QUALIFIED PLAN ROLLOVER DISTRIBUTION OPTIONS

Employer-sponsored 401(k), 403(b) and some pensions are retirement plans under the Employee Retirement Income Security Act (ERISA). Employees contribute via payroll deductions they authorize employers to make on their behalf. Employers may contribute based on employee contributions or compensation. On leaving an employer, the decision to withdrawal, transfer, or rollover retirement savings is an important one.

There are generally four choices for qualified plan distributions:

1. Rollover qualified assets into an Individual Retirement Account (IRA)
2. Keep qualified assets in former employer's plan (if allowed)
3. Transfer qualified assets to current employer's plan (if allowed)
4. Lump-sum distribution (rarely advisable as the lump sum being subjected to taxes and/or penalties)

Each option has potential advantages and disadvantages, which depend on the each employee's goals and circumstances. Key factors include investment choices, fees, fund expenses and services offered. Please review this information and consult with a qualified tax and/or financial professional and/or retirement plan administrator before making any rollover decisions.

OPTION 1: ROLLOVER QUALIFIED ASSETS INTO AN IRA

A rollover occurs when the holdings of one retirement plan are transferred to another without any tax consequences.

Potential Advantages:

- Assets retain their tax-advantaged growth potential. By rolling savings into an IRA, early distribution penalties and income taxes associated with lump-sum distributions may be avoided.
- Access to greater diversification of investment choices than are typically available in employer plans.
- Increased access to guidance and investment advice.
- IRAs have certain Internal Revenue Service (IRS) tax penalty exceptions. Exemptions from IRS penalties include the use of assets for first-time homebuyers, certain higher education expenses, disability, certain medical expenses, qualified first-time-home purchase, among others.
- IRAs can be conveniently consolidated and maintained with one custodian.
- IRA earning and contributions are protected from creditors in federal bankruptcy proceedings.
- There are no limits to federal bankruptcy protection for rollovers from qualified plans, Simplified Employee Pension (SEP) and Savings Incentive Match Plan for Employees (SIMPLE IRA) plans.

Potential Disadvantages / Items to Consider:

- Fees and expenses associated with IRA investments may be higher or lower than those in the former employer's qualified plan. These fees generally depend on the investment choices and any accompanying advisory services.
- Loans from an IRA are not allowed but may be available if assets remain in the employer's plan.
- In addition to income tax, distributions prior to age 59½ may be subject to an IRS tax penalty of 10%.
- Annual Required Minimum Distributions (RMDs) begin April 1st following the year you reach 70½ years of age. Employees have no RMDs for their current employer's plan, nor do Roth IRA owners.
- IRAs are held to state creditor laws regarding malpractice, divorce, or other types of lawsuits. Maximum caps in federal bankruptcy proceedings may be lower than under ERISA.
- Favorable tax treatment of net unrealized appreciation ("NUA") for employer stock is lost if rolled over.

OPTION 2: KEEP QUALIFIED ASSETS IN FORMER EMPLOYER'S PLAN

This option requires an employer to allow a former employee to keep their funds in its retirement plan. It requires no action; however, managing several retirement accounts can be arduous or confusing. The former employee must also adhere to the previous plan's rules regarding loans, investment options and distributions.

Potential Advantages:

- Tax-advantaged growth potential is retained with continued use of current investment choices.
- Fees and expenses may be higher or lower in the former employer's plan.
- Assets withdrawn may not be subject to the 10% IRS tax penalty if the employee is at least age 55.
- Employer-sponsored plans generally have creditor and bankruptcy protection under ERISA.
- Company stock in the plan may have increased in value. The difference between the price paid (basis) and a higher current price is net unrealized appreciation, for which special tax treatment exists today.

Potential Disadvantages / Items to Consider:

- Former employer may not allow former employees to keep assets in the plan.
- Contributions are not allowed and loans must be repaid following termination/retirement/disability.
- Former employee must maintain a relationship with the former employer.
- Distributions taken prior to age 59½ may be subject to a 10% IRS tax penalty and ordinary income tax.
- Annual RMDs must begin by April 1st following the year the employee reaches age 70½.

OPTION 3: TRANSFER QUALIFIED ASSETS TO CURRENT EMPLOYER'S PLAN

Upon starting employment, new employees may be able to transfer retirement savings to the new employer's plan. This shares many of the advantages and considerations as leaving money in a former employer's plan.

Potential Advantages:

- Tax-advantaged growth potential is retained, assets may be consolidated and loans may be allowed.
- Fees and expenses may be higher or lower in the new employer's plan.
- Assets withdrawn may not be subject to the 10% IRS tax penalty if the employee is at least age 55.
- Employer-sponsored plans generally have creditor and bankruptcy protection under ERISA.
- RMDs may be delayed after age 70½ if the employee remains employed and is a < 5% company owner.

Potential Disadvantages / Items to Consider:

- There may be a waiting period before starting a new employer's plan.
- Employees are limited to the investment and distribution options chosen by the plan sponsor.
- Employees can only roll into the plan those assets that are permitted by the new employer.
- Favorable tax treatment of appreciated company stock is lost if it is rolled into the new plan.

SUMMARY OF OPTIONS

Benefit	Rollover to IRA	Leave in Previous Plan	Move to Current Plan	Lump-Sum Distribution
Annual investment operating expenses	0.2–0.3%	?	?	N/A
More investment choice, diversification	X			N/A
Delay RMDs after 70½ if still employed			X	N/A
Avoid IRS early distribution penalties	X	X	X	
Make additional contributions	X		X	N/A
Tax advantaged status	X	X	X	N/A
Creditor protection through ERISA		X	X	N/A
Consolidation of retirement savings	X		X	N/A
Avoids[1] 10% IRS penalty for first-time homebuyers or higher education expense	X			N/A
Flexible distribution options	X			N/A
Immediate access to cash				X

Each person's situation is unique, and each person has a different vision of retirement that requires a unique financial strategy. Cornerstone Wealth Advisors, Inc. is a fee-only firm of Certified Financial Planner (CFP®) advisors that can provide comprehensive retirement planning advice, information and insight to make informed decisions.

[1] There are exceptions to the IRS tax penalty including the use of assets to cover certain higher education expenses, disability, certain medical expenses, qualified first-time-home purchase among others. Please consult with a tax professional for additional information.