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Retirement Plan Distribution Options

Which Option is Right for You?
Self-assessment and Questions to Ask Yourself

When you leave your employer, you have basically three distribution options for your retirement account that avoid immediate taxes or possible tax penalties. This guide offers general information for you to consider as part of your overall due diligence in determining which distribution option is right for you (which may include not taking a distribution and keeping your retirement account with your employer).

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Retirement Plan Distribution Options

Which Option is Right for You?

When you leave your current employer, you have a number of distribution options for your retirement account. To avoid immediate taxes or possible tax penalties, there are basically three options available to you:

- ☐ Option 1: Keep your retirement plan account with your employer.
- ☐ Option 2: Rollover/transfer your retirement account to your new employer's plan, if you're leaving your current employer for employment elsewhere.
- ☐ Option 3: Roll it over into an IRA.

Let's look at each option:

Option 1

Keep your retirement plan account with your employer

Most retirement plans allow you to keep your account in the plan if it is above a certain amount. Typically, you'll continue to have access to all the plan's functions.

Keeping your retirement plan account is easy; you don't have to do much of anything. But while doing 'what's easy' shouldn't be the primary consideration, there are potential advantages to keeping your retirement account with your employer. For example:

- ☐ Low Fees
  The investment options in retirement plans generally have lower expenses than their identical retail versions. This is especially true for larger retirement plans.

  "How do I know what I'm paying?"

  > *"Your retirement plan account statement shows the dollar amount of plan-related fees and expenses (administrative and individual) charged to or deducted from your account, along with a description of the services for which the charge or deduction was made.*
  >
  > *It also shows the total annual operating expenses expressed as both a percent of assets and as a dollar amount for each $1,000 invested. This information is important when comparing the costs of your retirement plan account against the costs of an IRA."*

- ☐ Care and Due-diligence
  Retirement plans follow a rigorous set of criteria to select investment options for the plan. They also exercise the same care and due diligence to ensure that the investment options continue to meet the criteria for inclusion in the plan. This level of care reduces the probability of having investment options in the plan that continually underperform their respective benchmarks or drift away from their stated investment category and investment objective.

- ☐ Loans
  Retirement plans generally allow participants to take a loan under certain circumstances.

- ☐ Penalty-free withdrawals
  Unlike an IRA, if you have not reached 59½, penalty-free withdrawals may be available from your work retirement plan under certain circumstances.

- ☐ Required minimum distributions (RMD)
  In an IRA, you're required to take minimum distributions or RMDs from your account at age 70½. However, if you are still working at age 70½ and you continue to contribute to your work retirement account, RMDs may not apply.

- ☐ Protection from creditors and legal judgments
  Employer-sponsored retirement plan accounts may offer greater protection than IRAs from creditors, judgments, and the IRS. Laws vary from state to state. If this is a concern for you, seek qualified tax and legal advice.

You may decide that examples like these provide a justification for leaving a portion or all of your retirement plan assets within your employer's plan. Before you make a final decision, you may want to consider seeking qualified tax and legal advice.

> *"I'm satisfied with the investment options in my retirement plan, and the expenses are pretty low. But are there other things I should consider besides investment options and costs?"*

> *"If you seek financial-related services beyond investment management, or you prefer to have a financial advisor manage your investments, you may want to consider Option 3: Rollover Your Retirement Plan Account into a Qualified IRA."*

Option 2

Transfer your retirement account to your new employer's plan

If you are leaving your current employer for employment elsewhere, you may have the option to transfer your retirement plan into your new employer's retirement plan. To help you decide whether that's the right option for you, use the following questionnaire as a starting point:

1. Do you prefer the investment options in your current plan over those in your new employer's plan?

   ☐ Yes ☐ No ☐ No opinion

2. Are the fees and expenses associated with your new employer's plan higher, lower or about the same as those in your current plan?

   ☐ Higher ☐ Lower ☐ About the same

3. Does your current retirement plan offer better or more comprehensive educational resources and tools than does your new employer's plan?

   ☐ Yes ☐ No ☐ No opinion

4. If you use an independent fee-based investment advisory service to manage your retirement plan account, is a similar service available in your new employer's plan?

☐ Yes ☐ No ☐ Not applicable

Reviewing Your Answers

- ☐ If you prefer the investment options in your current plan to those in your new employer's plan, if your current plan's fees and expenses are lower than those in your new employer's plan, and if the educational resources and planning tools in your current plan are acceptable to you, then you may decide that keeping your retirement account with your current employer is an appropriate option.
- ☐ If you use an independent fee-based advisory service to manage your account, and your new employer's plan doesn't provide this service, then you may decide that keeping your account with your current employer is an appropriate option.
- ☐ Conversely, if your new employer's plan offers a more diverse line-up of investment options, the expenses are comparable to those in your current plan, and if the educational and planning tools are acceptable to you, then you may decide that rolling/ transferring your retirement plan to your new employer's plan is an appropriate option.

Other Things to Consider

- ☐ Another potential benefit to consider in rolling/transferring your retirement plan over into your new employer's plan is that under certain conditions, you may be able to defer required minimum distributions if you're still working at your new place of employment after you turn age 70½.
- ☐ A potential downside for rolling your retirement plan into an IRA is that the minimum age for taking penalty-free withdrawals is 59½ instead of 55 with a retirement plan.
- ☐ If you have other investment accounts, another way to consider your options is how the retirement plan account fits in with your other accounts. For example, which plan offers features or benefits more to your liking, or offers unique investment options that aren't available in your other accounts.
- ☐ Another consideration on deciding whether to transfer your retirement plan to your new employer's plan is your investment preferences. If you prefer more flexibility, or the ability to pursue investment strategies typically not available through an employer-sponsored retirement plan, then the next option, rolling your retirement plan into a qualified IRA, may be an appropriate option for you.
- ☐ While most employers allow new employees to transfer-in their retirement plan account from their previous employer, they may impose a waiting period before you can transfer, so it's important to confirm with your new employer what the terms and conditions are for transferring-in your retirement plan account.

Note: If you are leaving your employer and are not immediately seeking new employment, and you plan on rolling your retirement plan into an IRA (Option 3), you may want to consider opening a separate IRA specifically for your retirement plan rollover and not commingle it with contributory IRAs. Before you make a final decision, consider seeking qualified tax and legal advice.

Option 3

Rollover your retirement plan account into an IRA

Financial institutions offering IRAs include banks and credit unions, insurance companies, mutual fund companies, discount and full-service brokerage firms and registered investment advisers. IRAs are also typically available through your employer's retirement plan provider.

Are there potential advantages to rolling your retirement plan into an IRA? Yes:

- ☐ More Investment Options
  A self-directed IRA may provide access to investment options not generally available in a retirement plan. For example, individual stocks, individual bonds, exchange traded funds (ETF), alternative and non-traditional investments, and depending of the financial institution, access to initial public offerings (IPO).

- ☐ More Investment Strategies
  IRAs may also allow you to pursue more specific or targeted investment strategies and may provide unique or non-traditional diversification opportunities that are not generally available in a retirement plan.

- ☐ Access to Additional Services
  Another potential advantage is the ability to work with a financial advisor who can provide other important financial-related services beyond investment management

- ☐ Beneficiary Flexibility
  IRAs also provide more flexibility in naming beneficiaries. If you are married, the beneficiary of your retirement plan account by law must be your spouse unless you obtain a signed release. In some circumstances, having the flexibility to name beneficiaries other than your spouse for your IRA may be beneficial. Examples like these may provide a justification for rolling a portion, or all of your retirement plan account into an IRA.

Are there potential disadvantages to rolling your retirement plan into an IRA? Yes:

- ☐ Higher Expenses
  Total expenses in an IRA can be significantly higher than those in your retirement plan, especially if you're with a large retirement plan. One or two percentage points higher is not uncommon. This can add-up to thousands of dollars a year. Cross your fingers that the returns on your IRA always make up for the higher expenses you may be paying.

- ☐ Expertise and Due-diligence
  Retirement plans follow a rigorous set of criteria to select investment options that are appropriate for the plan. They are regarded as "prudent experts". Cross your fingers that your IRA is managed at this same level of care, knowledge and skill.

- ☐ No Loans
  Unlike retirement plans, under no circumstances can you take a loan from an IRA.

- ☐ Higher Minimum Age for Penalty-free withdrawals
  If you have not reached the age of 59½, penalty-free withdrawals may be available from your work retirement plan under certain circumstances. This is not available with an IRA.

- ☐ Required Minimum Distributions (RMD) Mandatory at 70½
  If you are still working at age 70½ and you continue to contribute to your work retirement account, RMDs may not apply. In an IRA you're required to take minimum distributions or RMDs from your account at age 70½.

"Okay, I've decided to rollover my account into an IRA"

If you decide that rolling your retirement plan account into an IRA is the more appropriate option for you, the first thing you need to do is decide who's going to manage your IRA. You have basically two options:

- ☐ Option 1: manage your IRA yourself
- ☐ Option 2: have a financial advisor manage it for you.

Before you make a decision, it may be worthwhile to take the following self-assessment. Your responses will help you determine which option may be appropriate for you:

1. Do you recognize the vital role your retirement plan account plays in providing income and/or growth potential during your retirement years?

   ☐ Yes ☐ No

2. The trustees/fiduciaries of your retirement plan act at the level of "prudent expert" in selecting and monitoring the investment options. Do you believe you have the expertise necessary to select and monitor appropriate investments for your IRA?

   ☐ Yes ☐ Not so sure

3. How comfortable would you be in making all the investment decisions in your IRA and being responsible for the consequences of your decisions?

   ☐ Comfortable ☐ Not so comfortable

4. How confident are you in your ability to manage your IRA into your eighties and nineties when typically, our ability to handle numbers is greatly diminished?

   ☐ Confident ☐ Not so confident

5. How would you react to a severe or extended downturn in the stock or bond market? Would you make knee-jerk decisions? Would you sell-out?

   ☐ No "knee-jerk" reactions ☐ Not so sure

6. How would you react to a significant run-up in the stock market? Would media hype and the fear of "missing out" overwhelm reasonable caution and pull you into taking too much risk?

   ☐ Maintain reasonable caution ☐ Not so sure

7. Do you anticipate the need for other financial-related services offered through financial advisors?

   ☐ Yes ☐ No ☐ Not sure

Reviewing your Self-Assessment

If after completing and evaluating your answers to the self- assessment you decide to be a "do-it-yourselfer", go to Option 1. If after completing the self- assessment you decide that it may be in your best interests to have a financial advisor manage your IRA for you, skip ahead to Option 2.

Option 1

Manage my IRA myself

As a do-it-yourselfer, you may want to consider following many of the prudent practices used by financial advisors. Three "practices" are standouts:

- ☐ Review your IRA's asset allocation and level of diversification at least annually in light of your investment objectives and risk tolerance.
- ☐ Account for all costs.
- ☐ Confirm that you're adding value managing your IRA yourself, by calculating your account's return annually and comparing the return to a benchmark(s) of indexes that represent how your account is allocated. Note: many do-it-yourselfers believe they're pretty good at handling their IRA, when in fact they can't verify it in a measurable way.

Option 2

Have a financial advisor manage my IRA for me.

Your relationship with a financial advisor should be one of your most important and valuable professional relationships. The nature of the relationship, the intent of your advisor, and the measurable competency of your advisor can have a tremendous impact on this vitally-important account.

Scenario 1: if you're not yet working with a financial advisor:

When forming any new relationship, whether personal or professional, it's important to get to know the other person. This is especially true when it comes to selecting a financial advisor to handle what may be your largest and most important account.

Consider using the following three-step process before you select an advisor and before you rollover your retirement account into an IRA: Using these steps in addition to other questions and forms of due diligence, will be beneficial in helping you make a more-informed decision.

Step 1

Use the QuickGuide "Financial Advisors: Who's Who and What They Do" to familiarize yourself with the three basic types of advisors, the products and services they offer, and the standard of care they are held to in the handling of their clients' accounts.

Step 2

Use QuickGuide "Finding Mr. or Ms. "Right" Part 1 and Part 2.

Step 3

Use QuickGuide "Rollover: 10 Key Questions". Note: this guide can be very helpful even if you are already working with an advisor.

Scenario 2: if you're already working with a financial advisor

While your financial advisor may have been right for your needs and interests prior to retirement, is he or she the right advisor to manage your vitally-important retirement account? Ask yourself these questions about your advisor. How you answer may help you determine whether your current advisor is right for you going forward:

1. Is your advisory relationship based upon openness and accountability?

   ☐ Yes ☐ No ☐ Not sure

2. Do your financial interests come first in the relationship?

   ☐ Yes ☐ No ☐ Not sure

3. Does your advisor have the experience and qualifications to handle what may be your largest and most important account?

   ☐ Yes ☐ No ☐ Not sure

4. Has your advisor added meaningful and measurable value to the accounts you already have with them?

   ☐ Yes ☐ No ☐ Not sure

5. Are the total costs associated with your account(s) disclosed?

   ☐ Yes ☐ No ☐ Not sure

6. Does your advisor offer other important services you anticipate needing?

   ☐ Yes ☐ No ☐ Not sure

7. Is he or she truly qualified to provide those services?

   ☐ Yes ☐ No ☐ Not sure

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