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Rollover, run, or stay put

I never could get my dog Benji to rollover. But if you are in a retirement plan at the company you work for, like a 401(k), 403(b), pension plan, deferred comp and others, you do have rollover and other retirement choices to consider.

To rollover, run, or stay put comes into play when it's time to leave a company or retire from a company when you are in their various retirement plans.

In case you did not know, you do have a partner in retirement plans. It is the Internal Revenue Service, the IRS.

Generally, when you or the company put money away in your retirement plan, the money is not taxed when it goes in. The tax is deferred into the future, usually when you take money out.

You do have choices, but be careful because the decisions you make could be good or bad for your future.

If you do not intend to join another company and participate in their retirement program (rollover to a new Plan), then there are at least three options to consider when thinking about retirement benefits. You should understand the details of these at least these options <u>before</u> you go see Human Resources to discuss your upcoming retirement.

The first option is to do a **rollover**. You start by opening an IRA account, frequently with a financial advisor. In case you die, you name a beneficiary.

The money is rolled over from your company directly into your new IRA account. Since you did not touch the rollover money, it is generally not a taxable event. Check with your tax advisor.

You now work with your financial advisor to make some decisions. For instance, how much money is reasonable to receive each month?

Let's assume total retirement benefits are $300,000. Based on a 5% annual return, that $300,000 at 5% generates about $15,000 annually. Paid monthly, it is a gross amount distributed to you of $1,250 per month.

If the IRS gets 20%, or whatever your accountant recommends, you get a net amount of about $1,000 per month, called the net distribution.

Let's suppose you want to take a net distribution of $10,000 from your IRA to repair the roof. Notify the financial advisor. Probably within 10 days or so, the advisor will handle the distribution from your IRA of $12,500 gross. That works out to $10,000 net sent to your checking account and $2,500 sent to the IRS.

For you math people, $12,500 gross distribution x 20% IRS = $10,000 net distribution to you.
If you have a large pot of money, you must be careful. It's tempting to buy a new car or boat, go on vacation, or do a million other things with that money. Remember, that money generates the retirement income that has to last for many years.

Please don't die, but if you do, your named beneficiary will inherit the IRA. That is not a taxable event. The money now belongs to your beneficiary.

The advisor may be able to guide you through the many strategies of investing and estate planning and answer your financial questions. You have an experienced person to talk to.

The second option allows you to **take the money and run** in one big lump sum, because it's yours. However, the IRS will be there to collect their share.

For instance, if your lump sum is $300,000, that $300,000 is generally considered ordinary taxable income all in one year. The IRS might get 20% or $60,000. If you are under the age of 59 ½, the IRS gets another 10% or $30,000. You would then be left with $210,000, with $90,000 going to the IRS.

That is quite a large tax bill. I would not like to pay it. Consult with your tax advisor about this situation.

The third option is to **leave the money at the company**. Usually, you will get little help with choices like what investments to be in, who watches your investments, or what annuity should you consider, etc.

You will have to deal with the company you are retiring from. Here is an example of what could go wrong.

My father retired from a large oil company in 1975. The HR department suggested he take the largest monthly payout from the annuities they offered. He signed up to get a check a month for the rest of his life.

Dad died to 1992, and the monthly checks stopped because the annuity was only for his lifetime. My mother lived 20 more years, and never received one penny from that oil company. They kept the cash left in Dad's plan.

In summary, you have choices, but choose carefully. Once you sign HR's paperwork, that's a done deal. No going back. There may be pitfalls if you try to do it yourself. Get the help you need.

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