FINANCIAL BACKGROUND REPORT

Reasons to Roll Over Company Plan Money to an IRA

Once an employee retires from a public sector employer with a company retirement plan (457 Deferred Compensation Plan or 403b Tax Sheltered Annuity Plan), serious consideration should be given to rolling those funds over to an IRA. However, many clients when advised to roll over do nothing. They often do not see the benefit of the rollover and because of that, its possible clients and their beneficiaries lose the ability to plan for the retention of those retirement funds.

Create Stretch IRA for Beneficiaries

The best case for an IRA rollover is the ability to keep the money growing tax-deferred for your beneficiaries. A non-spouse designated beneficiary of an IRA can stretch distributions on the inherited IRA over his or her life expectancy. Many plans do not allow this stretch option even though the IRA rules permit it. The plans generally do not want to get involved in the administrative nightmare of keeping track of the beneficiaries of ex-deceased employees for 30, 40 or 50 years as they take required distributions. So instead, the plans simply pay out the beneficiary in one year or 5 years at best.

Even if the plan beneficiary is the spouse, the spouse will also be cashed out in 5 years. But a spouse can rollover the company plan money to her own IRA, name her own beneficiaries and when she dies, those beneficiaries will get the stretch-out. But if a non-spouse (a child or grandchild) is the beneficiary on a company plan, **the stretch will be lost because a non-spouse beneficiary cannot roll the company plan money to an IRA.** Only a spouse can do that.

Under the Pension Protection Act of 2006, beginning in 2007, non-spouse plan beneficiaries can transfer the company plan balance by trustee-to-trustee transfer to a properly titled inherited IRA and then stretch distributions from the IRA, just the same as if the non-spouse beneficiary inherited from an IRA.

But if the plan does not offer this option (and it does not have to), the non-spouse beneficiary is stuck with the plan rules which will generally accelerate payments and the beneficiary will NOT get the stretch IRA. The beneficiary must take the money and pay the tax. That's the end of the retirement account.

The best option to guarantee the stretch IRA for children or grandchildren is to roll the company plan funds over to an IRA as soon as possible after retirement. This way, your beneficiaries never have to deal with the company plan and the company bureaucracy which may mess up the non- spouse transfer. Once the funds are in the IRA, all they have to do to guarantee the stretch is to make sure that children are named as beneficiaries on the IRA beneficiary designation form.

For those that are stubborn about the rollover, we ask this simple question: "Do you want your retirement account to last 50 years or 5 years for your children? Hopefully, you will answer 50 years. We can guarantee that with the IRA rollover, but if the funds stay in the plan, we can also guarantee that the children will be cashed out and taxed in 5 years at best.
We believe the stretch IRA is the most compelling argument for the IRA rollover.

Estate Planning
The IRA can more easily be coordinated with your overall estate plan than the company plan assets. In addition to the ability for non-spouse beneficiaries to stretch distributions from the inherited IRA over their lifetimes, IRAs offer the option of splitting accounts and naming several primary and contingent beneficiaries. You can name anyone you wish as your IRA beneficiary. Funds in a company retirement plan are subject to federal law that for the most part requires participants to name your spouse as beneficiary unless the spouse signs a waiver. Naming the spouse as plan beneficiary could cause a loss of the first estate exemption. The IRA rollover makes the estate plan more flexible. The waiver must still be filed with the plan before the funds can be rolled over to an IRA.

Investment Options
Within an IRA clients have a universe of investment options to choose from. You do not have to pick from a limited number of investments typically offered by the company plan, also, we can help clients customize investment choices to meet their personal needs. That's important in these volatile times. We can instantly make changes that fit our client's risk tolerance and retirement needs without going through the bureaucracy at the company plan, where you are now a lowly ex-employee.

Clients who are ex-employees always receive better service and more personal attention from financial advisors than from some inexperienced phone rep at the firm the company plan has been outsourced to.

IRA Annuities
You may consider investing some of your IRA in an annuity. That option is generally not available in the company plan. Everything you read says never to put an annuity in an IRA because the annuity is already tax-deferred. But that thinking is wrong. An annuity that offers an annually increasing guaranteed death benefit might turn out to be the best investment in the IRA while the market is in a tailspin. When the client dies, beneficiaries will receive a guaranteed death benefit. That is a valuable feature. It provides a hedge against an unstable market.

IRAs Have No Withdrawal Restrictions

Company plans may have restrictions on withdrawals. In an IRA, you have immediate access to funds, regardless of age. Even if you are under age 59 ½, you can withdraw from your IRA. You'll pay tax and the 10% penalty, but you still have the ability to withdraw quickly. The company plan may have restrictions on withdrawals before age 59 ½. If you are no longer working for the company and leave the money in the company plan, it still may take some time to access your cash. If you need it right away, that will put unnecessary pressure on you at a time when the last thing you need is more problems.

Consolidation and Control

The IRA is a handy place to consolidate all retirement funds. It can help you stay in control by not having to keep track of several company plans and IRAs and the beneficiary and withdrawal options on each plan. You won't have to worry about required distributions from both the company plan and the IRA once all the funds have been rolled to an IRA.

If you are considering a rollover, or would like to evaluate if this strategy is advisable in your circumstances, please contact us for a FREE evaluation and illustration at 310-524-9588.