

https://www.unionleader.com/news/business/money_sense/money-ense-decisions-around-an-ira-rollover/article_b72ae3f6-474b-5ebf-9227-aaf10d093cc6.html

'Money \$ense': Decisions around an IRA rollover

Jul 10, 2021

Sometimes your circumstances might cause you to consider rolling your retirement savings from an employer plan into an IRA. This could happen when you change jobs or retire, for example. Rolling your savings into an IRA might not be the only option you have or even the best path to take. Here are some factors to consider.



As a retirement savings vehicle, IRAs have a lot to offer. The first is investment choices.

Typically, there are more investments available in an IRA than what is usually offered by employer plans. Rolling accounts to an IRA will preserve the tax deferral. This means that investment gains from the savings will not be taxed until you take the money out.

IRAs also offer flexibility regarding withdrawals. Most decisions to take money from the IRA are yours – except for required minimum distributions (RMDs). You must begin taking some money from your account every year generally starting at age 72. Employer plans have other rules regarding distributions. If you are still working, you might be able to postpone taking your RMD from your employer plan. This is only if you are not a 5% owner of the company. You can delay your first RMD from that plan until April 1st following the year you retire. This is plan specific, so check your plan's rules.

If you're considering doing an IRA rollover, it might be a good time to review all of your accounts. It might make sense to consolidate multiple IRAs and old employer plans into a single IRA, which can help give you a clearer sense of your asset allocation. Consolidating accounts will also make RMDs

easier to calculate as well.

If you need to take money from your retirement savings, it might be easier to do with an IRA. Be aware that there can be penalties if you make withdrawals prior to age 59½. These penalties can be waived under certain circumstances, such as for first-time homebuyers. If a person has not owned a home in the previous two years, then up to \$10,000 can be withdrawn penalty free. IRA funds can also be used for qualified higher-education expenses and health insurance premiums if you are unemployed. The exceptions to the penalty may not be available for funds in an employer retirement plan and the plan may not have withdrawal options, either. Check with your financial adviser prior to making withdrawals to be certain of your tax situation.

Before rolling your funds from an employer plan into an IRA, be sure to evaluate the costs. The investments in the employer plan may have lower expenses than those in the IRA. The reverse could also be the case. Evaluate your costs, as these can matter significantly over time.

You may find yourself in need of a loan. Employer plans typically offer loan provisions. A plan participant may borrow the lesser of 50% of their vested account balance or \$50,000. You cannot borrow from an IRA.

Another area to consider is creditor protection. Generally, qualified employer plans have unlimited creditor protection. IRAs may be different. They are protected up to a certain point under federal law (\$1,362,800) and only if you declare bankruptcy. Sometimes, a state will extend these limits. If you are in this situation, be sure to check with an attorney to determine what gives you the creditor protection you need.

One exception an employer plan may have that an IRA doesn't is a penalty exception for withdrawals after separation from service. Distributions from an employer plan can be free from penalties if you retire from your current employer during the year you reach age 55 or later. Make sure to review the rules. IRAs don't have this exception.

As you can see, there are a lot of factors to consider when doing an IRA rollover, so it may be best to consider discussing your options with a certified financial planner.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at mhebert@harborgroup.com. Your question and his response might appear in a future column.

