Putnam INVESTMENTS

When it's time to move 401(k) assets

Changing jobs and retirement are two milestones where individuals who want to stay invested face a choice: whether to roll over assets into an individual retirement account (IRA) or to keep the assets in an existing plan or transfer to a new 401(k).

Rollover to an IRA

Here are some considerations for rolling assets out of an employer plan and into an IRA.

Investment options and asset allocation

- Broad investment and product choice, including access to products designed to provide lifetime, guaranteed income
- The freedom to choose a financial professional to manage assets and provide personal financial planning

Control and ease of use

- Control over the retirement account for the owner, which, if left with the employer, could be subject to blackout periods or other plan changes due to company mergers, restructuring, or plan dissolution
- Consolidation of retirement assets to streamline record-keeping and transactions, and establish a single contact
- A way to facilitate a retirement income strategy by making it easier for investors to determine a withdrawal rate and select the account to use for withdrawals
- More flexibility to customize beneficiary designations

Roth conversions and other provisions offered by IRAs

- The ability to convert an IRA to a Roth IRA, which may not be an option with an employer-sponsored plan
- No required minimum distributions (RMDs) are needed from Roth IRAs, while assets held inside a Roth 401(k) are subject to required minimum distributions
- Access to 72(t) withdrawals, which provide penalty-free early withdrawals using a specific calculation and distribution schedule
- The ability for investors over age 70½ to donate tax-free IRA withdrawals to a qualified charity
- The opportunity to execute a one-time funding of a health savings account (HSA) with IRA funds
- Access to funds without a 10% penalty for first-time homebuyers up to $10,000, or for qualified education expenses and health insurance premiums if unemployed and certain conditions are met

(over)

Stay in the 401(k) plan or transfer to a new plan

Here are some considerations for investors wishing to either remain with an employer-sponsored plan or to transfer some assets to a new 401(k) plan.

Access to certain investment options or plan services

An employer-sponsored defined contribution or 401(k) plan may offer investment options, services, and cost-saving provisions that may not be available outside of the plan, including:

- Lower expenses, such as special institutional pricing in some plans
- Access to loans for current employees
- Consolidation of retirement savings when changing employers
- Access to certain investment options within the plan, such as stable value accounts, which may not be available outside of the plan
- Potential for low- or no-cost guidance through the plan
- Possible avoidance of RMDs from your 401(k) plan as long as you are still employed and do not own 5% or more of the company (this provision does not apply to IRAs)
- Ability for non-spouse beneficiaries to convert an inherited 401(k) to a Roth IRA

Certain tax code and asset protection provisions

- The ability to apply net unrealized appreciation (NUA) treatment when distributing shares of employer stock, which may result in tax savings
- Penalty-free distribution at age 55 (compared with 59½ with an IRA), if the plan participant separated from service from the company after reaching age 55
- Assets held in ERISA-qualified plans are generally shielded from bankruptcy proceedings, civil judgments (excluding divorce), and other claims by creditors to a greater extent than IRAs*

Cashing out a 401(k) is also an option, but the funds will generally be taxed as ordinary income. And for investors under the age of 55, there is a 10% penalty for early withdrawal.

* Federal regulations and many state laws offer comparable protection from creditors for IRAs in certain bankruptcy proceedings. Consult with a legal professional who is knowledgeable about asset protection statutes in your state.

Withdrawals from an IRA are subject to income tax, and those made before age 59½ may be subject to an additional 10% tax.

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