VANTAGE®

Guide to 401(k) Rollovers

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Understanding your 401(k)

Let’s set aside the tricky 401(k) language for a second—the term “401(k)” simply refers to the rules found in the Internal Revenue Code—and let’s focus instead on what a 401(k) can do for you.

A 401(k) is an employer-sponsored retirement account where both the employer and the employee can contribute to the investment. The employee (that’s you) can make contributions to the account, often by having money withdrawn from their paycheck. And the employer can make a match, putting in a designated amount of money alongside the original investment.

For example, let’s say your employer offers a 4% match. This means you can put **up to** 4% of your annual paycheck into the 401(k) account, and the employer will put in the same amount. You can certainly put in more than 4% if you’re feeling ambitious (the maximum contribution amount is defined by the IRS), but your employer will stop matching at the 4% mark.

Additionally, there is something called a “vesting period” often required by employers. Vesting is a period of time an employee must work for an employer before the employee can fully own the employer contributions to the 401(k) plan.

From here on in, this guide will explore common questions you may have about your 401(k), as well as your options when it comes to deciding how best to manage your financial future.

Do I get to keep my 401(k) if I leave my current company?

One of the first questions many people ask when losing or leaving a job is, "Do I lose the money in my 401(k)?" Simply put: The answer is no. Any money you contributed to your 401(k) plan is yours to keep.

A rule of thumb when considering your 401(k) is this—any money already in the 401(k), and fully vested at the time of losing or leaving a job, is yours. As such, after you've left the current company, you can take your 401(k) funds with you.

When calculating the amount of 401(k) funds you can take with you, it's important to look closely at your previous employer's plan and whether there is a vesting period (which varies by plan). It may be that the full amount of the plan does not go with you. But any money you've put in the plan, and any vested employer contributions, are all yours.

It's important to note that there are some rules around what you can do with the money in your 401(k) and we will explore those shortly. But first let's talk about accessing your 401(k).

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What are my rollover options?

Once you leave your employer, you are no longer restricted by the plans rules as you previously were as an active employee. You now have flexibility on where and how those funds are invested. There are a number of rollover options for you to take control of these funds.

Roll over into a new 401(k) plan	Keep your 401(k) invested with your previous employer's plan
Roll over into an IRA	Take a distribution (cash out), possibly with a penalty

Many investors choose to roll over their 401(k) to an investment or brokerage firm they trust. This firm serves as an administrator for the funds, much in the way the plan administrator did with the employer-sponsored plan.

While some investors take advantage of traditional investment advice options (including financial advisor services) to maximize their 401(k) returns, in today's market many savvy investors leverage Self-Directed IRAs to reach their retirement goals. A Self-Directed IRA can be a great option for the investor who knows their retirement goals and how they want to invest their money.

HOW DO I ROLL MY 401(K) OVER TO ANOTHER ACCOUNT?

1. Contact your current administrator or former employer's Human Resources department
2. Get familiar with the rollover process and expectations, including roles and responsibilities for the plan administrator and yourself
3. Complete and submit the proper forms and documentation
4. Ensure your indirect rollover is deposited to your new qualified account within 60 days (direct rollovers will automatically be sent to your new account)
5. Select your investments

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Will I be penalized if I withdraw money from my 401(k)?

When it comes to withdrawing money from a 401(k), there are two scenarios.

The first is withdrawing the money at the age of retirement without a penalty. The IRS currently uses the age of 59 ½ years old as the benchmark for withdrawing money from a 401(k), but there are also provisions that allow for withdrawal at an earlier age and other exceptions due to emergencies (like those created by the COVID-19 health crisis). The IRS also wants to make sure you don't hold your money in the 401(k) account for too long, so you typically have to start taking distributions by age 72.

If an investor wants (or needs) to take money out of a 401(k) prior to retirement age—and they don't fall into one of the exceptions—they can do so, but they could pay a significant penalty. This penalty is currently set at 10%, which means early withdrawal can be costly. Because of the high cost of early withdrawal, many investors look for alternative routes, such as 401(k)-backed loans. But each financial situation is unique, and early withdrawal is always an option.

How do taxes work?

Withholding does not apply if you roll over the amount directly to another retirement plan or to an IRA. A distribution sent in the form of a check payable to the receiving plan or IRA is not subject to withholding.

Here we have to talk about the two main types of accounts: Traditional and Roth IRAs.

- A Traditional IRA account handles personal income taxes by deferring them until withdrawal. This means the full amount of the investment is going into the qualified account without those pesky income taxes being taken out. With the traditional IRA account, the personal income taxes are paid at the point of withdrawal.

- A Roth IRA account—named after the Delaware Senator who sponsored the legislation creating this investment type—takes a different approach to income taxes. Instead of waiting to pay them later down the road, a qualified Roth IRA account pays those personal income taxes upfront. This allows the investor to withdraw the full amount at the time of retirement.

Pay taxes now or later? This is a decision each investor needs to make based on their personal financial situation and what they anticipate happening in the marketplace.

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How do I access my 401(k) funds?

The most direct way to access your 401(k) is to contact your former employer's plan administrator (also known as a plan sponsor or benefits department). The "plan administrator," simply defined, is the company who provides the investment service for your 401(k). They are often a financial services company that provides 401(k) plan administration as a service to employers. The administrator will guide you through the steps you need to take to distribute, or move, your 401(k) funds from your former employer.

Be sure to get clear on who will receive the funds when requesting the distribution. If your 401(k) funds are sent from your former employers account to your new qualified account, that would be considered a direct rollover. This transaction would not be deemed a taxable event.

However, if you choose to have your 401(k) distributed to you personally, you have only 60 days from the date of the distribution to deposit 100% of those funds into an IRA or other qualified plan. Otherwise, you will incur tax penalties for early withdrawal. The IRS may waive the 60-day rollover requirement in certain situations if you missed the deadline because of circumstances beyond your control.

What should I do with my 401(k)?

In the mind of many investors, a 401(k) is synonymous with stock market investing. This is, in large part, because the vast majority of employers offer 401(k) accounts that are invested in products such as mutual funds. If you currently have a 401(k) with your employer, odds are your investment is with one of a handful of major servicers (with names like Fidelity, Schwab, and Vanguard), and your investment is in a diversified stock market based investment.

However, the rules of 401(k) investment are far broader than many investors know. At Vantage, we're evangelists for alternative investments of 401(k) funds. The stock market is great, but also can be highly volatile. If the 2008 Financial Crisis and the currently challenges with COVID-19 have taught us anything, it's that the market can take a major dip at any moment. Even a highly diversified portfolio can see major drops if exclusively held in the stock market. So, while you can roll your existing 401(k) to another 401(k) account, the IRA route might suite you better.

Additionally, stock market investments limit your investment options. By rolling your existing 401(k) to a Self-Directed IRA, you are opening the door to more opportunities for allowing your money to work for you.

That's why at Vantage, our expert team will educate you about all your options when investing outside the stock market. By taking advantage of the amazing benefits afforded by the 401(k) format, and pairing that with true diversification in alternative investments, you can plan better for your retirement and protect your money against market swings.

We hope this resource has been helpful. Our knowledgeable team would love to talk with you more about your investment options and how best to position your money. Visit us at VantageIRAs.com and give us a call at 866-459-4580 for more information.

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Key Terms & Resources

Direct rollover versus indirect rollover
If the rollover is direct, your funds are moved directly between qualified retirement accounts without you, the owner, every touching it.
For an indirect rollover, your funds are distributed to you personally and the onus is on you to deposit 100% of those funds into another qualified account within 60 days. Contact your plan administrator for instructions.

IRA one-rollover-per-year rule
You generally cannot make more than one rollover from the same IRA within a 1-year period. You also cannot make a rollover during this 1-year period from the IRA to which the distribution was rolled over. Beginning after January 1, 2015, you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own. The one-per year limit does not apply to:

- Rollovers from traditional IRAs to Roth IRAs (conversions)
- Trustee-to-trustee transfers to another IRA
- IRA-to-plan rollovers
- Plan-to-IRA rollovers
- Plan-to-plan rollovers

Once this rule takes effect, the tax consequences are:

- You must include in gross income any previously untaxed amounts distributed from an IRA if you made an IRA-to-IRA rollover (other than a rollover from a traditional IRA to a Roth IRA) in the preceding 12 months, and
- You may be subject to the 10% early withdrawal tax on the amount you include in gross income.

See IRA One-Rollover-Per-Year Rule for more on this limit.

****Contact your former employer's plan administrator, plan sponsor or benefits department to determine what, if any, special procedures may be required and how long they will take to process your rollover request.**

Employer-Sponsored Plans that can be rolled over into a Self-Directed IRA
We have highlighted some of the most popular plan types below, but this Rollover Chart from the IRS details all the allowable rollover transactions.

Employer-Sponsored Plans Eligible for Rollovers

Defined Benefit Plan	A defined-benefit plan is an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.
Pension Plan	A pension plan is a retirement plan that requires an employer to make contributions to a pool of funds set aside for a worker's future benefit. The pool of funds is invested on the employee's behalf, and the earnings on the investments generate income to the worker upon retirement.
Profit Sharing Plan	A profit-sharing plan is a retirement plan that gives employees a share in the profits of a company. Under this type of plan, also known as a deferred profit-sharing plan (DPSP), an employee receives a percentage of a company's profits based on its quarterly or annual earnings.
457 Plan	Generally speaking, 457 plans are non-qualified, tax-advantaged, deferred compensation retirement plans offered by state governments, local governments, and some nonprofit employers. Eligible participants are able to make salary deferral contributions, depositing pre-tax money that is allowed to compound without being taxed until it is withdrawn.
403(b) Plan	A 403(b) plan (also called a tax-sheltered annuity or TSA plan) is a retirement plan offered by public schools and certain 501(c)(3) tax-exempt organizations.
401(k) Plan	A 401(k) plan is a tax-advantaged, defined-contribution retirement account offered by many employers to their employees. Workers can make contributions to their 401(k) accounts through automatic payroll withholding, and their employers can match some or all of those contributions.
Simplified Employee Pension (SEP)	A simplified employee pension (SEP) is an individual retirement account (IRA) that an employer or a self-employed person can establish for employees. The employer is allowed a tax deduction for contributions made to a SEP IRA and makes contributions to each eligible employee's plan on a discretionary basis.