Consolidating retirement plan assets

Over the years, you may find that you have accumulated a number of workplace retirement accounts. Consider consolidating these assets into a single rollover IRA to simplify your life and help you take better control of your financial future.

By the numbers

- **10.8** is the average number of jobs an individual will have during the course of a career.[1]
- If you leave a company and take your 401(k) assets in cash, you could lose **nearly half in taxes and penalties.**[1]
- If your account balance is **less than $5,000** when you leave the employer, the plan can make an immediate distribution without your consent. If this distribution **is more than $1,000**, the plan must automatically roll the funds into an IRA it selects, unless you elect to receive a lump-sum payment or to roll it over into an IRA you choose.[1]

[1] Source: U.S. Department of Labor

Thanks to favorable tax laws, your retirement plan assets can now be as mobile as you are. If you are like most people, you have probably worked for a number of different employers. Until 2001, though, you could not always take your retirement plan assets with you to your new job. If your new employer offered a 401(k) plan, for example, you could not transfer assets if your previous employer was a nonprofit organization that offered a 403(b) or a government organization that offered a 457 plan. Firefighters, police officers, and other municipal workers who had 457 plans could not even transfer their retirement money into a rollover IRA when they left their jobs.

All that changed with the major tax legislation passed in 2001 — the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Since then, money in a 403(b) plan or a governmental 457 plan can be transferred into a 401(k) plan and vice versa. Municipal workers have the option of transferring their retirement money to a rollover IRA. Money in a rollover IRA can even be transferred into your current employer's plan, regardless of whether it is a 403(b), a governmental 457, or a 401(k) plan if the plan terms allow it.

Bringing assets together

For anyone who has worked for a variety of employers, EGTRRA makes it easy to consolidate retirement assets. Consider a woman who worked as a police officer after college, then seven years later decided to become a teacher, only to change her mind again five years later as she pursued a career at a publishing firm as a book editor. She might have retirement assets in a 457 plan from her years as a police officer, money in a 403(b) plan from her days as a teacher, and investments in a 401(k) offered by her current employer, the publishing firm.

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Key points

Wondering what to do with your retirement assets when you change jobs or retire? If you have multiple accounts at multiple firms, consider consolidating your retirement assets in one rollover IRA and simplify your life.

Here are some major potential advantages a consolidated approach offers:

- preservation of tax benefits
- potentially more investment options
- an opportunity to allocate, diversify, and rebalance in one portfolio
- potentially lower fees
- a consolidated statement

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In the past, she would have had to keep all that money separate, but now she can consolidate those assets. She could transfer the money in her 457 and 403(b) plans into a rollover IRA or into her current employer's 401(k) plan, if the plan would accept them.

While EGTRRA changed the federal rules governing retirement plans, keep in mind that each retirement plan may still have its own rules concerning employees' access to money and the acceptance of assets from previous employers' retirement plans.

More decisions to make

The good news for investors is that today's tax laws give them more freedom to determine for themselves how to handle their retirement assets. But, as is usually the case, with more freedom comes more responsibility. Now that you have more options, you will want to be certain you make decisions that will best serve your long-term needs. How you choose to handle your retirement assets could have a lasting impact on the size of your nest egg and ultimately on the type of retirement you can enjoy. Because this decision is so critical, most people seek out professional advice when they are leaving a job. Your financial advisor and accountant can help you assess your options and help you make the best possible choice.

When you leave an employer, you generally have four options for handling the money in your retirement plan.

1. Leave it in your former employer's plan. If your plan balance is less than $5,000, this option is available only if the plan allows it.
2. Transfer it to your new employer's plan. Current tax laws make this easier to do, but each plan still has its own rules for what assets it will accept.
3. Take the money out of the plan. Depending on the plan's options, you may be able to take installments, an annuity, or a lump sum. The downside of this option is that you will pay taxes, and you may incur a 10% penalty tax, depending on when and how you take the money. This may put your future retirement needs at risk.
4. Roll over the money into an IRA. Money from a 401(k), 403(b), profit-sharing plan, money purchase plan, and even a 457 plan can all be invested in a rollover IRA.

Rollover IRAs have considerable appeal

For many people, the most appealing option is to transfer retirement plan money into a rollover IRA.

This choice may make a lot of sense for a number of reasons.

- A direct rollover is a nontaxable event. When you transfer the money into a rollover IRA, you avoid the current tax consequences and possible penalties you would incur if you took a cash withdrawal.
- Tax benefits are preserved. In a retirement plan, the taxes on your potential earnings are deferred until you take withdrawals in retirement. Earnings generally can compound faster when taxes are postponed. When you transfer your retirement money to a rollover IRA, taxes on your earnings will continue to be deferred until you begin making withdrawals from your account.
- You may gain access to more investment options. Retirement plans typically offer a much narrower range of investment options than those you can choose from within an IRA.
- Your retirement savings are preserved. Cashing out a lump-sum distribution can be tempting. It may be the largest sum of money you have ever been able to get your hands on. But when you use that sum — what remains after taxes — for a current expense, you could be putting your retirement at risk. That amount could potentially grow to a substantial sum that could give you extra income in retirement.

Plenty of resources to guide you

When changing jobs or retiring, you are likely to be preoccupied with plenty of concerns as you prepare for this new stage of your life. In the midst of these major transitions, you will have to make a major decision about how to handle your retirement plan assets. Staying informed and turning to the support of financial advisors could help ensure that you make the best decision for yourself, your family, and your future.

Portability of retirement plan assets

- Money can be transferred between any type of plan — 457, 403(b), and 401(k).
- 457 plan investments can be transferred to a rollover IRA.
- All types of employer-related plans — 403(b), 457, and 401(k) — can accept transfers from rollover IRAs.

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Key facts to remember

- In most cases, you get access to your plan assets only when you terminate employment — when you retire, change jobs, or are laid off.
- Each plan can still have its own rules that govern current and terminated employees' access to plan assets.
- Any after-tax contribution you made to a retirement plan can only be rolled over to another retirement plan that will accept it and agree to track it separately from pretax monies. Also, any nondeductible contributions you made to an IRA cannot be rolled over to a retirement plan.*

* Governmental 457 plans are not subject to the early distribution penalty. If you are under age 59 ½, talk to your financial and tax advisor before rolling your 457 into an IRA.

- If you are rolling money over to an IRA, be sure to ask your former employer to make the check payable to the institution where you are establishing the IRA. If it is made payable to you, your retirement plan distribution will be subject to 20% withholding. When you open the rollover IRA, you would have to invest the full amount of your distribution and come up with the missing 20% yourself. Even if you completed the rollover within the required 60 days to avoid income and penalty taxes, you would not get back the amount withheld until you filed your tax return.

Additional MFS resources

MFS Heritage Planning® infosheet on **mfs.com**: *An IRA dilemma: to roll or not to roll.* This infosheet details your options for handling retirement assets when you change jobs or retire.

MFS® IRA Transitions kit
Your financial advisor can give you this kit to help explain your four options for handling a retirement plan distribution. It also includes the forms you will need to open an MFS IRA Rollover.

Resources

By phone or on the Internet

IRS Publication 590, Individual Retirement Arrangements (IRAs). See specifically the sections titled "What's New for 2009," "What's New for 2010" and "Can You Move Retirement Plan Assets?" This publication can be found on the Internal Revenue Service Web site at www.irs.gov. Or you can call the IRS at 1-800-829-1040.

The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult a financial advisor.

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