Rolling Over an IRA or 401(k)

Rolling over a 401(k) (IRA) is a common strategy for retirees.

Rolling an individual retirement account (IRA) or a 401(k) plan into an annuity is a simple process, and it can be done without incurring any taxes or penalties, as long as it's handled in an IRS compliant way. Essentially, there are two ways to execute a rollover — directly through a transfer or indirectly through a qualifying withdrawal.

1. A Direct Transfer - is a straightforward transaction that's handled almost completely by the financial institutions. The transfer is from one account to another, as its name implies, and you only need to complete some forms and provide your authorization to execute the transaction, and that's the extent of it.

2. A Qualifying Withdrawal - you actually take possession of the liquidated funds, (in some cases net of an automatic 20% IRS withholding). Then, to avoid tax complications, you must put the gross amount of the withdrawal into the annuity of choice within 60 days of receipt. Finally, you can recover any funds withheld by the IRS when you file your taxes.

Why Rollover an IRA or 401k into an Annuity

There are a variety of reasons you may look to roll an IRA or 401(k) into an annuity, all of which relate to enhancing your retirement plan. Pension Plans have disappeared for most workers and Social Security provides limited income benefits, so annuities have become increasingly important to many Americans in relation to retirement planning.

The Benefits of a Rollover

Guaranteed Stream of Income

The primary reason you may want to execute a rollover is to achieve a guaranteed stream of income. Your retirement account generates income but oftentimes, its linked to an index that can exhibit significant volatility —but with a fixed annuity, you eliminate market risk, and you earn a predictable return on investment with downside protection.

Mitigate Longevity Risk

The possibility of outliving your savings is another key motivation for rolling money into an annuity. Annuity payments can be structured to last your entire life or, if you are married, for two lifetimes. You cannot do this with stocks and bonds.

Extend Your Tax Deferral Benefit

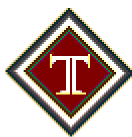
This is another benefit of some annuity rollovers. If you keep your money in a traditional retirement account, you must take a taxable required minimum distribution (RMD) each year, beginning at the age 72 — or 70 1/2 if you reach 70 1/2 before January 1, 2020. Failure to do so will result in a penalty of **50%** of the required RMD.

Qualified Annuities - are *exempt* from the RMD rules. With a qualified annuity, you can defer receiving income payments until **age 85**. This may enable you to avoid getting bumped into a higher tax bracket, and it could lower your Medicare premiums.

The extended deferral can be especially effective if you end up working beyond age 72.

Customize the Structure of Your Annuity Investment

Oftentimes, this entails establishing a joint life structure that provides a payment throughout the lives of you **and** your spouse. In some cases, it entails adding a death benefit rider to your policy and/or a cost-of-living adjustment rider to your policy.



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