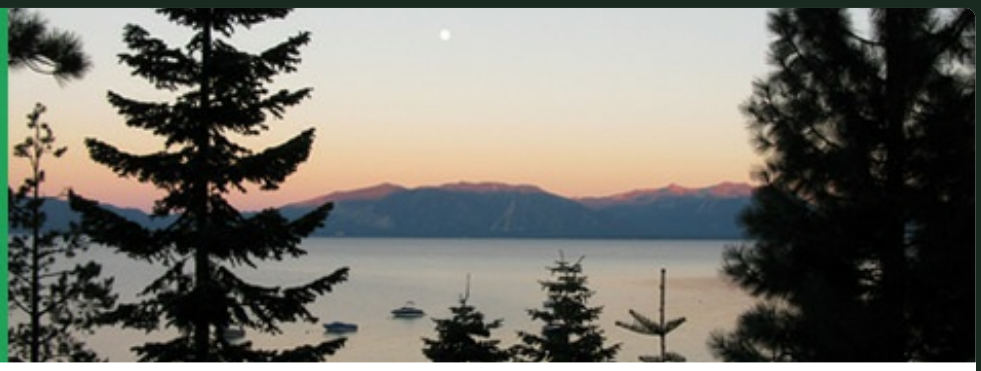
Hathaway Financial Services



To Rollover or Not to Rollover?

Retirement is a pretty popular occupation – or at least preoccupation– these days. And it often presents decisions to be made about the assets accumulated in the retirement plan sponsored by a retiree's employer.
One of the most basic decisions is whether to leave the assets in the employer's plan, assuming that's an option, or roll them to an individual retirement account (IRA). That can be an involved decision depending on a range of individual considerations and the choices available.

Age: Most employer plans allow penalty-free withdrawals for participants between the ages of 55 and 59½, while withdrawals from a traditional IRA during this period are usually subject to the 10% early withdrawal penalty. Those still employed after age 70½ usually can delay required minimum distributions from an employer's plan until they stop working, not so with an IRA.

Investment Choices and Costs: IRAs can offer a wide range of investments. But so do many employer plans these days, along with unique options such as stable value funds with attractive yields negotiated on behalf of participants. The underlying cost difference between the investment vehicles may not be a huge factor, but employer-sponsored plans – especially larger ones – may be using lower-expense fund shares than those available to retail IRA investors. In recent years plans have provided more detailed reporting to participants on underlying fees and expenses, so such comparisons have become a little easier.

Special Tax Situations: Tax-deferral generally can continue whether assets stay in a plan or roll to an IRA. But if one's plan balances include after-tax contributions, those funds may be able to roll to a Roth IRA without tax consequences. If the plan account holds stock of the employer with a low cost basis ("net unrealized appreciation"), there is a distribution strategy that may be more advantageous than rolling those assets to an IRA.

Protection from Creditors: Facts and circumstances will vary, but experts typically caution that assets in an employer-sponsored plan may enjoy a somewhat higher level of protection from creditors than balances in an IRA.

Personalized Advice: Rolling assets to an IRA may be part of receiving ongoing investment and financial planning advice from a qualified professional. Many employer plans offer extensive, web-based information and guidance, but this may be relatively impersonal and limited to the investment vehicles available to plan participants.

Make it Direct: In a direct rollover, your assets from your former employer transfer directly to your IRA; no money ever comes to you. In an indirect rollover, your former plan sends the money directly to you. It then becomes your responsibility to deposit the funds in your IRA within 60 days. Failure to do so can have significant tax consequences. In addition, your former plan will be required to withhold 20 percent to ensure that taxes will be paid if the rollover is not completed.

Need a Loan?: Many employer sponsored plans allow loans up to 50% of the account balance. Loans are not allowed from an IRA.

A decision to move funds from an employer's retirement plan is usually irrevocable. Careful consideration regarding the areas noted above should be part of your drill.

60-Day Rollovers: Just One per Year per Customer, Please.

Need a little cash from your Individual Retirement Account? Just a short-term need with the intent to replace the funds without triggering a taxable distribution? That's often referred to as a 60-day rollover – draw the funds to meet that short-term need, then return them to the IRA within 60 days, and there are no tax consequences.

For many years it was widely believed that one 60-day rollover was allowed from each IRA a taxpayer maintained. But earlier this year the U.S. Tax Court (Bobrow v. Commissioner) revoked this practice, interpreting the applicable legislation as limiting a taxpayer to a single 60-day rollover within a 12-month period, regardless of how many IRAs he or she happens to hold.

Soon after that decision, the Internal Revenue Service announced its intention to start enforcing this more restrictive interpretation of the regulation governing IRA rollovers. And in an amusing twist, the IRS withdrew a proposed amendment to the IRA rollover rules it had sent to the Treasury Department in… 1981. That 33-year-old proposal would have enshrined the more liberal approach to 60-day rollovers that lots of taxpayers had long assumed to be the operative rule. But neither Treasury nor the Congress ever formally adopted the IRS proposal, and now the Tax Court has rendered it a "dead letter."

This simply points up the need for careful planning prior to any IRA withdrawal for which you may want to take advantage of a 60-day rollover. Direct IRA-to-IRA transfers (custodian-to-custodian) are not limited in terms of frequency or time period. So if that short-term need for funds is greater than the amount available in any one IRA, the first step may be to transfer assets from one or more other IRAs. Just a little extra care in the process.

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