IRA Decision Guide

Understanding Your Retirement Asset Options When Changing Jobs, Retiring or Moving IRA Assets

Avantax

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Is Your Employer Retirement Plan Working for You?

Whether you're changing jobs or retiring, knowing what to do with your hard-earned retirement plan savings can be difficult. An employer-sponsored plan, such as a 401(k), may make up the majority of your retirement savings, but how much do you really know about that plan and how it works? Compounding the decision-making difficulty of what to do with your retirement savings are the seemingly endless rules that vary from one retirement plan to the next.

Maximizing your savings and minimizing taxes is the key to a successful retirement plan spending strategy. Your Avantax Financial Professional can help you understand how your retirement savings plan fits into your overall financial picture and how to make that plan work for you.

Retirement Plan Distributions: Know Your Options

Saving for retirement is a common yet important financial goal. If you are like the majority of Americans, you have probably worked for multiple employers, or will, over your career. This can result in having various 401(k) plans scattered across various former workplaces. So, what should you do with your previous 401(k) when transitioning to a new job?

Generally, you have four retirement plan distribution options:

- Roll over your money into an Individual Retirement Account (IRA).
- Keep your savings in your former employer's plan, if allowed.
- Transfer your assets into your new employer's plan, if allowed.
- Take a lump-sum distribution.

With each option, there are factors to consider in terms of investment choices, expenses, services offered and tax implications. The purpose of this guide is to educate you on the options generally available for your retirement plan so that you can make informed investment decisions.

Determining which option is the best may be challenging and varies depending on your unique savings objectives and financial needs.

You should seek professional assistance from a Financial Professional with investment expertise, as well as tax and legal advisers, who can provide you with additional guidance regarding your options.

Financial Planning Built Around You

Are you considering everything?

Wouldn't it be great to plan your financial future with all aspects considered? Your Avantax Financial Professional can guide you through the planning process which includes a holistic analysis of every facet of your financial life, viewed through a tax-focused lens.

Roll Over Your Money into an IRA

Choosing an IRA rollover means that your money remains tax-advantaged and capable of growth, as in your employer-sponsored plan, but you may also gain more investment options than what may have been available in your employer-sponsored plan. You may also gain oversight of managing these important retirement assets from your trusted Financial Professional.

If you roll your retirement plan assets over into an IRA account that you already own through your Avantax Financial Professional, you also receive the benefit of combined statements and holistic investment planning, making it easier to track your overall financial situation.

Benefits

- Tax-deferred growth potential.
- Generally avoids current income tax and distribution penalties when removed from employer-sponsored retirement plan.[1]
- More investment choices not available in your former and/or new employer's plan which can provide greater potential diversification.
- Allows for additional contributions, if eligible.
- IRAs can be combined and handled by one provider, thereby reducing trustee costs and consolidating statements.
- Protection from creditors in federal bankruptcy proceedings.[2]
- Combined amount of your required minimum distributions (RMDs) can be taken from any of your Traditional, SEP or SIMPLE IRAs.
- IRA provider is required to provide a disclosure statement explaining the features of the IRA.
- The IRA trustee or custodian handles contribution and distribution reporting and will assist with RMD calculations.
- Roth IRAs are not subject to the age 73 RMD rules.

Considerations

- Internal management fees are generally higher than in an employer-sponsored retirement plan.
- Fees and expenses depend largely on the investments you choose.
- Loans from an IRA are not allowed.
- Early distributions may be subject to 10% IRS tax penalty in addition to income tax.[1]
- RMDs begin April 1 following the year you reach 73 (72 for tax years 2020-2022, 70½ for those who attained 70½ in 2019 or earlier) and annually thereafter.
- IRAs are subject to state laws governing malpractice, divorce, creditors (outside of bankruptcy), and other lawsuits; leaving the money in the former employer plan may provide additional protection against creditors.
- Net unrealized appreciation (NUA) is the difference between what you paid for employer securities and their increased value. You lose favorable tax treatment of NUA if the funds are rolled into an IRA.
- Employer stock rolled from an employer plan to an IRA will be taxed as ordinary income when distributed, whereas stock held in other types of accounts may qualify for capital gains treatment.

The type of IRA you choose depends on the type of account you have now, when you want to pay taxes and other factors.

Keep Your Savings in Your Former Employer's Plan

If you change jobs, you may be permitted to leave your retirement savings invested in your former employer's plan. This allows your savings to retain tax-advantaged growth potential, but keeping track of multiple retirement accounts in different locations may prove difficult over time. Additionally, you are still bound by the plan's rules and restrictions on investments, and the plan may place additional restrictions on accounts for former employees. Your Avantax Financial Professional can help you decide whether this option may be suitable for you.

Benefits

- No immediate action required by you.
- Tax-deferred growth.
- Able to keep current investments.
- Fees and expenses are generally lower in an employer-sponsored retirement plan than an IRA.
- Avoidance of 10% IRS tax penalty on plan distributions if you separate from service at age 55 or older (50 or older for certain public safety workers).[1]
- Potential protection from creditors in federal bankruptcy proceedings under Employee Retirement Income Security Act (ERISA).[2]
- Net unrealized appreciation (NUA) is the difference between what you paid for employer securities and their increased value. Favorable tax treatment of NUA if applicable.
- Some administrative costs may be paid by your employer.
- The plan may offer services such as investment advice, education and/or call center support.

Be Tax Saavy!

How you withdraw from various taxable & tax-deferred accounts in retirement can impact the taxes you owe. Work with your Avantax Financial Professional on strategies that maximize the money you keep.

Considerations

- Former employer may enforce restrictions on former employee accounts.
- New employer may not allow you to rollover your former employer's plan into the new employer's plan.
- Loans may become due upon separation from service.
- Additional contributions typically not allowed.
- Early distributions may be subject to 10% IRS tax penalty in addition to income tax.[1]
- RMDs begin April 1 following the year you reach 73 (72 for tax years 2020-2022, 70½ for those who attained 70½ in 2019 or earlier) and annually thereafter. Leaving the money in the former employer plan may allow RMDs to be delayed until separation from service.
- Aggregation of RMDs is not allowed in employer-sponsored plans; RMDs must be taken from each plan separately.
- Not all employer-sponsored plans have bankruptcy protection under ERISA.[2]
- The available investments are determined by the plan fiduciary and may be more narrow than in an IRA.
- 20% mandatory withholding on distributions if not rolled directly to another retirement account.
- Employers have the option to charge certain administrative fees to former employee's accounts that are not assessed during employment.
- The plan may not provide investments designed to provide long term retirement income (e.g., annuities).

Transfer Your Assets into Your New Employer's Plan

If you are entitled to receive benefits at your new place of employment, you may have access to an employer-sponsored retirement plan. If you would like to have your retirement plan accounts in one place, you may choose to move your existing retirement plan account to your new employer's plan. This option is similar to leaving your assets with your former employer, but it has the added benefit of consolidation; however, if your former plan had better investment choices or net unrealized appreciation (NUA) of employer stock, it may be better to leave the assets where they are. Your Avantax Financial Professional can help you decide whether this option is appropriate for you and your needs.

Benefits

- Tax-deferred growth potential.
- Internal management fees and expenses are generally lower in an employer-sponsored retirement plan than an IRA.
- Avoidance of 10% IRS tax penalty on plan distributions if you separate from service at age 55 or older (50 or older for certain public safety workers).[1]
- RMDs begin April 1 following the year you reach 73 (72 for tax years 2020-2022, 70½ for those who attained 70½ in 2019 or earlier) and annually thereafter. Leaving the money in the new employer plan may allow RMDs to be delayed until separation from service.
- Protection under ERISA from creditors in federal bankruptcy proceedings.[2]
- Retirement assets from former and new employer can be combined into one plan.
- Loans may be allowed.

Considerations

- Eligibility determined by new employer.
- Paperwork required for moving assets may be extensive and difficult.
- Type of rollover assets allowed may be restricted by plan.
- May have a waiting period before enrollment is allowed.
- Investment options limited to those chosen by plan sponsor.
- New plan determines how and when you access your savings.
- Net unrealized appreciation (NUA) is the difference between what you paid for employer securities and their increased value. Favorable tax treatment of NUA is lost when assets are moved to a new plan.

Take a Lump-Sum Distribution

The impact of cashing out your retirement savings depends largely on your age and tax situation; significant tax consequences and penalties may apply if you withdraw the funds early. Your Avantax Financial Professional can help you consider all of the financial consequences of this option.

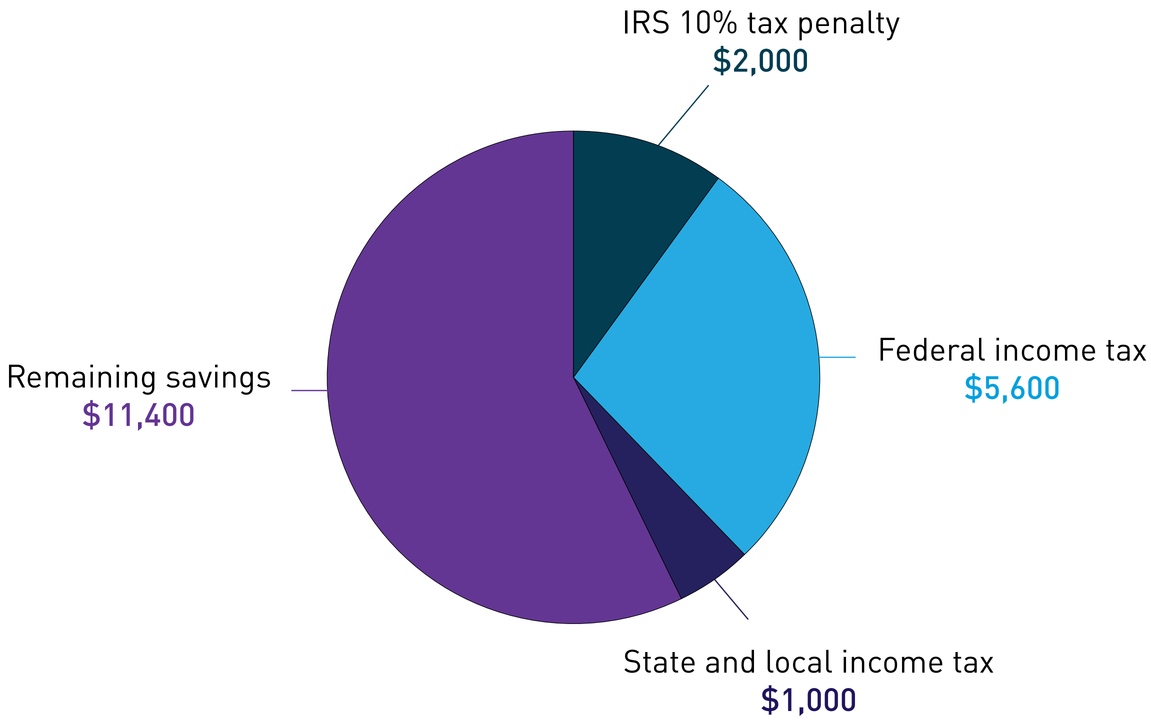
Benefits

- Immediate access to your retirement savings, which you can use however you wish.
- Avoidance of 10% IRS tax penalty on plan distributions if you separate from service at age 55 or older (50 or older for certain public safety workers).[1]
- Lump-sum distribution may qualify for favorable tax treatment of net unrealized appreciation (NUA), if applicable. NUA is the difference between what you paid for employer securities and their increased value.

Considerations

- Funds lose tax-deferred growth potential.
- Distribution may be subject to federal, state and local taxes unless rolled into an IRA or employer plan within 60 days.
- May owe 10% IRS tax penalty on plan distributions if you leave your employer before age 55 or older (50 or older for certain public safety workers).[1]
- Former employer is required to withhold 20% for the IRS.
- Loss of market participation.

Depending on your financial situation, a lump-sum distribution can be costly. For example, a little over half of the assets remain after an early distribution of $20,000.[3]



Consolidating IRA Accounts With A Rollover Or A Transfer

IRAs come in many formats: Traditional Individual Retirement Arrangements (IRAs) which includes Individual Retirement Annuities, Roth IRAs offering individual after-tax savings, as well as SEP IRAs and SIMPLE IRAs which are provided by employers. These IRAs may be the largest investment you own. Therefore, careful consideration should be made when moving assets or consolidating accounts. Maintaining an IRA allows your money to remain tax-advantaged and provides tax-free growth. Whether consolidating assets or changing your investment line up, you receive the benefit of combined statements and holistic investment planning. Working with your Avantax Financial Professional makes it easier to track your overall financial situation.

Benefits

- Tax-deferred growth potential.
- Generally avoids current income tax and distribution penalties when moving from one IRA type to another.
- IRAs can be combined and handled by one provider, thereby reducing trustee costs and consolidating statements.
- Protection from creditors in federal bankruptcy proceedings.[2]
- Combined amount of your required minimum distributions (RMDs) can be taken from any of your Traditional, SEP or SIMPLE IRAs.
- IRA provider is required to provide a disclosure statement explaining the features of the IRA.
- The IRA trustee or custodian handles contribution and distribution reporting and will assist with RMD calculations.
- Roth IRAs are not subject to the age 73 RMD rules. Beneficiary owned Roth IRAs are subject to the RMD rules.

Considerations

- Internal management fees may be different than current holdings depending on share class.
- Fees and expenses depend largely on the investments you choose.
- Early distributions may be subject to 10% IRS tax penalty in addition to income tax.[1]
- RMDs begin April 1 following the year you reach 73 (72 for tax years 2020-2022, 70½ for those who attained 70½ in 2019 or earlier) and annually thereafter.
- IRAs are subject to state laws governing malpractice, divorce, creditors (outside of bankruptcy).

Seek Experienced Advice

Your Avantax Financial Professional understands the importance of your retirement savings to your overall financial well-being. They are prepared to help you find retirement solutions or work with those you already have to keep you financially healthy. Whether you are one year or 20 years from retirement, or even if you don't have any plans to retire, your Avantax Financial Professional can help you find a solution that fits what you need.

If you already have a strategy in place, your Financial Professional can do a cost/benefit analysis to ensure it is the best fit for your goals. Your Financial Professional knows the full scope of your financial picture, which makes them more than equipped to address your retirement needs. Plus, our Financial Professionals are backed by Avantax Retirement Specialists who provide specialized support to ensure you are paired with the best solutions possible.

Making the Decision

To help you evaluate your options, the Financial Industry Regulatory Authority ("FINRA") has published materials designed to educate retirement investors and help investors make sound decisions regarding retirement planning options:

- www.finra.org/investors
- Taxation of Retirement Income
- Investor Insights

Your Avantax Financial Professional can help you understand and evaluate your options within the context of your overall financial plan.

Notes:

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[1] Withdrawals of taxable amounts will be subject to ordinary income tax and if made prior to age 59 ½ may be subject to a 10% IRS tax penalty. Exceptions to the IRA 10% tax penalty include: achieving age 59½, death, disability, Substantially Equal Periodic Payments (SEPP), eligible medical expenses, some health insurance premiums for the unemployed, qualified first-time homebuyers ($10,000 lifetime maximum), certain higher education expenses, Roth conversions, qualified reservist distributions, or IRA levy. Ask your Avantax Financial Professional for more details.

[2] Traditional and Roth IRAs protected up to maximum limit of $1 million, occasionally adjusted for inflation. Qualified plans, SEP IRAs, and SIMPLE IRAs have no maximum limit.

[3] ICI Research, Ten Important Facts About IRAs, https://www.ici.org/system/files/2022-07/ten-facts-iras.pdf