MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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July's newsletter discussed the tax implications of leaving qualified accounts to spouses and to others, such as children. Secure Act 1.0 changed the rules so that beneficiaries, other than spouses, must empty the accounts sooner. The newsletter is on our website.

In this newsletter we want to explore an article in the Wall Street Journal (***https://www.wsj.com/personal-finance/retirement/what-to-do-with-401k-after-retirement-22b9b787)*** covering the "pros" and "cons" of leaving your 401k at your employer once you retire, vs rolling it to an IRA.

ROLLING TO AN IRA

First, they make the argument that rolling a 401k to an IRA provides more investment options. If you've picked investments in your 401k, you know they provide only a limited menu of investment options. The article points out that few 401ks offer index ETFs, usually the lowest cost option of indexing. They also don't allow individual stocks. Finally, they don't allow unconventional assets such as precious metals.

Next, they argue rolling to an IRA can provide an avenue to streamline accounts. In today's world it's not uncommon to meet folks with multiple 401ks from different, past employers. It may be easier to manage these by combining them all into a single IRA. This can just as easily apply to IRAs. We meet people who have opened several IRAs through the years. Simplifying investing, as well as taxes and general paperwork, is a reason to consider combining them into a single IRA. If done properly, there is no tax impact.

One of the better points the article makes is in regards to payout options. Many 401ks limit how much, and how often, you can withdraw money. IRAs are much more flexible.

Finally, 401ks sometime limit the frequency of transactions. This might be fine generally speaking, but could limit your ability to adapt to changing market conditions. IRAs have no such limitations.

LEAVING IT IN THE 401K

You may pay less in fees by leaving your money in a 401k, of course part of the reason is you generally aren't working with an advisor.

You may have greater fiduciary protections. Companies offering 401ks must legally act in the best interest of plan participants, including overseeing investment choices and costs. Your investment advisor may, or may not, have the same legal responsibilities *(we do as we are fiduciaries)*. If you're uncertain, ask your advisor, and get it in writing.

Your 401k is protected from bankruptcy while your IRA is generally not.

If you separate from service and you are 55 years old or older, you can take withdrawals from your 401k without an early withdrawal penalty. For an IRA, you must be 59-1/2. Also, you can delay taking mandatory withdrawals (RMDs) from your 401k if you are still working past the age of 73, and you're not an owner of 5% or more of the company.

Working or not, you must begin taking RMDs from your IRA at age 73.

Some 401ks automatically invest the money so you don't have to make investment decisions. Whether that's good or bad depends on how comfortable you are with such decisions.

OTHER IMPORTANT CONSIDERATIONS NOT COVERED

Unfortunately, the article missed some other considerations we think are important.

The first is income tax withholding. Withdrawals from a 401k require an automatic 20% withholding for taxes. That means a $10,000 withdrawal nets the owner $8,000 with $2,000 going to the IRS. If you are in a lower tax bracket, the IRS gets to keep the money for free until you file your taxes, and get a refund. If you're in a higher bracket, you have to make up the difference from other sources. IRAs allow you to customize your tax withholding for your situation.

If you are charitably inclined, you can have your IRA custodian send donations directly from your IRA to charities of your choice. You don't have to pay income tax on those distributions (nor does the charity), but they do count as part of your RMD, if you are required to take one. This is called a Qualified Charitable Distribution or QCD. QCDs are not allowed from a 401k.

If you pass away while still holding your 401k, it may be more difficult for your beneficiary to minimize taxes. 401ks are employee benefit plans. As such, they often don't want to hold the account when that employee (or ex-employee) passes away.

If the spouse is the primary beneficiary, he or she must set up an IRA somewhere else and instruct the 401k to be "rolled over" into the IRA. If instead your spouse accepts a check from the 401k, they can deposit it into the IRA within 60 days, and still avoid taxation. However, that check will only be 80% of the 401k balance, with the other 20% sent to the IRS. If they don't have other funds to make up that 20%, they will be taxed on it.

It's even more difficult for non-spouse beneficiaries. They will have to set up inherited IRAs at a brokerage, and then instruct the 401k to send the funds to the inherited IRA or IRAs directly. If they accept a check, they will be taxed on 100% of the distribution, no matter what they do with the money.

With an IRA, the spouse can simply change the name to themselves. And the kids can set up inherited IRAs at the same brokerage and have the money moved over.

Tax planning for retirement accounts can be very complicated. Come to a seminar to find out more.

What is your tax plan? Attend a free seminar or call the office to hear about ours.

Yours truly,

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please ask them to send an email with their information and permission to be added.

Do you still have money in a 401k after you've left the company?

Weekly Radio Show Saturday Morning:

8:00 AM KXLY 920 AM
Spokane and Area

9:30 AM KFLD 870 AM
Tri-Cities and Area

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SPOKANE

Quality Inn—North
Breakfast
7919 N. Division —Spokane
Sept. 18th @ 9:30 AM

TRI-CITIES

Hampton Inn
Breakfast
486 Bradley Blvd—Richland
Sept. 25th @ 11:00 AM

- **How employing and consistently following a defensive system could help you to a better retirement.**
- The "Widow's Tax" could be a major drain on the survivor's spendable income!
- What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- Why Buy and Hold Investing was right for the 80's and 90's yet very wrong for today.
- Will inflation eat up your assets?
- How to potentially decrease taxes on your hard earned Social Security Income
- To Roth or not to Roth?

And so much more!

COMPLIMENTARY SEMINAR

For those 50 years old and older

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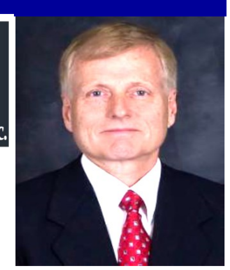

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Call to reserve a spot: 509-922-3110

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Leaving money in a 401k

Should you leave money in a 401k after you separate from the company?

Spokane	*No Cost Seminars for Retirees and those close to Retirement*	**Richland**
Sept 18th @ 9:30 AM		**Sept 25th @ 11:00 AM**
Details Inside		***Details Inside***