



YOUR
GUIDE TO
AVOIDING

401(K)

**ROLLOVER
MISTAKES**

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Avoid The IRS Penalty And Tax Trap

When you put money in a 401(k) account, you are essentially making a deal with the government. The government lets you put in the money without paying taxes on it, and you agree to leave the money there until you retire (or are at least close, which the government defines as age 59 ½). If you take the money out early, you aren't keeping your end of the deal and the government hits you where it hurts: [Your Wallet](#).

WITHDRAW YOUR MONEY EARLY AND YOU'LL GENERALLY PAY:
10% PENALTY + REGULAR INCOME TAX

| | |
|------------------|--|
| \$14,000 | gross distribution total |
| - \$2,800 | federal income tax (20%) |
| -\$1,400 | early withdrawal penalty (10%) |
| -\$525 | state tax (3.75%) |
| <hr/> | |
| \$9,275 | net distribution total after taxes and fees |

After taxes and penalties, you're left with only about two-thirds of your money. Plus - particularly if you are young - you're sacrificing potential growth that could come from keeping your money in a retirement account.

So, while it might be tempting to consider your 401(k) a windfall, think carefully about cashing it out.

**DON'T TREAT YOUR 401(K) LIKE AN ATM!
LEARN HOW TO MAXIMIZE ITS BENEFIT.**

[CLICK HERE TO BEGIN](#)

Avoid The IRS Penalty And Tax Trap

About those taxes:

How do you avoid full taxation on this money? The short answer is ... you can't.

Back to that earlier agreement: The government has agreed not to tax your money when you put it in, but when you retire and take distributions, the government steps back in for its share. The benefit to you is that your money was able to grow tax-free all that time while it was in deferral.

YOU CAN'T CONTROL THE FACT THAT YOU WILL PAY TAXES ON YOUR DISTRIBUTIONS, BUT YOU CAN CONTROL WHEN AND HOW YOU'LL PAY THEM.

A rollover mistake could lead to you paying higher taxes on the entire amount. Here's how: Your 401(k) distributions are viewed by the IRS as ordinary income; that's true whether you take \$1 or \$1 million. If the amount of a distribution pushes you into a higher tax bracket, you'll end up paying the higher tax rate on everything above the new bracket threshold. Ouch.

There are a few ways around this: many people plan to take their tax-deferred distributions over time and in smaller amounts.

Another solution is balancing withdrawals from tax-deferred accounts and tax-free accounts, like Roth IRAs or properly structured life insurance policies. Since those accounts include money that has already been taxed, they won't be treated as ordinary income and could help you control your tax bracket later on in life.

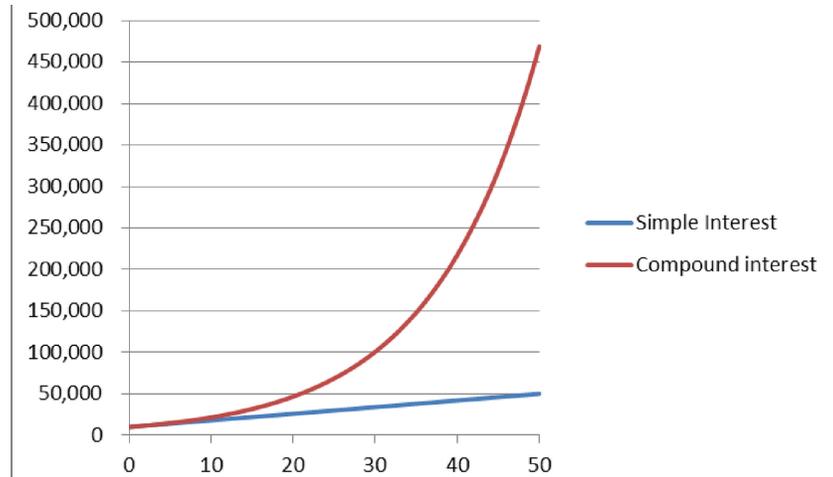
After all, much like in life, it's not about the money you make, but the money you keep.

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[**CLICK HERE TO BEGIN**](#)

Embrace The Power of Compounding

When you put money in a 401(k) account, you are essentially making a deal with the government. The government lets you put in the money without paying taxes on it, and you agree to leave the money, until retirement.



SOURCE: THE MOTLEY FOOL KNOWLEDGE CENTER [HTTPS://WWW.FOOL.COM/KNOWLEDGE-CENTER/COMPOUND-INTEREST.ASPX](https://www.fool.com/knowledge-center/compound-interest.aspx)

It's easy to see how important early contributions can be to a 401(k). The longer your money is invested, the more time it has to reap the benefits that compound interest can provide. If you cash out a 401(k) early, you are not only paying taxes and penalties; you'll also be giving up years of potential growth from compound interest.

INSTEAD OF CASHING OUT, CONSIDER THESE OPTIONS:

- 1)** If your employer allows, you can leave the money in your 401(k). However, depending on how often you change jobs, it can be hard to keep track of an old account.
- 2)** You can roll over the old 401(k) to your new 401(k) - if you have one and you are happy with its investment choices and fees.
- 3)** You can roll over the 401(k) into an Individual Retirement Account (IRA) which can potentially give you more control over your money.

LEARN MORE ABOUT HOW MAKE COMPOUNDING WORK FOR YOU!

[CLICK HERE TO LEARN MORE](#)

The Case for a Direct Rollover

When rolling over a 401(k), you typically can choose between a direct rollover and an indirect rollover.

With a direct rollover, your funds move directly from your 401(k) to your new Individual Retirement Account (IRA) – the money never crosses your path.

If at all possible, this option is preferable, because in all likelihood it could be your your most mistake-proof option. Keep reading to see why.

With an indirect rollover, you actually take possession of the money from your 401(k) and are responsible for putting it into another 401(k) or other retirement account. This is where it gets tricky. While there are many rules and regulations associated with a 401(k) rollover, one of the most significant rules is also one of the easiest to miss: the 60-Day Rule.



This rule mandates that once you receive the money from your 401(k), you must complete your rollover within 60 days or the IRS considers it a withdrawal

If you are under age 59 ½, the penalties for an early withdrawal are substantial.

That's not the only potential drawback of an indirect rollover.

When you withdraw your funds for an indirect rollover, your former employer typically is required to withhold 20% of the money for future taxes, in case you don't actually complete the rollover. If you follow the rules, you'll receive the 20% back, but potentially not how you'd want to.

DON'T MISS THE ROLLOVER WINDOW!

[CLICK HERE TO GET HELP](#)

The Case for a Direct Rollover

Let's break it down using \$200,000 as the amount of your 401(k).

| INDIRECT ROLLOVER | DIRECT ROLLOVER |
|--|--|
| \$200,000 Total Distribution | \$200,000 Total Direct Transfer |
| -\$40,000 Former Employer Withholds (20%) | |
| <hr/> | |
| \$160,000 What You Receive | |
| -\$40,000 Deposit From Personal Funds | |
| \$40,000 Tax deduction | |

You receive a check for \$160,000 (80%) to roll over into a new account, while your former employer withholds \$40,000(20%).

You follow the rules and put that money in an IRA within 60 days.

The only way to avoid accidentally taking the other \$40,000 as a distribution is to supplement it with the same amount of cash from your personal funds when you roll it over into your IRA.

If you don't (or can't) supplement that amount, the 20% is considered a withdrawal and is subject to tax (and penalties if you are younger than 59 1/2).

In this example, that means the IRS will be returning whatever's left of the \$40,000 once taxes and penalties are removed.

Finally, there's one more factor to consider if you are exploring your rollover options, and it applies to both 401(k) plans and IRAs.

You can only take one indirect withdrawal from either in any given 12-month period. Missteps can be very costly.

[HTTPS://WWW.FINRA.ORG/INVESTORS/401K-ROLLOVERS](https://www.finra.org/investors/401k-rollovers)

DON'T MISS THE ROLLOVER WINDOW!

[CLICK HERE TO GET HELP](#)

Don't Abandon Your Old 401(k)'s

If you've ever spent an afternoon wondering what happened to that \$20 in your wallet (Did you stop at the store? Go out to lunch? Did your spouse take it and forget to tell you?), you might not believe this statistic.

AMERICANS LOST
TRACK OF MORE THAN
\$ 7.7 BILLION

WORTH OF RETIREMENT SAVINGS IN 2015 ALONE BY "ACCIDENTALLY AND UNKNOWINGLY" ABANDONING THEIR 401(K)S.

[HTTPS://WWW.USATODAY.COM/STORY/MONEY/COLUMNIST/2018/02/25/LEFT-YOUR-401-K-OLD-JOB-HERES-HOW-FIND/366891002/](https://www.usatoday.com/story/money/columnist/2018/02/25/left-your-401-k-old-job-heres-how-find/366891002/)

With people changing jobs more often – people born between 1957 and 1964 held an average of 11.9 jobs from ages 18 to 50* – it's surprisingly easy to lose track of an old 401(k) account. Obviously, lost accounts mean lost retirement income for you, and less money for your beneficiaries.

You can avoid this problem by rolling over your 401(k) into a new 401(k), if that's an option; or into an Individual Retirement Account (IRA).

If you do want to leave your 401(k) with your old employer, make sure that they have updated contact information for you, and continue to track your account's performance.

These techniques can help you keep track of your accounts. But what happens if you aren't around to look for them? How would your beneficiaries find these accounts?

Consolidation of accounts may certainly help, but there are also online tools like the *Generational Vault* where you can store all your important documents digitally and access them 24/7.

You've spent years contributing to your 401(k). Ensure that those accounts are there for you and your family.

*Bureau of Labor Statistics, Aug. 24, 2017. <https://www.bls.gov/news.release/pdf/nlsoy.pdf>

**DON'T LOSE TRACK AND LOSE OUT!
LEARN ABOUT THE GENERATIONAL
VAULT.**

**[CLICK HERE TO LEARN HOW TO GET
YOUR OWN GENERATIONAL VAULT](#)**

How To Maximize Your Old 401(k)

If you are starting a new job that offers a 401(k), rolling over your old 401(k) to your new one may be your best move. But not always, here's are some things to consider:

You may have more control over an IRA than a 401(k).

With an employer-sponsored plan like a 401(k), you typically choose how you want to allocate your money between several pre-selected investments. If you don't like those investments, there isn't much you can do. In contrast, an Individual Retirement Account (IRA) may allow you to choose from a large universe of investments.

Note: If investing worries you, you can always seek the help of a financial services professional to assist you.

You can choose from a range of fees and services.

IRAs come in all shapes and sizes, from "do it all yourself" to "hand it off to a professional" options. The key is to find the balance between independence and professional assistance that works best for you, at a price you are willing to pay.

You (usually) have the option for a Roth IRA.

While a traditional IRA gives you the chance to put aside funds before the government takes out taxes, you still have to pay taxes when you take out the money.

With a Roth IRA, you pay taxes up front, but then your growth and qualified withdrawals are tax-free.

While a potential tax-free source of income in retirement sounds good, remember these two things before you roll over an existing 401(k) and make a conversion to a Roth IRA:

1. You will have to pay income taxes on the full amount you convert into a Roth IRA.
2. depending on current and future tax rates, a Roth IRA conversion might not be the option that fits your needs.

How To Maximize Your Old 401(k)

You may find additional benefits based on upcoming life events.

Depending on what your future has in store for you, IRAs and 401(k) plans offer different benefits.

For instance, first-time homebuyers are able to take a \$10,000 distribution from an IRA account without an early distribution penalty. There's no such exemption for withdrawals from a 401(k).

Conversely, many 401(k) plans offer loans that enable you to avoid taxes and early withdrawal penalties, which IRAs don't allow.

| | ROLLOVER IRA | 401(K) PLAN |
|---------------------------|---|--|
| Investment Options | <p>Self-directed; individual chooses which investments best fit their objectives without the restrictions of an employer-sponsored plan</p> <p>Life insurance cannot be purchased within an IRA</p> | <p>The plan sponsor determines which investments are available within the plan</p> <p>Some plans allow for a self-directed option</p> <p>Qualified plans may allow for life insurance purchases; 403(b) plans do not</p> |
| Ownership | <p>Individual owns and controls the account</p> <p>No blackout periods</p> | <p>The qualified plan trust owns the assets; participants are bound by the plan's constraints</p> <p>Assets may be subject to blackout periods, during which account access is limited</p> |
| Withholding Rules | <p>Distributions are generally subject to a 10% withholding tax, but account owner may elect not to withhold</p> | <p>Distributions are generally subject to a mandatory 20% federal income tax withholding unless individual directly rolls over the assets to another eligible retirement plan, IRA or Roth IRA</p> |

WITH A MULTITUDE OF IRA OPTIONS, IT CAN BE DIFFICULT TO KNOW WHICH SUITS YOUR SPECIFIC SITUATION. A FREE CONSULTATION CAN SHOW YOU WHERE YOU STAND.

[**GET A FREE CONSULTATION HERE**](#)