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Your Money: To roll over or not to roll over? Conventional wisdom for managing your 401(k) plan

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By **Karin Price Mueller/The Star-Ledger**

Q. I am 66 and still working, and I contribute the max to my 401(k) plan. I'm not sure if I should roll this over to an IRA, and if I should save to a new IRA at this age. I'm in the 15 percent tax bracket.
— Sal

A. Rollovers are almost always a good idea.

The larger universe of investment vehicles available to you in an IRA is a compelling reason to roll your 401(k) to an IRA, said Joseph Dispenza, a certified financial planner with Dispenza Financial in High Bridge.

"Typically, 401(k) plans are limited in the amount of investment choices they offer," he said. "In an IRA, you and your advisor can choose from mutual funds, alternative investments, individual stocks, bonds, CDs and even have access to institutional fund managers that can directly manage your account."

Still, there are cautions.

If you hold company stock inside your 401(k), be aware of the treatment of net unrealized appreciation (NUA). Dispenza said the treatment of NUA can have serious tax ramifications, so be sure to get some advice on how to best handle the transfer.

Also, because you're active in the 401(k) plan, you still have the ability to take a loan from the 401(k) and pay it back. If you roll the money to an IRA, that won't be an option for you anymore, he said. Instead, you'd be faced with a taxable withdrawal if you need the money.

Another item to consider is what to do if your company offers a Roth 401(k), which could be a good option for future contributions.

"Being in the 15 percent tax bracket, you're probably not gaining a significant (tax) deduction from your 401(k) contribution each year," he said. "It might be better to forego the tax deduction today in exchange for tax-free withdrawals later."

Not everyone can roll a 401(k) into an IRA. You'd be eligible for an "in-service" distribution because you are over age 59½, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**.

She said if you do make the move, be sure the rollover is completed within 60 days to avoid tax issues, and that you don't give up your new contributions and lose free money in the form of matching funds.

If you want to save even more, she suggests you consider new contributions to a different IRA, which can do until age 70½.

"The maximum savings would be $6,500 for 2014, which includes a $1,000 over-age-50 catch-up contribution or up to the amount of earned income, if lower," she said. "Without knowing your exact filing status, it is hard to determine if this would be deductible, but with modified adjusted gross income under $60,000 for single filers, you may qualify."

Another alternative would be to open a Roth IRA, which would also allow you to save the same amount and would not be tax deductible, but would give you tax-free distributions, she said. Also, Roths don't have a required minimum distribution.

E-mail your questions to askbiz@starledger.com