Retire...Relax®

SPECIAL REPORT

Should I Keep My Retirement Plan Where It is . . . Or Should I Roll It To An IRA?

ROSENBERG FINANCIAL GROUP, INC. – December, 2017

Before we begin, a cautionary note. As you talk with financial people about what to do with your retirement account when you retire, a lot of the people you talk to will only be interested in getting your money, investing it, and making fees or commissions. Recently, regulators (SEC, FINRA) have become more concerned than ever that retirees are getting bad advice from stock brokers, financial advisors, mutual fund companies, online brokerage firms, and insurance agents about what they should do with their retirement plan. Among other things, they believe that many of financial people and firms have been automatically recommending a rollover without taking into consideration possible negatives. This attention is good for you. These regulators (SEC, FINRA) oversee most of the professional investment firms, brokers, and advisors. Unfortunately, the regulation of insurance agents who don't hold securities licenses is the responsibility of the states insurance commissioners. These agents generally sell annuities that may or may not be in your best interests.

For many retirees, their employer-sponsored retirement plans represent a major portion of their investment assets. As a result, upon retirement, retirees need to make a decision about what to do with their retirement funds. Generally, depending on their situation and the rules of their plan, you could have up to four options:

- Keep the assets in your plan at work (if allowed)
- Rollover the funds to your new employer's plan
- Cash out the plan and take a taxable distribution
- Rollover the funds into an IRA

We as a firm have developed policies and procedures to address this potential conflict of interest. So here's the way we are approaching rollovers.

Rollover Considerations

When we meet with retirees, we consider a number of factors discussed below. If you do it yourself, you need to consider these factors:

- **Investment Options:** Typically, rollovers offer a wider choice of investment options than company plans. So, one consideration is whether or not you need or want a strategy or investment that is unavailable through the plan at your current or new employer

- **Fees and expenses:** Employer-sponsored retirement accounts generally carry lower fees and expenses than if investing elsewhere. So if you leave your money in the plan at work, costs could be lower, depending on the plan and the investments within the plan. So you need to determine whether or not you feel like you need, or want, financial advice and local management, and, if so, are you willing to pay for it. And, remember, if you work with someone, you will pay for it. So make sure the fees and expenses are disclosed to you.

- **Services:** Likewise, you need to consider what services are offered under the plan, such as investment, financial, and estate planning advice, and quarterly reviews, either in person or by phone. Are you looking at someone who is going to be your advisor and manage your money, or are you going to be working with someone who is going to get a commission to sell you a product? Are they a CERTIFIED FINANCIAL PLANNER™ Professional who can help you in other areas? Will they charge extra for these services? If you are comfortable you can do this yourself, then that may negate the need for advice.

- **Penalty-free withdrawals:** You need to evaluate withdrawal-related differences between IRAs and 401(k)s. For example, a 401(k) may offer a plan loan, a feature not offered by IRAs. Additionally, you may be between ages 55 and 59½, and thus be able to get penalty-free money from your retirement account (not your IRA) as long as you were older than 55 when you retired.

- **Protection from creditors and legal judgments:** Generally, plan assets are fully protected under federal law. IRAs are usually protected in a bankruptcy filing. State laws vary as to whether IRAs are protected against lawsuits.

- **Surrender charges:** If you are offered products that contain surrender charges (which we do not), there could be costs to take your money before the surrender charges end. But again, at Rosenberg Financial Group, Inc. we choose not to offer any products with surrender charges.

- **Illiquid investments:** This is different than surrender charges. These are products that cannot be easily and quickly converted to cash without the potential of losing a significant percentage of your money. If you are offered products that are not be easily liquidated to cash (without major costs or delays), you might have trouble getting part or all of your money when you need or want it.

- **Required minimum distributions (RMD):** Once you reach the age of 70½, you will need to take RMDs. A corporate plan may allow you to avoid the RMDs if you are still working. IRAs do not.

- **Employer stock:** If you work for a company that offers company stock in the plan, you need to determine if there will be any negative tax implications from rolling individual stock (as opposed to a fund) over to an IRA. Generally, stock appreciation, when withdrawn from an IRA, is taxable as ordinary income. Certain kinds of employer stock plans let investors liquidate shares and profits are taxed at the lower capital gains rates. You or your advisor, however, must analyze whether the tax benefits are outweighed by the risk that arises if you are overly concentrated in the employer's stock.

- **Conflicts of interest:** Remember that anyone you talk with has a potential conflict of interest. That includes anyone you might talk with who works for the financial company that handles your retirement plan at work. For example, we would benefit financially from rollovers, because they increase the firms' assets under management and, ultimately, advisory fees. However, as fiduciaries, we must put your interests first and provide you with disclosure documents.

- **Income objectives.** Does the plan at work provide the income options and flexibility that you want or need? Can you receive monthly income? Can you receive additional income whenever you want or need it?

The "Other" Decisions

If you have a pension plan, you need to decide whether to take your pension in the form of monthly income, or if a lump sum distribution. This can be a difficult decision, because both have advantages and disadvantages.

- **Annuity Payouts -** Your company may allow you to receive your qualified retirement plan monies as an annuity. That means you will receive a series of payments over a number of years – usually your life expectancy. If you are married, can also decide whether or not you want payments to go to your spouse in the event you die first. If that's the case, you may need to decide how much your spouse will get. The usual choices are 100% of your benefit; 75%; or 50%. People who choose this option are those who like the security of a monthly stream of income for the rest of their life. The disadvantage is that if an emergency comes up, you can't get to the money like you could if you had taken the lump sum. You're locked into you original choice. In addition, the stream of income you receive will not have a cost-of-living adjustment. So as prices go up due to inflation, your income stream will not change.

- **Lump Sum Distribution –** This is the option to take your money in cash or to roll it over from your pension as a lump sum into an IRA. The advantage is that you will have access to the money, unless you lock the investment into something that limits how much you can take out and/or will have a surrender charge if you want to make a withdrawal. In our opinion, you shouldn't invest in a product that has a withdrawal or limits how much you can take out. The disadvantage in this option is that you will have access to your money and you may take out so much over the years that you will be left with little or no money.

Withdrawal Charges

We mentioned this above but we want to emphasize it. We often talk with people who have been “locked-in” to an investment because it carries a withdrawal charge. This means that if you want to take money out (generally in excess of a specific percentage), you would have to pay a fee. Why is there a withdrawal charge? Generally because the person who sold it to you got his commission upfront. So the company you invest with just can’t let you cancel it anytime you want without penalty because they would be out that money. So to get it back they can take it from the person who sold you the product or they can take it from you. Guess who they take it from? There are plenty of good products that don’t have surrender charges.

Avoid Beneficiary Designation Mistakes

As you know, when you die, your assets will pass to whoever you name in your beneficiary designation form. Unfortunately, too many people do this quickly and without much thought. For more discussion on this subject, download our free report “Who Really Gets My Money When I Die.” Just **CLICK HERE**.

1. 20% Tax Withholding

As we mentioned previously, you have the option of taking your money as a lump sump distribution. And one way of doing this is to take a direct distribution from your retirement plan at work. In other words, you receive a check made payable directly to you. The problem is you will owe taxes, and possibly a penalty. When the company sends you this money, they are required to automatically withhold 20% for taxes. Most people think of this as a 20% penalty, but it’s not. The 20% is merely the amount of tax your employer must send to the IRS. It’s like withholding from your paycheck. If it’s too much, you will get the overage refunded when you file your taxes. If it’s not enough, you will have to pay the difference. So if your account value is $200,000, you would receive a check for $160,000 ($200,000 less the $40,000 sent to the IRS).

Assume your original plans were to take the $200,000 and buy a vacation home. But then you changed your mind and wanted to put the money into an IRA Rollover account. Or assume you completed the paperwork yourself and checked the wrong box and they send you a check made payable to you. In either event, you want to rollover the amount into an IRA so you don’t have to pay the taxes and any penalty.

In this example you have $160,000 ($200,000 less the $40,000 withheld for taxes). So you take that $160,000 and put it into an IRA within 60 days. But your gross distribution was $200,000. You only rolled over $160,000. In that case, you will have to pay taxes, plus any penalties, on the $40,000, unless you can come up with that $40,000 from your own money.

The moral: make sure you really know what you're doing before you do it.

2. Early Distribution Penalties

We spoke earlier about the two ages involved in Early Distribution Penalties. Let’s go into more detail.

If you are <u>55 or older when you retire</u> or leave the company, and have a Qualified Retirement Plan (401k, etc.), you can take money out without the 10% Early Distribution Penalty. This only refers to employer plans, not IRAs. This little known fact can make it easier for retirees who will need distributions from their retirement accounts. But, remember, if you roll this money into an IRA, then you fall under the IRA Early Distribution Penalty age, which as you know is 59½. So you might want to keep enough money in your company plan to make it to 59½.

There are, however, exceptions to the Early Distribution Penalties. Here are the primary ones for the purpose of this discussion:

a. 72(t), which is the IRS code that allows you to take money early as long as you take it over a period of time. The technical term used is “Substantially Equal Distributions.” That means you receive a set amount until you reach the age of 59½ or five years, whichever is later. Be careful not to exceed IRS guidelines when doing this.

The amount of your distribution is not necessarily based on what you want or need; it's based on what the IRS considers to be reasonable based on your age.

Please be aware that 72(t) programs are complicated and are not appropriate for all investors. It is recommended that investors seek the advice of a professional tax preparer prior to setting up distributions to determine suitability. Once 72(t) programs are established, changes or modifications to the program may incur severe penalties from the IRS. 72(t) distributions from a qualified plan are still subject to normal taxation.

You should note that distributions taken under a 72(t) program may be subject to surrender charges and/or early redemption fees based on the type of investments held within the qualified plan. That's just one of the reasons we prefer investments that don't have surrender charges or early redemption fees.

b. Death. If you die, there is no early distribution penalty imposed on the beneficiaries.

c. Disability. If you are disabled, as defined by the IRS, you can avoid the penalty.

Again, these are just the top three we are using for this discussion.

3. Widow Not Leaving IRA In Deceased Spouse's Name

Remember above we said that one of the exceptions to the 10% Early Withdrawal Penalty is death? That means that if you inherit your spouse's IRA, you don't have to pay a penalty. BUT, when that account gets rolled into your name, and you're under 59½, then you <u>will</u> have to pay a penalty when you withdraw money.

To avoid this situation, leave your spouse's IRA in him/her name until you reach 59½. Then roll it into your IRA. By doing so, you fall under the death exception and can avoid the 10% early withdrawal penalty.

Financial Firm and Advisor Checklist

On the following page is a checklist to take with you when you meet with an advisor, broker, insurance agent, or financial planner. Make sure you get clear answers, and make sure you understand the answers. Remember, this is your money and you should get clear answers before you give that money up to someone else.

Financial Firm and Advisor Checklist

Your Qualifications			
Do you have a College Degree?			
A Post Graduate Degree? (Masters, Ph.D., etc.)			
Are You A CERTIFIED FINANCIAL PLANNER™ professional?			
Your Firm			
Are You a Registered Investment Advisor?			
Is the company at least 5 years old?			
Are there any issues or unresolved client complaints?			
Do you provide periodic in-person/phone reviews?			
If so, how often?			
Do you charge for any meetings?			
Do you provide advice on financial and retirement issues?			
Do you provide advice on Social Security?			
Do you provide advice on Estate Planning?			
Your Disclosures			

Will you provide me in writing with your conflicts of interest?			
Will I know what your services are costing me?			
If I totally liquidate my investment for any reason, will there be any charges?			
If I withdraw money, will there be any surrender charges?			
Will you be compensated by fees?			
Will you be compensated by commissions?			
Are you rewarded more for selling certain products?			
Are you a fiduciary?			
My Accounts			
Will my account be protected by SIPC? Will my investment be placed with a highly-rated Insurance Company?			
Will I receive statements at least quarterly?			
Will I have online access to my accounts?			

These are by no means the only questions you should ask, but they're a good start.

What Does Rosenberg Financial Group, Inc. Do?

We believe that most investors want a specialist. They want to call and talk to a person that understands them and can provide for their needs. They don't want a person who represents a company that is trying to push more of their products through their sales system.

At Rosenberg Financial Group, Inc., we have created the **Personal Investment Management System™** that assists us in managing our clients' money. This disciplined investment approach for retirees and pre-retirees includes an exit strategy when we feel that risk is high. Keeping an eye on the investment landscape for our clients is something we do each and every day.

To learn more about us, just download the report: ***What Do I Need To Know About Rosenberg Financial Group, Inc.?*** CLICK HERE

We are pleased to offer complimentary consultations. **To learn what happens during a consultation**, CLICK HERE.

Additional Free Reports

Here's a list of our available free reports. Just click the report you want and it will magically appear:

- Can I Afford to Retire?
- Maximizing My Social Security Benefits
- What I Need To Do To Plan For My Secure Retirement?
- Who Will <u>Really</u> Get My Money When I Die?
- Your Stock Market Survival Guide
- Avoiding Internet Scams and Identity Theft
- What To Do When Your Spouse Dies

If you're rather get paper reports, just call toll free **(844) 337-3767** and leave a message as to which report(s) you are interested in, We'll mail them to you at no cost or obligation.

www.RetireRelax.com

Be sure to listen to *"Your Money"* with Steve Rosenberg and Sherri Goss live every Saturday morning at 9:00 on WMAC, AM940. Sherri also appears as WMAZ's Financial Expert every Wednesday afternoon on the 5:00 edition of *Eyewitness News.* After her appearance, Sherri remains at the station until 6:00 and takes private questions off-the-air

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