



CONSIDERATIONS FOR RETIREMENT PLAN PARTICIPANTS

Introduction

This Checklist is designed to help retirement plan participants in deferral-based plans (e.g., 401(k) and 403(b) plans) understand and evaluate their distribution alternatives when they retire or otherwise become entitled to a distribution from their plans. It is designed to be used in conjunction with educational explanations by an investment professional, so that participants can make informed decisions about one of the most important financial decisions in their lives—how to best manage their retirement money to provide income that lasts for their lifetimes.

Participants have four choices when they are entitled to a distribution. Those are:

- Leave the money in the current retirement plan (unless the account has a small balance, and the plan “forces” distributions of small balances).
- Transfer the account balance to the plan of a successor employer. (This assumes that the participant is not retiring and will go to work for another employer who sponsors a plan that permits those transfers.)
- Roll the account balance into an individual retirement account or individual retirement annuity (IRA).
- Take a taxable distribution (which would reduce a participant’s retirement money by the income taxes on taxable distributions (and possibly additional penalty taxes)).

The first three options avoid the immediate taxation of the benefits; the fourth does not.

The decision should be based on the individual needs and circumstances of each participant. None of these alternatives is right for every participant in every situation.

It’s not an easy decision, because of the long-term financial consequences. However, these materials, when coupled with your investment professional’s educational explanations, can help you make decisions about what’s best for your financial future.

The following Distribution Checklist discusses many of the considerations that would be important to a typical participant. You need to decide which are the most important to you and whether other factors should be considered as well.



Distribution Alternatives and Educational Considerations

I. Keep your money in the plan.

As a general rule, you may leave your money in your plan and keep its pre-tax status (until it is ultimately distributed). However, some plans have mandatory “force out” distributions for accounts worth less than \$1,000 or even less than \$5,000. Check with your plan administrator.

Advantages:

- The federal law governing the plan—ERISA—requires that the plan fiduciaries prudently monitor the cost and quality of the investments options in the plan.
- Your plan may offer investment choices and other services that are less expensive than those available to you outside of the plan.
- Employer-sponsored plans may offer better creditor protection than rollover IRAs (but both are protected in bankruptcy).
- If you have a participant loan, you may be able to continue to make payments on the loan rather than having to take a taxable distribution of the loan amount. However, some plans require payment of the loan when you leave your job. Check with your plan administrator.
- If you work past age 72, you can delay required minimum distributions until after you terminate employment.

Disadvantages:

- You don’t have control over the plan investments or services available to you. Your former employer, as the plan fiduciary, will make those decisions.
- The plan may offer a limited number of investment choices (unless it permits you to use a brokerage account).
- The plan may assess fees to your account for administrative or other reasons.
- You may not have access through the plan to personalized investment advice or advice that takes into account your other assets or particular needs.
- Your plan may not permit periodic (for example, monthly) payments if you intend to use the money for retirement income. Check with your plan administrator. You should also ask if the plan charges for each of those distributions.
- You may be able to obtain services from an IRA investment professional above and beyond those provided by your plan. Understand the services offered by your plan and ask your investment professional about the services that he or she can provide to you.



2. Rollover your money into an IRA.

Another option for preserving the tax-deferred status of your retirement money is to transfer your 401(k) account to a rollover IRA. It is important to find out about the range of investments and services available through a particular IRA and the costs for the services and investments related to the IRA before making a rollover decision.

Advantages:

- This is your retirement money and you will have discretion to decide which financial institution, investments and services to use—and whether to make changes in the future.
- A rollover IRA may also enable you to place all your investments (including the IRA and other assets) with one investment professional, who could coordinate your overall financial and investment planning.
- An investment professional may be able to give you personalized advice about investing and retirement planning.
- A rollover IRA may allow you to consolidate your other tax-deferred retirement accounts in one place. This may be helpful for your financial and retirement planning, for example, investing and withdrawing retirement income in a sustainable manner.
- IRAs are often more flexible than plans on withdrawals and distributions, e.g., setting up regular periodic payments or an unscheduled withdrawal. Also, most IRAs don't charge for periodic payments or special distributions (e.g., medical needs or family events).
- If you select an individual retirement annuity, you can obtain guaranteed lifetime income.

Disadvantages:

- There is not a plan fiduciary who oversees the investments, and their cost and quality, in a rollover IRA. There will usually be more choices in an IRA and you may need to select your own investments. However, an investment professional can help you make investment decisions for your IRA.
- You may pay more in a rollover IRA for investments and advice than you pay in your retirement plan (or a successor plan). Compare costs for the services, investments and administration.
- Fees for some IRA investments can be complex and more difficult to evaluate. There may be conflicts of interest where you could be encouraged to select investments that pay the IRA providers or investment professionals more money, but which could mean that the investments are more expensive.
- Generally, rollover IRAs are protected in bankruptcy, but may not otherwise have the same level of creditor protection as employer-sponsored retirement plans.
- You can't borrow from an IRA—you can only access the money in an IRA by taking a taxable distribution (which may also subject you to tax penalties if you are younger than 59½).
- When you reach the age for RMDs (required minimum distributions) you will have to take periodic taxable distributions from your IRA, but you wouldn't have to from a plan (unless you are a 5% or more owner of the business).



3. Transfer your money to a new employer's plan.

The third way to preserve the tax-deferred benefit of your 401(k) account is to transfer the money in your account to a new employer's plan. While most employer plans allow new employees to roll their accounts in, not all do . . . so it's important that you ask. (This option is not available if you are retiring and won't be working for a new employer.)

Advantages:

- You will be able to make contributions to your 401(k) account at your new employer when you become eligible to participate in that plan and you can have all of your 401(k) money in one place.
- The new plan could potentially offer lower cost investments and services as compared to an IRA.
- You should ask about any investment, administrative and other fees charged to participants in the new employer's plan and compare them to your alternatives.
- In some states, 401(k) plans offer better creditor protection than IRAs. (However, both rollover IRAs and 401(k) plans are protected under federal bankruptcy laws.)
- As long as you are working at the employer, you will not be required to take minimum distributions (RMDs) when you reach the age for RMDs (unless you are a 5% or more owner of the business).
- Many 401(k) plans have loan provisions. You may be able to borrow from the money in the new plan (but loans aren't permitted from IRAs). Check with your new employer.

Disadvantages:

- The new plan may not allow rollovers or, if it does, there may be a waiting period.
- You won't have control over the expenses, services or investments in the new plan.
- The new plan might offer fewer or more expensive investment options than your former plan. Make sure that the option you choose has the right investments (at the right cost) for your needs.
- The new plan may not offer personalized advice on investments, retirement planning, or your other investments.
- The new plan may not offer the services that you need. Make sure that you understand what's available before you make a decision.



4. Withdraw your money from your account.

It's your money and you get to choose what's right for you. One decision you could make is to take a taxable distribution.

Advantages:

- You can use the money as you wish, for example, to pay off existing debt, bills or other expenses.
- If you have made after-tax contributions (other than Roth contributions), you will be able to take these amounts tax-free (though you will be required to pay tax on the earnings on those amounts). (There are special rules for Roth contributions and, depending on the circumstances, a part of the payment may or may not be taxable if withdrawn from a plan.)
- If you have employer stock that is substantially appreciated, there may be tax advantages in taking a distribution of those shares. Check with your tax advisor.

Disadvantages:

- You'll owe federal (and possibly state) income taxes on the money you withdraw. The government requires 20% withholding for federal income taxes, so the amount you receive will automatically be reduced. Also, the withdrawn money could put you in a higher tax bracket, and you may owe taxes at a higher rate.
- If you're under the age of 59½, you would also owe 10% early distribution tax penalty, in addition to the income taxes.
- Once you spend the withdrawal, you will need to begin saving for retirement again, but with fewer years left to save—and without the spent savings, it may delay your retirement date or result in a lower standard of living in retirement.

Notes: These materials discuss distribution considerations that could be important in common scenarios for hypothetical participants. The characteristics of your plan or investments might mean that additional matters should be considered. That could be true if, for example, you have a Roth account or other pre-tax contributions. It could also be true if you have a participant loan or your account includes a company stock investment. And, you need to consider personal circumstances, for example, disability. This Distribution Checklist does not consider those plan characteristics, types of investments, or personal circumstances (and the list in these Notes is not comprehensive). As a result, you need to make sure to take into account your individual considerations, including any that may not be included in these materials. Make sure to get expert advice.