts withdrawn if they are made before you reach age 59 1/2.

The law requires you to begin withdrawing funds from your IRA once you reach age 70 1/2. You don't have to draw all of it at once, good news if your goal is to keep as much money as you can earning tax-deferred income.

In that case, we can help you set up a schedule that allows you to withdraw the minimum required amount each year. (Of course, you always can take out more.)

Under recently liberalized rules, if you make only the minimum withdrawals, it's quite likely that your Rollover IRA will last your lifetime and, probably, longer.

The results are harsh when you don't withdraw enough from your IRA. Any time that you don't make the required minimum annual withdrawal, you will have to pay a 50% penalty tax on the difference between what you *did* withdraw and what you *should have* withdrawn.

Investment choices for your Rollover IRA

Once you have rolled over your retirement distribution to an IRA, we can meet with you to discuss your investment choices. We offer a wide range of investments from which to choose, including stocks, bonds and money market funds.

In addition, we offer you the flexibility of two different approaches for the investment management of your Rollover IRA.

With a *self-directed account*, you make all the investment decisions yourself. We will invest your funds according to your instructions and do all the "clerical" work: Execute the buy and sell orders. Collect income and dividends. Maintain and deliver to you complete records of all the activity in your Rollover IRA.

With a *managed account*, we will assign one of our Rollover IRA specialists to meet with you in order to map out an investment strategy that is tailored specifically to your needs and goals. We will help you choose the investments with which you are most comfortable and manage them according to the guidelines that you have set out for us.

Is it time for a rollover?

In order to make the proper arrangements, it's very important to begin planning for the rollover of your retirement plan distribution well in advance of the time that you are leaving your employer.

Call on us now. We look forward to serving you.

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Any developments occurring after January 15, 2007, are not reflected in this article.