RAYMOND JAMES

Determining what to do with your retirement savings from a former employer's plan.

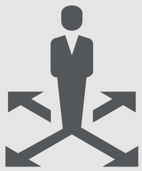
For many Americans, employer-sponsored retirement plans are a cornerstone of their savings strategy. Contributions are made to an account, typically a 401(k) or 403(b), where the money grows tax-deferred.

But what happens when your employment ends?

When you can no longer make contributions to a former employer's plan – maybe you retired or are simply changing jobs – you have a decision to make about what to do with your tax-deferred savings. It's important to choose the option that best suits your financial needs and goals.

While the options are fairly straightforward, there are many factors to consider. We will explain those options, the information you will want to gather, and the factors to consider in making your decision.

OPTIONS



You typically have four options for the investments in a former employer's retirement plan:

- Cash out the account
- Keep the money in a retirement account:
  - Leave the money in the former employer's plan, if permitted
  - Roll over the assets to a new employer's plan, if one is available
  - Roll over the assets to an IRA

Let's take a closer look at each option.

TAKING THE MONEY OUT OF THE ACCOUNT AND KEEPING IT

When separating from service with the employer that sponsored the retirement plan, you have the right to take the money out of the plan and keep it. Keeping the money will mean paying income taxes on the amount taken, called the distribution amount. The plan administrator is required to withhold 20% of the distributed amount and send it to the IRS to apply toward the income tax. Also, if the distribution occurs prior to the year you turn 55 – or turn 50 if it is a qualified governmental benefit plan – you will owe the IRS an additional 10% penalty for what is considered an early or premature distribution.

KEEPING THE MONEY IN A RETIREMENT ACCOUNT

If the money is not needed right now, or you do not want to incur the tax implications, the money can be kept in a retirement account and continue to grow tax-deferred. Here, there are three account options:

- The current retirement plan.
- A new employer's retirement plan.
- An IRA.

Later, we will discuss the differences in these accounts. First, let's review the information you should collect to make your decision.

INFORMATION

To adequately compare the options, gather information about your former employer's plan, as well as a potential new employer's plan. When it comes to your former employer's plan, you may wish to contact the benefits provider, the plan administrator and/or Human Resources to gather the information you need – such as the summary plan description, annual fee disclosure, tax notice and latest statement of the plan's holdings. Note that only you can request the annual fee disclosure document from your former employer, but your financial advisor is permitted to be on the phone to help facilitate the request. Once you have the information you need, you can begin comparing plans.

DECISION FACTORS

There are several things to consider when comparing leaving the money in the former employer's plan, rolling it over to a new employer's plan or rolling it over to an IRA. Some could be more significant to you than others. Ultimately, you will need to decide which factors are most important to helping you achieve your financial goals.

1. SERVICES

You may wish to consider the different levels of service available under each option. While employer retirement plans may provide access to investment advice, planning tools, telephone help lines, educational materials and workshops, oftentimes the service available to plan participants can be limited.

A financial advisor can provide a variety of services, including asset allocation advice tailored to your risk tolerance level; specific investment advice and monitoring; financial planning that incorporates your goals and time horizon; distribution strategies; tax planning and strategies; and beneficiary designation planning.

2. INVESTMENT OPTIONS

Employer retirement plan investment options can sometimes be limited, while an IRA often enables an investor to select from a broader range of investment options. Investment choices for IRAs include low-cost Exchange-Traded Funds (ETF), mutual funds, alternative investment products, CDs, individual stocks and bonds, and annuity products designed to hedge against poor market returns during retirement.

The importance of this factor will depend in part on how satisfied you are with the options available through 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.

3. PLAN FEATURES, DISTRIBUTION STRATEGIES, AND TAX IMPLICATIONS

While most IRA providers offer complete flexibility with regard to accessing funds, many retirement plans have restrictions for how participants can access their money. These restrictions vary by plan, so it is important for you to understand a plan's provisions. Some plans may offer a limited number of distributions per year, some plans may allow money to be distributed only once per year, and some plans may allow money to be accessed only through full lump-sum distribution. Limited access to funds needed to pay living expenses could be a key consideration in the rollover decision.

Regarding taxation, if you leave your job between age 55 and 59½, you may be able to take penalty-free withdrawals from an employer retirement plan due to an IRS exception to the 10% penalty tax. In contrast, penalty-free withdrawals generally may not be made from an IRA until age 59½. However, money can be withdrawn penalty-tax-free from an IRA prior to age 59½ using the IRS tax exception known as substantially equal periodic payments.

If you are not ready to retire, consideration should be given to the fact you may be allowed to borrow from a retirement plan, whereas this is not allowed from IRAs. Not all plans allow participants to borrow, so be sure you understand the specific plan's provisions. This would only be relevant for people who are considering rolling their money to a retirement plan with a new employer, given that you generally cannot borrow from a former employer's plan.

4. PROTECTION FROM CREDITORS AND LEGAL JUDGMENT

Generally speaking, because of ERISA, retirement plan assets have unlimited protection from creditors under federal law, both bankruptcies and other types of judgments. However, IRA assets are protected in bankruptcy proceedings only. State laws, based on the participant's state of residency, vary in IRA asset protection for other types of judgments, such as civil lawsuits.

Important points to note regarding ERISA and IRA plan creditor protection include:

- Retirement plans not protected from creditors are those covering only a business owner and spouse and 403(b) tax sheltered annuities held in custodial accounts rather than in trusts.
- Retirement plan assets are marital property subject to division in divorce or attachment for child support by a qualified domestic relations order (QDRO).
- Retirement plan assets may be subject to attachment by federal tax levies, judgments and fines imposed in federal criminal actions. Treasury regulations provide that plan benefits are subject to attachment by the IRS.
- Neither ERISA nor IRS protections apply to IRAs (including SEPs and SIMPLE IRAs), government plans or most church plans.

5. REQUIRED MINIMUM DISTRIBUTIONS

Once you reach age 70½, the rules for plans and IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution (RMD). If you are still working at age 70½, however, you generally are not required to make RMDs from a current employer's plan, unless you are a 5% or greater business owner. This may be advantageous if you plan to work into your 70s.

6. EMPLOYER STOCK AND NET UNREALIZED APPRECIATION (NUA)

If you hold significantly appreciated employer stock in a plan, you should consider the tax consequences of rolling the stock to an IRA. If employer stock is rolled over to an IRA, any stock appreciation will be taxed as ordinary income at the time the stock is distributed. A net unrealized appreciation (NUA) strategy could be beneficial, especially if you have short-term income needs or your stock has appreciated significantly.

With an NUA strategy, employer stock is transferred in-kind to a taxable investment account, without selling it first. At the time of the transfer, you will pay ordinary income tax on only the amount paid for the stock at the time it was added to the retirement account, referred to as the cost basis. The NUA, the amount the stock appreciated since it was purchased, will be subject to long-term capital gains tax at the time the stock is sold, regardless of how long the stock is held.

To know if you qualify for an NUA strategy, or for a clear understanding of its complexities, please consult your financial advisor or tax professional.

7. FEES AND EXPENSES

Qualified plans and IRAs typically involve investment-related expenses and 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 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 administrative, account setup and custodial fees.

SUMMARY OF CONSIDERATIONS

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

	OPTIONS			
CONSIDERATIONS	Leave the money in former employer's plan	Roll over the assets to new employer's plan	Roll over to an IRA	Cash out the account value
Investment options	Limited	Limited	Unlimited	N/A
Fees and expenses	Plan specific	Plan specific	Firm or product specific	Closing penalty and taxes
Services	Limited	Limited	Comprehensive	None
Tax implications	None	None	None, if direct rollover	Penalties and taxes
Protection from creditors and legal judgments	Yes, generally	Yes, generally	State specific	No
Required minimum distributions (RMDs)	Beginning date is April 1 of the year after you reach 70½	May be able to delay beginning date past 70½	Beginning date is April 1 of the year after you reach 70½	N/A
Employer stock	Yes	Yes	Yes	NUA special rules

CONCLUSION

As you can see, there is much to consider in deciding what to do with the savings in a former employer's retirement plan. You might have accounts from a previous employer out there somewhere, still in the former employer's plan, that you could put through this same decision-making process. Gathering all the necessary information and reviewing the decision factors can help you select the option that best suits your financial needs.

If you have questions, or require additional information, contact your financial advisor.

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