

ADVICE MATTERS

Six Reasons You May Want to Roll Over Your 401(k) From Your Previous Employer



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Choices, Choices and More Choices

Whoever your old company chose to administer your 401(k), they make their money in a couple of ways volume and controlling service costs. A health insurance company is no different. That is why HMO's were created to limit choice of doctors and feed volume to those in the limited network.

When you move your old company's 401(k) to an independent advisor, you may be happily surprised at the choices of financial vehicles you will now have. Whereas before your choices may have been limited to mutual funds from a particular provider, with an IRA you can choose from mutuals funds, stocks, ETFs, Real Estate funds or Endowment- based Models portfolios, among many others.

You may also have more choice when it comes to buying, selling, or reallocating your portfolio. Most 401(k) plans limit the number of times per year you can access your money, re-balance your portfolio, or restrict you to certain times of the year. Many plans still have an all or nothing requirement You either leave your money in the plan or withdraw the entire amount. In that case, rolling your money into an IRA will enable you to manage your withdrawals and the taxes you'll pay on them.

More choice means more control, and for many 401(k) owners that is all they need to hear. More control allows you to continually evaluate your risk tolerance. Risk tolerance can change as we get older and closer to retirement, but it can also change with a dramatic upturn or downturn in the market.



Better Communication

It seems at least every other week one of our advisors finds themselves sitting across a desk from a client as they call their old employer's 401(k) custodian. Invariably, after holding, we discover that the person they talked to two months ago no longer works there or has been transferred to a different department. It can make the client feel like they aren't cared about, though the company is not doing it deliberately. It is just they don't always have a personal stake in the wellbeing of your money. An independent advisor is typically going to be where you last saw them, and the better you do, the better they do, so they need your feedback to help you make the best decisions.



Lower Costs and Fees

Though not always true, rolling your old 401(k) into an IRA with an independent advisor may lower the cost and fees associated with the funds you own. Funds offered by a 401(k) plan may be more expensive than the norm for their asset class.

One respected advisor and founder of a large investment firm said, Investors should be careful about the transaction costs associated with buying certain investments and the expense ratios, 12b-1 fees, or loads associated with mutual funds. All of these can easily be more than 1% of total assets per year.

Remember those choices we talked about independent advisors may offer a wider range of investment vehicles which may carry much lower maintenance cost or maybe no cost at all.

The Option to Convert to a Roth

Maybe we should have skipped a bunch of the above words and just stopped at Choices, Choices, and More Choices. Rolling your old 401(k) into a Traditional IRA opens the possibility of rolling your Traditional IRA into a Roth IRA. The funds in a Roth IRA were previously taxed, and their growth is income tax free. All future distributions are made income tax free. No one knows what the tax rates are going to be in the future, but we are willing to go out on a limb and say they will be higher than they are today. This might happen just as you are beginning to take distributions from your retirement accounts. In effect, you would be drawing from a limited income that just got more limited.

If you are under the age of 59½, it's a lot easier to withdraw funds from a Roth IRA than from a traditional one. In most cases, there are no early withdrawal penalties for your contributions, but there are penalties if you take out any investment earnings.

A Roth conversion isn't for everyone but isn't it nice to have the freedom to make the choice of converting or not.



Fewer (and Clearer) Rules

401(k) rules can be complicated due to the nature of the investment. Companies have a lot of leeway in how they set up these plans, how much money you can contribute, when you can allocate, how early you can access your money, etc. Ultimately the employer who bears responsibility for following IRS rules, so at times they may seem to go overboard with procedures that limit your access to your money. IRA regulations are standardized - essentially the same from one financial institution to another - and are the middleman between you and your money.

An often-overlooked difference between a 401(k) and an IRA concerns IRS rules regarding taxes on distributions. The IRS requires that 20% of distributions from a 401(k) be withheld for federal taxes. When you take a distribution from an IRA, you can elect to have no tax withheld. While it is wise to have some taxes withheld to avoid a big tax bill and penalties at tax time, this allows the IRA holder to decide how much is withheld based on their purported tax liability. Any possibility of taxes is avoided on the distribution when you do a rollover.



Estate Planning Advantages

An often-overlooked advantage of rolling over a 401(k) to a Traditional IRA involves Estate Planning. Usually upon death the proceeds of a 401(k) are paid in a lump sum, often without much counseling to the beneficiary. This could lead to serious tax consequences. IRAs have tax implications too, but normally there are more payout options available.

An independent advisor cannot know all of rules, procedures, and transfer requirements of every 401(k) administrator, but they are familiar with enough of them to help you through the maze of questions you have. Rolling over a 401(k) is not usually a tricky endeavor - unless you try and go it alone. At IAMS Wealth Management we have the experience to help make this process a lot less painful. Call us at **(888) 255-7670** - we answer the phone and return voicemails quickly. You can also head to our website www.iamswm.com.



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