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## To Roll or Not to Roll...

Here's a checklist to help you weigh the pros and cons.

When you leave your employer, you have the opportunity to rollover your qualified retirement plan – a 401(k) for most people – into either an IRA or a new employer's plan. Many people make the 'automatic' decision to roll their plan into an IRA - and, for many, it may be the best option – but, the decision shouldn't be automatic.

Here's a little checklist to help you determine which option might make the most sense for your particular situation. Check the boxes that are important to you:

- Your employer's plan menu contains a wide range of investment options, including stocks, bonds, mutual funds, and exchange-traded funds. An IRA can allow an investor to select from a broader range of investment options than a plan. For example, an investor who is satisfied by the low-cost institutional funds available in some plans may not regard an IRA's broader array of investments as an important factor; however, when your professional can shop from the universe of available options, this could be a moot point.
- Services provided by an employer plan may include investment advice, telephone help lines, educational materials, and planning tools. Similarly, IRA providers may offer full brokerage service, investment advice, and distribution planning. An independent advisor, particularly a Registered Investment Advisor who is also a *CERTIFIED FINANCIAL PLANNER*® professional, can provide tailored independent guidance with ongoing follow-up.
- You have commingled deductible and non-deductible IRA contributions in your outside IRA accounts. An active 401(k) plan can help you separate the deductible assets from the non-deducted (The IRS tends to treat all IRA funds pro-rata – partly taxable and partly non-taxable when you take distributions). See the final point below and talk with your tax advisor.
- Do you have employer stock in your 401(k)? Review the ramifications of utilizing the Net Unrealized Appreciation (NUA) option before doing a rollover. If you've taken even a partial rollover of your 401(k) in a prior year, the NUA treatment is no longer available to you. An investor who holds significantly appreciated employer stock in a plan should consider the tax consequences of rolling the stock to an IRA. If employer stock is transferred in-kind to an IRA, stock appreciation will be taxed as ordinary income upon distribution. However, special IRS rules might allow participants to defer paying taxes on the appreciation.
- Are fees and expenses lower in your 401(k)? This is a tricky one simply because many fees historically have been hidden in a lot of revenue-sharing arrangements between administrators, providers, and investment options. I wish I could count the number of employer plan sponsors I've met who truly believe their plan is "free". In recent years there has been more of a move to "open architecture" plans and fee transparency – and institutional pricing is becoming more prevalent - but, there's still a ways to go. Paying an extra point isn't bad per-se; however, you should know what value you are receiving for the price you're paying – and if the charges are reasonable.



Note: If you are receiving personalized advice in your plan (vs. tools and education), the comparison to using an advisor is valid. If you're not receiving investment advice, the advisor's value, if utilized to help you with an IRA, should be weighed in light of the fees charged. The investment-related expenses should be weighed against the investment-related expenses in the 401(k). Also worth noting: Level-fee registered investment advisors actually have a financial incentive to keep investment expenses low simply because they are compensated based on the value of your portfolio, which means high expense adversely impacts their compensation.

- Does your 401(k) provide personal financial planning including strategies addressing the drawdown of assets in retirement, Social Security optimization strategy, wealth and estate planning solutions and comprehensive planning coordinating assets held outside the employer's plan?

Note: Even if you leave assets inside your 401(k), your financial planner should still be able to help you integrate your retirement plan and provide comprehensive services.

- Will you be returning to your employer in the future? If so, you might want to leave plan assets where they are – especially if you're participating in a section 457 plan for government employees. These plans can provide retirement income without penalty much earlier than an IRA or 401(k), which has the 59-1/2 age requirement. 401(k) participants have the option of taking distributions as early as age 55 without penalty – an option that's lost in an IRA.

Note: If you have no plans to touch IRA assets until after age 59-1/2, this may not be an issue.

- Think you'll need to take a loan from your retirement funds? IRAs don't have a loan provision; 401(k)s and other similar plans do. You should check with your plan administrator to see if you have this option and if it's available for non-employee plan participants (it's likely it's not).

Note: If you do have this option, you can do a partial rollover to an IRA and leave a sufficient balance to grow in your employer's plan if you should return to work with the same employer.

- Penalty-free withdrawals—If an employee leaves his or her job between age 55 and 59½, he or she may be able to take penalty-free withdrawals from a plan. In contrast, penalty-free withdrawals generally may not be made from an IRA until age 59½. Also, plans may offer loans while IRAs do not.
- Required minimum distributions (RMDs) — Once an individual reaches age 70½, the rules for both plans and IRAs require the withdrawal of minimum amounts known as required minimum distributions (RMDs). If an employee is still working at age 70½, however, he or she generally is not required to take required minimum distributions from a current employer's plan. This may be advantageous for those who plan to work into their 70s. Note that Roth IRAs are not subject to RMDs during the account owner's lifetime.
- Flexible distribution options—With some employer-sponsored retirement plans, a participant who is married must receive distributions as a joint and survivor annuity (unless a spouse has signed a waiver). Under an IRA, however, the owner has more flexibility regarding the timing and amount of distributions (other than RMDs, which must begin at age 70 ½). In addition, an IRA provides flexibility for estate planning purposes: the owner can name a person other than a spouse as the beneficiary of an account, without having to obtain the spouse's written consent. An IRA can also be split into separate accounts for different beneficiaries. Distributions to beneficiaries from employer-sponsored plans, in contrast, are generally taken in lump sums as cash payments.
- Is bankruptcy and creditor protection important? Funds in a 401(k) are protected by ERISA and not available to creditors. IRA assets may be available to creditors in the event of bankruptcy. Funds moved from an ERISA-protected account may carry the protection over to an IRA, but new contributions into the IRA would not be covered.



- Do you have after-tax contributions in your plan? Some plans allow for these. If this sounds like your plan, take your after-tax contributions out of the plan first and, if you wish, convert these contributions directly over to a Roth IRA. This can be done in most cases with no tax consequences. Once you've done this, you can rollover the rest of your 401(k) into an IRA if it otherwise makes sense.

### When A Rollover Using an Advisor Makes Sense

A review the above points should provide a pretty fair birds-eye-view for framing your decision.

In short, if bankruptcy protection and early access to funds isn't important, but having a custom-created financial plan including strategies for Social Security, income withdrawals, asset arrangement, and access to a broader range of options is important – and other issues above are either non-issues or have been addressed, then it may pay to talk with an advisor.

### What Kind of Advisor?

I would suggest seeking out a *CERTIFIED FINANCIAL PLANNER*<sup>®</sup> (CFP<sup>®</sup>) who is also an *ACCREDITED INVESTMENT FIDUCIARY*<sup>®</sup> (AIF<sup>®</sup>) – a statement that I'm sure surprises you. This advisor should also be a Registered Investment Advisor, held to a fiduciary standard in all dealings with clients, including not only the planning stage, but the implementation stage, as well. Many "advisors" are dually-registered and are not considered fiduciaries when it comes to investment selection (implementation stage). Think of it as seeking out a financial 'personal shopper': Independent, experienced, qualified, and working for you – not the product or service providers.



### THE INDEPENDENT FINANCIAL GROUP

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**By Appointment Only**



*Jim Lorenzen is a CERTIFIED FINANCIAL PLANNER<sup>®</sup> professional and an ACCREDITED INVESTMENT FIDUCIARY<sup>®</sup> serving private clients' wealth management needs since 1991. Jim is Founding Principal of [The Independent Financial Group](http://www.indfin.com), a Registered Investment Advisor providing retirement planning and investment advisory services on a fee-only basis. He is also licensed for insurance as an independent agent under California license 0C00742. The Independent Financial Group does not provide legal or tax advice and nothing contained herein should be construed as securities or investment advice, nor an opinion regarding the appropriateness of any investment to the individual reader. The general information provided should not be acted upon without obtaining specific legal, tax, and investment advice from an appropriately licensed professional. All images used in this communication are in public domain unless otherwise noted.*

