



*Independent, Objective Advice*

# Eli Lilly Investment & Retirement Planning Q&A



*Oaktree Financial Advisors is neither endorsed by nor affiliated with Eli Lilly*



OAKTREE  
FINANCIAL ADVISORS, INC.



## Introduction

We know that managing your retirement is about more than just managing your money. The professionals at Oaktree Financial Advisors will help you understand and define your retirement needs. Your needs then serve as the goals from which we formulate a diversified investment portfolio with the objectives of optimal return with your risk tolerance in mind.

We want to be the last financial advisor you will ever have. You see, at Oaktree, our business is based on long-term relationships, not transactions. Our specialty is assisting Lilly employees with their investment and retirement planning. Our advisors have helped hundreds of Lilly employees prepare for and transition into retirement and it is our privilege to serve them. We are a privately owned, independent firm and our first loyalty is to you. In order to maintain that independence, we do not seek out or accept endorsements or sponsorships from companies or organizations and we are not affiliated with or endorsed by Eli Lilly. The result is advice that is independent and objective.

What follows are some of the most common questions we hear from Lilly employees and the corresponding answers.

## Questions and Answers

**The Lilly 401(k) began offering a Roth 401(k) option in 2012. How do I know if I should take advantage of this new opportunity?**

While there is no way to calculate whether the pretax or Roth option is “best”, it is our opinion that you should strongly consider utilizing the Roth 401(k). Many of our clients have been phased out of being able to contribute to Roth IRAs due to the income limitations so this is great opportunity to accumulate some tax free retirement funds.

If you want to learn more about how the Roth 401(k) might benefit you please contact us for a consultation to discuss the specifics of your situation.

**How does the Lilly 401(k) match work?**

The Lilly matching contribution no longer goes into Lilly stock. You receive your match at the end of the month and it is invested using the same allocation you have selected for your salary deferrals.



**I would like to save for my family’s retirement. Can I invest in the Lilly 401(k) plan and still contribute to an IRA?**

Yes. You can contribute up to 50 percent of your monthly base salary up to \$22,500 in 2023 to your Lilly Employee Savings Plan plus \$7,500 more as a “catch up” for those of you who turn 50 by the end of the year. Lilly currently matches dollar-for-dollar up to six percent of your eligible base salary. If you would like assistance choosing among the investment options in your 401(k) we offer a 401(k) Tune Up.

In addition, you can contribute to an individual IRA. For 2023, the IRA contribution limit is \$6,500 with a \$1,000 “catch up” for those of you who turn 50 by the end of the year. This IRA contribution may or may not be deductible depending on your adjusted gross income. You may also be eligible to make a contribution to a Roth IRA depending on your adjusted gross income. However, the total contribution to all your IRAs for 2022 cannot exceed \$6,500 or \$7,500 for those 50 or older. We can help you determine if you are eligible by reviewing your current situation.

**Is there a way to avoid the 10% penalty if I take withdrawals from my IRA account before I am 59½ years old?**

Under Internal Revenue Code 72(t), a 10% penalty tax applies on retirement plan distributions (not rollovers) that are includable in gross income and are made before age 59½. Like many IRS rules, there are exceptions. An exception to this rule is for distributions that are part of a series of “substantially equal periodic payments” (SEPP). Once the distribution begins, it must be continued to age 59½ or for a minimum of 5 years, whichever is longer.

This method is quite restrictive and should be used only as a last resort. It is wise to seek professional guidance because mistakes can be costly. For SEPP distributions, any change in the payment schedule after you begin taking withdrawals may subject you to the 10% penalty tax, plus interest, applied retroactively to all previous withdrawals. Oaktree Financial Advisors can help you determine the optimal way to structure your “substantially equal payments” to provide you with the income you require.





**If I retire, can I take withdrawals out of my Lilly 401(k) before age 59½ and avoid paying the 10% tax penalty?**

If you will be at least 55 years old in the calendar year you retire under the terms of the Lilly Retirement Plan, you can choose to receive a distribution of your 401(k) or to postpone the distribution (generally up until April 1 of the year following the attainment of age 70½). If you postpone the distribution, you may make withdrawals from your 401(k) as frequently as you choose without any restrictions or penalties. You can withdraw \$5,000 from your 401(k) one month, \$10,000 the following month, nothing the next month and so on. You have total and complete flexibility. All withdrawals will be exempt from the early withdrawal penalties but will still be subject to ordinary income taxes. But be careful. This exception only applies to retirement plans; it does not apply to IRA's. In addition, you might forfeit other tax benefits that could apply to a lump sum distribution.



If you are thinking about taking early withdrawals, you should consult with one of the professionals at Oaktree Financial Advisors before making any withdrawals so that we can help you understand and evaluate your options. We will also prepare an Independent Professional Retirement Overview (IPRO) for you to help you understand how your retirement can be funded. It is very important to choose the retirement income strategy that is right for you to help ensure that your retirement funds will last throughout your retirement. The IPRO will provide you with a comprehensive analysis of the options available so you can make wise choices.

**I know that there is a Self-Directed Brokerage Account as an investment option for my 401(k) but I don't know much about it. Should I consider it?**

Yes. You're eligible to open a self-directed brokerage account if the value of your account is at least \$10,000. With the self-directed brokerage account, you can invest in thousands of different investments using the money that's already in your savings plan account. One of the most valuable services the professionals at Oaktree provide to Lilly employees is helping you choose and periodically review the investments in your self-directed brokerage account.



## **I'm not sure I'm doing the right thing with my stock options, performance awards, shareholder value awards, and restricted stock unit awards. How do I best manage these various forms of equity compensation?**

Depending on your position, you may receive some or all, of the above-mentioned forms of equity compensation. How to best manage these awards depends a lot on the specifics of your situation. Each type of award has different and sometimes complicated tax consequences. You have to look at your financial goals first. If you are accumulating a significant position in company stock due to these awards it might be time to investigate options for diversifying your holdings.

Most importantly, have a strategy. By planning ahead, you can implement tax-friendly strategies to help you avoid unnecessary taxes. We would be happy to assist you in evaluating your options.



## **How do I know if I have too much Lilly stock?**

Because of stock options (ISO, NQ, GlobalShares), performance awards, restricted stock awards, shareholder value awards and the option to allocate to Lilly stock in your 401(k), it's not uncommon for Lilly employees to accumulate a large position in Lilly stock. Holding too much in **any** one stock can subject your portfolio to unnecessary risk and volatility. But when it's your employer's stock it can be even more dangerous. If the company runs into trouble, employees can lose both their jobs and a large portion of savings. Determining whether you have too much money tied up in company stock or stock options is not an exact science – it depends on the specifics of your situation. An employee with another 20 years until retirement is in a better position to take the risk of a concentrated position than someone who is 60 and about to retire. But generally, you should hold no more than 10% of your overall portfolio in one stock and no more than 5% when it's your employer's stock. Because each person's situation is unique, this question is best addressed as part of the Independent Professional Retirement Overview (IPRO).



### **I have a lot of Lilly stock in my 401(k). Is there anything I can do?**

Yes. Prior to the June 1, 2005 changes to the 401(k), one of the biggest misconceptions we heard from Lilly employees was that they had to wait until age 50 before they could begin diversifying out of the Lilly stock in their 401(k). Contrary to popular belief, that was not the case. Even prior to the June 1, 2005 changes, you did not have to wait until age 50 to diversify out of your Lilly stock.

You have always been entitled to the full market value of Lilly matching contributions as long as you are fully vested, which means you have three or more years of credited service. You can take a withdrawal for any reason and no documentation is required. As long as you choose to do a direct rollover to an IRA the withdrawal is not a taxable event. If you have Lilly stock as part of your matching contributions, you can liquidate the Lilly stock in your 401(k) and rollover the cash to your IRA or you can rollover your Lilly stock to the IRA and liquidate the stock over a period of time instead of all at once. Within the IRA you then have the choice of thousands of investments to help you diversify your money. Whether this is the appropriate strategy for you depends on your specific situation.

The June 1, 2005 changes to the 401(k) now give you an additional way to diversify out of Lilly stock that was not available in the past. You can now diversify your company matching contributions out of Lilly stock and into other plan investment options as soon as you are vested. Previously you had to be 50 years old in order to move any money from the Lilly stock into the other investment options.

You need to carefully evaluate your options before deciding to transfer any Lilly stock. For most people it probably makes sense to seek the advice of a financial advisor and/or accountant prior to making any changes. The increased flexibility is great to have but you need to carefully evaluate whether keeping the money in the 401(k) or moving

it to an IRA would be most beneficial for you based on the specifics of your situation. Also, anytime you move Lilly stock to another investment option you lose some potential future tax advantages on that company stock.

Our advisors can help you with the entire process, from determining if this is the appropriate strategy for you, to requesting the withdrawal, establishing your IRA and implementing a strategy to diversify your portfolio.





### **Can Oaktree help me estimate whether I can afford to retire and live comfortably?**

Yes. We can help you determine if you can maintain your lifestyle throughout retirement taking into account the new pension plan design. Oaktree Financial Advisors has developed the Independent Professional Retirement Overview (IPRO), a customized retirement analysis that takes into account your specific benefit programs.

### **What is your investment philosophy?**

We have established a systematic approach to investing. A large body of research shows that asset allocation - the practice of dividing money among different types of investments – can benefit long-term performance and reduce your investment risk. Through proper diversification and management of downside risk, we help our clients meet their financial goals. We offer an independent, objective approach to investing.

### **When I have an account, who actually holds my investments?**

We are affiliated with Commonwealth Financial Network, Inc. (Commonwealth), the nation's largest, privately held independent B/D-RIA. Commonwealth is a member firm of the Securities Investor Protection Corporation (SIPC) ([www.sipc.org](http://www.sipc.org)) and clears through National Financial Services LLC (NFS), a Fidelity Investments broker-dealer. All client assets are held by NFS.

Fidelity Investments and National Financial Services LLC (together "Fidelity") is an independent company, unaffiliated with Eli Lilly and Commonwealth. Fidelity is a service provider to both. Fidelity provides clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC, Members NYSE, SIPC. 1105120.1.0



**How are you compensated? What is your fee?**

Have you ever been to a restaurant where the prices weren't on the menu? What did that generally indicate? Watch out for the bill! Financial advisors who don't clearly disclose their fees are an awful lot like a restaurant without prices on the menu. We believe it is important for our clients to understand and be comfortable with the way their financial advisor gets paid.

We do not charge for any preliminary consultations or Independent Professional Retirement Overviews (IPROs) or 401(k) Tune Ups. Fees for our services are incurred only if you choose to do business with us. Investment management services are billed as a percentage of the invested assets that we manage. Prior to implementing any investment strategy or recommendations we will clearly disclose and review all costs and fees with you. Only after you make the decision to proceed will you incur any fees.





## Why should I consider Oaktree Financial Advisors?

We believe in being objective. Before you entrust your money to someone, you want to know that person will act in your best interests. At some firms, advisors are employees, with a boss to answer to, quotas to fill and proprietary products to sell. With us, things are different. We are a privately owned, independent firm and our first loyalty is to you. In order to maintain that independence, we do not seek out or accept endorsements or sponsorships from companies or organizations and we are not affiliated with or endorsed by Eli Lilly. The result is advice that is independent and objective.

Our business is about relationships with people, not just their money. We offer free introductory consultations because we believe in developing long-term relationships that are a good fit for both of us. We don't believe in slick presentations or "hard selling" future clients. We sit down and discuss their finances, concerns, current needs and future goals. During our discussions, we work together to arrive at a method for achieving these goals. Our goal is to pleasantly surprise our future clients with the comfort levels experienced in their first meetings and to continue that same level of service as our relationship continues.

If you would like to see how a relationship with Oaktree Financial Advisors could benefit you, please give us a call at (317) 818-1631 or email us at [info@oaktreadvisors.com](mailto:info@oaktreadvisors.com) to schedule an individual consultation.

This Q&A is intended to provide accurate and current general information. It is not intended to give specific legal, accounting, or tax advice. You are urged to consult your professional advisors in these areas for assistance regarding your personal situation.

Information included in this material regarding Eli Lilly's retirement plan is based on sources such as the current Summary Plan Description. Please keep in mind that while we do our best to keep this information up-to-date and accurate, it is subject to change. You should rely on the most recent information provided to you directly by Eli Lilly.

If you are considering rolling over money from an employer-sponsored plan, such as a 401(k) or 403(b), you may have the option of leaving the money in the current employer-sponsored plan or moving it into a new employer-sponsored plan. Benefits of leaving money in an employer-sponsored plan may include access to lower-cost institutional class shares; access to investment planning tools and other educational materials; the potential for penalty-free withdrawals starting at age 55; broader protection from creditors and legal judgments; and the ability to postpone required minimum distributions beyond age 70½, under certain circumstances. If your employer-sponsored plan account holds significantly appreciated employer stock, you should carefully consider the negative tax implications of transferring the stock to an IRA against the risk of being overly concentrated in employer stock. You should also understand that Commonwealth and your financial advisor may earn commissions or advisory fees as a result of a rollover that may not otherwise be earned if you leave your plan assets in your old or a new employer-sponsored plan and that there may be account transfer, opening, and/or closing fees associated with a rollover. This list of considerations is not exhaustive. Your decision whether or not to roll over your assets from an employer-sponsored plan into an IRA should be discussed with your financial advisor and your tax professional.

Securities and advisory services offered through Commonwealth Financial Network®, member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services offered through CES Insurance Agency or Oaktree Financial Advisors, Inc. Tax services offered by Oaktree Financial Advisors are separate and unrelated to Commonwealth.

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