WOODBURY FINANCIAL

UNDERSTANDING YOUR OPTIONS FOR ASSETS INVESTED IN A RETIREMENT PLAN ACCOUNT

If you have an employer-sponsored retirement plan, you may have several choices as to what to do with your assets when you retire or change jobs. Generally, you might choose one or more of the following options:

1. Keep your assets in the employer's plan (if allowed)
2. Rollover your assets into an individual retirement account, commonly referred to as an IRA
3. Rollover your assets to another employer-sponsored plan
4. Take a distribution in cash from the plan.

You should carefully weigh the advantages and disadvantages of each option, including any applicable fees and all features of each option before making your decision. <u>You should also contact your tax and/or legal advisor to determine any applicable tax consequences</u>. Your financial advisor can provide you with the information you need to consult with your tax and/or legal advisor and make the appropriate decisions to meet your specific needs, but it is ultimately your decision as to which option is best for you. The following are general factors that you should consider when making your decision.

1. If you keep your assets in certain types of employer-sponsored plans [*e.g.*, 401(a) or 401(k)], consider:

- <u>Tax Deferral</u>. Your money can continue to grow tax deferred within the plan.
- <u>Additional Withdrawal Allowances</u>. There is no federal tax penalty for withdrawals if you are age 59 ½ or separated from employment in the year you reach age 55.
- <u>Low Cost Investment Options/Investment Strategy</u>. You may have access to low-priced mutual funds or special products that are not available in an IRA, such as company stock, fixed annuity contracts or stable value options. Also, you can maintain your current asset allocation strategy.
- <u>Protection from Creditors</u>. Assets in a retirement savings plan such as a 401(k) or 403(b) are generally protected from creditors and legal judgments, while assets in IRAs receive more limited protections from creditors.
- <u>Deferral of Required Minimum Distributions (RMD's)</u>. Your employer-sponsored retirement plan may offer this feature if you are currently working for the sponsoring employer and are over age 70 ½.
- <u>Availability of Company Stock as an Investment Option</u>. If you hold company stock in your former employer's plan, you should consider the impact of net unrealized appreciation.
- <u>Outstanding Loan Balances</u>. If you leave your employment, you may be able to continue repaying any outstanding loan. Alternatively, you may be required to repay the loan in full or have it become taxable. (Consult with the Plan's Administrator to determine the consequences of any outstanding plan loan.)
- <u>Subject to Plan Limitations</u>. Accounts of inactive or retired participants may have limitations, such as restrictions on plan loans. The employer might change plans or plan provisions in the future. You can no longer make contributions to the plan.

2. If you rollover assets into an IRA from an employer-sponsored plan, consider:

- <u>Tax Deferral</u>. Your money can continue to grow tax deferred. No taxes or penalties are applicable for direct rollovers.
- <u>More Investment Options</u>. IRAs generally allow for a broader range of investment options, which may include mutual funds, exchange-traded funds, stocks and bonds.
- <u>Consolidation of Retirement Accounts</u>. Combining all retirement plan accounts into a single IRA may make it easier to track your assets and manage required minimum distributions required under federal tax laws.
- <u>Inability to Take Plan Loans/Limited Access to Monies Prior to age 59 ½</u>. You will not have the ability to take penalty-free withdrawals as a plan loan. In addition, your access to IRA assets prior to age 59 ½ will be limited to certain specific circumstances, such as first-time homebuyers and higher education expenses.
- <u>Potential Conflicts of Interest</u>. Your financial advisor may have a financial incentive to recommend an IRA rollover because of the compensation that he/she may receive when you transfer funds from an employer-sponsored retirement plan or from another IRA. This potential conflict also pertains to situations where you are a participant in a plan where your financial advisor is a fiduciary.
- <u>Loss of Plan Options</u>. You may lose certain options offered by your former plan, which may include, but are not limited to, guaranteed interest rates , death benefits and protection from creditors (under certain plan types).
- <u>Potential Charges for Rollovers</u>. Surrender charges could be imposed by the former provider if the account included an annuity.

3. If you rollover assets into another employer-sponsored plan, consider:

- <u>Tax Deferral / Additional Withdrawal Allowances / Low Cost Investment Options / Protection from Creditors / RMD Deferrals.</u> Like keeping your assets in your existing employer-sponsored plan, if you move your assets into new employer's retirement plan, you may likely receive similar benefits such as these, as noted above.
- <u>Consolidation of Retirement Accounts</u>. It may be easier to track your assets and manage your retirement plan accounts with all your money in one place.
- <u>Plan Limitation on Accepting Rollover Assets</u>. You must check with the receiving employer-sponsored plan to confirm that it is willing to accept rollovers.
- <u>Possible Limitations on Access to Funds Rolled into Plan</u>. Check with the receiving employer-sponsored plan to confirm that the plan does not impose any restrictions on your ability to access or withdraw funds rolled into the plan.

4. If you take a cash distribution, consider:

- <u>Withdrawals May be Subject to Withholding, Penalties and Other Charges.</u> If you are under the age 59½, the withdrawal will be subject to mandatory tax withholding as well as applicable tax penalties for early withdrawal. Note, there are limited exceptions to the penalty tax (*e.g.*, payments made to you after you separate from service if you are age 55 or over in the year in which you separate). Note also that the penalty tax does not apply to distributions from a governmental 457(b) plan. You may also be subject to surrender charges or penalties assessed under the terms of the applicable investment.

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