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By Greg Gann

Another Reason to Roll

Facts: A client's husband died in 1999 at age 75 with a 401k plan from his previous employer. Since age 70, he had been withdrawing t necessary distributions required under the tax code and paying taxes on those withdrawals. The wife (client) was age 66 at time of husband's death.

Options: Wife could have rolled husband's 401k into her own IRA as a tax-free transfer or she could have kept husband's 401k and it would be treated at husband's death as an inherited 401k account.

Implications: Wife elected to keep the 401k plan intact. Wife is now over the age of 70 and she is required to take taxable distributions from the 401k plan each year. The distributions and associated taxes typically increase each year. Furthermore, the distributions are throwing her into a higher income tax bracket, and state and federal taxes are consuming 33% of the entire distribution.

The IRS uses different tables to calculate the required minimum annual distributions. And, the table required for a 401k distribution may result in significantly higher distributions than what would be required by the table used for an IRA. In this wife's case, the difference this year is equivalent to almost 82%. She does not need the income today, is concerned about what her future needs might be, and is distraught to see so much of the 401k corpus be eaten away by taxes.

Here is the point. By maintaining the 401k account, the client is limited to the investment choices provided by the plan. Those choices m fit into only two or three broad categories with limited options for diversification to help mitigate downside risk. Also, by maintaining the

401k, she is required to withdraw 82% more money each year, pay taxes on that money, and lose the tax deferral on that distribution. Simply rolling the 401k into a self-directed IRA in her own name would result in more investment alternatives and result in less current income taxes. The different tables required to calculate the required minimum distributions, along with other estate planning and income tax benefits, are additional reasons to consider an IRA Rollover. We perform these calculations for clients, and can analyze data on your behalf. Investment management involves more than simply managing investments.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.