## Retirement Plan Distribution Options

When you leave your current employer, whether it's because you are pursuing employment elsewhere, retiring, or leaving the workforce to raise a family, you have a number of distribution options for your retirement account that may help you avoid immediate taxes or possible tax penalties. However, before you make any decisions, you should seek the advice of a tax advisor or financial services provider to assist you with evaluating your options.

In general, you have, basically, three options:

1. Keep your retirement plan account
2. Roll it over into a qualified IRA
3. If you're leaving your current employer for employment elsewhere, rollover your retirement plan account into your new employer's retirement plan.

Let's look at each option:

### Option 1: Keep your retirement plan account

Most retirement plans allow you to keep your account in the current plan if it is above a certain amount. Check with your benefits department or your plan provider to see if your account balance qualifies. Typically, you'll continue to have access to all of the plan's resources and functionality.

Keeping your retirement plan account is easy; you don't have to do much of anything. But doing 'what is easy' shouldn't be the primary consideration. There are potential advantages to just keeping your retirement account, for example:

- By design, retirement plans offer features and benefits that are often unavailable outside of the plan. In many cases, retirement plans offer institutional investment options that aren't replicated in a retail version outside of the plan. And in many instances, the investment options within your retirement plan have lower expenses than their identical retail versions.
- Your retirement plan fiduciary conducts thorough and ongoing due diligence on all investment options offered within the plan to ensure that they continue to meet the criteria for inclusion.
- Your plan may include important features, such as the ability to take loans. Examples like these may provide a justification for leaving a portion or all of your retirement plan assets within the plan.

### Option 2: Roll it over into a qualified IRA

If you decided to rollover your retirement plan into a qualified IRA, it will be with outside financial institutions like banks, credit unions, insurance companies, mutual fund companies, discount and full-service brokerage firms, and registered investment advisers. IRAs are also available through your employer's retirement plan provider. There are some potential advantages and disadvantages to rolling over your retirement plan into an IRA, such as:

**Advantages**

- A self-directed IRA may provide access to investment options not available in a retirement plan. For example, individual stocks, individual bonds, exchange-traded funds (ETFs), and some financial institutions may each provide access to initial public offerings.
- IRAs may also allow you to pursue more specific or targeted investment strategies, including the use of options, and may provide more unique or non-traditional diversification opportunities than those that are typically available in a retirement plan.

- IRAs also provide more flexibility in naming beneficiaries. If you are married, the beneficiary of your retirement plan account, by law, must be your spouse unless you obtain a signed release. In certain circumstances, having flexibility in naming beneficiaries may be beneficial.

**Disadvantages**

- One potential disadvantage is expenses. Total expenses in an IRA have the potential to be significantly higher than those in your retirement plan. One to two percentage points higher are not uncommon. Cross your fingers that the returns on your IRA always make up for the higher expenses you're paying. Remember, this is your **retirement account**. Don't let it be treated like a brokerage or trading account.
- Having more investment options by rolling over a retirement account into an IRA may not necessarily be better. The investment options available in your retirement plan were selected out of a large pool of investment options by your plan fiduciary. Only by continually meeting a broad and rigorous set of criteria do they remain in the plan.
- The financial services provider handling your IRA may not be legally held to this standard of care in the selection and monitoring of your investments. Conflicts of interest may also exist so use caution.
- More investment options also present the potential for unsuitable or fraudulent investments being sold to you. The consequences from this could be life-altering.

## Option 3: Rollover your retirement plan account into your new employer's retirement plan

For those of you who may leave your current employer for employment elsewhere, you may have the option to roll over your retirement plan into your new employer's retirement plan. If you decide to do that, selecting this option may depend on a number of considerations:

- If your retirement plan is your only investment account, you may want to consider how the features and investment options of your new employer's plan compare to your current plan. If, for example, your current plan offers more investment options or a particular option that isn't available in your new employer's plan, and the fees and expenses associated with your current plan are acceptable to you, then keeping your retirement plan in your current plan may be the more beneficial choice.
- Conversely, if your new employer's plan offers more options or options not available in your current plan, and the expenses are comparable with those in your current plan, then transferring your retirement plan to your new employer's plan may be the more beneficial choice.
- Another potential benefit to consider in rolling your retirement plan over into your new employer's plan is that under certain conditions, you may be able to defer required minimum distributions if you're still working at your new place of employment after you turn age 70½. A potential downside for rolling your retirement plan into an IRA is that the minimum age for taking penalty-free withdrawals is 59½ instead of 55 with a retirement plan.
- If you, or you and your spouse have other investment accounts, another way to consider your option is how the retirement plan account fits in with your other accounts. For example, which plan offers features or benefits more to your liking? Does the plan offer unique investment options that are unavailable in your other accounts?

- While most employers allow new employees to transfer their retirement plan account from their previous employer, they may impose a waiting period before you can transfer, so it's important to confirm with your new employer what the terms and conditions are for transferring-in your retirement plan account.
- The final consideration on deciding whether to transfer your retirement plan to your new employer's plan is your preference. If you prefer more flexibility, or the ability to pursue investment strategies is typically not available through an employer-sponsored retirement plan, then Option 2, rolling your retirement plan into a qualified IRA, may be the more beneficial choice for you.

## In Conclusion

Regardless of whether you transfer your retirement plan to your new employer's plan, keep it in your current plan, or roll it into a qualified IRA, it's important for you to continue making regular contributions during your working years into a retirement plan.

If you're considering taking a pre-mature distribution from your retirement account, caution is in order. Taking a distribution from your retirement plan prior to age 55 may subject you to immediate taxes and possible penalties. Also, if you are leaving your employer and are not immediately seeking new employment, and you plan on rolling your retirement plan into an IRA, you may want to consider opening a separate IRA specifically for your retirement plan rollover and not commingle it with contributory IRAs.

The decision on which retirement plan distribution option is more beneficial for you requires a careful and thorough evaluation of your personal, professional and financial circumstances that may go beyond what's covered in this section. Discussing your options and their potential tax and financial implications with a tax advisor or financial services provider may also be beneficial.