Should I Keep My Retirement Account Where it is… or Roll it to an IRA?

A Registered Financial Advisor

Rosenberg Financial Group, Inc.

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Before we begin, a cautionary note. 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, FINRA), are becoming more and more concerned that retirees are receiving bad advice from stock brokers, financial advisors, mutual fund companies, online brokerage firms, and insurance agents about what they should do with their retirement plan. 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, FINRA), is good for retirees because they oversee most of the professional investment firms, brokers, and advisors.

Want to be smarter with your money?

Join our mailing list and get news and info to support your financial goals.

www.retirerelax.com

Unfortunately, the regulation of insurance agents who do not hold securities licenses, is the responsibility of the state's insurance commissioner. These agents generally sell annuities that may or may not be in your best interest

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

- Keep the assets in the employer-sponsored retirement plan (if allowed)
- Rollover the funds into a new employer's plan
- Cash out the plan and receive a taxable distribution

Rollover the funds into an IRA

The Rosenberg Financial Group, Inc., has developed policies and procedures to address the challenges of retirement and below is how we are approaching Rollovers.

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Rollover Considerations
When we meet with retirees, we consider a number of factors which are discussed below. For those of you who handling your own investments or meeting with a different 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 employee-sponsored plan provide investment and financial advice, estate planning, and/or quarterly 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 they charge extra for these services? If you are comfortable doing this yourself, then that may negate the need for advice.

Investment Options: Typically, IRA's offer a wider choice of investment options than the employer-sponsored plans. One item to consider is whether you can accept that your investment strategy is not 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 strategy 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. IRA's are usually protected in a bankruptcy filing and depending upon State laws, they are also protected against lawsuits.

Surrender Charges aka Surrender Fees: If you are offered products that contain surrender charges (which Rosenberg Financial Group does not), there could be costs incurred if you sell, cash in or cancel certain types of investments, insurance policies or annuity policies. But again, at Rosenberg Financial Group, Inc. we choose not to offer any products with surrender charges. This topic is discussed in more detail below. See **"Withdrawal or Surrender Charges"**.

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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 70½, 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 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, Inc. would benefit financially from rollovers, because they increase the 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?

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For a detailed discussion on passing property, read "Who Really Gets My Money When I Die?" on the Special Reports section of our website.

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.

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, 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 this option 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 get to 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 go up due to inflation, your income stream will not change.

Lump Sum Distribution: This option allows you to receive all your plan money as a cash distribution 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). The Rosenberg Financial Group, Inc. would like to provide 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 withdrawal 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. The Rosenberg Financial Group, Inc. does not offer this type of product. 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 you check made payable directly to you. The problem is you will owe taxes and possibly a penalty. When the company sends you this money, they are required to withhold 20% for 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 and having full access to your account is that it's easier to withdraw so much over the years that you could be left with little or no money during your twilight years

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Listen to *"Your Money"* with Steve Rosenberg, Sherri and Randy Goss, and Becca Wilton live every Saturday morning at 9:00 on WMAC, AM940.

Withdrawal Charges

We mentioned this above, but we want to emphasize it. We often talk with people who have been "locked-in" to an investment because it carries a withdrawal charge. This means that if you want to take money out (generally in excess of a specific percentage), you would have to pay a fee. Why is there a withdrawal charge? Generally, because the person who sold it to you got his commission upfront. So, the company you invest with just can't let you cancel it anytime you want without penalty because they would be out that money. So, to get it back they can take it from the person who sold you the product or they can take it from you. Guess who they take it from? There are plenty of good products that don't have surrender charges.

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.

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 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. But, remember, if you roll this money into an IRA, then you fall under the IRA Early Distribution Penalty age, which as you know is 59½. So, you might want to keep enough money in your company plan to make it to 59½.

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", (SEPP's). 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.

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Sherri also appears as WMAZ's Financial Expert every Wednesday on the 5:00 edition of *Eyewitness News.*

After her appearance, Sherri and takes personal finance questions by phone off-the-air

- Death. If you die, there is no early distribution penalty imposed on the beneficiaries. BUT, when that account gets rolled into their name and they're under 59½, then they will have to pay a penalty if they withdraw money. To avoid this situation, leave the IRA in your name until the beneficiary reaches 59½, then roll it into their IRA. By doing so, they will fall under the death exception and can avoid the 10% early withdrawal penalty.

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

Again, these are just the top three we are using for this discussion purposes.

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, concise answers and that you understand each answer. Remember, this is your money and you should completely understand all aspects before you give that money to someone. These questions are by no means the *only* questions you should ask, but they're 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 meetings?

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?

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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 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?

What Does Rosenberg Financial Group, Inc. Do?
We believe that most investors want a specialist. They want to call and talk to a person that understands them and can provide for their needs.

They don't want a person who represents a company that is trying to push more of their products through their sales system.

At Rosenberg Financial Group, Inc., we have created the **RetireRelax Solution™** that assists us in managing our clients' money. This disciplined investment approach for retirees and pre-retirees includes an exit strategy when we feel that risk is high. Keeping an eye on the investment landscape for our clients is something we do each and every day.

To learn more about us, just download the report: "***What Do I Need To Know About Rosenberg Financial Group, Inc.?"*** from our website.

To learn about our complementary consultations, just download the report: ***"What Can You Expect When You Come In For Your Complementary Consultation?"*** from our website.

Like us on Facebook
www.facebook.com/RetireRelax

Need a Financial Plan?

Contact Becca Wilton, CFP®

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www.RetireRelax.com

If your in the market for a Financial Advisor please contact us for a no-cost consultation.

We have office in Macon and Warner Robins for your Convenience.

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