AnnuityWatchUSA

Compliments of DeWitt & Dunn

401K Rollover Common Questions

What to do with your 401k after a layoff.

When it comes to annuity plans, we are the experts!

Cathy DeWitt Dunn & Matt Redding
The Annuity Experts

At Annuity Watch USA, we specialize in helping individuals and families understand various retirement income planning options that can help them create a more secure future.

If you have lost your job or are facing a layoff, you need to be aware of the options you have when it comes to taking control of your 401k. What you do with your retirement money now will affect you today...and tomorrow.

Call us anytime with your questions!
(972) 473-4700

"I've been laid off. What's going to happen to my 401k?"

The Employee Retirement Income Security Act of 1974 (ERISA) protects the assets of millions of Americans so that funds placed in retirement plans during their working lives will be there when they retire. This means that you are entitled to all of the money you've contributed into your 401k. In addition, your tenure determines how much of your former employer's matching contributions you are entitled to. Chances are you are 100% vested if you have worked at the same place of employment for a few years.

"What are my options?"

You have the choice of leaving the 401k funds in your current plan, cashing out of the plan, or rolling the funds over into another qualified retirement account such as an IRA.

Option 1: You may choose to leave your money in your old 401k account.

This may sound like the simplest option, but it may not be the best solution for you in the long term.

- Beware of incurring additional expenses. Your former employer may not want to deal with administering your account and may pass these expenses on to you.
- You may find it difficult to get assistance when you need it.
- While we do not recommend borrowing against your 401k balance, staying in your current plan may prevent you from doing so. This leaves you with less flexibility.
- Keeping this "orphan" account means that you may have a separate account to track and manage. Rolling over your 401k funds into an IRA consolidates your accounts. See Option 3 for additional details.

Lastly, you need to be aware that if your 401k account balance is below a certain minimum, your former employer may choose to simply close your account and send you a check. While you may initially see this as a windfall of "free money," this triggers tax consequences as outlined in Option 2.

"What are my options?" (continued)

Option 2: You may cash out your 401k.

If you choose to cash out your 401k without designating another qualified retirement account, your former employer is required to withhold and send 20% of your money to the IRS. If you do not deposit your money into a qualified retirement account within 60 days, you will have to pay taxes PLUS a early withdrawal penalty of 10% if you are under the age of 59 1/2. In addition, you will have to come up with money out-of-pocket to make up for 20% that was withheld to the IRS. You will not be able to recover the money withheld to the IRS until you file your next tax return.

Option 3: You may roll over your money into a Qualified Retirement Account.

- **Direct Rollover** – Also known as a trustee-to-trustee transfer, this option is the most simple and direct way to rollover your 401k money. There are no taxes, withholding, or penalties. A check is simply sent from your current 401k plan to the designated retirement account such as your new employer's 401k (if you've found a new job right away) or an IRA. If you do not have an IRA, we can assist you with opening one.
- **Indirect Rollover** – If you choose to do an indirect rollover, you will receive a check MINUS the 20% that is required to be withheld by your former employer and sent to the IRS. The rules, taxes, and penalties described above in Option 2 apply here.

  Here is an example of what happens in an indirect rollover: If your 401k account balance is $100,000, you will receive a check for $80,000. Your former employer will send the IRS $20,000. You must send your new IRA custodian a check for the full $100,000 within 60 days in order to avoid taxes and the 10% early withdrawal penalty if you are under the age of 59 1/2. This means that you must come up with $20,000 out-of-pocket to avoid paying taxes and penalties. You will receive the extra $20,000 from the IRS when you file your tax return.

"Should I open an IRA?"

Unfortunately in today's economy you may not find a new job immediately, which means you may not have a new 401k plan ready to receive the funds from your old 401k. Therefore, it makes sense to open an Individual Retirement Account (IRA). In addition, an IRA offers certain advantages when it comes to saving for retirement. A traditional IRA allows you to invest pre-tax dollars and pay taxes when you withdraw. A Roth IRA allows you to invest after-tax dollars and pay no taxes when you withdraw. Once an IRA account is established, you may then choose how to use your money for investments or retirement income.

"Can I generate income from my retirement savings?"

If you are unemployed or facing unemployment through layoff, income generation may be top of mind. Depending on your age and retirement savings amount, there are several options you may explore that may provide immediate or deferred income. One of these options is an annuity, which is an insurance contract between you and a life insurance company that can provide regular income payments over a period of time, beginning at some point in the future.

"Does an annuity make sense for me?"

We get asked this question several times a day. And, it's a subject we talk about in depth each week on our radio show, *Safe Money Talk Radio*. The truth is: we can't answer this question until we know more about you, where you are in your retirement income planning, and what your income goals are during your retirement.

That said we would like to share with you several client scenarios that we see every day in our practice. These real-life financial stress points have driven thousands of individuals to contact us for more information on how fixed index annuities may fit into their retirement income planning.

If you've found yourself in one or more of these situations, it may make sense to consider a fixed index annuity as part of your retirement portfolio.

Real-life scenario #1: You have worked hard to accumulate money in your retirement account. You've maxed out your 401k for years. Now, you're approaching retirement and it's time to figure out how to transition from wealth accumulation to income generation. You need to put an income strategy in place that helps you to maintain your standard of living throughout your retirement years with income you can't outlive.

Real-life scenario #2: The past few years have taken a brutal toll on your investment portfolio––and your sanity. You are tired of the stress that comes with the ups and downs of the stock market. You're tired of seeing your hard-earned retirement savings lose value with big market drops. You need more stability. However, you're looking for a bit more earning potential than what today's bond options or Certificates of Deposit (CDs) can provide you. You are looking for a safer alternative to the stock market –– one that provides principal protection with some exposure to market upside.

Real-life scenario #3: You are comfortable with playing the markets––to a point. However, you believe in diversifying your risk and are looking to shield some of your money against catastrophic stock market loss. You've done the math and you've figured out what portion of your portfolio you cannot afford to lose. You suspect that while an fixed index annuity is definitely not right for all of your money, it just might be right for some of it.

Fixed index annuities have answered the retirement income needs for individuals facing a wide variety of retirement planning scenarios. By providing exposure to market-based gains and eliminating losses, fixed index annuities have proven to be an excellent alternative to the stock market. It is no wonder that these plans are one of the fastest growing asset classes with $150 billion invested over the past six years.

We invite you to give us a call or send an email to discuss whether an annuity makes sense for you.

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