Managing Your Money

A Brief Guide To IRAs: Rollovers And Transfers

(NAPSA)—An added benefit to finding a new job is that it can present an opportunity to rethink your retirement strategy and review the performance of your existing retirement funds.

It turns out that finding a new job is something one in every five U.S. workers does every year, according to the U.S. Bureau of Labor Statistics. Many use that event as a chance to consolidate their retirement assets and move them to a new IRA.

Rollover IRAs and Transfers

A rollover IRA is designed to preserve the tax-deferred status of funds already held in a retirement account, such as a 401(k).

With a direct rollover, funds from your previous 401(k) are rolled directly into a traditional IRA plan. With an IRA transfer, the money is moved directly from one IRA account to the other by your financial institution. You never touch the money.

Currently, there are no IRS restrictions on the number of times you can transfer money from one qualified retirement account to another. However, the IRS does limit rollovers to one per account per 12-month period.

Tax Withholding

When there is a direct transfer of funds from one IRA to another, the total amount of the transfer is deposited in the new account without any tax withholding.

Should You Cash Out?

By taking all your assets in cash, you will have a ready supply of money to spend or invest as you see fit. But be aware that your former employer may be required to withhold 20 percent of the balance for federal income tax. You may also be subject to state income taxes and, if under age 59½, the 10 percent penalty tax may apply. However, withdrawals made after you leave your employer at age 55 or older are generally not subjected to the 10 percent penalty.

Convenience and Control

According to LIMRA—Life Insurance and Market Research Association—control over investments is a major reason for rolling over assets to an IRA—particularly with retirees. It's often the case that they see a rollover as a chance to consolidate a number of assets into a single account.

Also, investors sometimes see a move to a single account as a chance to have more control over their assets and to do business with a company that they perceive as convenient or an agent they think is trustworthy.

For some, that means moving assets to an IRA offered by a company, such as State Farm, where they may have other financial products or insurance policies, such as home or car insurance.

To learn more, visit the website at www.statefarm.com.