

How to Create an IRA Rollover

An [IRA](#), whether [a Roth or a traditional one](#), can be a great asset to an investor. However, if you change jobs, you may need to move that IRA to another account. If a person has a rollover IRA, they can move their older IRA to the new IRA. This TradingSim article will help readers learn how to roll over an IRA. This article will also help find the best stocks in an IRA.

What is a rollover IRA?

A rollover IRA is an IRA that can accept funds from an older IRA. Most rollovers happen when a person changes jobs, [especially a self-employed person with a SEP](#). If they want to transfer their IRA, they can roll over their funds to another account.

How can you rollover an IRA?

There are many ways to rollover an IRA. Certified financial planner Marguerita Cheng from Blue Ocean Global Wealth says that while an IRA rollover seems easy, [it involves more details](#).

“People think it’s straightforward. They retired, or they left their job, so they think they should do a rollover,” said certified financial planner Cheng.

However, Cheng warns that IRA holders can make mistakes [with the rollovers](#).

“But there are mistakes that can happen,” said Cheng.

Cheng says account holders shouldn’t ask for a direct check payout from their previous IRA accounts. If an account holder receives a direct payout, the IRS taxes the funds at 20%.

Cheng advocates that an account holder should specify that an old IRA should go to a new one.

“Make sure you’re specifying that you want to do a direct rollover,” said Cheng.

IRA to HSA rollovers are possible

A possible way to rollover IRA’s is to convert them to an HSA (health savings account). An HSA is a type of savings account that lets a person set aside money for health expenses.

Roy Ramthun is president of HSA Consulting Services. He says it’s important to [make arrangements to rollover an IRA account to a HSA \(health savings account\)](#).

“I think it is better to make new contributions so you can take the tax deduction rather than using the IRA to HSA rollover, but if money is tight or you have large expenses, the rollover is a good way to take care of that situation,” said Ramthun.

Rita Assaf is a vice president of retail health savings accounts for Fidelity Investments. She said that [HSA contributions can help people who want to convert their IRA’s.](#)

“If you cannot afford to make new HSA contributions and need money for qualified expenses right away, then this funding method could help. This is especially helpful in the first year of owning an HSA and you need to access funds for a qualified medical expense early in the year before you’ve accumulated much in your HSA,” said Assaf.

Young people are at an advantage with IRA rollovers

Steven Hamilton is an enrolled agent who owns Hamilton Tax and Accounting in Grayslake, Illinois. He said that [young people](#)

[have an advantage in rolling over their IRA's.](#)

“Personally my favorite is to do the rollover at a very young age when they may not be able to make the contribution otherwise,” says Steven Hamilton, “This allows the funds to grow in the most advantaged way possible.”

In this [COVID-19 economy](#) with great uncertainty [despite the stock market performing well](#), Raythun made an observation. He noted that a rollover from an IRA to an HSA [could be helpful for unemployed account holders](#).

“This might be most helpful for someone who recently lost their job and is now on unemployment or facing COBRA premiums or large out-of-pocket expenses,” says Ramthun. “If cash is hard to come by, transferring money from an IRA to an HSA might be just the ticket.”

How to Roll Over a 401k to an IRA

Dominique Henderson, certified financial planner (CFP) and founder of DJH Capital Management said that [401k holders have options](#) when they convert a 401k to an IRA. In the 401k plans, they are employer-provided plans. In contrast, IRA's are individual retirement accounts.

“Often you have between six and 24 fund choices in a 401(k),” said Henderson. “With an IRA, you can choose individual stocks as well as funds—and even use alternative investments.”

Henderson advises IRA account holders to be aware of the [tax consequences of a rollover](#).

“If you've received a tax benefit for your 401(k) contributions, you need to make up for that when you roll into a Roth, which is funded with after-tax money. You might owe a hefty tax bill today, so make sure you're prepared,” said Henderson.

In addition to other financial advisors, Henderson also advises account holders to talk to tax professionals [if they're unsure of what action to take with a rollover.](#)

“Talk to a tax professional if you're rolling into an account with different treatment,” said Henderson.



Saving money with IRA rollovers is crucial Henderson said that if an account holder doesn't have a professional money advisor, they can put the IRA funds in [low-cost index funds.](#)

“If an investor doesn't want to have those funds professionally managed, I would encourage [them] to use low-cost index funds, or maybe even a target-date fund. It's going to reduce the probability of a negative outcome.”

“By law, you must have at least 30 days to decide what to do with your 401(k) when you switch jobs.”

More advice about 401k to Roth IRA conversion

Michael Cohen is a retirement specialist with Certainty Retirement Advisors in Belvidere. He noted that no taxes will be owed on a conversion [if the amount withdrawn from one account is identical to the](#) funds in the new account.

“A person does not begin to pay tax on that withdrawal until they actually take constructive receipt of the money, meaning that they keep the funds in their bank account for 60 days or more, or that they spend the money,” he said.



401k rollovers can be different from IRA rollovers
He added that an account holder must choose their own retirement account.

“If you feel like you want to keep taking risk with that money at age 62, then you can roll that 401(k) into an IRA with any brokerage firm,” he said. “Keep in mind that there will be no

tax consequence to you for converting the 401(k) into an IRA, but that money will all be treated as ordinary income – 100% taxable – as you begin to spend that money in retirement.”

More advice on rolling over 401k to IRA

Mark Dunsmoor is the senior vice president of Regency Business Development. He has advice for clients who want to [rollover a 401k to an IRA](#).

“If you wish to open a rollover account, you must be certain to open the account and then arrange for 401 (k) funds to be transferred directly to it,” said Dunsmoor. “If you take possession of this money first, it will be considered income and you will be liable for paying income taxes on it.”

In addition, Dunsmoor wrote about the great affect IRA accounts have on retirement.

“IRA accounts have had a significant impact on retirement savings since its inception nearly 45 years ago,” said Dunsmoor. “An Investment Company Institute survey in 2015 revealed that Americans had 7.6 trillion dollars in IRA’s. You know that number has only grown since then.”

Timing is key for an IRA rollover

Henderson agrees with Cheng that IRA account holders [should avoid direct payouts from accounts](#).

“In many cases, you’ll end up with a check that you need to pass on to your new account provider,” said Henderson. “Open your new IRA before starting the rollover so you can tell the old provider how to make out the check.”



IRA rollovers can help account holders
The goal, Henderson says, is to [avoid keeping the money in your personal bank account](#). In addition, Henderson also tells IRA account holders that they should act quickly to avoid taxes on direct payouts.

“You only have 60 days to complete the transaction to avoid it being a taxable event. It’s best to have everything set up before getting that check,” said Henderson.

Account holders should exercise caution

Assaf said IRA account holders should make an IRA transfer with a [trustee-to-trustee transfer](#).

“The key is that the transfer should be made directly through a trustee-to-trustee transfer,” said Assaf. “You shouldn’t withdraw the money from your IRA first as that could lead to a taxable event and penalties.”

Assaf agrees with Ramthun that account holders [should meet with HSA specialists to handle IRA rollovers.](#)

“You should call our HSA specialists to handle the transaction to ensure the IRA withdrawal isn’t treated as a taxable event. He recommends that account holders “make sure that the money rolled over into the HSA is treated as an HSA contribution,” says Assaf.

Assaf also advises account holders to treat their IRA [like an HSA contribution.](#)

“The key is to ensure the money rolled from the IRA is treated as an HSA contribution,” she says. “Some HSA administrators may send the trustee-to-trustee check to you. And in this instance, you will want to make sure that when you send the check to your HSA administrator to include either a letter of instruction or deposit slip. She said it should be “indicating that the check should be treated as an HSA contribution.”

Should an account holder rollover an IRA in an economic downturn?

While an account holder wants to rollover an IRA, some financial advisers advise against a withdrawal in this economic downturn. Sophia Bera is a certified financial planner. She’s the founder and CEO of Austin, Texas-based Gen Y Planning. In this volatile economy, she said there [is a dilemma for account holders.](#)

“Sometimes there isn’t a really clear option,” said Berra.

“That’s why this is challenging,” added Berra.

In addition to that advice, Bera says that [account holders should focus on more immediate needs.](#)

“Focus on more immediate cash flow needs and let your 401(k) plan sit for now,” advises Berra. As a member of the CNBC Financial Advisor Council, she advises IRA account holders.

“You might have more options a few months from now,” said Berra.

Berra also agrees with Henderson that index funds [could be best for some account holders.](#)

“You can choose a bunch of index funds or lower-cost funds,” said Berra.

Ivory Johnson is a CFP and founder of Washington, D.C.-based Delancy Wealth Management. He advises account holders to [roll over their accounts to an IRA instead of a new employer’s 401k.](#)

“When you have economic growth declining and no inflation – or deflation – there are certain sectors, like consumer staples, utilities that usually do well,” said Johnson.

“You may not be able to pinpoint that inside a 401(k),” added Johnson.

Find a reputable IRA manager for rollovers

Johnson advocates that account holders should consult a tax professional before an IRA rollover.

“Interview several,” Johnson said. He also recommends that in addition to their credentials, [an account holder should trust their advisor.](#)

“You have to trust the person and you have to know that they are competent,” he said.

Financial advisor Sam Davis is a partner with TBH Global Asset

Management. He said that a rollover from a company's retirement plan to an IRA can be [beneficial to account holders](#).

"Rolling over one's funds from a company retirement plan to an IRA certainly opens up the world of investment options," said Davis.

"If one prefers an advisor to manage those funds, research their track record, compensation model, client references, and investment philosophy," Davis recommends. "If an investor doesn't want to have those funds professionally managed, I would encourage [them] to use low-cost index funds, or maybe even a target-date fund. It's going to reduce the probability of a negative outcome."



Financial Expert can help people decide how to make IRA rollover

With IRA rollovers, Davis agrees with Hamilton that young people have an advantage with IRA rollovers.

“If one is young and working with a small balance, rolling the old retirement funds into the new employer’s plan can make a lot of sense,” says Davis. “This often reduces fees, ensures the person is prudentially invested, and consolidates accounts versus having small accounts scattered at various firms.

Some advisors want 401k rollovers into IRA’s

Berra wants account holders to rollover [old 401k accounts into a new IRA](#).

“The market is down, so it might be a good time to put that money in now to have that growth on that money,” said Berra.

In addition, Berra said that the funds can be spread out.

“I’m a fan of having a little bit of money in different taxable buckets,” added Berra.

Melissa Brennan is a financial planner with ARS Private Wealth in Houston. In contrast to other financial advisors, she wants account holders to hold back on rollover their IRA’s.

“Someone might lose their job and want to roll over their 401(k) to an IRA. She said that “they underestimate how long they’re going to be unemployed” and may need those funds for emergencies.

What do financial advisors say about rollover IRA’s?

Dan Moisand is a financial advisor with Moisand Fitzgerald Tomayo. He gave detailed IRA rollover advice to a person [asking for IRA rollover advice](#).

First, he spoke about the details of a rollover.

“A “rollover” IRA attaches to a traditional IRA. Most people do not split the contribution because they prefer the tax treatment of one over the other. But you can split the \$7,000 between a traditional IRA and a Roth in any proportion you like as long as your income fits the eligibility criteria,” said Moisand.

Next, Moisand spoke about the tax implications of an IRA rollover.

“There is no tax deduction for a Roth contribution, but earnings can be tax free when distributed. If your Modified Adjusted Gross Income (MAGI) for 2019 is under \$122,000 (single filer) or \$193,000 (joint filers), you can choose to put all \$7,000 (\$6,000 regular contribution limit + \$1,000 catch-up contribution. That’s for being over age 50) into a Roth IRA. Above those income limits a partial contribution is permitted. If your MAGI is above \$137,000 as a single or \$203,000 as a couple, no Roth contribution is allowed,” said Moisand.

In addition to that information, he added more insight.

“There is no maximum MAGI limit for contributing to a traditional IRA. But earnings are taxed as ordinary income when distributed. However, there are income limits that affect whether you can deduct the contribution to the traditional IRA. That can change “if you or your spouse participate in a qualified plan like a 401(k)”. If neither of you are a participant, whatever you contribute to the IRA is fully deductible,” said Moisand.

“These days, for most taxpayers, the designation of an IRA as a rollover IRA is not important but here are two situations in which the designation matters.”

What are some IRA rollover rules?

In addition to that advice, the expert also made more comments.

“First, some employer-sponsored qualified plans like 401(k)s will only accept incoming rollovers of money that was in another qualified plan or a rollover IRA containing only money from a qualified plan. If a roll-in to a new qualified plan is not in your future, contributing to the rollover IRA should not be an issue but if you want to preserve the rollover status, just open a second IRA and contribute to that,” said Moisand.

In addition to that advice, Moisand offered more guidance.

“Second, in some states IRAs provide less creditor protection than applies to qualified retirement plans like 401(K)s. Keeping funds rolled out from a qualified plan in a rollover IRA segregated from other IRA assets can preserve the more extensive creditor protection of the qualified plan,” concluded Moisand.

What is the timeline for an IRA withdrawal?

While an account holder has some time, they have to [act quickly for an IRA withdrawal](#). FINRA, the government overseer of broker-dealers, said account holders have a limited time.

“By law, you must have at least 30 days to decide what to do with your 401(k) when you switch jobs,” said FINRA.

In addition to FINRA, financial expert Lynn Brenner [offered advice to a client](#).

“So what is a 60-day rollover? It’s what happens when you take an IRA distribution on which you don’t owe taxes because

within 60 days you deposit the entire amount back into an IRA. The 60 days is a grace period in which you can replace an IRA distribution that you took by mistake or that you used as an emergency loan to yourself,” said Brenner.

In her advice column, Brenner also noted that the time restraints of IRA rollovers.

“You can only do one 60-day IRA rollover every 12 months, regardless of how many IRA accounts or how many IRA accounts you have. If you do more than one, any additional rollovers are treated as taxable income,” said Brenner.

In addition to that advice, Brenner [offered more guidance.](#)

“And if you redeposit an over-the-annual-limit rollover in an IRA, it’s treated as an excess contribution. She noted that the contribution is subject to a 6% annual penalty until you withdraw it,” added Brenner.

Should a person rollover an IRA during the economic downturn?

In this time of economic uncertainty, some financial advisors say that rolling over a 401k into an IRA could be beneficial for people who find themselves unemployed. Bobby Glofelty is a senior licensed financial professional with Series 7, 24, and 65 licenses at Betterment. He noted that there has been an increase in [401k rollovers.](#)

“We have seen a relatively large uptick of people rolling over 401(k)s into their IRAs,” said Glofelty. “A lot of these cases are people who are no longer employed or are still looking for employment.”

Glofelty noted that moving from a 401k to an IRA [gives account holders more options.](#)

“By moving into an IRA, you generally have more investment options than you would with a 401(k). Often, 401(k)s restrict you on what you can invest in,” said Glotfelty. With more investment options, like [index funds](#) and ETFs, you can invest more specifically to your goals.”

“By switching to an IRA, a lot of times you’ll find lower fees,” said Glotfelty. “It’s easier to figure out the fees you actually pay within an IRA.”

Glofelty also said that a rollover to a new employer’s plan doesn’t have to be so difficult.

“You can always roll your IRA assets back into your new employer’s 401(k),” Glotfelty says.

Gloefelty also says that 401k rollovers can help retirement account holders.

“In almost all cases, rolling retirement funds over to an IRA makes sense,” said Glotfelty.

Fidelity changes IRA rollover rules

Fidelity is a IRA provider that offers changes to its IRA rules to ease rollover rules. Dave Gray, head of workplace retirement offerings and platforms, [spoke about the changes](#).

“Our goal is to be a market leader,” he says. “Most 401(k) recordkeepers are still urging participants to roll over once they leave.”

He said Fidelity won’t force Fidelity customers to turn old 401k’s over to IRA’s.

“It’s their choice,” said Gray.

Are IRA rollovers necessary?

Scott Smith is an analyst with Boston-based Cerulli Associates. Smith said that IRA rollovers have evolved and [may not even be always necessary.](#)

“Fidelity wants to be best in class,” Smith says. “Retirement recordkeeping is a big business. They won’t shun rollovers. But they want to let clients know [when] the best outcome is to stay in the plan... they’re still getting all of the advice.”

“Employers’ attitudes are changing and they are now more comfortable allowing people to keep their assets in the 401(k) plan even after they’ve left the firm.”

Randy Long is principal at SageView Advisory Group LLP in Irvine, Calif. He said that some account holders may want to [keep their current retirement accounts.](#)



Some financial experts advocate not making IRA withdrawals
“We’re seeing more and more participants, even after

retirement, who leave their money in the plan,” said Long. “We still consult them. But they’re getting institutional pricing on those funds. If they roll them to an IRA, they don’t get the same institutional pricing.”

Gray notes that some account holders think 401k accounts are [cheaper to keep in the long run.](#)

“Some of the conventional thinking that 401(k) plans are cheaper than brokerage accounts continues to evolve,” Gray says.

Demographic changes causes Fidelity rollover changes

Mike Alfred is co-founder and CEO of Digital Assets Data Inc. He said the IRA rollover change at Fidelity is probably [because of demographic changes.](#)

“This feels like a natural evolution driven by demographics. The average 401(k) participant is getting older and approaching retirement,” Alfred says

Smith says that financial advisors have a [leveling of fees that have to conform to compliance.](#)

“I think firms have worked to level revenue regardless if it’s an IRA , or if participants stay in the plan. That way, they can minimize the potential for conflict of interest,” Smith says.

Gray says that retirees can have [rollovers to IRA’s instead of depending on 401ks.](#)

“Not all plans are designed to permit partial withdrawals or systematic retirement income withdrawal payments from their retirement plan,” said Gray.

Fidelity offers more flexibility for IRA rollovers

Gray said Fidelity's retirement accounts [can help account holders](#).

"Our solution now allows plan sponsors to offer a wide-range of withdrawal types and flexibility for participants who choose to leave their savings in the plan after retirement: a digital end-user experience, a customizable cash flow withdrawal strategy and a suite of dedicated retirement income funds, all of which seamlessly integrate into a company's workplace savings platform," said Gray.

Fidelity added in a statement that the plan [will help retirees](#).

"The underlying exposures include a diversified mix of core and extended asset classes for a product specifically designed for customers in retirement seeking current income which differentiate this retirement income product from a standard all passive target-date product," according to a statement.

Smith said that a retirement plan depends on a [person's individual needs](#).

"There are people who want more customized investments than they'd find in the 401(k) plan, which is designed for the masses," he adds. "If you're higher-net-worth, you need an IRA rollover with more [options]."

Advice for retirees on IRA rollovers

Carolyn McClanahan is a certified financial planner at Life Planning Partners in Jacksonville, Florida. She had [advice for a retiree couple on their IRA rollover questions](#).

“Since you’re both in your 60s, if you want to move your 401(k) money to a Roth IRA so that you can take out that money penalty-free, you don’t have to make a move at all. The 10% early withdrawal penalty applies to 401(k) account owners who are under age 59 $\frac{1}{2}$, so you would not be penalized for taking money out. However, you will have to pay taxes as you withdraw the 401(k) money. With a Roth IRA, you can make tax-free withdrawals,” said McClanahan.

“One option is to withdraw your 401(k) over time to reduce the tax hit, McClanahan said. Another option is to do a 401(k) rollover into a traditional IRA. “Often, workplace 401(k)s charge fees to make withdrawals, plus you often have to go through an administrator to get distributions. IRAs at self-directed brokerages don’t have these types of issues,” continued McClanahan.

McClanahan also spoke of a third option for the retirees’ accounts.

“The third option is rolling all of the 401(k) money into a Roth IRA. Just keep in mind, you’ll “have to pay taxes on the entire conversion in one year, which can be pretty hefty,” McClanahan said.

No matter what IRA holders do with their accounts, here are five stocks that are the best to have in IRA’s.

1. Amazon the top pick for IRAs

Amazon(NYSE:AMZN) had an incredible Q3 2020 with [net sales increasing 37% to \\$96.1 billion](#) in the third quarter.

“Two years ago, we increased Amazon’s minimum wage to \$15 for all full-time, part-time, temporary, and seasonal employees across the U.S. and challenged other large employers to do the same. Best Buy and Target have stepped up, and we hope other large employers will also make the jump to \$15. Now would be a

great time,” said Jeff Bezos, Amazon founder and CEO.



Amazon stock is a top choice for IRA rollover stock

“Offering jobs with industry-leading pay and great healthcare, including to entry-level and front-line employees, is even more meaningful in a time like this, and we’re proud to have created over 400,000 jobs this year alone. We’re seeing more customers than ever shopping early for their holiday gifts, which is just one of the signs that this is going to be an unprecedented holiday season. Big thank you to our employees and selling partners around the world who’ve been busy getting ready to deliver for customers this holiday,” added Bezos.

Amazon has been a COVID-proof stock and is a great addition to IRA holders’ accounts.

2. Proctor and Gamble

Proctor & Gamble (NYSE:PG) stock has soared during the pandemic. The maker of Clorox wipes had great growth. Jon R. Moeller is the Vice Chairman, Chief Operating Officer and Chief Financial Officer. She spoke about the [Q3 2020 results](#).

“Fiscal year-to-date 6% organic sales growth; 16% core earnings-per-share growth; over 100% adjusted free cash flow productivity building share. Just two days ago, we announced a 6% increase in our dividend, reflecting both of these results and the confidence we have in our future. This was the 64th consecutive annual increase and the 130th consecutive year in which P&G has paid a dividend. So that’s January through March and fiscal year to date, very strong results in very difficult conditions,” said Moeller.

Proctor and Gamble is a top stock for IRA accounts.

3. Apple

In addition to Proctor and Gamble, Apple(NASDAQ:AAPL) stock is a strong one for IRA holders.



Apple stock a good option for IRA rollovers

CEO Tim Cook spoke about the company's [Q4 2020 revenue of \\$64.7 billion.](#)

“Apple capped off a fiscal year defined by innovation in the face of adversity with a September quarter record, led by all-time records for Mac and Services,” said Tim Cook, the company’s CEO. “Despite the ongoing impacts of COVID-19, [the company] is in the midst of our most prolific product introduction period ever, and the early response to all our new products, led by our first 5G-enabled iPhone lineup, has been tremendously positive. From remote learning to the home office, Apple products have been a window to the world for users as the pandemic continues, and our teams have met the needs of this moment with creativity, passion, and the kinds of big ideas that only Apple can deliver.”

CF0 Luca Maestri added more information about [Apple’s strong Q4 2020 revenue.](#)

“Our outstanding September quarter performance concludes a remarkable fiscal year, where we established new all-time records for revenue, earnings per share, and free cash flow, in spite of an extremely volatile and challenging macro environment,” said Luca Maestri, Apple’s CFO. “Our sales results and the unmatched loyalty of our customers drove our active installed base of devices to an all-time high in all of our major product categories. We also returned nearly \$22 billion to shareholders during the quarter, as we maintain our target of reaching a net cash neutral position over time”.

Apple is a top holding in an IRA holder’s account.

4. Google

Google parent Alphabet (NASDAQ:GOOG) had positive Q3 2020 earnings with \$38.1 billion. Alphabet’s CFO, Ruth Porat, [spoke about the results.](#)



Google stock is a strong stock to add to IRA rollovers

“Total revenues of \$46.2 billion in the third quarter reflect broad based growth led by an increase in advertiser spend in Search and YouTube as well as continued strength in Google Cloud and Play,” Ruth Porat, Alphabet’s chief financial officer, said in a release.

Google is a solid holding in an IRA rollover.

5. Tesla

While Tesla (NASDAQ:TSLA) is a controversial company, Tesla has proven to be a lucrative holding for IRA’s. Tesla CEO and Space X founder Elon Musk spoke about the [electric company’s Q3 2020 results](#).



Tesla stock can be an interesting addition to an IRA rollover “So Q3 was our best quarter in history. We achieved record production and deliveries, record revenue, record net income, both GAAP and non-GAAP, and record free cash flow of \$1.4 billion,” said Musk.

Tesla’s chief financial officer, Zachary Kirkhorn, also [spoke about the positive results.](#)

“Overall, our financial health continues to rapidly improve with Q3 being another great quarter on nearly all dimensions, as Elon has mentioned. On net income, we achieved our fifth sequential quarter of profitability, our best net income, and nearly double-digit operating margins,” said Kirkhorn.

No matter how an account holder rolls over an account, all the above stocks are good holdings for an account.

IRA rollovers can help save money

IRA rollovers can be an effective way to save money during job changes. With TradingSim articles, an account holder can find the best options to handle their money for the future.