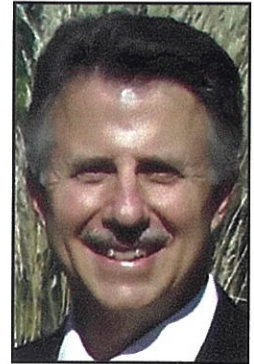




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Is a Rollover the Right Move?

When you leave your job or retire, you have an opportunity to manage your funds in an employer-sponsored retirement plan such as a 401(k), 403(b), or government 457(b) plan. Here are four options that you may want to consider carefully.

IRA rollover

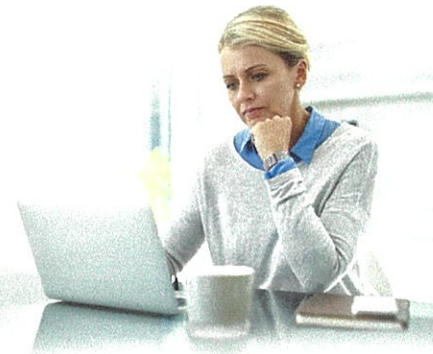
The approach that gives you the most control over the funds is to transfer some or all of the assets to an IRA through a rollover. IRAs typically offer a wider variety of investments than employer plans and enable you to consolidate your retirement assets in a single account. Moreover, the IRA is yours to keep and control, regardless of your employment situation.

You can generally transfer funds without tax consequences from a traditional employer account to a traditional IRA, or from a designated Roth employer account to a Roth IRA.

Be sure your rollover is executed properly to preserve the tax-advantaged status of the funds. You can typically arrange a direct rollover, also called a trustee-to-trustee transfer, by contacting the administrators of your old employer-sponsored plan and your IRA. The transfer may be electronic, or you could receive a check made out to the receiving IRA trustee, which you should mail to the appropriate address.

If you receive a check made out in your name, 20% of the distribution will generally be withheld for federal income

Be sure your rollover is executed properly to preserve the tax-advantaged status of the funds.



taxes. In order to retain the tax-advantaged status, you must roll the distribution, including the 20% withheld, to the IRA within 60 days; otherwise it will be considered a taxable distribution. You would have to pay the 20% that was withheld out of your own funds and wait for a potential tax refund of the withheld amount. So it is usually better to execute a direct rollover.

Rollover alternatives

Depending on the situation, you might prefer one of these three other options.

Leave assets in former employer's plan. If your vested portion of assets in the employer-sponsored retirement plan exceeds \$5,000, you may be able to keep it in the plan until you reach the plan's normal retirement age. This strategy might appeal to you if fees are low and you are satisfied with the investment options. Your plan may offer

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If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.

A Pension Strategy That May Boost Your Income

If you have a traditional pension — also called a defined benefit plan — when you retire, your plan may offer several payout options, including a qualified joint and survivor annuity (QJSA) if you are married. A QJSA is an annuity that pays a dollar amount (usually monthly) for the rest of your life, with at least 50% of that amount continuing to your spouse after your death.

If your spouse consents in writing, you can waive the QJSA and elect instead to receive a single-life annuity. With this option, payments are made over your lifetime but stop upon your death. Single-life annuity payments are generally significantly higher than QJSA payments, but your spouse would receive no pension benefits after your death.

Life insurance strategy

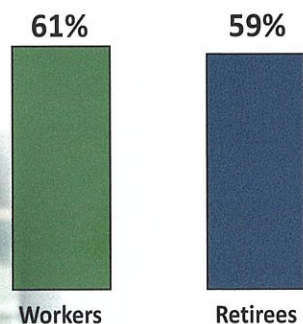
A strategy called *pension maximization* may offer the best of both worlds. Using this strategy, your spouse waives the QJSA and you elect the single-life option. You and your spouse then use the additional pension income to purchase insurance on your life, with your spouse named as beneficiary. If you die first, the pension payments will stop, but your spouse will receive the life insurance death proceeds free from federal income tax. By coupling the larger pension payments with a life insurance policy, you might increase your total income during retirement, while also providing for your spouse's financial future if you die first.

Questions to ask

Here are some factors to consider before implementing this strategy.

Expecting a Pension?

Although pensions are no longer common in private industry, they have not disappeared, and they remain a mainstay in the public sector. In a 2024 survey, about three out of five workers and retirees expected a traditional pension or defined benefit plan to be a source of retirement income.



Source: Employee Benefit Research Institute, 2024

- **Are you insurable?** If not, pension maximization is not a viable strategy.
- **How much will the life insurance cost?** If you are relatively young and in good health, the insurance premiums may be much more affordable than if you are older and/or in poor health.
- **How much more does the single-life annuity pay than the QJSA?** The larger the benefits under the single-life annuity, the more life insurance you may want to buy to replace the income — and the more extra income you may have to pay the premiums. Also factor in any cost-of-living adjustment the pension plan might provide when analyzing your payment options.
- **How healthy are you and your spouse, and what are your life expectancies?** The pension maximization strategy works best if the person receiving the single-life annuity lives a relatively long time, receiving the higher monthly pension payments. On the other hand, the longer your spouse lives after your death, the more valuable the spouse's pension payments under the QJSA option might be.

Tax considerations

Pension benefits are generally treated as taxable income, subject to federal (and possibly state and local) income tax. This is true regardless of whether you elect a single-life annuity payout or a QJSA. However, because the pension benefits are larger with a single-life annuity, electing that option will increase your taxable income during retirement. If you elect the QJSA option, the pension payout to the survivor will be included in the survivor's taxable income.

If you use the pension maximization strategy and die before your spouse, the life insurance death benefits will not be included in your surviving spouse's taxable income, because life insurance death benefits generally pass free of income tax to the beneficiary of the policy. Of course, any earnings from investing the life insurance proceeds may be taxable.

Choosing a pension payout option and life insurance coverage can be complex and will impact the financial future of you and your spouse. Be sure to seek qualified professional guidance.

There are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees associated with payment of death benefits, income options, or rates of return are based on the financial strength and claims-paying ability of the insurer. Policy loans and withdrawals will reduce the policy's cash value and death benefit.

Saving for College: 529 Plan vs. Roth IRA

529 plans were created in 1996 to give families a tax-advantaged way to save for college. Roth IRAs were created a year later to give people another tax-advantaged way to save for retirement. Along the way, some parents began using Roth IRAs as a college savings tool. And now, starting in 2024, extra funds in a 529 plan can be rolled over to a Roth IRA for the same beneficiary. Here's how the two options compare in a few key areas.

Contribution rules

529 plan: Anyone can open a 529 account. In 2024, individuals can contribute up to \$18,000 (\$36,000 for married couples) without triggering gift tax implications. And under a special accelerated gifting rule unique to 529 plans, individuals can make a lump sum contribution in 2024 up to \$90,000 (\$180,000 for married couples) with no gift tax implications if they elect to spread the gift over five years. Lifetime contribution limits for 529 plans are high — most plans have lifetime limits of \$350,000 and up (limits vary by state).

Roth IRA: Not everyone can contribute to a Roth IRA. In 2024, single filers must have a modified adjusted gross income (MAGI) of \$146,000 or less and joint filers must have a MAGI of \$230,000 or less. (A partial contribution is allowed for single filers with a MAGI between \$146,000 and \$161,000, and joint filers with a MAGI between \$230,000 and \$240,000.) In 2024, the annual contribution limit is \$7,000 (\$8,000 for people age 50 and older).

Tax benefits

529 plan: Earnings in a 529 account accumulate tax-deferred and are tax-free when withdrawn if funds are used to pay the beneficiary's qualified education expenses, a broad term that includes tuition, fees, housing, food, and books. States generally follow this tax treatment, and some states may offer a tax deduction for 529 contributions. If funds in a 529 account are used for a non-qualified expense, the earnings portion of the withdrawal is subject to income tax and a 10% federal penalty.

Roth IRA: Earnings in a Roth IRA also accumulate tax-deferred and are tax-free if a distribution is qualified. A distribution is qualified if a five-year holding period is met and the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time home buyer expenses, or (4) to your beneficiary after your death. If your distribution isn't qualified, the earnings portion

of the withdrawal is subject to income tax and, if you're younger than 59½, a 10% early withdrawal penalty (unless an exception applies). One exception to this penalty is when the withdrawal is used to pay college expenses.

So, your age is key. Once you've met both the age 59½ and five-year holding requirements, money withdrawn from your Roth IRA to pay college expenses is tax-free. But even though withdrawing funds before age 59½ for college expenses won't trigger an early withdrawal penalty, you may owe income tax on the earnings. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Investment options and flexibility

529 plan: You're limited to the investment options offered by the 529 plan. Plans typically offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with varying levels of risk, fees, and management goals. If you're unhappy with the investment performance of the options you've chosen, you can change the investment options on your current contributions only twice per year, per federal law.

Roth IRA: With a Roth IRA, you generally can choose from a wide range of investments, and you can typically buy and sell investments whenever you like (usually incurring transaction costs and fees), so they offer a lot of flexibility.

There are generally fees and expenses associated with investing in a 529 plan, as well as the risk that investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan can vary from state to state and should be discussed with a legal and/or tax professional. States offering their own 529 plans may provide their residents and taxpayers with exclusive advantages and benefits, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, expenses, investment options, underlying investments, and the investment company, which are available in the official disclosure statement and applicable prospectuses. Contact your financial professional to obtain a copy.

529 Plan Snapshot (2023)



15.5 million
Total number of accounts



\$447 billion
Total assets



\$23,725
Average balance



Birthday Benefits Quiz

Remember when you turned 16 and rushed to get your driver's license? Or earned the right to vote at 18 and enjoyed the privileges and responsibilities of adulthood at 21? There aren't many legal changes associated with birthdays after that until you turn 50, and then there are plenty.

Can you match these ages to the related federal benefits and tax responsibilities? One age will be used twice.

50 55 59½ 62 65 67 70 73 75

- ___ 1. Eligible for full Social Security benefits for those born in 1960 or later
- ___ 2. Earliest age to make catch-up contributions to a traditional IRA or an employer-sponsored retirement plan
- ___ 3. Eligible for maximum Social Security benefit
- ___ 4. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born from 1951 to 1959
- ___ 5. Eligible to enroll in Medicare
- ___ 6. Earliest age to make catch-up contributions to a health savings account
- ___ 7. Earliest eligibility age to begin taking reduced Social Security worker benefits
- ___ 8. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born in 1960 or later
- ___ 9. Eligible to withdraw money from a tax-deferred IRA or employer-sponsored retirement plan (for most employees) without incurring a 10% federal tax penalty
- ___ 10. Eligible to withdraw money from a tax-deferred employer-sponsored retirement plan without incurring a 10% federal tax penalty, for an employee who separates from service with the employer

(50 or after 25 years of service for qualified public safety employees) 1. 67; 2. 50; 3. 70; 4. 73; 5. 65; 6. 55; 7. 62; 8. 75; 9. 59½; 10. 55

Answers



Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb... And How to Defuse It* and many other books about IRA planning.

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Is a Rollover the Right Move?

(Continued from page 1)

certain investments not available in an IRA, and the cost structure for plan investments may be more favorable than for those in an IRA. Keep in mind that you can no longer contribute to or borrow from a former employer's plan, and you might have to keep track of multiple retirement accounts.

Transfer assets to a new employer-sponsored plan. Again, your decision may depend on the available investment options and expenses and whether the new plan allows you to transfer the assets.

Withdraw the money. Cashing out can be costly because you would pay current income taxes and lose out on potential tax-advantaged growth. If you need some cash now, you could make a partial withdrawal and preserve the tax-advantaged status of the remaining funds through one of the other options, including a direct rollover.

Generally, employer plan assets have unlimited protection from creditors under federal law, whereas IRA assets are protected in bankruptcy proceedings only (state laws vary in the protection of IRA assets in lawsuits). If you hold appreciated employer stock in your plan, consider the negative consequences of rolling stock to an IRA or to a new employer's plan.

Distributions from traditional IRAs and traditional employer-sponsored retirement plans, and the earnings portion of nonqualified distributions from Roth IRAs and designated Roth accounts, are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% penalty, with some exceptions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the appropriate five-year holding requirement, and the distribution must take place after age 59½, unless another exception applies.