

Examining a 401k Rollover

Whether you started a new job or were recently laid off, one of the first questions that come up after a change in employment status is, “What do I do with my 401k?” Here are the basics on why a 401k rollover is usually beneficial after a change in employment:

Why do it?

A 401k is generally designed to serve the employer’s needs. It’s for a large group of people saving for retirement. As a “nonemployee participant”, you typically bear your part of the cost of the administration of a 401k. The HR Department usually services your requests after current employees. In an individual IRA, you can tailor it to your goals with a much wider range of options than a 401k permits.

Consolidation – isn’t that “all eggs in one basket?”

Consolidation is typically a good thing for portfolio management and client convenience. Goldman Sachs, Charles Schwab, Merrill Lynch, Fidelity – these are all just holding facilities. It’s not like a bank... having a lot of cash in one bank is a problem because the bank uses that cash to make loans to others and earn their profit. But investment houses do not do this. They hold the investments for the clients and charge fees for transactions (and other things). So if Merrill or Goldman or Schwab failed/went under, the client’s assets still exist and still belong to the same owner, they just need to be “claimed” and transferred to a new holding facility. “All Eggs In One Basket” refers to banks and cash, as well as holding too much of a single investment.

What’s my tax going to be?

There should be zero tax when you do a rollover. It’s a transfer that starts behind the tax curtain and stays behind it because it’s just from one tax-deferred account (401k) to another (IRA). Sometimes a client has a lot of company stock in their 401k and our office will do a Net Unrealized Appreciation analysis to determine if it’s better to get future appreciation at lower long-term capital gains tax rates. Either way, a 401k rollover shouldn’t make your taxable situation worse.

If you have any further questions on this or any financial topic, please don’t hesitate to reach out to us here at Manske Wealth Management. We’re proud to be of service.