Three “Need to Know” IRA Rollover Considerations

Provided by Resonate, Inc.

For many of us, our employer sponsored retirement plan represents one of our largest investments. Therefore, when the opportunity to roll this over is available, it’s essential to know and consider all options.

Here are some key considerations:

1. Is there company stock in my current 401(K)?

   If there is, you have the opportunity to reduce taxes through using the Net Unrealized Appreciation Exemption or “NUA”. This allows the difference between the original cost basis of the stock and the sales proceeds to be taxed as capital gains rather than ordinary income.

2. Does converting some of the 401(K) to a Roth make sense? While this decision also involves the tax advisor, typically if the converted amount can stay in the 15% federal income tax bracket, this of often worth considering.

3. Remember that after-tax contributions to employer sponsored plans can be rolled into a Roth IRA tax free! For this to happen, the employee must be retiring or separating from service and also must roll over the entire pre-tax portion of the retirement account.

   (The other option is to do a partial rollover to an IRA and Roth. For example, if the employee rolls over 75% of the pre-tax contributions to an IRA Rollover, then (s) he can also roll over 75% of the post-tax contributions to a Roth IRA.

Please let us know if you’d like to talk about your options… and also please pass this on to someone you know who is approaching retirement.

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