

Investment Insight: IRA Rollovers: What You Need to Know



Rollovers are not as simple as they seem on the surface, and what you don't know can cost you dearly.

Planning to change jobs or retire soon? If so, you may be due to receive a lump sum distribution from your retirement plan at work, such as a 401(k). Depending on how long you have been building assets, this payout may well be the largest sum of money that you will ever receive at one time.

Therefore, it's important to handle it properly. Mishandling it could cost you thousands in taxes, penalties and lost income. At Hilliard Lyons, we can help you take your lumps. There is no reason to pay a penalty on the transaction for example. Due to our firm's broad experience with tax-qualified plans, we are familiar with their prickly details.

To prevent triggering the 10 percent early withdrawal penalty, for example, we recommend setting up an Individual Retirement Account and "rolling over" the money into it. In the securities business, it is called a direct rollover and many recipients of a lump sum choose to handle it this way.

In addition to the penalty matter, the bigger advantage of rolling the assets into an IRA is that the money will continue to grow in a tax-deferred manner. The longer earnings grow tax deferred, the faster they can compound (accrue interest earned on interest).

A Wide Range of Investments

When you rollover your lump sum distribution to Hilliard Lyons and set up an IRA with us, what value do we add? We bring to the table an elaborate smorgasbord of investment choices for one thing. Hilliard Lyons offers a wide spectrum of IRAs. This is our business and it has been since 1854. Our firm is older than the telephone, older than the automobile, older than the federal income tax. Along the way, we have cultivated a broad network of vendors and partners.

Not all parties are capable of offering you a full range of choices. The typical employer, for example, offers a limited number of retirement investment options. Why? It's not what they do. It's not their primary line of business and there is no point in expecting them to offer a service that they aren't chartered to properly offer. Look elsewhere.

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The complexities of building, preserving and passing along wealth have never been greater. Affluent investors are increasingly seeking guidance and comprehensive solutions that consider their unique circumstances and long-term goals. It's my pleasure to work with such individuals to offer insight, advice and solutions in helping them reach their goals.

Questions to Consider

When selecting investments for rollover funds, you climb the same decision tree as with any other investment consideration. Therefore, you can expect your Hilliard Lyons Financial Consultant to ask you questions such as:

- How much time do you have before you need the money?
- What is your tolerance for risk?

As you likely know, stocks hold the most potential for capital appreciation. The downside is that they are riskier than bonds, so you need time on your side to ride out the market's ups and downs. We will steer you to an appropriate mix.

A Final Word

Additional rollover facts to keep in mind:

- Receivers of a lump sum distribution have the option of rolling part of it over and taking a portion in cash. Keep in mind, however, that any portion not rolled over is subject to income tax, and if you are under age 59½, you may also be subject to a 10 percent early withdrawal penalty.
- When you decide to take a lump sum distribution, instruct your employer to make the check payable to the financial institution (e.g. Hilliard Lyons) for the benefit of your IRA. If you fail to do this and receive a lump sum personally, your employer must withhold 20 percent for federal income tax.

The long and short of the matter is that rollovers are not as simple as they seem on the surface, and what you don't know can cost you dearly. Ask for help and I'll gladly provide it or answer any questions you may have.

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