Mayflower Capital
Independent Financial Advice

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Avoid These Seven 401k Mistakes

Key Topics:

Avoid Damaging Your Nest Egg

Tax Penalties

Early Withdrawal Exceptions

Rollovers to Other Retirement Accounts

Acceptable Investments

Loan Provisions

1. Withdrawing the funds directly with a check payable to one's self instead of doing a Custodian to Custodian transfer. If you have the funds paid directly to you then it is a taxable withdrawal and probably it can't be undone and thus you can't roll it to an IRA or put it back into a 401K. The solution is to ask the new Custodian to pull the funds from the old one without out you ever touching the funds.

2. Transferring funds into a new IRA or 401k where you forgot to name beneficiaries when opening a new IRA or 401k.

3. Not verifying if the old 401K has some good investments not available elsewhere. The old 401K may have access to mutual funds that are closed to new investors or they may have access to low cost "Institutional" class mutual funds that are not available elsewhere.

4. Forgetting that a 401K loan must be repaid before closing out and rolling over the 401K to an IRA or possibly to a new employer's 401K.

5. Forgetting that a 401K allows withdrawals penalty free at the year you turn age 55 if unemployed, but an IRA requires waiting until age 59½.

6. A 401K allows loans but an IRA does not. So if you rollover a 401K to an IRA then you can't borrow from the IRA (except for a brief 60 day window which has a lot of tricky rules).

7. A 401K may have company stock subject to the "Net Unrealized Appreciation" (NUA) tax rule. This stock should be withdrawn as a taxable withdrawal instead of a rollover to an IRA so as use the long term capital gains tax treatment. If rolled into an IRA then the long term capital gains tax treatment is lost. Before transferring NUA company stock out of a 401K consult with a CPA.

8. Urgent to have proper beneficiary designation on both 401K and IRA. Also get an estate planning attorney to review how your estate plan integrates with the beneficiary designations.

9. If roll a Traditional non-deductible IRA into a Roth IRA it creates tax problem which some people may try to prevent by first rolling their traditional deductible IRA back into a 401K and then roll the non-deductible Traditional IRA into a Roth IRA. Thus don't close out your 401K in that situation. Consult your with CPA or CFP before doing this. Later you may

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