

MAKING A SOUND DECISION REGARDING YOUR ROLLOVER

The largest source of Individual Retirement Account (“IRA”) contributions comes from individuals who rollover their money from their employer-sponsored retirement plans, such as 401(k) and 403(b) plans, when they leave a job, according to the Employee Benefit Research Institute.

If you are considering rolling over money from an employer plan into an IRA – or if you have been in contact with a financial professional to do so – follow these tips to decide whether an IRA rollover is right for you.

1. Evaluate your options. You generally have four choices. You can:

- Leave part or all your assets in your former employer’s plan (check with your benefits or human resources office to review your former employer’s policy)
- Rollover the assets to your new employer’s plan, if one is available and allowed (check with the benefits or human resources office)
- Rollover your retirement plan assets into an IRA
- Cash out your account balance

There are pros and cons to each option but cashing out your account is rarely a good idea for younger individuals. If you are under age 59½, the Internal Revenue Service (“IRS”) generally will consider your payout an early distribution, meaning you could owe a 10 percent IRS early withdrawal penalty on top of federal and applicable state and local income taxes.

2. Tax Considerations. If you decide to roll over your retirement plan assets to an IRA, you can choose either a traditional IRA or Roth IRA. No taxes are due if you roll over assets from a traditional employer plan to a traditional IRA, or if you roll over your contributions and earnings from a Roth plan to a Roth IRA. But if you decide to move your retirement assets from a traditional employer plan to a Roth IRA, you will have to pay taxes on the amount you convert to a Roth IRA. It’s a good idea to consult with your plan administrator as well as financial and tax professionals about the tax implications that may be associated with your different options.

Tip: Special Treatment of Employer Matches in Roth Plans

The IRS requires that any employer match of contributions made to a Roth plan be placed in a pre-tax account and treated like matching assets in a traditional plan. To avoid taxes when rolling over a Roth plan that includes matching contributions from your employer, you will need to request the transfer of (i) *your* contributions and earnings to a Roth IRA and (ii) *your employer’s* matching contributions and earnings to a traditional IRA.

3. Indirect Rollover Considerations. With a direct rollover, you instruct your former employer to send your 401(k) assets directly to your new employer’s plan or to an IRA, and you never have to handle the money yourself. With an indirect rollover, you start by requesting a lump-sum distribution from your plan administrator and then take responsibility for completing the transfer. Indirect rollovers may have significant tax consequences. You may not get the full amount up front because the plan may be required to withhold 20 percent of the account’s value to ensure taxes will be paid if the rollover is not completed. You must deposit the funds in an IRA within 60 days to avoid taxes on pretax contributions and earnings, and to avoid the potential of an additional 10 percent IRS tax penalty if you are younger than 59½. If you want to defer taxes on the full amount you cashed out, you will have to add funds from another source equal to the 20 percent withheld by the plan administrator (you get the 20 percent back if you properly complete the rollover). It is important to understand how your existing plan treats indirect rollovers.

4. Be wary of “Free” or “No Fee” claims. Competition among financial firms for IRA business is strong, and advertising about rollovers and IRA-related services is common. In some cases, the advertising can be misleading. FINRA has observed overly broad language in advertisements and other sales material that implies there are no fees charged to investors who have accounts with the firms. Even if there are no costs associated with a rollover itself, there will almost certainly be costs related to account administration, investment management or both. Don’t rollover your retirement funds solely based on the word “free.”

5. **Realize that conflicts of interest may exist.** Financial professionals who recommend an IRA rollover might earn commissions or other fees when you rollover your account. In contrast, leaving assets in your old employer's plan or rolling the assets to a plan sponsored by your new employer may likely result in little or no compensation for a financial professional. In short, even if the recommendation is sound, any financial professional who recommends you transfer your money from an employer-sponsored retirement plan into an IRA may benefit financially from that move.
6. **Compare investment options and other services.** An IRA often enables you to select from a broader range of investment options that may not be available in an employer plan but not offer the same options. Whether the IRA options will depend, in part on how satisfied you are with the options offered by your current or new employer's plan. Some employer plans also provide access to investment advice, planning tools, telephone help lines, educational materials and workshops. Similarly, IRA providers offer different levels of service, which may include full brokerage services, investment advice and distribution planning. If you are considering a self-directed IRA, consider the tradeoffs.
7. **Understand fees and expenses.** Both employer-sponsored plans and IRAs involve investment-related expenses and plan or account fees. Investment-related expenses can include sales loads, commissions, the expenses of any mutual funds or other investment options in which your assets are invested, and investment advisory fees. Plan fees can include administrative costs (recordkeeping and compliance fees, for example) and fees for services, such as access to a customer service representative. In some cases, employers pay for some or all of the plan's administrative expenses. IRA account fees can include administrative, account set-up and custodial fees, among others. Before making a rollover decision, know how much you are currently paying for your plan and compare it to the fees and expenses of a new plan or IRA. For more information about 401(k) fees, see the Department of Labor's publication, *A Look at 401(k) Plan Fees*. For IRA fees, ask your financial professional to provide you with information about fees and expenses, and read your account agreement and any investment prospectuses.
8. **Engage in a thoughtful discussion with your financial or tax professional.** Don't be shy about raising issues, such as tax implications and the differences in services, fees and expenses between retirement savings alternatives. If your financial professional recommends that you sell securities in your plan or purchase securities in a newly opened IRA, ask what makes the recommendation suitable for you. As with any investment, if you don't understand it, don't buy it.
9. **Age matters.** If you leave your job after age 55, you may be able to take penalty-free withdrawals from an employer-sponsored plan. In contrast, penalty-free withdrawals generally are not allowed from an IRA until age 59½. If any plan assets are rolled over to a Roth IRA, you generally must wait a minimum of five years and also reach age 59½ to avoid penalties. Penalty-free withdrawals from a traditional IRA are still subject to ordinary income taxes, while those from a Roth IRA are generally nontaxable. Once you reach age 70½, the rules for both traditional employer plans and traditional IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution ("RMD"). The RMD rules also apply to Roth 401(k) accounts. However, the RMD rules do not apply to Roth IRAs while the owner is alive. If you are still working at age 70½, however, you generally are not required to make required minimum distributions from your current employer's plan. This may be advantageous for those who plan to work into their 70s.
10. **Assess the tax implications of appreciated company stock.** Some retirement plans feature company securities (such as stocks, bonds or debentures), and, as with earnings on other investments, any increase in their value will typically be subject to ordinary income tax when you withdraw the securities from the plan. But if you are considering a distribution of company stock or securities when you leave the company, be aware that special IRS rules might allow you to defer paying taxes on the appreciation (which the IRS calls "net unrealized appreciation"). Consult your plan administrator and financial and tax professionals about the potential tax consequences related to company securities that have appreciated.

The decision to move your retirement nest egg or stay put is an important one. In many cases, you do not have to act immediately upon switching jobs or retiring. Take the time to assess your options. Ask questions and do your homework to determine what is best for you.

Financial Industry Regulatory Authority (FINRA), *The IRA Rollover: 10 Tips to Making a Sound Decision*, January 23, 2014