Retirement Plan Rollovers

WHAT YOU NEED TO KNOW

Navigating retirement isn't easy and important decisions shouldn't be put on "auto-pilot". Working with a financial advisor who understands the options, risks, and opportunities and even more importantly, spends the time to get to know you and your specific situation, is key to ensuring that you get on the right track, and stay on it.

One key decision involves managing any existing retirement accounts. Whether changing jobs, or preparing for a major change in life, it's important to think through the pros and cons of the choices available to you. Consolidation, concentration, and timing are all important considerations that are best made with the help of a fiduciary who understands the implications and is focused on what's best for you.

For example, if you are considering a rollover from an employer-sponsored retirement plan, you may want to consider the following very carefully before you decide.

Tax Deferral

In general, and excluding plan distributions, you have three options that maintain tax deferral:

1. Keep the assets in the current retirement plan.
2. Roll over the assets to another employer's plan.
3. Roll over the assets to an IRA.

Rolling Over Assets Into an Existing IRA

- What are the fees and expenses involved?
- What levels of services are available to you?
- What investment options are available?
- Can you take penalty-free withdrawals?
- Have you considered required minimum distributions (RMDs) in your decision?
- Are there any concerns regarding protection from creditors and legal judgments?
- Have you considered the implications of employer stock holdings and/or high concentration?
- Are there any special features of your existing account that are beneficial or would be missed?

It's important to think through the decision because IRAs and employer plans have specific advantages over each other.

Advantages of Rolling into an Existing IRA

- You can aggregate any RMDs within your IRA. In other words, RMDs can be satisfied from any one IRA or a combination of IRAs (excluding inherited IRAs).
- IRAs allow for better tax-bracket management, as withholding on distributions is generally optional on IRAs, while employer plans often require 20% withholding.
- IRAs have flexible distribution options, easier administration, and permit Qualified Charitable Distributions.
- **Investing**: A wider range of investment options and custodians/trading platforms are frequently available with IRAs.
- **Conversions**: Roth conversions are allowed at any time from an IRA, as long as plan funds are eligible for the roll over to convert.
- **Account Consolidation:** All retirement funds can be under one umbrella, making it simpler to manage and administer your account.
- **Portability:** You can roll back your IRA to your company's plan.
- The 10% early distribution penalty can be waived on qualified distributions for higher education, first-time home buyers, or health insurance (if unemployed).

Advantages of Staying Put or Rolling into New Plan

- Federal creditor protection: Plan assets are protected from bankruptcy and other judgments. Assets rolled into an IRA that can be traced to employer plans have federal bankruptcy protection, but have limited protection against other judgments, lawsuits, or claims. Your resident state sets the non-bankruptcy protection limits.
- You may borrow from your employer's plan and life insurance may be held in the plan. IRAs do not allow for either.
- Generally, RMDs can be delayed until retirement.
- If you are 55 or older (50 or older for public safety employees) and have separated from service, plan distributions are not subject to the 10% early withdrawal penalty. This benefit is delayed until age 59.5 if the assets are rolled into an IRA.
- 457(b) deferred compensation plans are exempt from the 10% "early" withdrawal penalty. This benefit is lost if the assets are rolled into an IRA.
- Divorce distributions (qualified domestic relations order (QDRO)) are penalty free. This benefit does not apply to IRAs.
- The net unrealized appreciation (NUA) rules apply to company stock within the plan. Company stock liquidated and rolled over forfeit access to the tax advantaged NUA rules.

In Conclusion

The rollover decision is unique to your situation. As fiduciaries, Cerity Partners can help you weigh the pros and cons of these decisions so you can decide what is the best course for you given your current situation.

For more information about your retirement options, please contact your Cerity Partners advisor or learn more through these resources:

401(k) Rollovers

Rollover Guidance