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BEST IN BRIEF
Insight and Inspiration from Phillips Financial

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What Would You Do?

Here's a riddle for you: Some people are reluctant to start me, unless I'm automatic. I'm frequently exhausted when I don't roll over. I'm sometimes left behind. Retirees devour me. What am I?

Answer: A retirement savings plan.

New jobs often come with a lot of excitement and steep learning curves. Consider this example scenario:

Charlotte, a freshly-hired employee is a little bit overwhelmed. She's meeting new co-workers, setting expectations, figuring out the coffee situation, and completing form after form.

Charlotte's new employer has a retirement savings plan, and this fact jogs her memory. She recalls the account she left behind with her former employer and wonders what to do with it. The decision can have a significant effect on the lifestyle Charlotte may want to lead in retirement.

In general, when people change employers, there are four options for their retirement savings:

- **Option 1: Leave the money in the former employer's plan**. If Charlotte leaves her money behind, any potential growth will continue to grow tax-deferred or tax-free, depending on whether she made Traditional or Roth plan contributions. The advantages may include:
    - Charlotte avoids taxes and possible penalties.[1]
    - The assets may continue to grow tax-deferred or tax-free, depending on the type of plan contributions made.[1]
    - The current plan may provide access to investment choices, tools, education, and distribution options that are not available elsewhere.[2]
    - The assets are protected from creditors, in general.[2]
    - She may be able to take penalty-free withdrawals from her account if she is between the ages of 55 and 59½ (ordinary income taxes may apply).[2]

  Additional considerations may include:
    - The range of investment choices, tools, education, and distribution options may be limited.[2]

- If the plan has a minimum balance requirement, accounts with less than $5,000 may be transferred to an IRA and accounts with less than $1,000 may be cashed out, creating a tax consequence.[3]
- If Charlotte holds shares of her former company's stock in her account, she may need to talk with a financial advisor about various ways to manage the shares before making a decision.[4]

- **Option 2: Roll the money into her new employer's retirement plan.** It may be helpful for Charlotte to have all of her qualified retirement savings in one place. If her new employer's plan accepts rollovers without too long a wait, this may be an option. The advantages may include:
  - Charlotte avoids taxes and possible penalties.[1]
  - If she completes a roll-in, her savings may continue to grow tax-deferred or tax-free, depending on the type of plan contributions made.[1]
  - The current plan may provide access to investment choices, tools, education, and distribution options that are not available elsewhere.[2]
  - The assets are protected from creditors, in general.[2]
  - If Charlotte is still working for the company at age 70½, she may not have to take required minimum distributions (RMDs) from the plan.[5]

  Additional considerations may include:
  - She will need to complete paperwork and make sure the process is completed in a timely way.[6]
  - The fees, expenses, and investment options may not be as attractive as those in her former plan or an IRA.[1]

- **Option 3: Rollover plan assets to an IRA**. Charlotte also has the option to rollover her savings to a Traditional or Roth IRA. She can move Traditional plan assets to a Traditional IRA, Roth plan assets to a Roth IRA, or Traditional plan assets to a Roth IRA. If she chooses the latter, there will be tax consequences.[1] In some cases, this may be a simpler and more straightforward option than a plan-to-plan roll-in.[6] The advantages may include:
  - Multiple retirement accounts may be consolidated into a single IRA.[7]
  - Depending on the type of rollover chosen, Charlotte's savings may continue to grow tax-deferred or tax-free.[1]
  - The IRA may provide access to investment choices that are not available elsewhere.[1]
  - She may be able to take penalty-free withdrawals after age 59½ (income tax still applies). Before age 59½, Charlotte may be able to take distributions for very specific reasons, such as buying a first home.[8]

  Additional considerations include:
  - The fees, expenses, and investment options may not be as attractive as those in her former plan.[1]
  - IRA assets typically are only protected in the case of bankruptcy.[9]

- Charlotte must begin taking RMDs at age 70½.[9]

- **Option 4: Take a cash distribution.** Charlotte can choose to have the savings she's accumulated in her retirement plan distributed as cash. Any Traditional contributions or Roth earnings are taxable, and 20 percent may be withheld for tax purposes. Also, she may owe a 10 percent penalty tax if she is younger than 59½. Roth contributions may be exempted if certain criteria are met (generally, Roth IRA contributions are exempt after the account is at least five years old and the account owner is age 59½).[2] The advantage may include:
  - Immediate access to her savings.[2]

  Additional considerations may include:
  - Her savings will not continue to grow tax-deferred or tax-free.[1]
  - Charlotte may have significantly less savings at retirement than she might have had otherwise.[2] If she cashes out $10,000 in a Traditional 401(k) account and if the money would have earned 6 percent a year, on average, over 30 years, then her savings might have grown to more than $57,000.[10]
  - The income may push Charlotte into a higher tax bracket. It is taxed as ordinary income.[2]
  - The assets are not protected from creditors.[2]

So, what should Charlotte do? Does it make a difference whether she is 30 or 50, married or single, or planning to start a business? Of course it does! The only way to determine which choice is the right one is to understand the specifics of the situation.

If you would like to talk about the retirement savings you've accumulated, give us a call. We welcome the chance to talk with you about retirement planning or estate planning and assist you in making thoughtful decisions that carry you toward your goals.

This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

The information contained in this material does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee the foregoing material is accurate or complete. There is no guarantee these statements, opinions, or forecasts provided herein will prove to be correct.

This material is being provided for information purposes only. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. 401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. RMDs are generally subject to federal income tax and may be subject to state taxes. Consult your tax advisor to assess your situation. Like Traditional IRAs, contribution limits apply to Roth IRAs. In addition, with a Roth IRA, your allowable contribution may be reduced or eliminated if your annual income exceeds certain limits. Contributions to a Roth IRA are never tax deductible, but if certain conditions are met, distributions will be completely income tax free. Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a Traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion. Every investor's situation is unique and you should consider your investment goals, risk tolerance, and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Please refer to the FINRA Regulatory Notice titled "Rollovers to Individual Retirement Accounts" (https://s3-us-west-2.amazonaws.com/peakcontent/Peak+Documents/Feb_2018-FINRA_Regulatory_Notice-Rollovers_to_Individual_Retirement_Accounts.pdf) and Raymond James' article titled "Determining What to do with Your Retirement Savings from a Former Employer's Plan" (https://s3-us-west-2.amazonaws.com/peakcontent/Peak+Documents/Feb_2018-RJ-Determining_What_to_do_with_Your_Retirement_Savings_from_a_Former_Employers_Plan.pdf).

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