

## DOL FIDUCIARY RULE COMPLIANCE FORM QUALIFIED PLAN ROLLOVER DISTRIBUTION OPTIONS

Employer-sponsored plans such as 401(k)s, 403(b)s and certain pensions plans are retirement programs that employers provide. Employee contributions are typically withdrawn from earnings before being deposited into a bank account. As an added incentive, employers may also contribute a certain amount to an employee's retirement based on the amount of the employee's annual contribution ("company match"). The decision to withdrawal, transfer, or rollover retirement plan savings is an important one, and you should compare them.

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

Any option selected has its own set of advantages and disadvantages. The most suitable option will depend on the circumstances and goals of the employee. Certain factors to consider are the choice of investments, fees, fund expenses, as well as the services that are offered. Please review the information in this brochure and consult with a tax professional and retirement plan administrator before making any rollover decisions.

### OPTION 1: ROLLOVER QUALIFIED ASSETS INTO AN IRA

A rollover occurs when transferring the holdings of one retirement plan to another with no tax consequences.

#### 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 more investment choices than are typically available in employer plans, providing greater potential diversification.
- Increased access to guidance and investment advice.
- IRAs have certain Internal Revenue Service ("IRS") tax penalty exceptions, such as those for first-time homebuyers even if assets are withdrawn prior to the age 59½. 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. Consult a tax professional.
- 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 the federal bankruptcy protection for rollovers from qualified plans, Simplified Employee Pension ("SEP"), and Savings Incentive Match Plan for Employees ("SIMPLE IRAs").

#### Items to Consider:

- The fees and expenses associated with IRAs may or may not be higher than those in the former employer's qualified plan. These fees generally depend on investment choices and advisory services.
- The underlying annual fees of assets in an IRA managed by Cornerstone Wealth Advisors' (Cornerstone), custodied at Charles Schwab & Co., averages 0.07% - 0.18%, depending on the IRA's allocation. This may be higher or lower than the underlying annual fees in an employer's qualified plan.
- Assets transferred to an IRA will continue to be managed by Cornerstone and integrated within your overall investment policy for reaching your financial goals for retirement.
- Refer to your client advisory agreement with Cornerstone to determine your management fee for transferring these assets to Cornerstone's management.
- "Loans" from an IRA are not allowed.
- In addition to income tax, distributions prior to age 59½ may be subject to an IRS tax penalty of 10%.
- Required Minimum Distributions ("RMDs") begin April 1 following the year the employee reaches 72 years of age, and annually thereafter. Roth IRA owners have no RMDs.

- 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 Employee Retirement Income Security Act (“ERISA”).
- If employee owns appreciated employer securities, favorable tax treatment of net unrealized appreciation (“NUA”) is lost if rolled into an IRA.

### OPTION 2: KEEP QUALIFIED ASSETS IN FORMER EMPLOYER’S PLAN

If a former employer allows a former employee’s funds to be kept in its retirement account after departure, this may be a potential option. This option will not require action to be taken in the short term, however, managing several retirement accounts can be confusing in the long term. Leaving retirement savings in a previous employer’s plan will also require the adherence to the previous plan’s rules in regards to loan availability, investment options and distributions.

#### Advantages:

- No immediate action is required.
- Tax-advantaged growth potential is retained.
- Will typically be able to keep current investments.
- Fees and expenses may be in an employer-sponsored plan.
- Not subject to the 10% IRS tax penalty if departing in the same year employee turns age 55 or older
- Employer-sponsored retirement plans generally have creditor and bankruptcy protection under ERISA.
- The company stock in the plan may have increased in value. The difference between the price paid (“cost basis”) and the stock’s increased price is net unrealized appreciation.

#### Items to Consider:

- Former employer may not allow former employees to keep assets in the plan.
- Allowed to repay an outstanding loan within a short period of time.
- Any additional contributions typically won’t be allowed.
- Must maintain a relationship with former employer for long term.
- Any distributions taken prior to age 59½ may be subject to a 10% IRS tax penalty on top of any ordinary income tax.
- RMDs from a former employer’s plan begin April 1 following the year the employee reaches 72 and continue annually thereafter.
- RMDs must be taken from each employer-sponsored plan, including plan Roth accounts; aggregation is not allowed.

### OPTION 3: TRANSFER QUALIFIED ASSETS TO CURRENT EMPLOYER’S PLAN

If starting employment with a new company, new employees may be able to transfer retirement savings to the new employer’s plan. This is a potential option for employees that would like to keep all of retirement savings in one account. This alternative shares many of the considerations of leaving money with a former employer.

#### Advantages:

- Tax-advantaged growth potential is retained.
- Fees and expenses may be lower in an employer-sponsored plan.
- Not subject to the 10% IRS tax penalty if departing in the same year employee turns age 55 or older
- RMDs may be deferred beyond age 72 if the plan allows, employee is still employed and not a 5% or more owner of the company.
- Employer-sponsored retirement plans generally have ERISA creditor and bankruptcy protection.
- All retirement assets can be placed in one account.
- Loans may be allowed.

#### Items to Consider:

- There may be a waiting period before starting a new employer’s plan.

- Can only choose from the investment options that are chosen by the plan sponsor.
- Can only rollover plan assets that are permitted by the new employer.
- How and when savings are accessed will be determined by the new employer.
- The favorable tax treatment of appreciated company stock is lost if the assets are rolled over into another plan.

**OPTION 4: LUMP-SUM DISTRIBUTION**

A Lump-Sum distribution is a one-time payment for the entire amount in a retirement savings account. There may be many financial consequences associated with cashing out retirement plan savings. The impact will vary depending tax circumstances and age of the employee. Those in need of access to money may want to consider only withdrawing the money that is needed until another cash source can be identified.

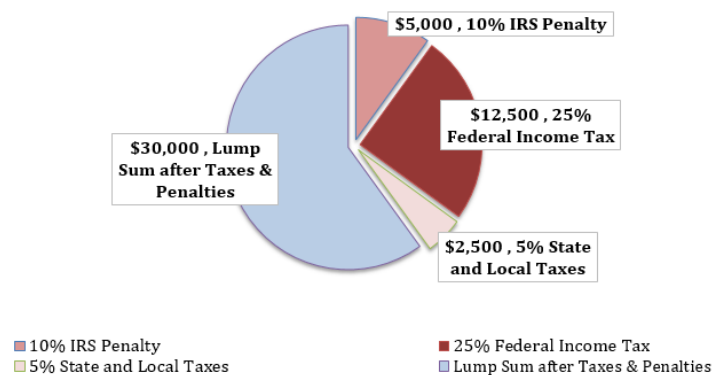
**Advantages:**

- Able to keep money in a bank account and have the ability to withdraw it immediately.
- Penalty-free distributions can be taken only if the employee:
  - ❖ Departed the company in the same year they also turned age 55 or older; or
  - ❖ Turns age 50 or older in the year they stop working as a public safety employee and is taking distributions from a government defined benefit pension.
- Lump-sum distribution of appreciated company stock might qualify for favorable tax treatment of net unrealized appreciation.

**Items to Consider:**

- Assets will lose their tax-advantaged growth potential.
- The money may be subject to federal, state, and local taxes, unless it is rolled into IRA or another employer plan within 60 days.
- Employee may owe a 10% IRS tax penalty on the distribution if leaving the company before the year in which the employee turns 55 years of age.
- Previous employer is required to withhold 20% for the IRS.
- May have the ability to perform a partial withdrawal. This will help lower tax liability.

**\$50,000 Early Lump-Sum Distribution Example**



This information is for illustrative purposes only. This example assumes a 25% federal tax bracket and 5% state and local tax rate. Taxes may vary. Depending on tax bracket, the taxes owed at the end of the year may be higher or lower. The 10% IRS tax penalty may be assessed if participant is under age 59½ and no penalty exception applies. State penalty may also apply. Please check with the state in which the employee resides and a tax professional for specific details.

## SUMMARY OF OPTIONS

Benefit	Rollover to IRA	Leave in Previous Employer's Plan	Move to Current Employer's Plan	Lump-Sum Distribution
Generally lower internal fees/expenses	0.07% – 0.18%	?	?	
Assets are managed by Cornerstone and integrated with your investment policy	X			?
Delay RMDs after 72 if still employed			X	
Avoid IRS early distribution tax penalties and respective income taxes	X	X	X	
Make additional contributions	X		X	
More investment choices with broader diversification options	X			
Protection from creditors through ERISA		X	X	
Consolidate all retirement savings into one account	X			
10% IRS tax penalty (exceptions for a first-time homebuyer <sup>1</sup> or for qualified higher education expenses)	X			
Flexible distribution options	X			
Immediate access to after-tax cash				X

When considering rolling over qualified assets from an employer plan to an IRA, please consider the following factors: fees and expenses; services offered; investment options; when penalty-free distributions are available; treatment of employer stock; when required minimum distributions begin; protection of assets from creditors and bankruptcy.

Investing and maintaining assets in an IRA will generally involve higher costs than those associated with employer-sponsored plans. Consult with the plan administrator and tax professional before making any decisions regarding any retirement assets.

Each person's situation is unique, and each person has a different vision of retirement that requires a unique financial planning strategy. Our firm can guide and provide advice regarding retirement assets and planning by providing information and insight needed to make informed decisions.

<sup>1</sup> 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.