Six Retirement Account Options Every Retiree Must Know

Picking the Right One After You've Left Your Job

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Six Potential "Rollover" Options for Your Plan Funds*

- Leave your employer plan assets in your existing company retirement account.
- Roll over your plan assets to a new company retirement plan.
- Roll over your plan assets to an IRA.
- Take a lump-sum distribution of your plan balance.
- Convert your plan assets to a Roth IRA.
- Make an in-plan Roth conversion of your plan assets.

*Rolling over your plan assets may not be right for you, as there may be disadvantages, including surrender charges, deferred sales charges, early withdrawal penalties, and the loss of certain rights and guarantees.

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Option #1

Leave It in Your Company Retirement Plan

"Choosing" to do nothing is a choice.

- This may or may not be best for you.

Your plan generally won't force you to take a distribution.

- Unless the value is below some minimum (e.g. $5,000).

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Common Reasons to Leave Assets in Your Current Employer Plan

- Age 55 Exception to 10% Penalty:
  - Allows you to take penalty-free distributions from a plan if you separate from service **in the year you turn 55 or later.**
  - Only applies to distributions from the plan sponsored by the employer you left at 55 or later.
- Age 50 Exception to 10% Penalty:
  - Similar rule as above but applies at age 50.
  - Only available to certain federal, state, and local public safety workers.

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Common Reasons to Leave Assets in Your Current Employer Plan

- Creditor protection may be stronger:
  - ERISA-covered plans generally receive strong creditor protection under federal law.
  - Non-ERISA-covered plans and IRAs are protected under state law.
    - Many states offer strong creditor protection for these accounts, but not all.

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Common Reasons to Leave Assets in Your Current Employer Plan

- Fees and Services
  - Your plan may offer certain investments at lower costs than you can get elsewhere.
  - Must be looked at on a case-by-case basis.
  - Important to consider the value received and services provided when looking at fees and not **just** the fees.

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Potential Limitations and Risks of This Option Include:

- More appropriate investments may be available elsewhere.
- More and/or better service may be available elsewhere.
- Eligible Designated Beneficiaries may not be allowed to “stretch” distributions in the plan.
- Certain exceptions to the 10% early distribution penalty are only available in IRAs.
- Your plan may place certain restrictions on when you can take distributions of your funds.
- 20% of a distribution may be withheld for federal income taxes.
- Investment and/or other fees may be higher than other options.
- Estate planning may be more difficult than if your assets were moved elsewhere.

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POLL

- I left my retirement money in the company/government plan when I retired.

YES

NO

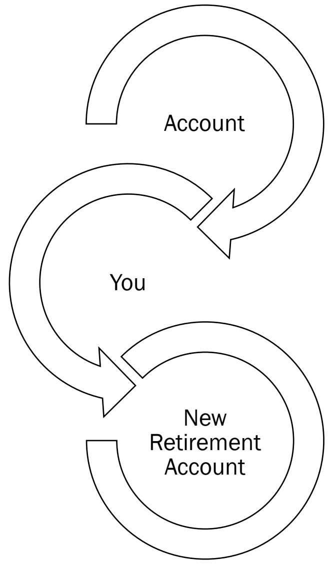
Two Ways to Move Retirement Money*

Indirect Rollover
Also known as "60-day rollover"

Direct Rollover

* Rolling over your plan assets may not be right for you, as there may be disadvantages, including surrender charges, deferred sales charges, early withdrawal penalties, and the loss of certain rights and guarantees.

Indirect Rollovers



- Distribution is made payable to you
- 60-day time limit
- 20% mandatory withholding

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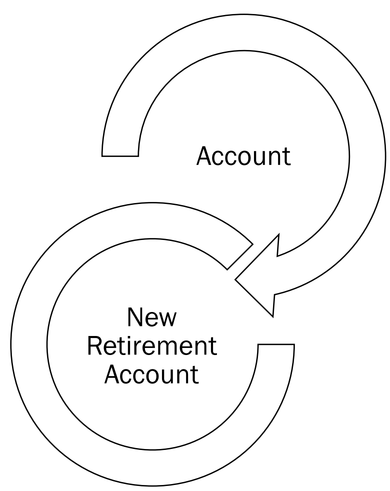
Direct Rollovers

- Funds are sent right from the plan to your new retirement account.
- There is no 60-day rule.
- There is no mandatory withholding.



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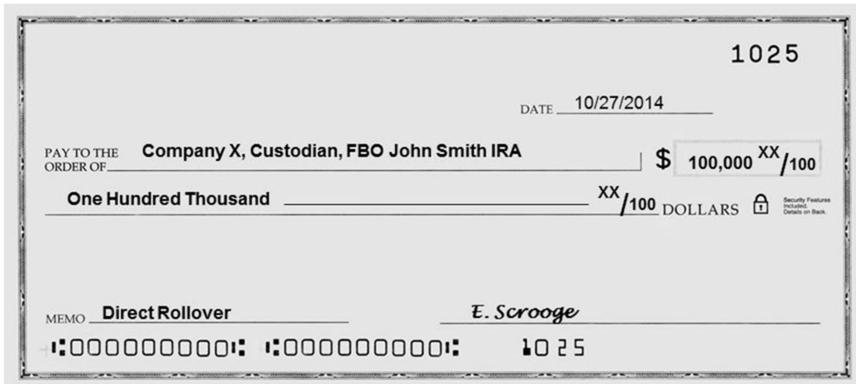
Direct Rollovers*



* Rolling over your plan assets may not be right for you, as there may be disadvantages, including surrender charges, deferred sales charges, early withdrawal penalties, and the loss of certain rights and guarantees.

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OPTION #2

Roll Your Money to a New Company Retirement Plan*

Your new company plan may or may not allow you to roll money into it.

- Check with your new plan.

Many of the same potential benefits as keeping your money in your old plan:

- Creditor protection may be better.
- You may be able to purchase life insurance within your new plan.
- Fees may be more favorable.

* Rolling over your plan assets may not be right for you, as there may be disadvantages, including surrender charges, deferred sales charges, early withdrawal penalties, and the loss of certain rights and guarantees.

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Rolling Your Money to a New Company Plan Additional Benefits

- Plan loans
  - Plans **may** allow participants to take loans.
  - Taking a loan from your IRA is a **prohibited transaction.**
- Life Insurance
  - Cannot be purchased in an IRA.
  - Generally, can't be held in an employer plan after you separate from service.
- Consolidation of funds

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Potential Limitations and Risks of This Option Include:

- More appropriate investments may be available to you through your "old" plan or after an IRA rollover.
- More and/or better service may be available to you through your "old" plan or after an IRA rollover.
- Eligible Designated Beneficiaries may not be allowed to "stretch" distributions in the new plan.
- Certain exceptions to the 10% early distribution penalty are only available in IRAs.
- Your new plan may place more restrictions on when you can take distributions of your funds.
- 20% of a distribution may be withheld for federal income taxes.
- Investment and/or other fees may increase
- Creditor protection may not be as strong.
- Estate planning may be more difficult than if your assets were rolled over to an IRA or other eligible retirement account with more favorable provisions.

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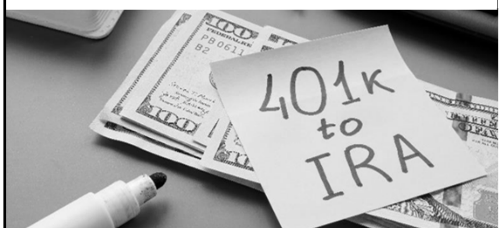
OPTION #3

Roll Over to IRA



OK to roll to an existing IRA.

OK to open a new IRA to accept the rollover.

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Common Reasons to Roll to an IRA*

Generally, a much broader array of investment options.

- Most company plans restrict participants to pre-selected options.

IRAs can invest in just about anything, except:

- Life insurance
- Collectibles
- S-Corporation stock

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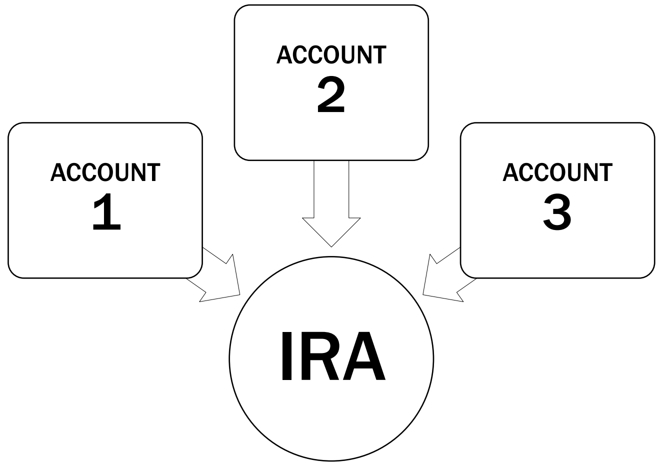
Common Reasons to Roll to an IRA



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Common Reasons to Roll to an IRA

Fewer restrictions on when you can take distributions:

- When money is in a company plan, you're subject to the plan's distribution restrictions.
- IRA distributions can generally be made at any time.

More flexibility regarding withholding:

- Company plans must generally withhold 20% of rollover eligible distributions for federal income taxes.
- For IRA distributions, you can generally elect to withhold:
  - 0% of your distribution
  - 10% of your distribution
  - Any amount in excess of 10% of your distribution

* Rolling over your plan assets may not be right for you, as there may be disadvantages, including surrender charges, deferred sales charges, early withdrawal penalties, and the loss of certain rights and guarantees.

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Common Reasons to Roll to an IRA

IRAs can simplify RMDs:

Example 1
John has three IRAs.

- IRA #1 RMD = $ 5,000
- IRA #2 RMD = $ 3,000
- IRA #3 RMD = $ 2,000
- Total RMDs = $10,000

OK to aggregate.

Example 2
Jane has three 401(k)s.

- 401(k) #1 RMD = $ 5,000
- 401(k) #2 RMD = $ 3,000
- 401(k) #3 RMD = $ 2,000
- Total RMDs = $10,000

Not OK to aggregate.

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Common Reasons to Roll to an IRA

- **IRAs can also provide several estate planning benefits.**
  - Consolidate accounts to make it easier for beneficiaries.
  - Split your account to leave separate accounts to different beneficiaries. Particularly useful when:
    - You have multiple beneficiaries with significantly different ages.
    - One of your beneficiaries is a charity.
    - One of your beneficiaries is a spouse who is more than 10 years younger than you.
- **Allows you to name a trust as your beneficiary, use a customized beneficiary form or allow beneficiaries to take advantage of disclaimer planning. A plan may or may not allow these options.**
- **Preserve the stretch IRA for Eligible Designated Beneficiaries.**

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Review of IRA Benefits

Depending on the provisions of your existing plan and the IRA you establish, the IRA may:

- Offer a broader array of investment options
- Provide more flexible distribution options
- Simplify RMDs by letting you aggregate RMDs between multiple IRAs
- Enhance your estate planning options

An IRA generally allows you to have greater control over your retirement funds.

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Potential Limitations and Risks of This Option Include:

- More appropriate investments may be available through other options.
- More and/or better service may be available through other options.
- Certain exceptions to the 10% early distribution penalty are only available for plan distributions.
- Certain lump-sum distribution planning options may be eliminated.
- Investment and/or other fees may be higher than other options.
- Creditor protection may not be as strong as other options.
- Loans may not be taken from IRA assets.
- RMDs must begin at 73/75, regardless of employment status.

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POLL

- Why did you rollover your employer retirement account to traditional IRA(s)?

1. Better or more investment choices.
2. Simplify my bookkeeping/fewer accounts.
3. More flexible estate planning available.
4. Simplify RMDs.

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OPTION #4

Lump-Sum Distribution

- Sometimes referred to as "cashing out your plan."
- Generally, not a good idea:
  - Your distribution is added to your other income.
  - Tax deferral is lost.
- Many people still cash out their plans.

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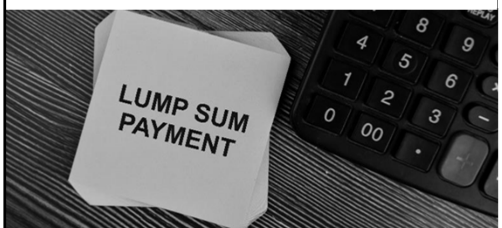
OPTION #4

Lump-Sum Distribution



In some cases, there are special tax breaks available for lump-sum distributions. These special tax breaks include:

- Net unrealized appreciation (NUA)
- 10-year averaging
- Pre-1974 capital gains election

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What is a Lump-Sum Distribution?

- Everything must come out of the plan in one year (calendar year).
- Your plan balance at year-end must be $0.
- Must be made after a “triggering event.”

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Lump-Sum Distribution Triggering Events

The tax code provides four triggering events. They are:

1 Death

2 Reaching age 59 ½

3 Separation from service (***not*** for self-employed)

4 Disability (***only*** for self-employed)

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Net Unrealized Appreciation (NUA)

- Special tax break available for appreciation of employer stock within a qualified plan.
- Applies only to securities of the company you're working for.
- Effectively allows you to trade ordinary income tax rates for long-term capital gain rates for a portion of your retirement savings.
  - Tax rate can be up to 20% lower

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The Three Key Rules for NUA

1

Everything must come out of your plan in one year.

- Includes shares of company stock **and** any other investments within the plan.

2

The distributions must take place after a valid triggering event.

3

The shares of company stock must go to a **taxable** account, in kind.

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Who Should Consider the NUA Tax Break?

- Ask yourself these 2 questions:

1. Do you have company stock in your 401(k)?
2. Is it highly appreciated?

- If the answer to both questions is "Yes," the NUA tax break is generally worth exploring further.
- If NUA is something you are considering, it is strongly recommended that you speak to a knowledgeable tax or financial advisor.

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Other Lump-Sum Distribution Planning Strategies

- **10-year averaging:**
  - Only available on lump-sum distributions from employer plans, and only if you were born before 1936.
  - Must be in the plan for more than 5 years.
- **Pre-1974 capital gains elections:**
  - Applies to account balances accumulated as of 12/31/1973 and their earnings.

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Potential Limitations and Risks of This Option Include:

- More appropriate investments may be available to you through other options.
- You may lose the tax-deferral for all or a portion of your savings.
- There will be no stretch for beneficiaries.
- All or a portion of your distribution may be subject to the 10% early distribution penalty.
- All or a portion of your distribution may be subject to 20% mandatory withholding.
- All or a portion of the distribution may be immediately taxable.

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POLL

- I need to research the NUA option since I have company stock in my retirement account.

YES

NO

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OPTION #5

Convert It to a Roth IRA

- Creates a taxable event.
- Amounts converted are added to your income.
- Consult your tax professional.

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Benefits of a Roth IRA Conversion*

- All distributions from a Roth IRA are tax and penalty-free for life if you've had any Roth IRA for more than five years and you are at least 59 ½.
- If you are older than 59 ½, the amount you convert can be distributed at any time tax and penalty free.

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Benefits of a Roth IRA Conversion*

Example:

Jane converts $100,000 to a Roth IRA when she is 60. This is her first Roth IRA. By the time Jane is 70, the Roth IRA is worth $250,000.

- During the first five years after the conversion, Jane can distribute up to $100,000 tax and penalty free from the Roth IRA.
- After five years have passed, all distributions, including earnings, will be tax and penalty free from all of Jane's Roth IRAs for life.

* **Note:** This illustration is hypothetical and does not represent the performance of any investment product.

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Benefits of a Roth IRA Conversion

- **Roth conversions provide a hedge against future tax rates rising:**
  - Future tax rates are unknown.
  - Taxes are a major concern for many retirees.
  - Roth conversion allows you to pay taxes at today's tax rates.
  - If you believe your future tax rate will be higher, a Roth conversion may benefit you.
- **Help manage other costs tied to your income:**
  - Amount of Social Security benefits included in income
  - Medicare Part B premiums

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Benefits of a Roth IRA Conversion

- **No required minimum distribution during your lifetime:**
  - <u>You</u> decide when you want to take distributions.
- **Non-spouse beneficiaries have required minimum distributions from inherited Roth IRAs on the 10-year schedule enacted with the SECURE Act.**

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Potential Limitations and Risks of This Option Include:

- More appropriate investments may be available to you through other options.
- More and/or better service may be available through other options.
- Certain lump-sum distribution planning options may be eliminated.
- Investment and/or other fees may be higher than other options.
- Creditor protection may be not be as strong as other options.
- Loans may not be taken from Roth IRA assets.
- Life insurance cannot be purchased with Roth IRA assets.
- There is no guarantee that a Roth IRA conversion will achieve the intended results.
- There is no guarantee that the Roth IRA distribution rules won't be changed in the future.
- A Roth IRA conversion generally can't be recharacterized after October 15th of the year after the conversion.
- The amount converted is generally added to your income.

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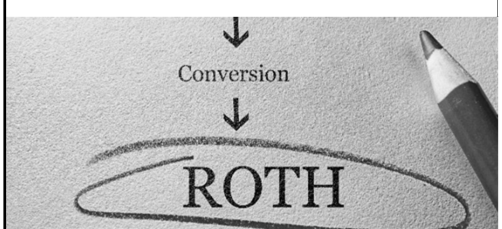
OPTION #6

In-Plan Roth Conversion



Similar to a Roth IRA conversion:
- Pre-tax converted amounts are added to income.

Funds are moved to a plan Roth account.

May be offered by:
- 401(k)s
- 403(b)s
- Governmental 457 plans

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Why Consider an In-Plan Roth Conversion?

To make an in-plan Roth IRA conversion, you should believe that:

1. The tax implications of a Roth conversion are favorable.
2. That you are better keeping your money in your plan than rolling (converting) it to a Roth IRA.

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Key Disadvantage of In-Plan Conversion vs. Roth IRA Conversion

Conversion is irrevocable.

*SECURE Act 2.0 increased RMD starting age from 72 to 73 for those born between 1951-1959. Those born in 1960 and later will begin RMDs at age 75.

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Potential Limitations and Risks of This Option Include:

- More appropriate investments may be available to you through other options.
- More and/or better service may be available through other options.
- Investment and/or other fees may be higher than other options.
- There is no guarantee that an in-plan Roth conversion will achieve the intended results.
- Unlike Roth IRAs, plan Roth accounts are generally subject to RMDs once you turn 73/75. (NO LONGER APPLIES.)
- Non-qualified distributions from plan Roth accounts are generally subject to pro-rata tax treatment, which is not as favorable as the ordering rules non-qualified Roth IRA distributions face.
- The amount converted is generally added to your income.

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POLL

- I need to analyze the implications of doing a Roth conversion of some or all of my retirement account.

YES

NO

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It's Complicated

- Few retirees are aware of all six potential options.
- It's a big decision that impacts you and your beneficiaries.

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Questions?

- Answer your important questions.
- Evaluate rollover options.
- Move your retirement account money – if that's the right move for you – correctly to avoid costly mistakes.
- Create a plan to tax efficiently, diversify, and liquidate shares of appreciated employer stock (NUA).
- Create a tax-efficient Roth conversion plan.
- And more!

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Contact Information

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SPEAKER BIO

- **Christi Powell, CFP®, RICP®**
  - 2020 Dick Dwyer Service Award recipient
  - Former BIVAB Director.
  - Former Assistant Region Manager – South Central Region of BI.
  - Oklahoma Chapter Director since 2000. Current VP.
  - Owner Falcon Financial of Oklahoma, LLC a state registered advisory firm specializing in retirement planning and estate planning.
  - Director, Washita Capital, a private equity firm in Dallas.
  - 1 husband, 2 children, 2 in-law children, 5 grandchildren.
  - Hobbies: reading, hiking, photography, gardening. “Life is a walk.” Thich Nhat Hanh
  - NO personal financial planning advice is being given or offered. Examples are educational only.
  - I firmly believe consistent, disciplined investing is fundamental to financial security.
  - Be a humble and patient investor. “As our circle of knowledge expands, so does the circumference of darkness surrounding it.” Albert Einstein