



Retirement Planning

Considering a Rollover (Direct Transfer) to an Individual Retirement Account (IRA)

Saving for retirement is a top financial concern for Americans, but many are confused about their retirement savings options, especially if they are participating in an employer sponsored retirement plan and leave the employer because of another job or retirement.

The employee typically has four options (and may engage in a combination of these options) with his or her account balance:

- leave the money in the former employer's plan (the "plan"), if permitted;
- rollover the assets to a new employer's plan, if one is available and rollovers are permitted;
- rollover to an IRA; or
- cash out the account value.

Rollovers from employer-sponsored retirement plans are the largest source of contributions to IRAs. A June, 2013 Employee Benefits Research Institute (EBRI) report stated that in 2011, assets rolled over into IRAs were almost 13 times the amount of direct contributions. This is not a new trend; Investment Company Institute (ICI) data indicates that from 1996 to 2008 more than 90 percent of funds flowing into traditional IRAs came from rollovers, primarily from plans. According to an ICI Research Perspective, "The Role of IRAs in U.S. Households' Saving for Retirement, 2013", 49 percent of the traditional IRAs held by U.S. households included rollover funds.

A recommendation to rollover plan assets to an IRA rather than keeping assets in a previous employer's plan or rolling over to a new employer's plan should reflect consideration of various factors, the importance of which will depend on the employee's individual needs and circumstances. Some of the factors include:

- **Investment Options**—An IRA often enables an investor to select from a broader range of investment options than a plan. The importance of this factor will depend in part on how satisfied the investor is with the options available under the plan under consideration. For example, an investor who is satisfied by the low-cost institutional funds available in some plans may not regard an IRA's broader array of investments as an important factor.
- **Fees and Expenses**—Both plans and IRAs typically involve (i) investment-related expenses and (ii) plan or account fees. Investment-related expenses may include sales loads, commissions, the expenses of any mutual funds in which assets are invested and investment advisory fees. Plan fees typically include plan administrative fees (e.g., recordkeeping, compliance, trustee fees) and fees for services such as access to a customer service representative. In some cases, employers pay for some or all of the plan's administrative expenses. An IRA's account fees may include, for example, administrative, account set-up and custodial fees.
- **Services**—An investor may wish to consider the different levels of service available under each option. Some plans, for example, provide access to investment advice, planning tools, telephone help lines, educational materials and workshops. Similarly, IRA providers offer different levels of service, which may include full brokerage service, investment advice, distribution planning and access to securities execution online.
- **Penalty-Free Withdrawals**—If an employee leaves his/her job between ages 55 and 59½, he/she may be able to take penalty-free withdrawals from a plan paying only ordinary income tax. In contrast, penalty free withdrawals generally may not be made from an IRA until age 59½. It also



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may be easier to borrow from a plan, if allowed. Borrowing is not allowed in IRAs.

- **Life Insurance coverage.** The plan may include a pre-retirement death benefit in addition to his/her accumulated account balance through the purchase of life insurance. IRAs are not allowed to include life insurance protection.
- **Protection from Creditors and Legal Judgments**—Generally, plan assets have unlimited protection from creditors under federal law, while IRA assets are protected in bankruptcy proceedings only. State laws vary in the protection of IRA assets in lawsuits.
- **Required Minimum Distributions**—Once an individual reaches age 70½, the rules for both plans and IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution. If a person is still working at age 70½, however, he/she may not be required to make required minimum distributions from his/her current employer's plan (if the plan allows for such, this option does not apply to more than 5% owners). This may be advantageous for those who plan to work into their 70s.
- **Employer Stock**—A plan participant who holds significantly appreciated employer stock in a plan should consider the negative tax consequences of rolling the stock to an IRA. If employer stock is transferred in-kind to an IRA, stock appreciation will be taxed as ordinary income upon distribution. The tax advantages of retaining employer stock in a non-qualified account should be balanced with the possibility that the investor may be excessively concentrated in employer stock.

It can be risky to have too much employer stock in one's retirement account; for some investors, it may be advisable to liquidate the holdings and rollover the value to an IRA, even if it means losing long-term capital gains treatment on the stock's appreciation.

These are examples of the factors that may be relevant when analyzing available options, this list is not exhaustive. Other considerations also might apply to specific circumstances.

A Note on Potential Conflicts of Interest

Financial representatives that recommend an investor to rollover plan assets to an IRA may earn commissions or other fees as a result. In contrast, a recommendation that an investor leave his/her plan assets with his/her old employer or roll the assets to a plan sponsored by a new employer likely results in little or no compensation for the financial representative. Thus, a financial representative may be perceived as having an economic incentive to encourage an investor to roll plan assets into an IRA.

Conflicts also may exist for a financial representatives that are responsible for educating plan participants about their choices. Financial representatives are encouraged to review their retirement services activities and to assess any potential conflicts of interest. Financial representatives must take action to ensure that they are assisting plan participants with no conflicts of interest that may impair their judgment regarding what is in the customer's best interest and that they neither confuse investors nor interfere with important educational efforts.





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Please consult with your Guardian Financial Representative if you have any questions concerning this document.

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