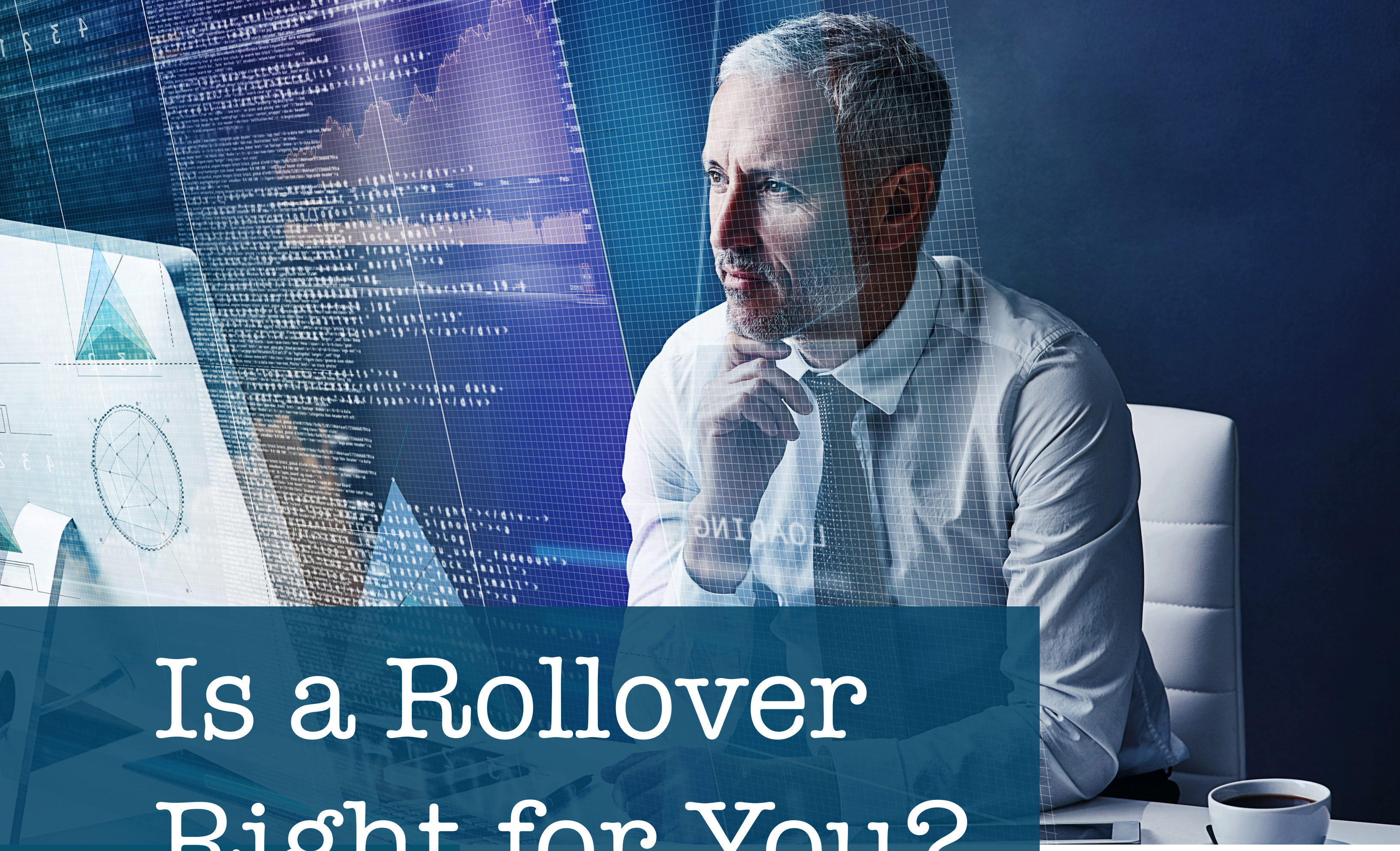

Is a Rollover Right for You?

This report covers the options of rolling your retirement plan assets into an IRA or leaving them in your current employer plan. Other possibilities include 1) rolling the assets into a new employer's plan, if allowed, and 2) taking a cash distribution, which would trigger income taxes and a possible 10% early withdrawal penalty on the taxable portion of the withdrawal. Consider all options carefully before making any decisions.

If you participate in a retirement plan at work, you might assume that you don't also need an IRA, particularly if you don't currently max out your plan contributions. However, an IRA may play an important role in your retirement-savings strategy. Through what's commonly known as a "rollover," an IRA can help you 1) maintain the tax-deferred status of your assets during job transitions and 2) consolidate assets you may have in various different retirement accounts. A review of the pros and cons of an IRA rollover can help you determine whether this strategy may be appropriate for your long-term goals.

Rollover Basics

An IRA rollover is a method of transferring assets to an IRA from an employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan, or from another IRA. Rollovers are commonly used by workers when they change jobs, but they can also be used to consolidate assets you have in many different retirement accounts or switch your retirement assets from one financial institution to another. Finally, some employer plans permit in-service distributions, which allow employees to take a partial distribution from the plan and roll the money into an IRA.[1]

There are two types of rollovers: direct and indirect. A direct rollover (also known as a trustee-to-trustee transfer) is paid from your plan directly to your IRA or to your new employer's retirement plan. The funds are never payable to you. An indirect (60-day) rollover is a payment made to you that you later roll over to an IRA or an employer retirement plan. You can roll over a traditional (non-Roth) plan account to a traditional IRA, or a Roth plan account to a Roth IRA. You can also transfer traditional plan assets to a Roth IRA through a conversion; however, this would be a taxable event.

When you request a distribution from your employer's 401(k), 403(b), or governmental 457(b) plan that's eligible for rollover, you'll receive a statement describing the tax rules applicable to your distribution and your rollover options. You should review that statement carefully. A properly executed IRA rollover preserves the tax-deferred status of qualified retirement savings and helps avoid tax penalties.

Share of total IRAs opened with ...

Rollovers	New contributions	Combination
84%	13%	3%

Source: Investment Company Institute, 2019

On the plus side ...

There are many reasons to consider an IRA rollover:

Investment choice. When you participate in an employer's plan, your investment options are limited to those offered by the plan itself. Once you leave the employer, an IRA may provide you with more freedom to choose the investments that make sense for your financial goals. Not only is the universe of investment options in an IRA typically much larger, but an IRA can include individual securities and alternative investments as well.

Account consolidation. Retirement assets scattered across a number of accounts can be difficult to manage. By consolidating your assets into a single IRA, you may have a clearer picture of your portfolio's assets and allocations, which could help you more easily make adjustments as your needs and circumstances evolve.

Flexibility of distribution options. The distribution options available to you and your beneficiaries in an employer plan are typically more limited than in an IRA. With an IRA, the timing and amount of distributions are generally your decision [until you must start taking required minimum distributions (RMDs), if applicable].

Different exceptions to the early-withdrawal penalty. There are certain circumstances when IRA owners may be able to withdraw money, penalty-free, prior to reaching age 59½ that are not available to retirement plan participants. First-time homebuyers (including buyers who haven't owned a home in the previous two years) may be able to withdraw up to $10,000 (lifetime limit) toward the purchase of a home. IRA funds can also be withdrawn to pay qualified higher-education expenses for IRA owners and their spouses, children, and grandchildren. IRA funds can even be used to pay for health insurance premiums if you become unemployed.[2]

Although these early-withdrawal exceptions may avoid the 10% federal income tax penalty, all distributions from traditional IRAs are subject to ordinary income taxes (except to the extent they represent non-deductible contributions). Qualified distributions from Roth IRAs are not subject to tax.

But then again ...

For some people, there may be advantages to leaving the money in an employer plan:

Greater creditor protection. Many types of employer plans may provide greater creditor protection than IRAs. Most qualified employer plans [including 401(k) plans] receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. On the other hand, IRAs are generally protected under federal law only if you declare bankruptcy. Any additional protection will depend on your state's laws. (Inherited IRAs are not protected from creditors.)

The opportunity to borrow from yourself. Many employer plans offer loan provisions. If you roll over your assets to a new employer's plan, in times of need, you may be able to borrow money against your vested balance including the rollover amount. By contrast, you cannot borrow money from an IRA. (The maximum amount participants may borrow from their plan is 50% of their vested account balance or $50,000, whichever is less.)

Penalty exception for separation from service. Distributions from your employer plan won't be subject to the 10% early distribution penalty if you retire during the year you reach age 55 or later (age 50 for qualified public safety employees). There is no such exception for IRAs.[2]

Possible postponement of RMDs. If you work past age 72, are still participating in your employer's retirement plan, and own no more than 5% of your company, you can delay your first RMD from that plan until April 1 following the year in which you retire.

Investment options. Although IRAs typically provide more investment choices than an employer plan, your plan may offer certain investments that are not available in an IRA. Further, the cost structure for the investments offered in the plan may be more favorable than those offered in an IRA.

An IRA rollover offers many advantages, but it's important to understand all the pertinent factors before making your decision. This guide is designed to provide a broad overview; for questions specific to your situation, speak with a tax or financial professional.

1) Rules regarding in-service distributions are complex. Consult your Plan Document or Summary Plan Description for more information.

2) Other exceptions to the early distribution penalty include the death or disability of the account holder, distributions received in a series of substantially equal periodic payments, certain distributions to qualified military reservists called to active duty, the payment of unreimbursed medical expenses exceeding 7.5% of adjusted gross income (in 2019 and 2020), and up to $5,000 for the qualified birth or adoption of a child.

Beware These Five Rollover Pitfalls

Before you enact a rollover from your employer-sponsored plan to an IRA, it might be helpful to familiarize yourself with these five potential pitfalls. Rollover laws can be complex; consider discussing the short- and long-term ramifications of all options with a financial professional before making any decisions.[1]

While it may be tempting to use an indirect rollover to give yourself a free 60-day loan, it can be a risky move.

1

Heed the risks surrounding indirect (60-day) rollovers

While it may be tempting to give yourself a free 60-day loan, it can be a risky move to use indirect rollovers rather than direct (trustee-to-trustee) rollovers. Remember that if the plan sends the money to you, it's required to withhold 20% of the taxable amount. If you later want to roll the entire amount of the original distribution over to an IRA, you'll need to use other sources to make up the 20% the plan withheld. If you fail to roll over the total, the amount not rolled over can be considered a taxable distribution, subject to all applicable penalties as well as income taxes.

2

Make sure your distribution is eligible

Not every distribution is eligible for a rollover. For example, RMDs (required minimum distributions) can't be rolled over. Neither can hardship withdrawals or certain periodic payments.

3

Remember the 10% penalty tax

Taxable distributions you receive from an employer plan before age 59½ are normally subject to a 10% early distribution penalty, but a special rule lets you avoid the tax if you receive your distribution as a result of leaving your job during or after the year you turn age 55 (age 50 for qualified public safety employees). However, this special rule doesn't apply to IRAs. If you roll your distribution over to an IRA, you'll need to wait until age 59½ to access those funds and avoid the 10% penalty (unless another exception applies). So if you think you may need to use the funds before age 59½, an IRA rollover could be a big mistake.

4

If your account holds employer stock, review the rules surrounding net unrealized appreciation (NUA)

If your distribution includes employer stock that appreciated over the years, rolling that stock over into an IRA could be a costly move. Normally, distributions from employer plans are subject to ordinary income taxes. But a special rule applies to employer stock distributions: You pay ordinary income tax only on the value of the stock at the time it was purchased for you by the plan. Any appreciation (i.e., gain in value) in the stock generally receives more favorable long-term capital gains treatment, regardless of how long you've owned the stock. (Any additional appreciation after the stock is distributed to you is either long-term or short-term capital gains, depending on the holding period.) These special NUA rules won't apply if you roll over the stock into an IRA.

5

Rolling Roth dollars? Take note of holding period rules

If your distribution includes Roth account dollars that are not qualified (tax-free) because you haven't yet satisfied the five-year holding period, be aware that when you roll those dollars into your Roth IRA, they'll now be subject to the Roth IRA's five-year holding period, no matter how long those dollars were in the original employer plan. So, for example, if you establish your first Roth IRA to accept your rollover, you'll have to wait five more years until your distribution from the Roth IRA will be qualified and tax-free.

1) There is no assurance that working with a financial professional will improve investment results.

Can I Move Retirement Assets From One Type of Account to Another?

This table can help you determine whether you may move funds from one type of retirement savings plan to another. For example, you may be able to roll over funds from a traditional 401(k) plan to a traditional governmental 457(b) plan, but you cannot roll over money from a traditional 401(k) account in one plan to a Roth 401(k) account in a different plan (however, in-plan conversions may be allowed; taxes will apply). Note that employer plans are not required to accept rollovers.

Rollover to:

Rollover from:	Traditional, SEP IRA	Roth IRA	SIMPLE IRA	401(k), 403(b)	Governmental 457(b)	Roth account 401(k), 403(b), 457(b)
401(k), 403(b)[1] taxable dollars	✔	✔[2]	✔[3]	✔	✔[4]	✗[5]
401(k), 403(b)[1] nontaxable dollars	✔	✔[6]	✔[3]	✔[7]	✗	✗[5]
Governmental 457(b)	✔	✔[2]	✔[3]	✔	✔	✗[5]
Roth Account 401(k), 403(b), 457(b)	✗	✔[8]	✗	✗	✗	✔[7]
Traditional/SEP IRA[9] taxable dollars	✔	✔[2]	✔[3]	✔	✔	✗
Traditional/SEP IRA[9] nontaxable dollars	✔	✔[6]	✔[3]	✗	✗	✗
SIMPLE IRA[9]	✔[3]	✔[2,3]	✔	✔[3]	✔[3,4]	✗
Roth IRA[9]	✗	✔	✗	✗	✗	✗

Note: required distributions, substantially equal periodic payments, hardship distributions, corrective distributions, and certain other payments cannot be rolled over. Nonspousal death benefits can be rolled over only to an inherited IRA, and only in a direct rollover or trustee-to-trustee transfer.

1) Also applies to other qualified employer plans such as defined benefit and profit-sharing plans.

2) Taxable "conversion," included in income in year rolled over.

3) Only after employee has participated in SIMPLE IRA plan for two years.

4) 10% early distribution penalty may apply to rolled over funds at payout unless exception applies [unlike other 457(b) plan dollars].

5) 401(k), 403(b), and 457(b) plans can allow in-plan direct transfers of non-Roth funds to a Roth account; taxable dollars included in income in year transferred.

6) Nontaxable "conversion."

7) Nontaxable dollars may be transferred only in a direct (trustee-to-trustee) rollover.

8) If qualified distribution (tax-free) is rolled over from Roth account to Roth IRA, those dollars remain tax-free in Roth IRA; if nonqualified distribution is rolled over from Roth account to Roth IRA, earnings rolled over become subject to Roth IRA five-year holding period for determining qualified distributions.

9) You can make only one tax-free, 60-day rollover from one IRA to another IRA in any 12-month period, no matter how many IRAs (traditional, Roth, SEP, and SIMPLE) you own. This does not apply to direct (trustee-to-trustee) transfers or Roth IRA conversions.

Rollovers from Employer-Sponsored Plans:
A Summary of Factors to Consider

There are many factors to consider when deciding whether to roll over a distribution from a 401(k), 403(b), or governmental 457(b) plan,[1] and where your rollover dollars should go if you decide to make a rollover. Always 1) compare fees and expenses charged by your IRA or new plan (and investment funds) with those charged by your existing employer plan (if any), and 2) understand any features, rights, and guarantees you may be giving up, or gaining, by moving your funds to an IRA or new employer plan.

	Roll over funds to an IRA	Leave funds in original employer plan or roll over to new employer plan
Investment options	• Often provides broader range of investment options • Can diversify investments with an unlimited number of IRAs[2]	• Menu of investment options typically limited (usually mutual funds)[3] • There may be certain investment opportunities in the plan that cannot be replicated in IRA • You may be satisfied by low-cost institutional funds available in your particular plan, and therefore not regard IRA's broader array of investments as an important factor
Fees and expenses	• Investment-related expenses may include sales loads, commissions, expenses of any mutual fund investments, investment advisory fees • Account fees may include administrative, account setup, custodial fees	• Investment-related expenses may include sales loads, commissions, expenses of any mutual fund investments, investment advisory fees • Plan fees may include plan administrative fees (recordkeeping, compliance, trustee fees); fees for services such as loans • Employers may pay some or all of the plan's administrative expenses
Ability to change trustees/custodians	• Can freely move your IRA dollars among different IRA trustees/custodians • Flexibility to change trustees/custodians as often as you want if dissatisfied with investment performance or customer service (no limit on how many direct, trustee-to-trustee IRA transfers you can do in a year)[4]	• Cannot move funds to different trustee/custodian until you receive an eligible rollover distribution from the plan
Distribution flexibility	• Almost unlimited flexibility for you and your beneficiaries	• Distribution options for you and your beneficiaries typically limited
Annuity option	• Individual Retirement Annuities generally available from insurance companies	• Employer plans may, but don't have to, provide annuity option • May have less expensive group annuities
RMDs: Roth	• No required distributions during your lifetime (beneficiaries must take distributions after your death)	• Required after age 72 or actual retirement, if later (unless 5% owner rule applies) • Can avoid RMDs by rolling Roth funds into a Roth IRA
RMDs: Non-Roth	• Required after reaching age 72	• Can postpone RMDs from current employer's plan past age 72 to actual retirement unless 5% owner rule applies; may be advantageous if you plan to work into your 70s
Loans	• Loans not available	• Employer plans may, but don't have to, allow loans
Creditor protection	• Amounts rolled over to IRA from employer plan generally protected in full under federal law in event of bankruptcy • Creditor protection outside of bankruptcy generally depends on state law • Inherited IRAs are not protected from creditors	• Generally unlimited protection from creditors, both inside and outside of bankruptcy[5]

	Roll over funds to an IRA	Leave funds in original employer plan or roll over to new employer plan
10% early distribution penalty (does not apply to rollovers or Roth conversions)	• Penalty generally applies to distributions before age 59½ (unless exception applies) • IRAs (but not employer plans) offer exception for qualified first-time homebuyers ($10,000 lifetime cap), qualified higher-education expenses and payment of health insurance premiums during a period of unemployment	• Penalty generally applies to distributions before age 59½ (unless exception applies) • Penalty does not apply if you receive distribution as a result of separation from service in year you reach age 55 or later (age 50 for qualified public safety employees)
Other services	• IRA providers offer different levels of service, which may include full brokerage service, investment advice, distribution planning, and access to securities execution online	• Employer plans may provide access to investment advice, planning tools, telephone help lines, educational materials, and workshops
Rollover of after-tax dollars	• After-tax (nontaxable) dollars rolled over to IRA may not be rolled back into employer plan, only to other IRAs	• After-tax (nontaxable) dollars can be rolled over to other employer plans or IRAs
Conversion of pre-tax and after-tax dollars to Roth	• Can convert all or part of traditional IRA to Roth IRA at any time	• Plan may, but doesn't have to, allow in-plan Roth conversions • Can roll over (i.e., convert) non-Roth funds to a Roth IRA
Five-year holding period for tax-free qualified Roth distributions	• Starts first day of year you first contribute to any Roth IRA (including conversion) • Nonqualified Roth funds rolled over from employer plan must satisfy Roth IRA's 5-year holding period	• Starts first day of plan year you make Roth contributions to that particular plan • If Roth funds are rolled over to new employer's plan, 5-year holding period carries over and applies to all funds in new plan; may enable earlier tax-free qualified distributions from new plan
Employer stock	• Appreciation in employer stock transferred in-kind to IRA taxed as ordinary income when distributed from IRA	• Appreciated employer stock may be eligible for favorable long-term capital gains tax treatment when distributed from the plan and later sold (net unrealized appreciation, or NUA rules) • For some participants, risk of holding too much employer stock may make it advisable to liquidate holdings and roll over proceeds to IRA even if it means losing favorable tax treatment

1) This table considers the options for eligible rollover distributions. You cannot roll over hardship withdrawals, RMDs, substantially equal periodic payments, corrective distributions, and certain other payments. Special rules may apply if you are the beneficiary of a plan participant.

2) Diversification cannot guarantee a profit or ensure against the possibility of a loss. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any strategy will be successful.

3) Before investing in a mutual fund, carefully consider the investment objectives, risks, charges, and expenses of the fund. This information can be found in the prospectus, which can be obtained from the fund. Read it carefully before investing.

4) You can make only one indirect (60-day) rollover from one IRA to another IRA in any 12-month period, regardless of how many IRAs (including traditional, Roth, SEP, and SIMPLE IRAs) you own. There are no limits to the number of trustee-to-trustee (direct) transfers you can make.

5) Federal protection from creditors outside bankruptcy applies to plans covered by the "anti-assignment" provisions of the Employee Retirement Income Security Act of 1974. Individual (solo) 401(k) plans, SEP and SIMPLE IRAs, and certain church plans are generally not covered by these provisions.

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