MAINSTAY
CAPITAL
MANAGEMENT
LLC

Considering a Rollover IRA?

(4/12/06)

Are you planning to retire or leave your job soon? If so, you will need to decide what to do regarding the money you've saved in your 401(k) plan. If you're like many investors, your 401(k) account may represent your largest investment account. Thus, what you do with these assets could very well be the most important decision you will ever make concerning your future financial security.

Many people, when changing jobs or retiring, often choose to transfer 401(k) assets to a Rollover IRA (an account set up to receive 401(k) assets) because it offers the opportunity for continued tax-deferred growth while, in most cases, significantly increasing investment flexibility. Although the Fidelity Investors Association cannot offer personal investment advice, we can offer a few points to consider concerning a Rollover IRA.

The Rollover IRA option is available to anyone when retiring or otherwise leaving a company. Additionally, employees who reach age 59½ and are still working can transfer existing 401(k) assets to a Rollover IRA and continue contributing to their 401(k) plan. Salaried employees at General Motors, Delphi, Ford, and Visteon have at least a portion of their 401(k) assets eligible for a Rollover IRA at anytime during their working career.

We believe the primary benefit of transferring assets from your 401(k) to an IRA is increased investment flexibility. The GM, Delphi, Ford, and Visteon 401(k) plans are among the best 401(k) plans in the country, but three to six dozen investment options just don't compare to the thousands of mutual funds and other securities available through an IRA. Increased investment flexibility not only enables you to potentially achieve higher returns, but can also offer more ways to manage risk in your portfolio. In today's investment landscape there are numerous no-load, no-transaction fee funds that allow you to trade with no additional costs, just as you do now in your 401(k) plan.

There is a benefit from an estate planning standpoint as well. The options available to a non-spouse beneficiary (like a child) are generally more flexible in a Rollover IRA than a 401(k). A non-spouse beneficiary of a 401(k) is generally required to take all distributions and pay all associated taxes within five years or less. In fact, non-spouse beneficiaries of a GM, Delphi, Ford, or Visteon 401(k) account must take a full (taxable) distribution within 60 days. In a Rollover IRA, however, the beneficiary may have the flexibility to stretch out the life of an IRA over his or her life expectancy and enjoy years of tax-deferred growth of the assets.

One downside to the IRA is you won't have a loan provision. But your 401(k) is the worst place to go for a loan. (Visit www.FIAonline.com for more details on this). Another consideration is your retirement age. If you retire between age 55 and 59½ you can withdraw assets from a 401(k) penalty free before age 59½ with no restrictions. Assets can be withdrawn from an IRA penalty free before age 59½, but with the restrictions of IRS Rule 72(t).

When considering a Rollover IRA, be very careful about where you transfer your 401(k) assets. Remember that your main goal is increased investment flexibility. So, whether your IRA will be self-directed or managed by an advisor, you don't want to be limited to only one family of mutual funds or a broker's select list of investments. Most importantly, never roll over 401(k) assets into an annuity. Annuities are products with high fees, surrender charges, low flexibility, and horrendous tax treatment, but are popular with some advisors because of the high commissions they get paid to sell them. An annuity is very rarely the best investment choice in any situation and simply does not make sense for assets that are already growing tax-deferred.

Feel free to call Mainstay Capital Management toll-free at 1-866-444-6246 for more information about a Rollover IRA.