TALKING POINTS

Study all options in job transition

By Valerie Dugan

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The current economic and market environment has prompted many Americans to rethink their retirement strategies.

If you are experiencing a job transition — particularly if the transition is unplanned

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and unexpected — such a reassessment may be particularly important for you. While it may be tempting to focus more on your immediate needs, you should not lose sight of long-term goals, especially your retirement strategy.

Your employer-sponsored retirement plan is likely to be a key component of your retirement strategy. Because it represents a key source of future retirement income, it is important to carefully consider your alternatives for administering these assets:

Taking a direct, lump-sum distribution — With this option, you have immediate access to your funds. Depending on your short-term needs, that may appear to be an attractive alternative. However, a distribution will likely result in substantial federal and state income taxes and a 10 percent IRS penalty tax, which can significantly reduce the amount of the distribution. The plan administrator must withhold up to 20 percent of the value of the distribution for federal income tax purposes. Moreover, you will lose the benefit of the tax-deferred status of these assets.

The status quo option — You can decide to do nothing, leaving your assets in your former employer’s plan. That will protect the tax-deferred status of your assets and allow you to transfer the account assets at a later time to a new employer’s retirement plan that accepts rollovers. But you may be limiting your investment choices and control because employer plans typically have a restricted investment menu and require the consent of your spouse before you can name someone else as a beneficiary.

Establishing a Rollover IRA — A Rollover IRA simultaneously addresses the issues of taxation, flexibility and control, and may hold significant benefits for you as a result:

• If your distribution is transferred directly to a custodian, rather than to you, the Rollover IRA eliminates the withholding requirement and penalties that may result from a lump-sum distribution.

• The entire rollover amount can be invested immediately, according to the strategy you specify.

• Your assets and any earnings continue to have the potential to grow tax-deferred until you retire and begin taking withdrawals.

• You may gain access to a wider range of investment options and more retirement planning and distribution flexibility.

For example, investment products in an employer plan are usually limited to mutual funds and company stock. With a self-directed Rollover IRA, you can work with your financial professional to structure a portfolio using stocks, bonds, annuities and other investments utilizing an asset allocation that is customized to help you meet your retirement investment objectives. And your retirement strategy can be further tailored with a wider range of beneficiary selection and distribution choices.

Keep in mind, leaving your assets in a former employer’s plan does have some benefits. For example, many qualified retirement plans include loan provisions that are not available with an IRA, but may still be available to you. And you should look at the costs associated with any investments you may be considering because it could be less expensive for you to leave your assets in the former employer’s plan.

Consider Consolidation

This may also be an excellent time to deal with multiple IRAs you may have opened over the years, and with account balances you may have left in the plans of former employers. There are good reasons to consider consolidating in a Rollover IRA:

Comprehensive investment strategy — It can be difficult to maintain an effective investment strategy — one that accurately reflects your goals, timing and risk tolerance — when assets are spread among multiple financial institutions.

Greater investment flexibility — A self-directed IRA generally offers you the ability to choose from a wide range of investment products, including stocks, bonds, mutual funds, annuities and more.

Simplified tracking — It is easier to monitor your progress and investment results when all your retirement savings are in one place, because you will receive one statement instead of several.

Lower costs — Reducing the number of accounts may also reduce your account fees and other investment-related charges.

Your financial professional can help you assess your alternatives so you can make decisions based on what's best for you. You may find that this time of transition holds benefits for your retirement assets.

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