Everything Jersey

# Advice for transferring 401(k) plans

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By Karin Price Mueller / The Star-Ledger

**Q.** My 401(k) has been dormant for three years and is worth only $5,000. Can I roll it to an IRA, and how can I get it working again for me?

— *Catching up*

**A.** The IRS has strict rules for retirement plans, so it's best to make sure you understand your options to avoid a tax trap.

When you leave a job, the general 401(k) rules state that if the account is less than $1,000, the former employer will distribute a check to the participant, minus 20 percent tax withholding, said William Stratton, a certified financial planner with Nova Financial Consulting in Manasquan.

If the account is between $1,000 and $5,000, the former employer is required to transfer the account to an IRA, and if the account is greater than $5,000, the individual may leave the account in the former employer's 401(k) or transfer the account to an IRA.

You can also request a distribution check in your name — subject to 20 percent tax withholding — but that can get dicey if you're not careful.

"If you take a distribution check in your name and are under age 59½, you have 60 days to open an IRA," Stratton said. "If you do not open an IRA in 60 days you will be subject to a 10 percent early withdrawal penalty."

He said to avoid the 10 percent penalty, you must add the 20 percent tax withholding amount to the 80 percent distribution check amount when you open the IRA, so the new IRA is equal to the value of 401(k) account at distribution.

Ideally, you should request a "trustee-to-trustee transfer," said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains. In that case, the funds would go directly from the 401(k) plan to the new custodian.

"This type of transfer ensures the funds get transferred in a timely fashion," Aznar said. "If the 401(k) plan issues you a check directly and the funds are not rolled into a new IRA rollover account within the required 60-day time frame, this could be considered a distribution and subject to taxes and penalties if you are under age 59½."

Aznar said it’s often a good idea to consider rolling a 401(k) to an IRA when you leave a job. Your employer’s plan probably has limited investment options, while an IRA will allow you to invest in just about anything.

You have made a good decision to get your retirement investment "working again," Stratton said, noting that a $5,000 investment earning an average of 7 percent per year will grow to $57,530 in 35 years.

Consider your IRA like a sports fantasy team, with you as the general manager, Stratton said.

"Investments are just like players, they have performance records and prospects," he said. "If you can afford to hire a manager, it will help you with your selection decisions. Just like selecting players, you should check the manager’s record. Hiring the right financial adviser can be very beneficial to your financial future."

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*E-mail your questions to askbiz@starledger.com.*