



Using Age Milestones to Identify IRA Rollover Opportunities for Clients

Do you have clients who ask what they should do with their employer-sponsored qualified-plan assets when they leave their employers?

For many clients, qualified-plan assets, such as those in a 401(k) or similar plan, are an important part of their plans for retirement. One decision clients often face is what to do with their qualified-plan assets when they leave their employers.

Eventually, most qualified-plan assets will be used as a resource to produce income in retirement.

As a financial professional, you can help clients identify IRA rollover opportunities based on their age milestones and retirement-planning circumstances. When evaluating whether or not an IRA rollover may be in the client's best interest, start by considering these two questions:

1. What is your client's age?
2. What are your client's circumstances?

The following three age milestones will help you identify a client's circumstances and evaluate whether an IRA rollover may be an appropriate option to consider.

Younger than Age 59½

Before a client reaches age 59½, he/she may not have thought about his/her IRA and employer-sponsored plan and might be cautious about the possible additional 10% federal tax for distributions during this time of life. It's also important to consider that some employer-sponsored qualified plans (such as 401(k) accounts) plans may allow penalty-free withdrawals starting at age 55 as well as unlimited protection from creditors under federal law. These benefits would no longer apply under an IRA, and fees, expenses, and services may differ between employer-sponsored qualified plans and IRAs. However, depending on your client's situation and age, it may be worth discussing potential opportunities offered by IRA rollover strategies.

Circumstances	Opportunities
Still employed and looking for income later	<p>In-Service Rollovers</p> <p>If still employed, a client's current employer-sponsored plan may allow for non-hardship in-service rollovers, enabling the client to further diversify his or her overall portfolio and consider other options not offered through the current plan.</p>

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Circumstances	Opportunities
Still employed and looking for income later	<p>Roth Conversions</p> <p>When a client is not looking to take distributions immediately, he or she may want to consider the potential benefits of converting to a Roth IRA. Taxes are due on the fair market value of the amount converted to a Roth IRA. However, a Roth IRA offers two advantages not found in a traditional IRA:</p> <ol style="list-style-type: none"> 1. Tax-free earnings (if certain conditions are met) 2. No required minimum distributions (RMDs)
Planning to retire early and looking for income now	<p>Three of the most common scenarios that are exempt from the additional 10% federal tax on early distributions are:</p> <ol style="list-style-type: none"> 1. Substantially equal periodic payments (SEPP)/72(t) program 2. Inherited IRAs established by beneficiaries 3. Single-premium immediate annuities (SPIAs) with a lifetime payout option
Have other retirement assets tied to former employer plans and looking to plan for retirement income	<p>Consolidate Retirement Accounts</p> <p>Most pretax retirement accounts accumulated from prior employers' retirement plans (i.e., 401(k), SEP-IRA, SIMPLE IRA¹) can be rolled over and combined into a single IRA for easier management of assets.</p>

Ages 60 to 70

In this age range, a client may be thinking about when to start retirement and how to make managing his/her sources of retirement income as simple and substantial as possible. The following strategies may help.

Circumstances	Opportunities
Planning to retire and looking for income now	<p>A client can receive increased Social Security benefits by waiting until full retirement age or delaying until age 70 to claim those benefits. During this waiting period, a client may consider accessing other retirement assets to meet income needs and look to different rollover options to accomplish this.</p> <p>Be cautious in advising a client to take unnecessary taxable income while receiving Social Security benefits. Doing so may increase the percentage of those benefits that are taxable (up to 85% of benefits may be included as income).</p> <p>One possible option to help manage the taxes due on Social Security benefits: Consider a Roth IRA conversion before the client claims Social Security benefits. Although the conversion is taxable, this may provide a tax-free source of income in the future, because qualified distributions are not taken into account when determining taxability of Social Security benefits.</p>
Planning to retire and looking for income later	<p>A client could consider using a portion of his/her retirement assets to purchase a deferred income annuity (DIA), specifically as a qualified longevity annuity contract (QLAC), which may help reduce future RMDs and create pension-like income to hedge longevity risk</p>

¹During the first two years after an employee's SIMPLE IRA is established, assets should not be rolled over or converted to any type of retirement account except another SIMPLE IRA. If distributions do not meet this two-year rule, they will be subject to an additional 25% federal tax.

Older than Age 70

If the circumstances are right, even a client older than age 70 may benefit from a rollover. The strategies involved depend on whether the client is more concerned about his/her own income needs versus leaving a legacy for beneficiaries.

Circumstances	Opportunities
<p>More concerned with managing income needs</p>	<p>Converting to Roth IRA</p> <p>With no RMD requirements, Roth IRAs provide more flexibility regarding how much income your client chooses to take at any one time. They also provide a possible source of income that may be income-tax free. Taxes are due on the fair market value of the amount converted.</p> <p>Important Reminders</p> <p>IRA: IRA owners (traditional, SEP, and SIMPLE) who reached age 73 on 1/1/23 or later must begin taking RMDs no later than April 1 of the year following the year he/she turns age 73.</p> <p>Employer-sponsored plans: If a client is not an owner of a business (5% or more ownership) and still employed by an employer that offers a qualified plan [i.e., 401(k) and 403(b)], he/she may be able to delay RMDs until April 1 of the year following the year of retirement.</p> <p>Guaranteed Income for Life</p> <p>A single-premium immediate annuity (SPIA) can guarantee steady lifetime income. Many payout options are available to help meet a client’s specific income needs, and the annuitized portion also may help the client meet RMD requirements.</p> <p>A deferred income annuity (DIA) purchased with a portion of retirement assets specifically as a qualified longevity annuity contract (QLAC) could help reduce future RMDs and create pension-like income to hedge longevity risk.</p>
<p>More concerned with providing a legacy to beneficiaries</p>	<p>Legacy Planning with a Roth IRA</p> <p>Tax advantages for beneficiaries: If a client wants to help minimize taxes for beneficiaries, he/she can convert a qualified plan or traditional IRA to a Roth IRA. This may allow beneficiaries to access the Roth IRA portion of their inheritances without tax ramifications.</p> <p>Deferral advantages for Roth IRA owners: While traditional IRAs and inherited Roth IRAs have RMD requirements, Roth IRAs do not. Therefore, Roth IRAs (if they are not inherited) provide more latitude than a traditional IRA when it comes to deferring distributions. A client can accumulate assets in the Roth IRA for as long as he/she wishes and then pass them along to beneficiaries upon death.</p> <p>Beneficiary Considerations</p> <p>Updating beneficiary designations: Talk to your client to ensure he/she has named the appropriate beneficiaries. This will help avoid unintended consequences when transitioning assets.</p>

Please be sure to follow your broker/dealer’s procedures and guidelines with regard to IRA rollovers.

Additional Resources and Links

[Employer-Sponsored Plans](#)

[Roth Is Now the Only 401\(k\) Catch-Up Option for High-Income Employees](#)

[SIMPLE IRA Employee Guide](#)

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