

Rolling Over Instead of Cashing Out

By the time you retire, you've probably been contributing to your retirement savings plan for years—and you'd love to put some of that hard-earned money to immediate use, maybe for a down payment on a retirement home in the sun.

Don't Short-Change Your Future

But cashing out your retirement funds means you'll be using money you'll probably want in the future. You have no idea how much money you'll really need in retirement—because you don't know how long you'll live. The best strategy may be to keep the assets in your retirement account compounding, tax-deferred, for as long as possible. To do this, consider rolling those assets into an Individual Retirement Account (IRA).

Also bear in mind that every penny you withdraw from a qualified retirement plan is taxable—and at your ordinary income tax rate, not the lower capital gains tax rate. The rate on ordinary income can be up to 35%. Plus, if you're under age 59 ½ when you make the withdrawal, there is an additional 10% federal tax penalty.

Rolling Over Is a Breeze

You can initiate a direct rollover from your retirement savings plan to an IRA. With a direct rollover, your retirement assets stay free from current taxation by going directly from the retirement plan to an IRA without ever coming into your hands.

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