Financial Wellness & Education

Retirement

Rollovers Understanding your options

Foresters Financial

Examine the options

The smart way to handle a retirement plan distribution.

Whether retiring, leaving your employer or changing jobs, one of the most important decisions you may face is what to do with the funds you have accumulated in an employer-sponsored retirement plan. The options are plentiful, but the wrong decision can be costly, both in terms of control over investments and dollars lost.

Choices vary depending on the plan type and the policies of your old employer and—if you're switching jobs—new employer. It's best to check with the appropriate human resources department and your personal tax adviser if you have any questions.

Generally, you have four choices:

1. Take the distribution in cash
2. Leave the funds where they are
3. Transfer the funds into a new employer's plan
4. Roll the funds over into an Individual Retirement Account (IRA)

1. Take the distribution in cash

Tempting, but taxing

Taking a cash distribution from your retirement plan may seem attractive, but when carefully considered, it may not make sense.

– Your employer automatically withholds 20 percent of the tax-deferred portion for federal income taxes.

– If you're younger than age 59 ½, your distribution may then be subject to a 10 percent early withdrawal penalty.

– Your distribution may also move you into a higher tax bracket. All told, you could lose nearly half of your retirement funds to taxes and penalties.

The costs of cashing out

Let's look at a 38-year-old who is changing jobs and considering what to do:

Gross Distribution:	$50,000
Less:	
Mandatory 20 percent federal withholding:	-10,000
5 percent for remaining federal taxes:	-2,500
10 percent early withdrawal penalty:	-5,000
Total loss to taxes and penalty:	**$17,500**
Amount Remaining:	**$32,500**

This hypothetical example is for illustrative purposes only, and assumes a 25 percent federal income tax bracket. Also, additional state and local taxes may apply.

This person lost 35 percent of his distribution to taxes and penalties. It could have been worse. Individuals in higher tax brackets could lose half their account balance. So while it may seem like a bonanza to opt for the cash to buy a new car or take a vacation, it pays to think long term so you keep more of your money.

If the 38-year-old above had maintained his funds in a tax-deferred account, he would have benefited in two significant ways:

First, he would have retained the full $50,000 balance of his account.

Second, he would have the opportunity to benefit from further tax-deferred growth.

In fact, if he had left his $50,000 in a tax-deferred account with an 8 percent average annual rate of return, it would accumulate to almost **$400,000** by age 65.[1] Of course, no investment is guaranteed, but the detrimental effects of taking a hasty distribution from a retirement account are obvious.

2. Leave the funds where they are

Don't touch it

You may have the option of leaving the funds in your former employer's plan. There are however, several factors to consider before choosing this option.

You must consider how comfortable you are leaving your retirement assets with your former employer. Also, this plan offers fewer investment options than you could find on your own, and it may impose restrictions on access. In fact, some plans may not allow former employees to take a distribution until they reach retirement age.

If you were to leave your retirement funds with your former employer every time you switched jobs, your money would eventually be spread among various plans and invested in different ways. By failing to consolidate your funds, you may make it harder to manage your money and ensure it earns its full potential. It also adds confusion to your retirement planning efforts as you sift through multiple statements.

3. Transfer the funds into a new employers' plan

New job, new plan

A new job usually comes with a new retirement plan. Each employer's plan is different however, with varying rules and requirements, so it is important to do your research before making any decisions.

It is also essential to talk with your new employer to make sure that you are eligible to join and that the plan will accept the full amount of your rollover.

If you decide to transfer your retirement funds into your new employer's plan, make sure that the check representing the proceeds from your old plan is not made payable to you. If it is, the 20 percent mandatory withholding on tax-deferred money will apply.

Investigate the various investment options in the new plan and understand that the new plan's restrictions on access to your funds will likely apply to your transferred funds as well.

[1] Example is hypothetical only and does not represent the performance of any particular investment. Investors may lose money.

4. Roll the Funds Over (into an IRA)

Defer more taxes, enjoy more growth

Rolling your funds into an IRA makes sense for people who want their money to continue to grow on a tax-deferred basis or want access to their cash before retiring. In addition to retaining tax-deferred status and avoiding taxes and penalties, a Rollover IRA also allows you to:

- Exercise greater control over your investments
- Consolidate your retirement funds for easier management
- Take advantage of a wide variety of investment choices
- Maintain flexibility with regard to access and withdrawals

There are some important things to remember, however, when considering a rollover. If you decide to roll your funds into an IRA, it is important to make sure that all necessary paperwork has been completed and that your distribution check is made payable directly to the financial institution that is the custodian of your new IRA. If the check is made out to you, a 20 percent mandatory withholding on tax-deferred money will apply.

Change your mind? You may still have time

Even if you initially took a lump sum distribution but then decide that you want to roll your funds into an IRA instead, you may still have time.

After receiving your distribution, there is a 60-day period during which you are allowed to change your mind and roll your funds into an IRA. If this situation applies to you, please talk with your Representative during this 60-day window to preserve your options.

With an IRA, you have the flexibility of a range of investment choices so you can tailor a strategy to suit your needs, goals and tolerance for risk.

Rolling your funds into an IRA

Pros

- Funds retain tax-deferred status
- Immediate mandatory withholding, taxes and penalties avoided on direct rollovers
- More investment choices available
- Control over investments and beneficiary designations increase greatly
- Multiple IRA accounts can be created, each with separate beneficiary
- Payout options for beneficiaries enhanced
- Improved management through consolidation
- Access to money becomes easier
- Conversion to a Roth IRA is feasible

Cons

- Loan privileges are lost
- IRA assets are protected in bankruptcy proceedings only
- Penalty-free withdrawals generally may not be made from an IRA until age 59 $^1/_2$
- Required Minimum Distributions (RMDs) required once an individual reaches age 70 $^1/_2$
- Rollovers of employer stock with appreciation may result in adverse tax consequences (consult a tax professional for additional information)

Taking a cash distribution

Pros

- Immediate use of your money

Cons

- 20 percent federal withholding reduces distribution
- Possible additional federal, state and local income taxes must be paid
- 10 percent early withdrawal penalty may apply
- Funds lose tax-deferred status

Leaving your money where it is

Pros

- Funds maintain tax-deferred status
- No current taxes or penalties due
- Protection from creditors and legal judgments

Cons

- Access to your money may be restricted
- No further contributions are allowed
- Investment choices are limited
- Dealing with former employer can be awkward
- Loan privileges are likely lost

Transferring funds into new employer's plan

Pros

- Taxes and early withdrawal penalties are avoided
- Funds retain tax-deferred status

Cons

- Investment choices are limited
- Waiting period may exist before first deposit
- Restrictions may apply on early withdrawals of transferred funds

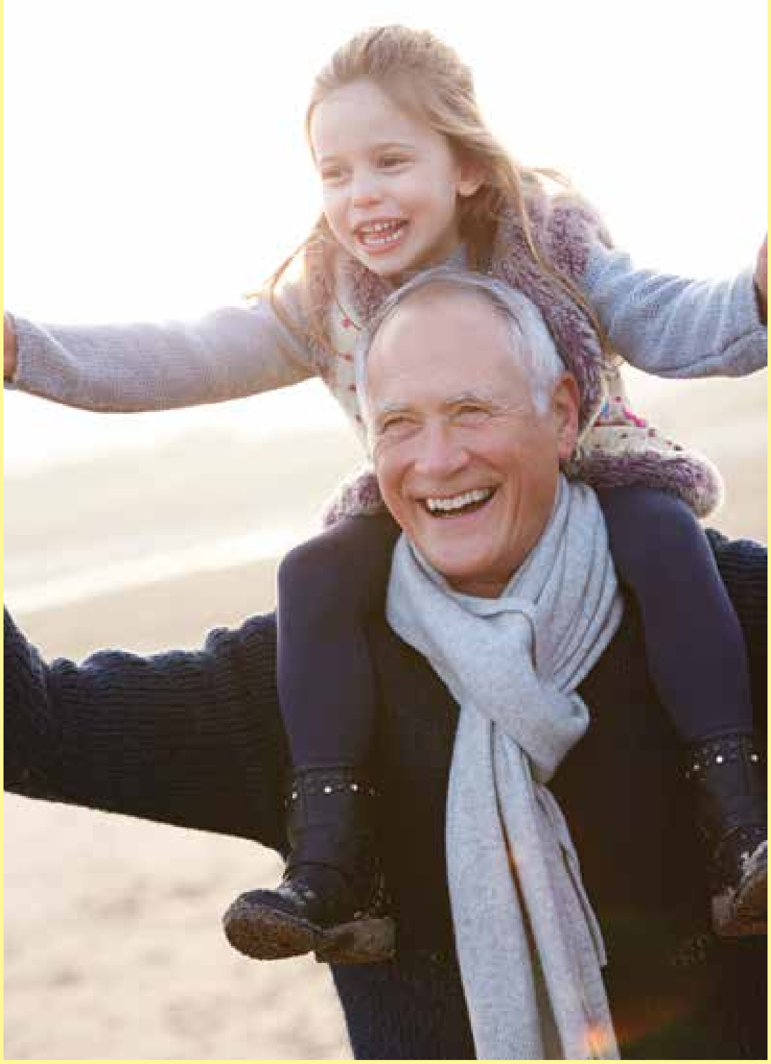
Stay on the right track

You've worked hard to build a retirement portfolio that will allow you to enjoy your "Golden Years." How you handle a lump sum distribution could be one of the most important financial decisions of your life. Now is the time to seek out the advice of a professional.

Since each person's situation, goals and savings are different, it is important to speak with an experienced financial professional who can work with you to help your retirement savings reach its full potential. Your Representative can give you a personalized evaluation at no cost and with no obligation.

Plans such as 401(k)s, 403(b)s, 401(a)s, governmental 457(b)s, and DROP programs may offer a host of benefits, including tax-deferred growth and self-directed investing. Over the years, you've worked hard, saved wisely and the money has added up.

Now that you're moving on, you'll want to take the time to consider what to do with these funds, especially since these retirement plans can represent an individual's largest liquid asset.



Foresters Financial IRAs

Foresters Financial Services, Inc. offers a Traditional Individual Retirement Account (IRA) that can be a good choice for those looking to move their lump sum distribution into a high-quality investment vehicle. All our IRAs feature underlying investments in mutual funds from Foresters Financial and offer investors the opportunity to control how their money is invested.

Range of investment options

Foresters Financial offers a wide variety of professionally managed mutual funds with varying degrees of risk. From blue chips to emerging companies to a money market fund, Foresters Financial has investment options to suit the needs and goals of every investor.

Neither Foresters Financial nor its affiliates provide legal, tax or estate planning services. Should you require such services, you should consult a legal, tax or estate planning professional.

For more information about mutual funds from Foresters Financial, and a detailed schedule of fees and expenses, you may obtain a free prospectus and summary prospectus by contacting your Representative, writing to the address below, calling 800 423 4026 or visiting our website at forestersfinancial.com. You should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectus and summary prospectus contain this and other information about the funds and should be read carefully before you invest or send money. An investment in these funds is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

Foresters Financial Services, Inc. provides everyday families and individuals with financial solutions, guidance and tools, to meet their needs across all life stages. Our financial representatives offer personalized service combined with a solid, long-term approach and fresh thinking, to help you:

- Save and invest for retirement, education and other life events
- Create retirement income strategies
- Protect the ones you love
- Plan your legacy

You can also take pride in knowing that you are part of Foresters™, an international financial services provider that gives back to the community and cares deeply about family well-being. Each year Foresters organizes thousands of community activities, providing financial contributions and hands-on volunteerism in support of charitable partners that make a meaningful and lasting impact in local communities.

Together, we can help you achieve financial and family well-being—now and tomorrow, this generation and the next.

Foresters Financial

Foresters Financial Services, Inc.
40 Wall Street
New York, New York 10005
800 423 4026

forestersfinancial.com

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