THE "HOW" AND "WHY" OF THE IRA ROLLOVER

A way to reinvest the lump sum you've saved for retirement.

As retirement approaches … money decisions become increasingly major. One big decision concerns what to do with the money in your company retirement plan.

… **Consider a direct rollover.** For many people, the most attractive option is an IRA rollover. In other words, you transfer the money from your 401(k), 403(b) or 457 plan into an IRA. It is not hard to accomplish, provided you have the guidance of a qualified financial professional.

Basic steps. When you leave a company, you usually have three options with your retirement plan: you can leave the money in the plan, roll it over into a new plan (if you elect to keep working for a new employer), or do a direct rollover into an IRA.

A direct rollover is not the same thing as a direct payment to you. Yes, your employer can actually write you a check for the full amount of your 401(k) account, but 20% of that money will be withheld for taxes.

Do you want to avoid that 20% withholding? A direct rollover is the solution. It is a "trustee to trustee" rollover, which works like this: your employer writes a lump sum check not to you, but in the name of the trustee or custodian of the IRA that you are creating to hold the funds. You then let your company's retirement plan administrator know that you'll be doing a direct rollover. (There is almost always a form to be filled out, on which you can state the specific instructions for the distribution check.)

Your company sends you the check payable to the IRA trustee, with no withholding, and you have 60 days to deposit it in the IRA; day 1 is the day after you get the check. (Sometimes a wire transfer of assets occurs instead, between one investment custodian and another.) If you don't complete the direct rollover in 60 days, you will pay tax on the entire amount. (There's no grace period for weekends or holidays.)

If you want to leave work before age 59½ or you own shares of company stock, you should consider the tax implications created by those circumstances before attempting any kind of rollover.

What you can and can't do. You can make unlimited direct rollovers of your retirement account assets, and you can add the money in your retirement plan to an IRA you already have, if you don't intend to go back to work and put those assets into a new employer plan. Once your retirement plan assets are in an IRA, you can invest them in practically any way you choose – in mutual funds, CDs, stocks, money market funds, annuities, and even more possibilities. You can also set up your IRA to make systematic payments to you.

You can't roll over the assets from your retirement plan directly into a Roth IRA. You have to put them in a Traditional IRA first, and then convert to a Roth IRA by paying tax on the assets you want to convert before you can realize that tax-free growth. However, starting in 2008 individuals will be able to roll funds held within an employer sponsored retirement plan directly to a Roth IRA. Please note that federal income tax will still be due on the converted amount.

Is it time to roll over your retirement money? If that time is here or getting closer, you need to be very careful with what could possibly be the largest lump sum you ever receive. Be sure to ask a qualified financial professional about your IRA rollover options today.