FIRSTRADE

Don't Get Steamrolled ...Roll it Over

Tips for Self-Directed Investors on Rolling Over 401(k) Assets into an IRA

As the U.S. job market improves, more people will be in a position to save more money for retirement. Although they may have a good amount already saved, they might not know how their savings are being managed by their former employer(s).

According to the Profit Sharing/401(k) Council of America, Americans leave behind hundreds of thousands of dollars a year in retirement accounts held and managed by their former employers. However, many employees do not realize that they actually could be losing some of their assets year after year due to recurring investment and management fees, or perhaps even due to poor investment strategies or limited options.

Employees could greatly improve the stability of their nest eggs by moving (or rolling over) their funds from employer-sponsored retirement accounts into self-directed, low-fee IRAs.

Following are a few tips for self-directed investors who are interested in maximizing and maintaining control of their retirement savings:

- **Don't leave anything behind** – If you're planning to leave your job voluntarily, hold out until you're fully vested in the 401(k) plan – otherwise, all of the matching assets put aside by your employer may be left on the table. Sometimes waiting just a few months can increase your holdings by thousands of dollars.
- **Don't let go of your savings** – If you are laid off or terminated, your employer may liquidate your retirement account immediately and send you a check for the balance, with 20% withheld for tax purposes as required by law. In this case, you have 60 days to reinvest the full amount of the pre-tax retirement distribution (including the withheld amount) into another account, whether an IRA or another employer's 401(k). Otherwise, you will lose the tax benefit and if you are under age 59½, you may incur a 10% percent "early withdrawal" penalty.
- **Run for Shelter** – Retirement funds are shielded from taxes for a reason – to ensure that the money you save for retirement is used for just that purpose. Keeping in mind the 60-day window, be sure to avoid paying taxes and fees unnecessarily.
- **Manage money, not fees** – Some employer-based 401(k) plans have maintenance fees that eat away at savings. Those who decide to keep money in their former employer's plans may lose assets due to such fees. Instead, moving to an IRA will often reduce costs and typically offer more investment options.

- **Build the right nest for your egg** – There are several kinds of IRAs (Simple, Traditional, SEP and Roth). Determining which is best for your unique needs, based on their unique requirements and tax benefits, is crucial to your efforts for a fully funded retirement.
- **Diversify** – one of the primary benefits of opening a self-directed IRA is the fact that the investor can independently select the stocks, funds and bonds they feel are appropriate and organize their investments as they see fit. Use the new freedom to invest how you see fit to your advantage. Select assets that suit your unique needs and keep a good balance of stocks, mutual funds, bonds and ETFs to mitigate risk.
- **Research investment options:** Use multiple research and educational tools and calculators to find the best investments for your retirement dollar.
- **Stick with the plan** – When you do land a new job, if you are not allowed to contribute to the 401(k) plan right away or your new company has no retirement package, keep investing in your IRA (at the maximum rate if possible). Then, when you are allowed to contribute to the 401(k), take advantage of your new employer’s matching contribution, but remember to continue managing your IRA so you get the best return for your investment.