10 reasons to consider rolling over assets from a former employer's retirement plan to an IRA.

#1 Employer-sponsored retirement plan distribution processing can be more complex than an IRA.

Participants in an employer-sponsored retirement plan are subject to the rules of the former employer's plan documents, which can be more restrictive than an IRA. For example, a plan may not allow partial distributions, or if it does, it may limit them to once a quarter or once a year.

It also may be more time-consuming to withdraw money, since a plan may require additional paperwork and signatures from the plan participant, his or her spouse, and possibly the plan administrator.

By contrast, IRAs, in most cases, allow distributions at any time, for any dollar amount, and without any additional authorization. However, it is important to remember that, in addition to income taxes, withdrawals prior to age 59½ may be subject to a 10% IRS penalty tax.

#2 Employer-sponsored retirement plans may offer limited distribution options.

An individual who has money in a former employer's retirement plan should check the plan documents to see what distribution options are available. Some employer-sponsored retirement plans offer only one lump-sum distribution from the account. If any assets are distributed, the entire balance must be distributed. This restriction prevents plan participants, and ultimately their beneficiaries, from taking advantage of the convenience and possible tax benefits of partial distribution, systematic payments, or annuitization. IRAs, on the other hand, can provide greater flexibility by allowing these additional distribution options.

#3 Employer-sponsored retirement plans may limit the power of tax deferral for spousal beneficiaries.

It may be advantageous for a spousal beneficiary to roll over the assets inherited from an employer-sponsored retirement plan to an IRA. For example, if the beneficiary is the wife of the employee and the plan allows life expectancy payments, she will have to begin required minimum distributions (RMDs) calculated using the Single Life Expectancy Table.

By contrast, if she had rolled the inherited account into her own IRA, she could have waited until reaching age 72 before beginning RMDs. The payments would then be calculated from the Uniform Lifetime Table, resulting in lower RMDs than distributions calculated from the Single Life Expectancy Table. Lower RMDs would allow the money the opportunity to continue growing tax deferred longer.

#4 Employer-sponsored retirement plans require a mandatory tax withholding on most distributions.

All rollover-eligible money withdrawn from an employer-sponsored retirement plan must have 20% withheld toward federal income taxes. In addition, some states impose mandatory state withholding taxes ranging from 2% to 8%. However, an IRA owner can elect to have no income taxes withheld and continue to invest that amount, allowing it the opportunity to grow tax deferred. Ultimately, all taxes must be paid, but the money to pay them does not need to come from the IRA.

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#5 Certain premature-distribution penalty exceptions are not available for employer-sponsored retirement plan withdrawals.

Individuals under the age of 59½ are required to pay, in addition to income taxes, a 10% penalty tax on withdrawals from employer-sponsored retirement plans and IRAs, unless they qualify for an exception. Three exceptions for IRA distributions — a qualified first-time home purchase (lifetime limit of $10,000), certain higher education expenses, and health insurance premiums while unemployed — are not available for employer-sponsored retirement plan distributions. For additional details, contact your professional tax advisor.

#6 Having assets in multiple locations can make record keeping complicated.

While recent tax law changes allow for greater portability of retirement accounts, many employer-sponsored retirement plans still have not adopted these rules, and many therefore do not allow money from certain types of retirement accounts to be rolled in. In addition, individuals generally cannot roll money into a former employer's retirement plan. However, most IRAs generally accept the rollovers permitted by these recent changes. Qualified retirement plans, including some 403(b) plans and governmental 457(b) plans, can be rolled into an IRA. By consolidating these accounts, investors can reduce the number of statements they receive, eliminate redundant fees, and get a comprehensive picture of their retirement asset allocations. Combining accounts can also help simplify retirement distribution strategies.

#7 Employer-sponsored retirement plans may offer only a limited selection of investments.

By leaving money in a former employer's retirement plan, individuals are restricted to the investments provided by the plan, and the offerings may be limited. Rolling over to an IRA can expand the number of investment options and the ability to diversify.

#8 Most employer-sponsored retirement plans cannot be aggregated for RMD calculations.[1]

After reaching age 72, individuals will have to begin RMDs. If someone has an IRA and two 401(k) accounts, for example, separate calculations must be done, and separate withdrawals must be taken from each account. The task is simpler for those who own only IRAs. RMDs are calculated on each IRA and they can all be aggregated (added together for calculation purposes), and the total required amount can be withdrawn from any one or more of the IRAs. This means less paperwork and simplified tracking. It also allows the investor to decide which investments to liquidate, and from which accounts.

#9 Many employer-sponsored retirement plans do not offer the services of a financial professional.

The importance of working with a financial professional should not be underestimated. He or she can assist an IRA owner with asset allocation, distribution planning, and retirement income strategies. Many employer-sponsored retirement plans do not offer this beneficial service.

#10 Employer-sponsored retirement plans may have blackout periods.

Employer-sponsored retirement plans may go into a blackout period when changing record keepers. During the blackout period, plan participants cannot take distributions or make investment trades to react to changes in market conditions. The transfer to a new record keeper requires a due diligence process to account for all the assets. This could take weeks or months depending on the complexity of the plan and on how well the previous records were kept.

[1] 403(b) plans can be aggregated with other 403(b) plans for RMDs.

Other important considerations

Based on your individual circumstances, you have several options such as taking a cash distribution, leaving your retirement savings where they are, or doing a rollover to your new employer's plan or an IRA. Consult with each employer's Human Resources Department to learn about important plan features and rules. Be sure to compare the fees and expenses of each plan and investment option to those of any other investments that you are considering. Review plan documents and the IRA agreement, as well as the prospectuses for plan investment options and any other investments that you are considering. Your registered representative can assess a retirement strategy that meets your individual needs and goals. Neither New York Life nor its representatives or affiliates provide tax or legal advice. Consult with a tax or legal advisor to discuss any questions or concerns that you have, such as the tax consequences of withdrawing funds or removing shares of an employer's stock from a retirement plan and whether money invested in a retirement plan receives greater protection from creditors and legal judgments in your state than money invested in an IRA or annuity. Also consider that you may be able to take taxable, but penalty-free, withdrawals from an employer-sponsored retirement plan between the ages of 55 and 59½ that you would not be able to take if you invest in an IRA or annuity. Additionally, if you plan to work after you reach age 72, you may not be required to take minimum distributions from your current employer's retirement plan but would be required to do so at age 72 for funds invested in an IRA or annuity.

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14554.022023 SMRU5025244 (Exp.02.08.2025) 1159.0223