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What Do I Do With My Retirement Plan Accounts?

Overview: For those retiring soon, there are several options to consider when deciding how to handle assets saved in company-sponsored retirement plans.

The oldest members of the baby boom generation (born between 1946 and 1964) turned 65 in 2011. While these boomers were in the workforce, a seismic shift had been taking place. The 1980s and 1990s witnessed employers moving away from defined benefit plans and toward defined contribution plans such as 401(k) plans. According to the Urban Institute, in 2013, investors have surpassed the $10 trillion mark in their defined contribution plans and IRAs, whereas defined benefit plans hold about $2.5 trillion in assets. The result is potentially the largest transfer of wealth from company plans to individually controlled accounts in history.

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Siena Welcomes Zachary Armstrong, our new advisor

Zachary Armstrong has joined Siena Wealth Advisors as an advisor. He has completed internships with The Behring Group in Danville, CA, Hantz Group in Okemos and GreenStone Farm Credit in East Lansing. Mr. Armstrong earned a bachelor's degree in finance with a minor in economics from Michigan State University. We are pleased to have Zachary as part of our team.

For individuals retiring, there are three basic options for how to handle the assets accumulated in company-sponsored retirement plans. It is important that you know what those options are.

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What are the options?

For individuals retiring, there are three basic options for how to handle the assets accumulated in company-sponsored retirement plans:

1. Keep the funds in the plan for as long as the plan allows.
2. Roll the funds over to an IRA.
3. Withdraw the funds in the form of a lump sum distribution to a taxable account.

Keeping the funds in the plan

The advantages of keeping assets in a company retirement plan (whether left in an old plan or transferred to a new plan) are that it will continue to enjoy tax-deferred growth. In addition, participants may be able to borrow against the funds, should they need them. And for boomers who remain employed, some plans will not require that participants take distributions after they reach age 70 ½ as long as they continue to work, thus allowing for longer periods of tax-deferred growth.

The major disadvantage, however, to leaving the funds in a company retirement plan is that the individual is giving up control and flexibility. For example:

- Investment choices are often limited to those selected by the employer plan. As a result, the investor may not have access to investments he or she prefers; it is also possible that the options inside the plan have higher expenses than those available outside the plan.
- For some plans, if the participant is over a set retirement age, the company may force him or her to start taking distributions, and at whatever rate that plan guidelines mandate.
- Many plans do not allow stretch options that IRA rules permit. For example, a company plan may require non-spouse beneficiaries to take inherited money in an immediately taxable lump sum, with no option to instead have it distributed over their lifetimes.
- The guidelines of the plan are always subject to change. There is no guarantee that they will stay the same, especially if the company is sold or merges.
- Fees associated with the administration of the 401(k) plan may be greater than for other account types.

Rolling funds into an IRA

A retirement plan rollover is an attractive strategy to continue tax-deferred growth and gain more control and flexibility over retirement funds. There are two types of rollovers. A direct rollover occurs when assets transfer from an employer-sponsored plan directly into a rollover IRA. An indirect rollover is when the employer-sponsored plan issues a check payable to the former participant, and he or she distributes the money to an IRA within 60 days from the day the check is received.

There are many benefits of a rollover to a traditional IRA, such as a large amount of available investment options, allowing an individual to customize his or her investment choices. Additionally, with this option, assets continue to grow tax-deferred, and consolidating several plans into one IRA is easier to manage.

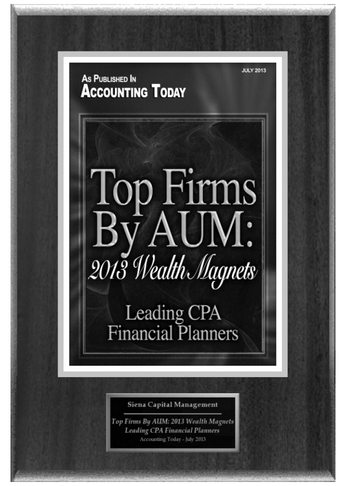
Rolling over at least a portion of 401(k) plan assets into a Roth IRA may be worth considering, as there are no required minimum distributions, and all withdrawals are tax-free. However, the percentage of the amount rolled over representing gains in the account would be taxed at the individual's ordinary income rate.

Taking a lump-sum distribution

The lump-sum-distribution option can be enticing because it gives an individual instant access to the cash in their retirement plan and the most flexibility with how to use it.

For individuals with a large percentage of company stock in their retirement plan, the IRS gives a special tax break for taking a lump-sum distribution of this stock. Under this net unrealized appreciation (NUA) rule, an individual is allowed to take company stock from his or her qualified plan and pay ordinary income tax on the original cost of the stock rather than its fair market value at the time of withdrawal. Once the stock is sold, the individual pays capital gains taxes on this appreciation only.

The costs for choosing the lump-sum option are perhaps the steepest of any of the options, and there is a 10 percent premature distribution penalty that applies on top of the taxes if the participant is under the age of 59 ½. Perhaps most important of all, the distribution will result in the loss of tax-deferred growth of the assets. (*Continued on back page*)



FOR THE FOURTH CONSECUTIVE YEAR, SIENA WEALTH ADVISORS MAKES *"ACCOUNTING TODAY's"* EXCLUSIVE LIST OF TOP INVESTMENT ADVISORY FIRMS.

Again this year, in the July 2013 edition of *"Accounting Today"* magazine, a professional magazine serving Certified Public Accountants and investment advisors throughout the nation, Siena Wealth Advisors was included on the exclusive list of the nation's top CPA investment advisory firms. In 2010, 2011, 2012, and again in 2013, only Siena and three other investment advisory firms from Michigan made the exclusive list as the nation's top CPA investment advisory firms. Siena is the only investment advisory firm headquartered in greater Lansing to make the exclusive list.

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Thus, if there is no immediate need for the cash, and the NUA rule does not apply, taking a lump-sum distribution out of the tax-deferred environment and subjecting the funds to taxes and potential penalties should be a last option.

The Bottom Line

Coverage by traditional defined benefit pension plans has slowly been replaced by the rise of account-based defined contribution plans. This will result in making the retirement security of boomers and future generations more dependent on individual saving and rates of return as guaranteed sources of income become less available. These individuals will need to take on more responsibility for planning for the creation of income in retirement. As a result, they will need to understand the financial issues surrounding planning for retirement, both in accumulating sufficient assets as well as learning to effectively draw them down during what could be a relatively long period of time.

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