Retirement Plan Distributions

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Wealth Solutions Group

Contact your Financial Advisor with question

With the average life expectancy increasing, individuals today are living longer and spending more years in retirement. Financial experts estimate that to live comfortably throughout retirement you will need to save as much as 70-90% of your pre-retirement income. Therefore, you will need to put aside more money today to maintain your current lifestyle in retirement. Relying solely on Social Security benefits and traditional employer pension plans to fully provide for your future retirement income needs is no longer an option. Today there is a greater need to accumulate your retirement wealth by participating in your employer-sponsored retirement plan and through personal savings, such as individual retirement accounts (IRAs).

By participating in your company-sponsored retirement plan, you have taken that first step towards achieving financial freedom. In addition to getting the maximum benefits out of your retirement plan, funding a Traditional or Roth IRA is also another way to help build your nest egg. Whether you make annual contributions to an IRA or roll money from your employer-sponsored retirement plans into an IRA, at retirement your IRA can become a signficant source of retirement income during your retirement years.

CHOOSING THE OPTION THAT IS BEST FOR YOU

If you are changing jobs, retiring soon, or already retired, deciding what to do with your retirement plan account may be one of the most important financial events in your life. Since the consequences of your decision can make a significant difference to your tax situation and your future retirement, what you choose to do today with your retirement plan assets may affect your financial well-being. Generally, you have five distribution options:

OPTION 1: DIRECT ROLLOVER TO AN IRA

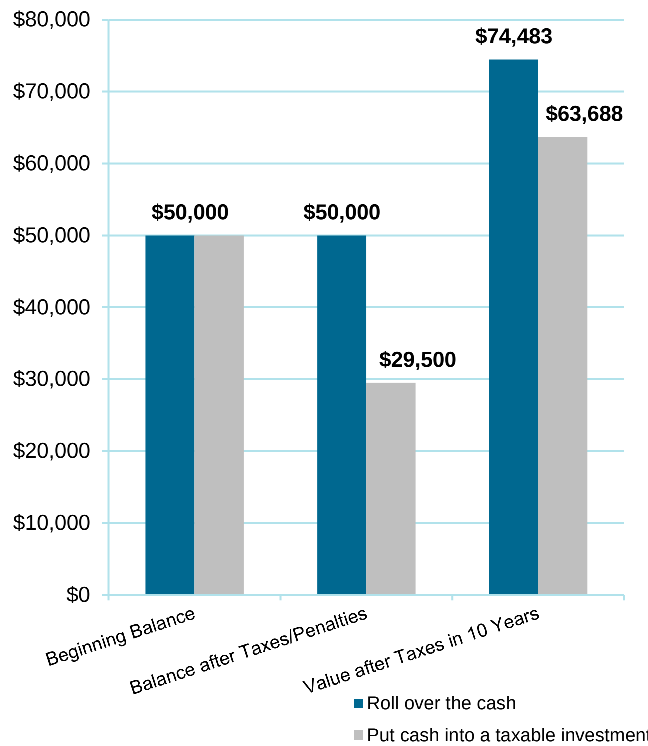
By rolling over to an IRA, you will be able to gain greater control over your money while keeping your hard-earned retirement nest egg growing tax-deferred. Other advantages include:

- *More investment options.* This will enable you, along with your Financial Advisor, to design an investment strategy that will help meet your retirement goals.
- *Greater control.* With a rollover IRA you will have easier access to your retirement assets and you can control when you take the distributions, which can assist you in managing your taxable income in retirement.
- *Consolidation of retirement accounts.* With one account to maintain, you have the convenience of being able to easily track your investments. Should you change jobs again, you can roll those retirement dollars into your IRA.

- *Access to full-service investment resources.* You will receive on-going investment advice and guidance from your Baird Financial Advisor, who is supported by the full-service investment resources of his or her firm.
- *Stretch IRA concept.* With a rollover IRA you can incorporate estate planning into your overall retirement plan distribution strategy. With a little planning, you may be able to generate retirement income during your lifetime as well as “stretch” your IRA distributions to your heirs over their lifetime, thus leaving a retirement legacy.

OPTION 2: MOVE MONEY TO NEW EMPLOYER’S PLAN

If your new plan accepts retirement assets from previous plan(s), you may be able to rollover your existing retirement money to your new employer’s qualified retirement plan. However, by moving your assets to another qualified plan your investment options may be limited to those offered by the new employer’s plan. In addition, this may also limit your ability to access your money with ease and flexibility as the future withdrawals are subject to the rules under the new plan. Benefits of transferring the assets to your new employer’s plan may include: the ability to borrow from your plan, increased creditior protection compared to your IRA, and distributions at age 55 (if you terminate employment in the year you turn 55).



Note: Chart assumes a hypothetical 8% fixed, compounded rate of return, 31% income tax rate plus a 10% early withdrawal penalty for taking the cash. This chart is for illustrative purposes only and is not used to imply or assure the performance of any investment.

OPTION 3: STAY INVESTED IN FORMER EMPLOYER’S PLAN

When leaving your job you may be given the option of leaving your money in the company plan if your retirement balance is greater than $5,000. Although this may be the easiest course of action to take, by staying invested in your former employer’s plan you will not be able to make any additional contributions. Your investment choices are limited to what is available in your old plan and you may not have as much flexibility in taking distributions when you want from your retirement plan.

OPTION 4: RECEIVE A CASH DISTRIBUTION

For many individuals leaving a job the thought of receiving a lump-sum distribution from their employer-sponsored retirement plan may be very appealing. However, receiving a cash distribution can have adverse tax consequences such as:

- The distribution will be immediately taxed, subject to ordinary income tax rates.
- You lose the opportunity of your money growing tax-deferred.
- A 10% penalty will be assessed on the distribution if you are under age 59½.
- Your distribution will also be subject to the mandatory 20% withholding.

OPTION 5: CONVERT TO A ROTH IRA

The final option is to convert your assets directly into a Roth IRA. Whereas distributions from a Traditional or Rollover IRA are taxable when distributed, a Roth IRA will allow you to take qualified distributions tax free. For a Roth IRA distribution to be qualified, you have to be age 59½ or older, and the assets must be in the account for a minimum of five tax years. Other items to keep in mind when performing a conversion:

- Any assets converted are taxable in the year of the conversion.
- Roth IRAs do not have Required Minimum distribution requirements for the original account owner.
- Each conversion has its own five year clock that must be satisfied before a distribution is qualified.

OTHER SPECIAL CONSIDERATIONS

As you review and assess each of the retirement plan distribution options available, following are additional considerations to discuss with your tax advisor and/or plan administrator:

- Distribution of Employer Stock from Qualified Plans. If your company-sponsored retirement plan contains employer securities and the stock has appreciated substantially over the years, you may be able to take advantage of a special tax treatment available for lump sum distributions, called Net Unrealized Appreciation (NUA).
- Outstanding Loan Balance. If you have an outstanding loan balance you are required to repay the loan balance immediately before rolling over your money to the IRA. If you do not repay your loan the outstanding balance may be treated as a distribution subject to current income taxes and possible penalties.

WHICH DISTRIBUTION OPTION IS BEST FOR YOU?

To decide which retirement plan distribution option makes the most sense for you, begin with identifying your priorities: What are your goals for this retirement money? Do you want to continue saving this money for your retirement? How much more money do you need to save to reach your retirement objectives? What are the costs and fees associated with obtaining the products and services need to meet your objectives? How long will your retirement savings need to last you? Do you need or want professional advice? While evaluating each distribution option you will also want to weigh the value of preserving the continued tax-deferred growth on your retirement assets verses taking a lump-sum distribution and being subject to immediate income tax and possible penalty consequences.

Before you make any distribution decisions make sure to verify with your employer's benefits representative the amount you are eligible to distribute and to determine what paperwork is required. Also, you should consult with both a Financial Advisor and a qualified tax advisor to ensure that your decision supports your financial goals. Finally, be aware of these potential drawbacks to rolling over to an IRA or converting to a Roth IRA:

- IRAs do not allow for loans.
- Investment fees and expenses may be higher than in an employer sponsored retirement plan.
- Depending on your state of residence, creditor protection may not be as good as your employer's retirement plan.

MANAGING AND DIVERSIFYING YOUR RETIREMENT PORTFOLIO

Once you decide what to do with your retirement savings, you will need to decide how to investment your money. When considering your investment strategy, a Financial Advisor can help you manage your investment expectations, from understanding your risk tolerance and time horizon to reviewing the importance of diversification through asset allocation.

Together, you and your Financial Advisor can review how you are currently invested and determine the most appropriate asset allocation mix for your retirement portfolio based on your needs, objectives and tolerance for investment risk.

BUILD A SOUND FINANCIAL PLAN WITH BAIRD

Investing wisely is one key to pursuing a secure retirement. At Baird, we have the experience to educate you in making the right decision when it comes to your company-sponsored retirement plan. As part of our comprehensive Baird Wealth Management planning process, we take the time to learn each client's individual retirement and financial planning goals and then provide high-quality, individually tailored advice.

IRA account opening fees may apply depending on the amount invested. There will also be costs associated with the investments in the account such as loads, expenses or brokerage commissions. Fees for optional services may also apply. Please consider investment expenses of each retirement vehicle before completing an IRA rollover.

Generally speaking, ERISA retirement plan assets have unlimited protection from creditors under federal law. State laws vary in the protection of IRA assets in lawsuits. ERISA plans may allow for loans, while IRAs do not. After terminating employment at age 55 or older, participants can take penalty-free withdrawals from an ERISA retirement plan. However, penalty-free withdrawals generally may NOT be made from an IRA until age 59½.

Traditional IRA distributions are taxed as ordinary income. Qualified Roth IRA distributions are also federally tax-free provided a Roth account has been open for at least five years and the owner has reached age 59½ or meets other requirements. Both may be subject to a 10% Federal tax penalty if distributions are taken prior to age 59½.

Whether or not to engage in any course of action described in this document, including an IRA rollover, is a personal choice. Baird does not provide any advice or recommendations as to whether a rollover may be appropriate for you. For additional important information and education about rollover IRAs click.

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