Rollover IRAs

at Janney Montgomery Scott

When you plan for retirement, it is important to consider all of the elements of your life that could potentially impact how you plan—and save. Contributing to a 401(k) program at work is always a good idea. However, what happens to those assets if you leave your company for another job? To help avoid the financial impact on your 401(k) that a change can have, one of your best options may be to open a Rollover IRA.

Initial considerations

Should a change occur, you have, essentially, four choices for assets in an existing 401(k) program: stay invested in your current plan, move your funds to your new company's program, take a cash distribution or move your assets into an IRA rollover account.

Staying in your current plan or moving your assets to a new plan are, perhaps, your simplest options. But what if you are unsatisfied with the breadth or performance of the investments in your current plan and the new plan doesn't seem to be much of an improvement?

Your third choice, taking a cash distribution, will give you—and the government—immediate access to your cash. If your employer pays you the amount of your 401(k), and you are under 59 ½, your employer will be required to withhold 20% for taxes, you will be subject to a 10% early withdrawal penalty and the entire amount of your distribution will be reported as income and, thus, subject to federal taxes.

The Rollover IRA alternative

A Rollover IRA lets you move your funds directly from one retirement program to another, without incurring current taxes and penalties, and provides the means for your savings to continue to grow tax-deferred. Rollover IRAs provide investors with a wide range of investment choices—including mutual funds, stocks and bonds—and may provide more selection than their employer's retirement plan.

One benefit of this diversity is that it can help investors better balance their retirement portfolios. A Rollover IRA also helps you to keep your retirement assets safe from current taxes and penalties that would be incurred if you took a distribution and were under the age of 59 ½, ensuring that your money—all of it—continues to work for you, without interruption.

Rollover options

There are two ways you can execute a Rollover IRA: a 60-day rollover and a direct rollover. Working together, we can determine which option is best for you—and we can help you navigate some of the complexities of both.

With a direct rollover, your 401(k) funds are directly paid into the IRA you select, with no tax withholdings or penalties. In a 60-day rollover, you have the assets distributed directly to you. You then have 60 calendar days (not business days) to deposit the assets in a Rollover IRA. As in the cash distribution mentioned earlier, you will be subject to a 20% withholding tax. The difference is that, if you deposit 100% of your 401(k) assets within 60 days, you will not owe taxes on your rollover, but will be able to include the 20% withheld as income tax paid. It is important to note that to reach that 100% you will be responsible for adding the 20% back in yourself. If you do not satisfy the time or deposit amount requirements, you will be subject to all of the taxes and penalties normally associated with a cash distribution.

Making the right decisions

Which Rollover IRA is right for you? We can learn that together. By discussing your current needs and future goals, we can determine and execute the right course of action for today—and tomorrow.

1717 Arch Street, Philadelphia, PA 19103
ahoren@janney.com | 215.665.6672 | 800.526.6397
www.adriennehoren.com | Member NYSE FINRA SIPC

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Adrienne Horen
Vice President/Investments