



SMITH FINANCIAL GROUP

March 2010

Five reasons to roll a 401(k) to an IRA

Why would a [401\(k\)](#) participant want to move his money out of a 401(k) and roll it into an IRA? Here are reasons why:

1. **Most 401(k)s and other company plans have limited investment options.** They may offer 50 different mutual funds and other investments options, but most of the options are subject to market fluctuations. If we learned anything in 2008 and early 2009, it's that what the market gives can be taken away with little to no warning. Many of these accounts lost as much as 40 percent in 2008 alone. Those who chose to play it safe and moved their 401(k) money into bond funds or funds invested in [CDs](#) and other short-term investments were rewarded with little or no growth while inflation and management fees ate away at their principal. IRAs have almost unlimited investment options including annuities that guarantee the principal and offer a competitive rate of return.
2. **Plan guidelines can restrict the owner's access to his money.** The plan document is essentially the 401(k) rulebook. If it's not in the book, you can't do it! With savings down and unemployment up, you never know when you may need access to your retirement accounts. IRAs offer greater flexibility, allowing the owners to make their own rules if they are willing to pay the tax on the distributions.
3. **Direct rollovers avoid the 20 percent mandatory withholding.** It's critical that the funds are moved as a trustee-to-trustee transfer. If a check is written to the 401(k) owner, you can count on the custodian withholding 20 percent for the IRS. I have worked with several advisors who have encountered this problem, and they are still battling with the IRS to get the 20 percent withholding back where it belongs.
4. **401(k)'s have limited distribution flexibility for the children and grandchildren who are likely to inherit when both the owner and spouse are gone.** In 2002 when the multi-generational/"stretch" IRA was born, the children and grandchildren were given new valuable distribution options. They now have the right to spread the inherited [IRA distributions](#) over their individual life expectancies, according to Appendix C, Table 1 of IRS Publication 590. This means they are no longer forced into rapid distribution, causing rapid taxation. The 401(k) plan administrators didn't get on board with this valuable income planning tool and are, in many cases, forcing these non-spousal beneficiaries to take full taxable distribution in just five years. Under the "Worker, Retiree and Employer Recovery Act" of 2008 (HR 7327), all employer plans will be required to allow non-spousal beneficiaries to do direct rollovers to properly titled inherited IRAs beginning Jan. 1, 2010. IRAs allow these beneficiaries to take control and



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choose between cashing out and receiving a lifetime of income.

5. **Most 401(k) plans do not allow the Roth IRA conversion.** Beginning this year IRA owners with adjusted gross incomes over \$100,000 can for the first time convert their traditional IRAs to Roth IRAs. After the conversion tax is paid, the new Roth will grow tax-free and distributions after the five-year holding will also be income tax free. The Pension Protection Act simplified Roth conversions from 401(k) s and other company sponsored plans. Beginning in 2008, owners can convert company sponsored plan funds directly to a Roth IRA. They no longer need to convert to a traditional IRA first then convert the traditional IRA to a Roth IRA.

These are just a few of the things that we all need to be thinking about when it comes to our money. While money isn't everything it is a powerful tool for doing good in the world. You deserve to have more of it. Let me show you how to live the life you want financially and plan for a great retirement. Feel free to call or email and set up a time to talk. Make 2010 the year that everything changes for the good in your financial world!

Sincerely,

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