Understanding Your 401(k) Options

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INTRODUCTION:

Life is full of transitions. And with these transitions come many different considerations. When you transition from one job situation to another, you have a wide array of questions to address. One key question is what to do you with your 401(k).

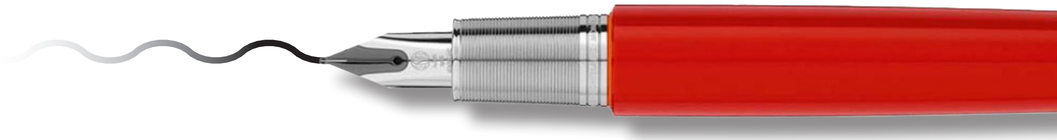
401(k)s can be great retirement vehicles, especially if you received or will receive matching contributions from an employer. However, these are not perfect solutions for all retirement needs and concerns. Transitions present opportunities to consider all of your options.

In this guide, we take a look at the common options you will have with your 401(k) when dealing with a transition.

401(K) OPTIONS

In general, you will have four main options with your 401(k) as you experience a transition:

» Leave it Be
» Receive a Lump Sump
» Rollover into a New 401(k) Plan
» Rollover into an IRA



LEAVE IT BE. You can let your retirement assets remain in their current account. As long as employer contributions are vested, you won't lose any money and the plan retains tax-deferred status. With that being said, the employer sets the guidelines for the 401(k) meaning there might be restrictions on the length of time you can stay with the existing 401(k) or with the investment options available to you.

RECEIVE A LUMP SUM. You have the option of cashing out your account upon transition. In some instances, plans may automatically issue your money. Holding a check for a large sum of money can be exhilarating, certainly if you have immediate needs and wants you'd like to address. However, what you do next with your 401(k) lump sum may have certain consequences.

Even if you are an early earner, it may be prudent to retain your lump sum for retirement purposes over spending it now. This is because the sum will be taxed as income, since contributions were made with pre-tax funds. And distributions will be subject to the 59 ½ rule, which results in a 10% tax penalty.

ROLLOVER INTO NEW 401(K) PLAN. Per IRS rules, plan participants in a qualified retirement account will avoid penalties and maintain tax deferral if distributions/withdrawals are deposited into another qualified account within 60 days. Qualified retirement accounts can include another 401(k) account, as well as other types of plans.

When evaluating whether to do a rollover consider:

» Does the new plan offer investment strategies that meet my goals?
» Are there plan limitations? Underlying fees?
» What is my new employer's contribution level?
» Am I too exposed? Does it make sense to allocate a portion of my 401(k) into another retirement vehicle?

ROLLOVER INTO AN IRA. There are many situations in which an IRA could be more attractive to you than rolling over into a new 401(k). The employer has ultimate say on what options are offered within the 401(k). You may not like your new 401(k) options or new employer may not even offer a new 401(k).

With an IRA, you generally have more input on how assets are invested and may have more contribution options.

Types of Transfer Options

There are two ways to transfer funds to another account: Direct and Indirect. In a direct transfer, you coordinate between two qualified plans for the transfer of funds. In an indirect rollover, you take a lump sum and place it into a qualified plan within 60 days, per IRS rules.

Both transfer options present challenges. For a direct transfer, your HR department at your old employer may not be the best resource for assistance. This is why many individuals work with a financial professional when dealing with their transfers. For an indirect rollover, you have to make sure you don't exhaust your 60 days rollover period and make crucial decisions on where the money goes.

WHAT'S RIGHT FOR YOU? What will be appropriate for you will depend on a variety of factors specific to your unique financial situation and retirement goals. Evaluating your options during a transition can be difficult which is why working with a financial professional can be so helpful.

It may make sense to allocate a portion of your 401(k) into another vehicle or retirement solution. For those who fear the negative impact of volatile markets on their retirement portfolio, there are strategies available that offer guaranteed protection and growth. Contact us to discuss if this strategy is right for you.

WHAT IF I'M NOT IN TRANSITION? So far, this guide has discussed 401(k) options for those in transition. But individuals currently maintaining employment may want to know if there are options for them, given recent market volatility. These employees may have options for allocation and investment through an action called an "in-service distribution."

An in-service distribution is the withdrawal of funds from a qualified, employer-sponsored retirement plan, such as a 401(k), while maintaining employment with the sponsoring company.

WHEN MIGHT AN INDIVIDUAL CONSIDER AN IN-SERVICE DISTRIBUTION?

There are a number of reasons an employee might consider an in-service distribution. A few include:

- Their current plan is under-performing or offers constrained investment choices
- Their current plan involves high fees
- Their anticipated needs have changed
- They need to cover an emergency or hardship
- Their retirement plan may not offer benefits (like lifetime income) that other vehicles do
- To mitigate risk as a plan participant nears retirement

Additionally, an individual may face an in-service distribution due to changes with their plan and their employer's role with their plan (i.e. the employer reduces benefits or seeks other plan types)

Because funds are typically matched by employers, it is prudent for an individual to weigh their options carefully.

Two Types of In-Service Distribution

HARDSHIP

Designed for specific conditions, such as tax-deductible medical care expenses* not reimbursable by insurance, funerary expenses of close relatives, and 12 months of post-secondary education.

*(medical expenses exceeding 10 % of AGI)
Hardship distributions cannot be rolled into another plan.

NON-HARDSHIP

No financial need or emergency is required.

Can be rolled over into another plan type

Questions? See page 5 for our contact information.

PLANS THAT ALLOW ISDS

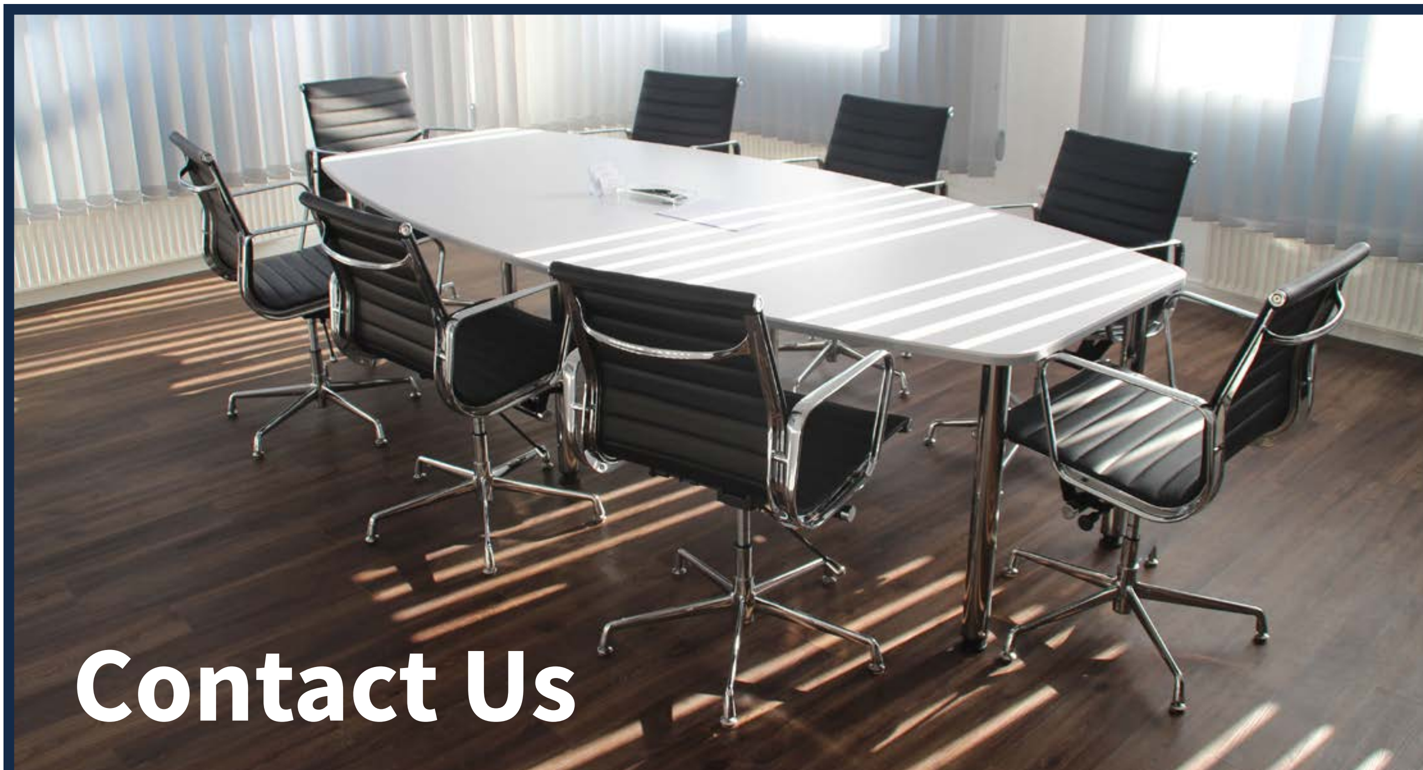
It is important to recognize that just because the tax code allows for in-service distributions, this does not mean plans are required to offer them. This is true for both hardship and non-hardship ISDs. In general, 401(k)s, 403(b)s, and profit-sharing plans often allow for non-hardship withdrawals.

Plan Documents for the prospect's retirement account will outline what is allowed and under what conditions.

Rules for an In-Service Distribution

- The earliest an individual can take non-hardship distributions from their 401(k) deferral account is 59 ½
- Not all types of money within a 401(k) will be eligible for distribution.
- Some contribution types may be available at a younger age. These include non-safe harbor matching, profit sharing, and additional voluntary contributions.
- A direct withdrawal is generally considered as ordinary income (if the amount is not rolled-over into another qualified account within 60 days.
- A plan may have specific constraints, such as duration of employment thresholds

For individuals that have a 401(k), in-service distributions present you with the mechanism to transfer funds to a more advantaged vehicle—while remaining with their current employer.



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