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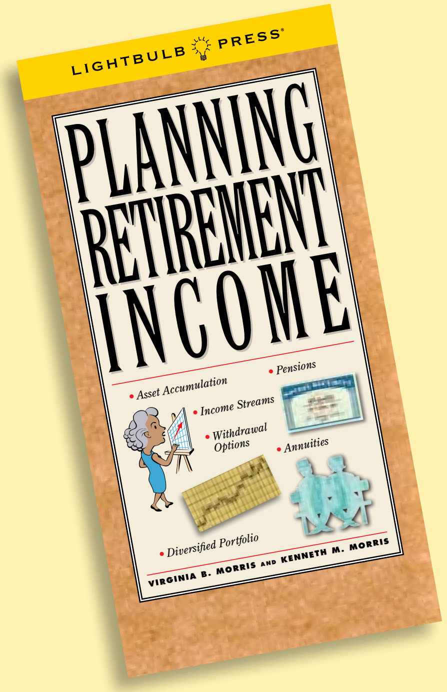

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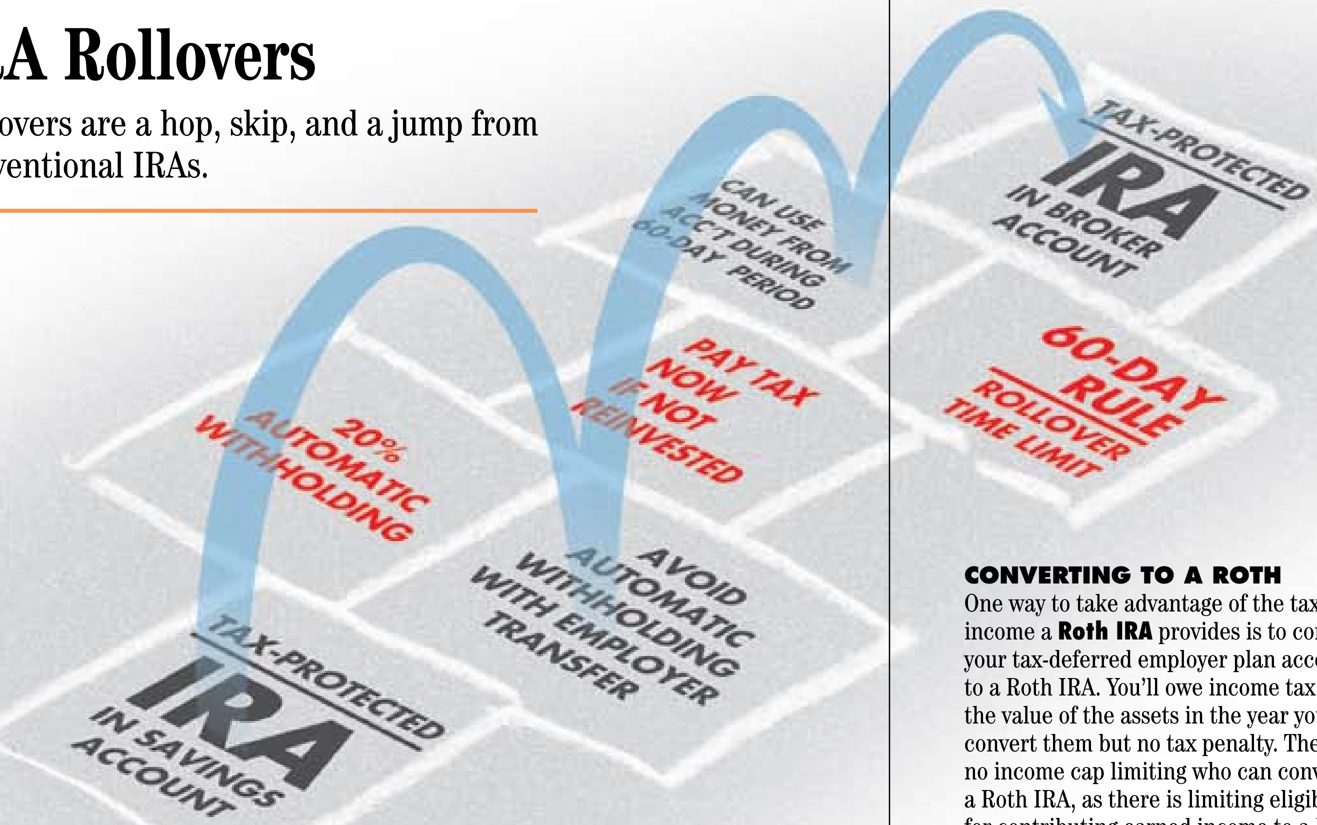
PLANNING RETIREMENT INCOME

IRA Rollovers

Rollovers are a hop, skip, and a jump from conventional IRAs.



When you leave your job or retire, you can roll over the value of the assets in your employer sponsored retirement plan to an **individual retirement account (IRA)**, keeping the tax-deferred status of your assets intact. To begin the process, you choose a financial services company to be the custodian of your account. Most companies that offer IRAs provide a range of investment alternatives, so you should have no trouble finding one that offers the types of investments you want to be able to make. In fact, you may already have an account with the custodian you choose, or you may select a new one.

The best approach to moving the money is almost always a **direct rollover**, or **transfer**, of assets from your employer's plan to the IRA. While the time it takes to complete the process varies, your chief responsibilities are to be sure you've provided the information the custodian needs to initiate the rollover, to follow up to be sure the transfer has been completed, and to choose your new investments.

WHY A ROLLOVER?

There are potential advantages in moving your money to an IRA. You generally have more investment choice, the account fees are often lower, and there's more flexibility in when you must begin taking money out and how you take it. You may also have more options in naming beneficiaries, and they may have more time to take withdrawals.

CONVERTING TO A ROTH

One way to take advantage of the tax-free income a **Roth IRA** provides is to convert your tax-deferred employer plan account to a Roth IRA. You'll owe income tax on the value of the assets in the year you convert them but no tax penalty. There's no income cap limiting who can convert to a Roth IRA, as there is limiting eligibility for contributing earned income to a Roth. Ideally, you'll use money from non-IRA sources to cover the tax that's due.

You'll probably want to get some expert advice on whether this strategy pays for you.

The decision will depend in part on:

- How much you have to convert
- Current and anticipated tax rates
- Your age
- The time until you plan to withdraw

As with other Roth accounts, you must keep an account with transferred funds open for at least five years and be 59½ before you can withdraw tax-free earnings. If you're not confident you'll wait that long, it's probably not smart to convert, pay the tax, and withdraw early, only to face more taxes (and potentially a tax penalty).

The long-term advantage of a Roth IRA, in addition to providing tax-free income, is that no withdrawals are required while you are alive. This allows you to take advantage of the IRA's tax-deferred growth potential as long as you don't need the money.

FUTURE CONSIDERATIONS

You can extend the tax-deferred life of your IRA by naming a living beneficiary rather than leaving it to your estate. That's because IRA withdrawals are based on life expectancy and an estate hasn't got one. So your account comes to a quick (and bad) end, with a tax bill to settle. It's an easy mistake to avoid.

Making wise moves

You can make the most of the opportunity to roll over your retirement assets if you know what you can accomplish by moving your money and the most effective ways to meet those goals.

1 FOLLOW THE RULES

You may handle a rollover yourself rather than with a direct transfer. But you take on more responsibility and face potential problems that don't arise with a direct rollover or transfer.

The one advantage of an indirect rollover may be that you have short-term access to cash for 60 days between taking money out of one account and putting it in another. However, if you miss the 60-day deadline, your money is no longer tax deferred and you owe income tax plus a potential 10% tax penalty if you're younger than 59½.

There's an added complication if you are moving money from an employer's plan to an IRA. By law, your employer must withhold 20% of the total you're moving yourself—for example, $20,000 of an account worth $100,000—to cover potential income taxes if you miss the 60-day deadline.

If you want all of your savings to continue to be tax deferred, you must come up with an amount equal to the 20% that was withheld from some other source. If you do that, you'll get back the money that was withheld as a tax refund. But if you can't, any amount you don't deposit is considered a withdrawal.

2 INVEST WISELY

When you've rolled over the money from your old plan to your IRA, it's your responsibility to invest it to meet your long-term goals. You'll want to have a strategy for choosing investments for your portfolio and a plan for evaluating your progress toward your goals. Working with an experienced professional can be a big help.

3 CONSIDER ANOTHER ROLLOVER

If you take a new job where the employer offers a retirement savings plan that accepts rollovers from IRAs or other employer plans, you may choose to move your money into the new plan. One of the things to consider is the quality of the plan offerings, and whether you believe they will help you meet your objectives as well as investments you select on your own for your IRA. You are allowed to move money from one type of plan—say a 403(b)—to another type—such as a 401(k), if the plan accepts rollovers. That increases your flexibility and allows you to consolidate your retirement assets.

4 PUT AWAY PENSION PAYOUTS

You can put all or part of your lump sum pension payout in a rollover IRA. If the payout is made in a series of payments over a period of less than ten years, you can put some or all of those payments into a rollover IRA too.