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Tax Guidelines for Consolidating Retirement Assets

Whether it's a 403(b), 401(k), or 457(b) supplemental retirement plan, or your own IRA, you may be able to consolidate these funds, including accounts in your spouse's name. But to avoid costly mistakes, make sure you fully understand each plan or product's tax rules before doing anything.

Benefit from Income Tax Reduction for Roth IRA Conversion. If you're eligible to convert some or all of your IRA assets to a Roth IRA, you'll pay less income taxes on the earnings that you convert this year, since income taxes have been reduced.[1] Make sure, however, that you have enough money outside of your IRA to pay the income taxes. With a Roth IRA, your contributions grow on a tax-deferred basis and you can withdraw your earnings tax free, if you meet the withdrawal requirements.[2]

Don't Mix Pretax and After-Tax Assets. After-tax contributions to retirement plans can now be rolled over to another retirement plan or a Traditional IRA, but you may want to avoid mixing these funds in the same IRA with pretax contributions. Only pretax amounts in IRAs can be rolled over to an employer plan. Be careful, since you may be prevented from making future rollovers if you combine pretax and after-tax amounts in the same account.

Don't Lose Out on Certain Pretax Benefits. There are times when you may want to avoid consolidating certain pretax accounts into an IRA so you won't lose special benefits. For instance, federal minimum distribution rules generally require you to start receiving distributions from your retirement plan at age 70½, if you are no longer working. But, with pre-1987 accumulations in a 403(b), the mandatory age to withdraw doesn't start until 75. Once you've consolidated your assets into an IRA, you cannot reinstate the grandfathering rules if you move the funds back to any employer plan. So before doing anything, be sure to fully explore the consequences of a rollover.

IRA Consolidation Checklist

Avoid Hidden Charges, Fees. Some financial services firms may assess charges, such as service and transaction fees, on some or all of your assets when you roll them over. Before rolling assets over to a new IRA, become fully informed of any charges that the firm may impose.

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[1] To be eligible to convert to a Roth IRA, your modified adjusted gross income must be $100,000 or less for the year in which the conversion takes place. (Married couples filing separately are not eligible to convert.)

[2] To withdraw earnings tax free from a Roth IRA, you must wait until five years after the first taxable year for which a contribution was made. Typically, the withdrawals must be made at or after age 59½; if not, the earnings will generally be subject to ordinary income tax and a 10% penalty tax.

Avoid Directly Receiving a Check. Have all your retirement assets at another firm sent directly to the new IRA, for a direct rollover. A direct rollover allows you to preserve your entire accumulation: No taxes need to be withheld from the funds you are moving.

To learn more about retirement planning and other TIAA-CREF financial services, visit us at **www.tiaa-cref.org**, **schedule an appointment online**, or call a consultant at **800 842-2776.**

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