

Jeff Christie's Alpha Blog

Should I rollover my 401(k) to an IRA?

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Whether you have recently been laid off, have changed employers, or have been with the same company your entire career, you may be eligible and it may make sense to take a look at rolling your 401(k) to an IRA. There are many benefits to rolling your 401(k) to an IRA, but there are also possible drawbacks to be aware of as well.

First, let's examine why rolling may make sense. The primary reason is control and flexibility of your investment options. When you are investing inside of your 401(k), you are limited by your investment options. You can only use the options that your employer has provided for you. What if you are interested in gold or oil, and they don't offer those alternative? Or what if they don't offer exposure to the international markets you are looking for? If you roll into an IRA, you have now opened up a much broader spectrum of investments you can use, increasing your control and your flexibility.

What if I am still working, can I roll my 401(k) to an IRA? It depends, each plan is different, but some plans to allow you to execute what is known as an *in-service rollover*. An *in-service rollover* allows you to roll a portion of your current 401(k) into an IRA, while still continuing your contributions to the 401(k). Many providers are flexible, especially if you are over age 59 ½. Contact your employer's human resource department or 401(k) provider for more information.

Are there any drawbacks? There are, one specific drawback is withdrawals during early retirement. You are eligible to begin withdrawals from a 401(k) at or after age 55, penalty free, if you sever your relationship with the employer once you have reached age 55. You will of course still pay the taxes owed on your distribution, but no early withdrawal penalty of 10%. This exception only applies to 401(k) accounts, and only the 401(k) account that is active at the time you turned 55. Check out IRS Publication 575 for more details (<http://www.irs.gov/publications/p575/index.html>). Although there are a few exceptions, you cannot begin withdrawing assets from an IRA without penalty until age 59 ½, however you are still subject to ordinary income tax on the withdrawal.

Rolling your 401(k) to an IRA can be an easy and quick way to increase your investment options, and strengthen what may very well be the biggest vehicle in your retirement plan. As with any decision concerning taxes and investments, please consult the proper professionals.

For more information, feel free to email me at jchristie@kenstern.com or call me 1-800-529-2884.

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