



# Lifespan

WEALTH MANAGEMENT<sup>®</sup>, INC.

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Keep My Retirement Account Where it is? Or Roll it to an IRA?

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## **KEEP MY RETIREMENT ACCOUNT WHERE IT IS? OR ROLL IT TO AN IRA?**

*Before we begin, we would like to provide a cautionary note regarding your retirement account. As you talk with various financial consultants about what to do with your account when you retire, please be careful.*

There are a lot of people who are **only** interested in getting your money, investing it, and making their fees or commissions. The Regulatory Agencies, SEC and FINRA, are becoming more and more concerned that retirees are receiving bad advice from stockbrokers, financial advisors, mutual fund companies, online brokerage firms, and insurance agents about what they should do with their retirement account. Among other things, they believe many financial consultants and their firms have been routinely recommending a rollover without taking into consideration the possible disadvantages. This concern from the Regulators, SEC and FINRA, is good for retirees because they oversee most of the professional investment firms, brokers, and advisors.

For many retirees, the employer-sponsored retirement plan represents a major portion of their investable assets. Therefore, when retirement arrives, deciding what to do with those funds is significant. Depending upon each retiree's specific situation and the rules of their plan, there are four options:

1. **Keep the assets in the employer-sponsored retirement plan (if allowed).**
2. **Rollover the funds into a new employer's plan.**
3. **Cash out the plan and receive a taxable distribution.**
4. **Rollover the funds into an IRA.**

Lifespan Wealth Management, Inc. has developed policies and procedures to address the challenges of retirement planning decision making and here is our approach:

### **Rollover Considerations:**

When we meet with retirees, we consider a number of factors which are discussed below. For those of you handling your own investments or meeting with a financial advisor, we strongly recommend you consider each aspect before making any decisions.

### **Services**

Similar to fees, you will need to consider what services are offered with your employer-sponsored plan versus what services you desire. Does the employer-sponsored plan provide investment and financial advice, estate planning, and/or regular reviews? Will you be working with someone who is going to be your advisor and manage your money, or are you going to be working with someone who is going to get a commission for selling you various products? Are they a ***Certified Financial Planner™ Professional*** who can support you in other areas? Will there be additional charges for these services? If you are comfortable doing this yourself, then that may negate the need for advice from a financial advisor.

### **Investment Options**

Typically, IRAs offer a wider choice of investment options than employer-sponsored plans. One item to consider is whether you can accept that your investment strategy may not be available through your current or new employer. Will you be comfortable with an employer-sponsored plan that was developed for the masses? Or would you rather work with a local advisor who

could customize the investment plan to meet your needs and goals as closely as possible?

### **Fees and Expenses**

Employer-sponsored retirement plans will generally have lower fees and expenses than investing elsewhere. Therefore, you will need to decide if you prefer local management and financial advice for your retirement savings. If you do, are you willing to pay for it? Remember, if you work with an advisor, you will pay for it, so make sure the fees and expenses are disclosed to you upfront.

### **Protection from Creditors and Legal Judgments**

Generally, plan assets are fully protected under federal law. IRAs are usually protected in a bankruptcy filing and depending upon state laws, they may also be protected against lawsuits.

### **Surrender Charges aka Surrender Fees**

If you are offered products that contain surrender charges, there could be costs incurred if you sell, cash in, or cancel certain types of investments, insurance policies, or annuity policies.

### **Illiquid Assets**

These are investment products that cannot be easily or quickly converted to cash without a substantial loss in value and the potential loss of your money. If you are offered products that cannot be easily liquidated to cash (without major costs or delays), you might have trouble getting your money when you need or want it because of a lack of ready and willing investors to purchase the asset.

### **Required Minimum Distributions (RMD)**

When you reach age 73, you are required to withdraw a certain amount of money from your retirement accounts each year. That amount is called a **Required Minimum Distribution**, or RMD. A corporate plan may allow you to avoid the RMD's if you are still working. IRAs do not.

### **Employer Stock**

If you work for a company that offers company stock in the employer-sponsored plan, you will need to determine if there will be any negative tax implications from rolling individual stock (as opposed to a fund) over to an IRA. Generally, stock appreciation when withdrawn from an IRA, is taxable as ordinary income. Certain kinds of employer stock plans let investors liquidate shares and then profits are taxed at the lower capital gains rate. You or your advisor, however, must analyze whether the tax benefits are outweighed by the risk that arises if you are overly concentrated in the employer's stock.

### **Conflicts of Interest**

Remember that anyone you talk with has a potential conflict of interest. That includes anyone you might talk with who works for the financial company handling your employer-sponsored retirement plan. For example, Rosenberg Financial Group would benefit financially from rollovers to IRA's held at our firm, because this increases our assets under our management and ultimately, advisory fees. However, as fiduciaries, we must put your interests first and provide you with full disclosure documents.

### **Income Objectives**

Does your employer-sponsored plan provide the income options and flexibility you want or need? Are you able to receive monthly income from the plan? What about receiving additional income whenever you want or need it?

### **The "Other" Decisions**

If you have a pension plan, you will need to decide whether to take your pension in the form of monthly income or a lump sum distribution. This decision can be quite difficult because both have advantages and disadvantages. Let us help you do the math.

### **Annuity Payouts**

Your company may allow you to receive your qualified retirement plan monies as an annuity. That means you will receive a series of payments over several years – usually your life expectancy.

If you are married, you can also decide whether you want payments to go to your spouse if you precede them in death. If that's the case, you may need to decide how much your spouse will receive. The most common choices are

100% of your benefit, 75%, or 50%. People who choose the annuity option at retirement are those who like the security of a monthly stream of income for the rest of their lives. The disadvantage is that if an emergency arises, you can't access the remaining money. You are locked into your original choice. In addition, the stream of monthly income you receive will not have a cost-of-living adjustment. So, as prices rise due to inflation, your income stream remains the same.

### **Lump Sum Distribution**

This option allows you to receive all your plan money as a cash distribution which is 100% taxable as ordinary income, or you can roll the entire balance into an IRA. The advantage of receiving the lump sum is having access to all your money as opposed to smaller portions paid at regular intervals (discussed above). Here are several disadvantages when considering a lump sum distribution:

- Be careful and don't lock the lump sum investment into a product that limits how much you can withdraw or carries surrender charges tied to the withdrawals. Fees are often assessed when you take money out (usually in excess of a specific percentage). Why are there surrender charges? Generally, because the person who sold you the product got their commission upfront and the company must recoup the expense in some way. There are plenty of successful products available that do not carry surrender fees.
- When you receive a lump sum distribution from your employer-sponsored plan, they will send the check made payable directly to you. The problem is this money is taxed as ordinary income, and a penalty could be assessed if you are under age 59 1/2. When the company sends you this money, they are required to withhold 20% for Federal taxes. Most people think of it as a 20% penalty, but it's merely the amount of tax your employer is required to withhold and send to the IRS. It's like a withholding from your paycheck. If it's too much, you will get the overage refunded when you file your taxes. If it's not enough, you will have to pay the difference.
- Another disadvantage of a lump sum distribution is the tendency to spend it all much earlier than intended. It's so easy to spend your money until the realization hits that you haven't left enough to get you through your twilight years.

## **Avoid Beneficiary Designation Mistakes**

As you know, when you die, your assets will pass to whomever you name on your Beneficiary Designation form. Unfortunately, too many people do this quickly and without much thought. For more discussion on this subject, download our free report "Who Really Gets My Money When I Die?" from our website, [www.retirerelax.com](http://www.retirerelax.com).

## **Early Distribution Penalties**

If you are **55 or older when you retire** or leave the company and have a Qualified Retirement Plan (401k, etc.), you can take money out without the 10% Early Distribution Penalty. This program is called 72(t). This only refers to employer plans, not IRAs. This little-known fact can make it easier for retirees who will need distributions from their retirement accounts.

There are **exceptions** to the Early Distribution Penalties and the primary ones are below:

### **Rule 72(t)**

The IRS code that allows an early withdrawal without penalties. The funds must be taken as a minimum of five (5) substantially equal periodic payments, that are also known as a "Series of Substantially Equal Periodic Payments."

The amount of the payment depends upon your life expectancy as calculated through an IRS approved method. Rule 72(t) distributions from a qualified plan are still subject to your normal taxation rate.

Please be aware that 72(t) programs are complicated and are not appropriate for all investors. It is recommended that investors seek the advice of a professional tax preparer prior to setting up distributions to determine their suitability.

Once 72(t) programs are established, changes or modifications to the program may incur severe penalties from the IRS and may be subject to surrender charges and/or early redemption fees based upon the type of investments held within the qualified plan.

## **Death**

If you die, and your spouse inherits the account, it is treated as if it was always their money. If other relatives inherit your IRA, they could fall under the new law known as the SECURE Act. There is no early distribution penalty imposed on the beneficiaries, but non-spouse beneficiaries must liquidate inherited IRAs within 10 years.

## **Disability**

If you are disabled, as defined by the IRS, then early distribution penalties can be avoided.

## **Financial Firm and Advisor Checklist**

Below is a list of questions to take with you when you meet with an advisor, broker, insurance agent, or financial planner. Make sure you receive clear and concise answers to your questions, and you understand what they are telling you. Remember, this is your money, and you should completely understand all aspects before you give that money to someone. The following questions are by no means the only ones you should ask, but they will give you a good start.

### **Qualifications**

- Do they have a college degree?
- Do they have a post graduate degree, Masters, PhD., etc.?
- Are they a Certified Financial Planner™ Professional?

### **Firm / Company**

- Are they a Registered Investment Advisor?
- Is the firm/company at least 5 years old?
- Are there any issues or unresolved client complaints?
- Will they provide periodic in-person or phone reviews? If so, how often?
- Do they charge for consultations?
- Do they provide advice on financial and retirement issues?

- Do they provide advice on Social Security?
- Do they provide advice on estate planning?

### **Disclosures**

- Will they provide, in writing, any conflicts of interest?
- Will they disclose the cost of services?
- Will there be any charge/fee if you completely liquidate your investments?
- Will there be any surrender charge/fee if money is withdrawn?
- How are they compensated? Fees or commissions?
- Is there a financial reward for selling certain products?
- Are they a fiduciary?

### **Investment Accounts**

- Will the cash in your accounts be protected by SIPC?
- Will your investment be placed with a highly rated insurance company?
- How often will you receive statements?
- Will you have online access to your investments?

**We offer complementary consultations to help you through any financial decisions, including retirement planning.**

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**We are available to speak to your group at no charge on a number of financial topics. If You need a guest speaker, call our office and let us know how we can be a resource for you.**

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