



Roll With It: The Merits of Rolling Your 401(k) Into An IRA

Job changes are one of life's biggest stressors. Hopefully it is an exciting stress but still a stress nonetheless. With all the changes that occur, people often overlook their 401(k), and it is easy to see why. The bureaucratic hassle is enough to cause anyone to move on to another task at hand. But, before setting it aside for a rainy day, consider taking action early on and saving yourself potential pain later down the road. There are some very good reasons to roll your 401(k) immediately into an IRA.

Simplify Your Life – Easily the best reason for rolling over your 401(k) is to consolidate all your assets in one account. If you are like many Americans, you probably have held four or five jobs over your career, if not more. That means you could have four or five 401(k)s being held at four or five different firms. Fidelity, Schwab, Vanguard – all with their own investment allocations, unique options, and login and passwords. Simplify your life and consolidate your 401(k)s by rolling them into an IRA at the investment firm of your choice. One login, one password, one set of statements, and one set of investment options. Another benefit to consolidation is disciplined target asset allocation, a key concept in successful long-term investing. It is far easier to manage your asset allocation in one account versus several accounts.

Investment Flexibility – One of the biggest complaints of 401(k)s is that they have a limited set of investment options. The 401(k) administrators create the options with the following motivation: provide just enough options to the plan members so that they don't get in trouble for offering a bad plan, attention from a CEO unhappy about the options or a litigious employee. The result of these incentives is they often create a vanilla set of investment options that very likely has nothing to do with what you actually want or need. By consolidating your 401(k)s into an IRA, you can invest in almost limitless choices - individual stocks and bonds, exchange-traded funds and mutual funds.

Fees – Fees are the hidden boogeyman of 401(k)s. You never see them explicitly paid but they are buried in there, often in the form of high-cost mutual funds or administrative fees attached to the funds. In the short-term, these fees don't matter much but in the long-run they can cost you hundreds of thousands of dollars. Put your retirement funds in an account where the fees are transparent and where you can manage them appropriately.

Option to Convert to a Roth IRA - IRA owners have the option of converting their IRA to a Roth IRA. As a quick reminder, with a traditional IRA, contributions are tax deductible but taxed at the date of withdrawal. With a Roth IRA, contributions are made after tax but there is no tax liability at the date of withdrawal. Depending upon your current and expected future tax

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status, it may make sense to convert your IRA to a Roth IRA. Your 401(k) does not have this option. However, once you roll it into an IRA, you can make the conversion.

Simplify Life for Your Heirs - Consolidate your 401(k)s into one IRA account. This will make life easier for your beneficiaries. With one IRA account, there will be only one set of beneficiaries for you to maintain current. When you pass, either your spouse will inherit your IRA in a new account (Spousal IRA) or your non-spouse(s) will inherit your IRA in a new account (Inherited IRA). Either scenario is easy to set up and manage at your passing. Having your 401(k)s spread out is relatively more difficult for your beneficiaries. You will have several accounts to maintain current beneficiary information. Someone will have to know where all your 401(k) accounts are located and, at your passing, deal with all of the 401(k) management companies. This will be very time-consuming and frustrating. Ultimately your 401(k)s will most likely be rolled into a Spousal IRA or Inherited IRA(s) anyway – so save a lot of time and aggravation for your heirs by rolling your 401(k) into a Regular IRA right now.

How To Roll Your 401(k) Into An IRA

The process to roll your 401(k) into an IRA can be daunting. 401(k) administrators are sometimes like casinos in that they want to keep you there and will passively make it difficult to move the funds. A little planning and a little help will ease the process.

First, identify where you want to move the funds. A financial advisor at said firm will likely be able to walk you through the steps and ease the burden. Registered Investment Advisors and brokers are typically well acquainted with the process and can simplify the process.

Second, the 401(k) administrator will likely require paperwork to be filled out on their end.

Tip, retain documents and information so you have the contact information at your disposal after you've left. There can often be a maze to get to the right person, and upon leaving, your company's HR department isn't going to make you a priority. A little bit of prep before you leave can go a long way to simplify the process.

By rolling your 401(k) into an IRA, you can simplify your life and better situate yourself for retirement. At Venado, we routinely handle 401(k) rollovers and are happy to review your options in further detail. Please contact your representative to discuss further.