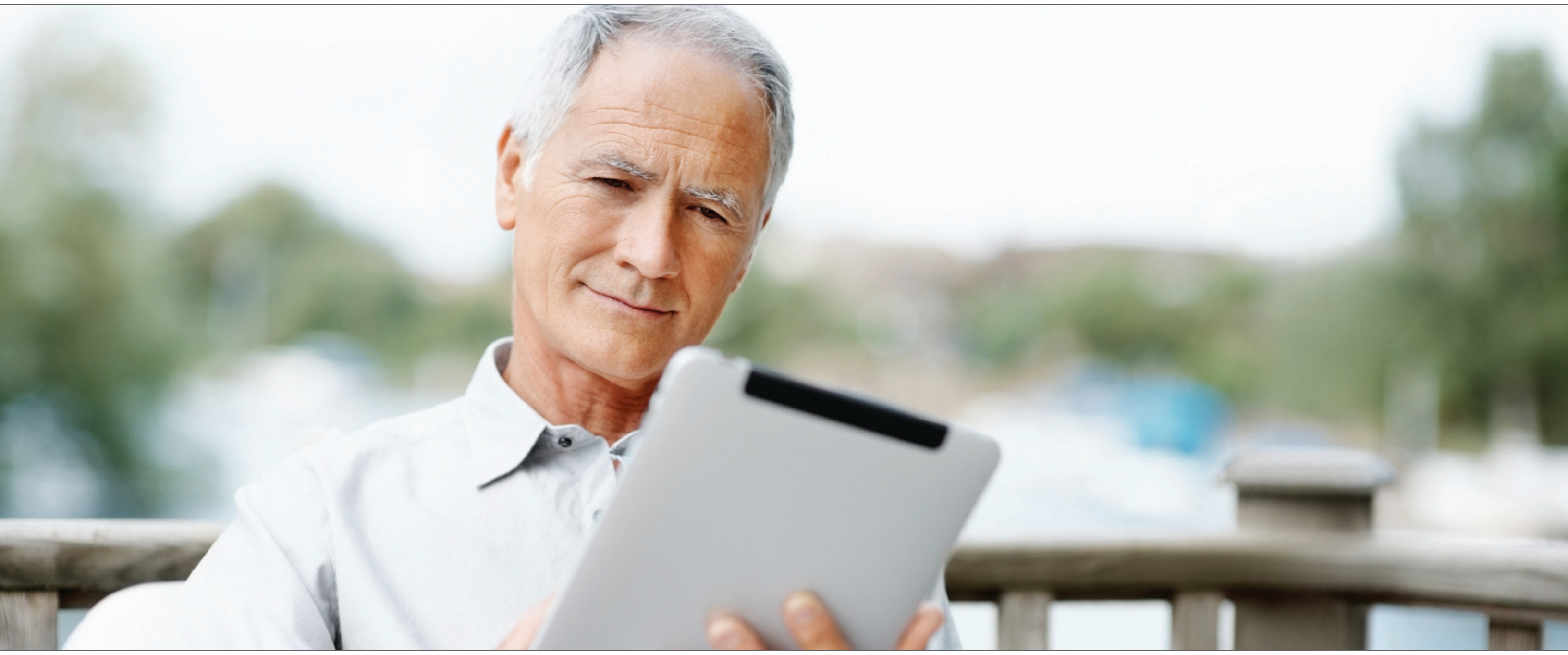

# CONSIDERING IRA ROLLOVERS

Making the right distribution decision now
can make a big difference down the road.

RAYMOND JAMES®

## ARE YOU CHANGING JOBS? CAREERS? RETIRING?

If you are planning to take money from your company-sponsored retirement plan, there are important decisions you need to make – sooner than you may think. How will you preserve the retirement funds you have accumulated to provide for your future? There are several considerations that can help protect you from unnecessary or untimely income taxes.

**What decisions need to be made?**

- Do you want to leave your money in your current plan? If permitted, you can continue to grow your money tax-deferred, and you may be eligible for penalty-free withdrawals after age 55.
- Do you want to pay the tax later? If you want to keep deferring taxes and maintain control over your money, you can transfer your accumulated assets directly from the current plan into an IRA or another employer's plan (if the plan allows a rollover).
- Do you want to pay income taxes this year? If you want to take advantage of the Roth IRA and ultimately withdraw your money tax-free, you can now roll directly to a Roth IRA, which would require you to pay tax on the conversion amount in the year of the rollover to the Roth IRA.
- Do you want the money now? If you want to take all or part of your money in cash, you will pay ordinary income taxes – and possibly a 10% penalty – on whatever portion is not rolled directly into an individual retirement account (IRA) or another employer's plan.

Your individual circumstances will determine which option is right for you. If you're leaning toward rolling over to an IRA, here are the options you should consider with your Raymond James financial advisor.

## TAKING THE MONEY NOW

If you want the money now, it will cost you. By law, qualified plans are required to withhold 20% as a prepayment toward federal income taxes. So right away you will have lost the use of one-fifth of your retirement assets. If you are not at least age 59½, disabled or leaving your job after the age of 55, you are subject to an additional 10% federal tax as a premature withdrawal penalty. State taxes may also apply.

EXAMPLE

Lisa, 50 years old, retires from Sun Company with 1,000 shares of company stock with a fair market value of $50,000. Lisa paid $10 per share for a cost basis of $10,000. Her NUA is $40,000 ($50,000 minus $10,000).

If Lisa elects to take a lump-sum distribution, assuming a 25% federal tax bracket, she will pay $2,500 in taxes on the original cost basis and a 10% penalty for being younger than 59½, or $1,000. The $40,000 of appreciation, or NUA, is tax-deferred until sold, at which time it would be taxed at the long-term capital gains rate of 15%.

If Lisa elects to roll over to an IRA and then take a distribution, she will pay ordinary income tax on whatever amount she distributes. If she distributes the $50,000, the tax will be 25% of $50,000, or $12,500 (plus the 10% penalty for being younger than 59½ or $5,000).

In Lisa's case, there is a significant difference in the tax owed. This strategy works well when capital gains rates are lower than ordinary income tax rates.

## EMPLOYER STOCK DISTRIBUTION OPTIONS

Participants who have highly appreciated employer stock should consider taking an in-kind distribution of the stock, instead of rolling over to an IRA. Here's why:

- Upon distribution, ordinary income tax is paid on the original cost basis of the stock. The cost basis is the price at which the stock was allocated to the participant.
- The difference between the cost basis and the current fair market value is called the Net Unrealized Appreciation. The NUA remains tax-deferred until the securities are sold.
- When the stock is sold, the NUA, or appreciation in the stock, is taxed as a long-term capital gain.
- The advantage to this in-kind strategy is the difference between ordinary income tax rates and long-term capital gain rates.

For this strategy to work, individuals must take a lump-sum distribution of all assets in the plan to qualify, although they can roll part of the assets to an IRA. The rollover should be direct to avoid the mandatory 20% withholding.

- **Forward averaging**. If you were born before January 1, 1936, you may use 10-year forward averaging. The tax on a lump-sum distribution is due for the tax year in which the distribution is made. Forward averaging is a method of calculating the tax that may result in a lower tax burden. Forward averaging can only be used once in your lifetime, so consideration should be given as to the possibility of a future lump-sum distribution. As Raymond James financial advisors, we can discuss this option with you in more detail.

EXAMPLE:

**INDIRECT ROLLOVER**

Joe takes a distribution of his $100,000 employer profit sharing account when he changes jobs. His former employer sends $20,000 to the IRS and a check to Joe for $80,000. If Joe can access $20,000 from another source, the entire $100,000 can be rolled over to an IRA, thus avoiding any tax consequence on the distribution. Note, you must personally deposit the 20% from out of pocket, and it must be within 60 days.

When he files his tax return, the $20,000 that was withheld would, in effect, be refunded.

If not, the $20,000 will be deemed a distribution. It will be taxed at Joe's ordinary income tax rate and penalized 10% since Joe is under age 59½.

## DEFERRING ALL TAXES UNTIL LATER

If you want to avoid any current taxes, you must have your retirement plan money transferred directly into an IRA (referred to as a "direct rollover"), leave it in your former employer's plan or transfer it directly into a new employer's plan. For more information on an "indirect rollover," see the example to the left.

However, it is important to understand the distribution options and procedures of your former employer's plan. If you want to avoid the 20% withholding tax discussed earlier, you must specifically request a direct rollover. This involves the distribution transferring directly from the current custodian to the new custodian. The withholding tax is required if you physically take possession of the distribution amount, even if you intend to roll it over to an IRA. If the 20% is withheld, you must provide cash from other savings to make up this amount. If you do not do so within 60 days, the portion withheld will be deemed a distribution and taxed and penalized, if applicable.

### SUMMARY OF AN IRA ROLLOVER

**Benefits:**

- Maintain tax-deferred status of your retirement savings.
- Direct your own assets.
- Defer taxes and avoid penalties and the 20% withholding.
- Take penalty-free early distributions prior to age 59½ for certain purposes, including:

    First-time home purchase expenses (up to $10,000)

    Qualified higher education expenses

    Distributions taken to pay medical expenses that exceed 10.0% of a participant's AGI (single or joint filers) for the year (7.5% through tax year 2016, if participant or spouse was born before January 1, 1949) and that are not otherwise covered by insurance or another program ("unreimbursed")

    Distributions to pay health insurance premiums of unemployed persons (to an extent)

    Series of substantially equal payments under section 72(t)

    Death or disability

    Qualified reservist distributions

    Distributions to pay an IRA levy

**How It Works:**

- To avoid the 20% withholding tax on qualified plan distributions, you must elect a direct rollover to the IRA.
- Stock received in a distribution can be rolled over, or the stock can be sold and the proceeds of the sale can be rolled over. Pay attention to potential NUA/appreciated stock.
- If you do not elect a direct rollover, 20% will be withheld upon distribution. You can still defer taxes on the distribution by rolling over to an IRA within 60 days of receipt of your distribution.

## PAY THE TAX NOW, ENJOY TAX-FREE DISTRIBUTIONS LATER

The Roth IRA is a retirement savings account in which contributions are made after tax. The investments in a Roth IRA grow tax-free and are distributed tax-free under certain circumstances.

Thanks to changes in the Pension Protection Act of 2006, a distribution from a qualified pension or profit sharing plan can now be rolled over into a Roth IRA. If the rollover was from taxable qualified plan contributions, the rollover will be considered a conversion to a Roth IRA.

This rollover to the Roth IRA is technically known as a "conversion." The advantage to this strategy is that, after the tax is paid on the conversion to the Roth IRA, there is no further tax, as long as the money stays in the Roth IRA a minimum of five years and the person reaches age 59½, dies, becomes disabled or the money is used for a qualified first-time home purchase ($10,000 lifetime maximum).

The distribution or conversion amount is treated as ordinary income. A distribution rolled over or converted into a Roth IRA is not subject to the 10% premature withdrawal penalty tax imposed on withdrawals from traditional IRAs before age 59½.

## COMMON QUESTIONS ABOUT RETIREMENT PLAN DISTRIBUTIONS

**What is a lump-sum distribution?**
It is a payment or payments (occurring within one calendar year) from a pension or profit sharing plan. It represents all contributions made by you or your employer, as well as all earnings.

**What is an IRA rollover?**
An IRA rollover is a tax-sheltered vehicle for retirement benefits received (a "distribution") from an employer-sponsored plan. Taxes on all dividends, interest and gains are deferred until withdrawn.

Because the assets in an IRA rollover are untaxed dollars, they compound tax-free and grow more rapidly than money placed in a taxable account.

As of 2015, you can only make one rollover from an IRA in a 12-month period. In the past, individuals would take distributions from separate IRAs and make multiple rollovers with the philosophy being each IRA only had one rollover. The IRS has clarified that all your IRAs are counted as one and only one rollover can occur per 12-month period. However, this is different than trustee to trustee transfers. Those movements of money are still unlimited. The ruling applies to individuals receiving a check in their hand, using the money temporarily and then rolling the money back into the IRA within 60 days.

**What type of distribution can be rolled over to an IRA?**
To be eligible for placement in an IRA rollover, the distribution must be considered an "eligible rollover distribution." An eligible rollover distribution must meet the following criteria:

1. It must be paid from a "qualified" plan or "employer IRA" such as:

- Pension plans
- Profit sharing plans
- 401(k) plans
- Employee stock ownership plans
- Keogh plans (pension or profit sharing plans for self-employed persons)
- 457 state and local government plans
- SEP IRAs
- SIMPLE IRAs

Distributions from 403(b) plans established for teachers, hospital employees and other employees of nonprofit organizations may also be eligible for rollover treatment.

2. The payment must not be made in any of the following forms:

- One of a series of substantially equal payments based on life expectancy
- One of a series of installment payments payable over 10 years or more
- All or part of a required minimum distribution
- A return of any excess deferrals or excess contributions, a refund of life insurance costs, or as a deemed distribution due to a loan default
- A hardship distribution

**What if I want to roll over part of my distribution and keep part for immediate use?**
You may roll over any part of your lump-sum distribution and keep the rest. However, 20% of what you don't transfer directly into an IRA rollover will be withheld against taxes. If you have a $10,000 distribution and you do a direct rollover of $9,000, then $200 (20% of the $1,000 you didn't roll over) will be withheld.

**What are the advantages of placing a qualified distribution into an IRA rollover?**
Placing an eligible distribution into an IRA will avoid current taxes, and perhaps a 10% penalty tax as well. Rolling over your distribution will allow the full value of your accumulated benefits to continue to grow and be available for your retirement years. You may also want to consider placing the distribution in another employer's plan if that plan allows a rollover.

**What are the tax-reporting requirements related to rolling over my qualified plan distribution?**
Under current regulations, there are no special tax forms to file when rolling over a qualified distribution to an IRA.

Soon after the end of the year in which you receive the distribution, the trustee of your employer's plan will send a Form 1099-R to the IRS and forward a copy to you. The 1099-R indicates the amount of your distribution. This amount is entered on your income tax return (IRS Form 1040).

If you elected a direct rollover of the total distribution into an IRA, it is excluded from total taxable income. If you elected a conversion into a Roth IRA, you will also be issued a 1099-R indicating the amount you must pay tax on; however, you will not be subject to the 10% penalty on the conversion.

(If you do not roll over the full distribution, the part that you keep will be included in your taxable income for the year.) Once the rollover is completed, current law does not require any other IRS filings or reports.

**Can I roll over the after-tax money in my employer's plan to a Roth IRA?**
Previously, if you wanted to roll your after-tax money in a 401(k) to a Roth IRA, you had to navigate through some very complicated rules that even experts could not always agree upon, and then keep your fingers crossed that the IRS would bless the transaction. Now, if you have after-tax dollars in a plan and you are able to take a rollover eligible distribution, you may direct those after-tax dollars to a Roth IRA as a tax-free transaction. There are two critical elements to the distributions. First, you must tell the plan administrator how you are allocating the pre-tax and after-tax dollars beforehand. And second, the transfers must occur at the same time.

**Is it possible to combine my distribution with another IRA I already have?**
Yes. Eligible distributions placed in an IRA rollover retain "portability." Portability allows you, at any time, to return the amount in your IRA rollover into another employer-sponsored pension or profit sharing plan in which you participate and which provides for such transfers (assuming those plans allow rollovers).

**Can I elect a rollover to an IRA even after the age of 70½?**

There are no age restrictions for electing an IRA rollover, but by April 1 of the year following the year in which you reach age 70½, you must begin to make withdrawals, which cannot be rolled over.

**What is the tax status of an IRA distribution?**
Traditional IRAs are typically funded with pretax dollars. Distributions out of the account after age 59½ are taxed as ordinary income.

**What are my IRA distribution options?**
IRS rules govern when these assets can be removed from your IRA without penalty.

The Tax Reform Act of 1986 adopted an early withdrawal program that allows a person to withdraw from an IRA prior to age 59½ without penalty. Distributions from traditional and Roth IRAs that qualify as "substantially equal payments" under Code section 72(t)(2)(iv) are penalty exempt. To qualify for the penalty exemption, the distributions must be received annually and occur for the longer of five years or until the participant attains age 59½. The IRS has provided three "safe harbor" methods for calculating annual distribution amounts under the substantially equal payments provision.

Between the ages of 59½ and 70½, you may withdraw as much or as little from your IRA as you choose. The standard rule is that if you take an IRA distribution before you reach age 59½, the amount distributed is subject to an additional 10% penalty tax. If you take an IRA distribution before you reach age 59½, the amount distributed is subject to an additional 10% penalty unless you meet one of the premature distribution penalty exceptions.

Beginning with the year you turn age 70½, certain minimum distributions must be taken at least annually from your IRA to avoid substantial penalty taxes. The IRS penalty for not taking the required minimum distributions from your IRA after age 70½ is 50% of the difference between the amount that should have been distributed and the amount actually distributed from the IRA. You should also be aware that you may be required to make estimated tax payments whether or not you request the standard 10% withholding on distributions from your IRA.

**What do I do with my Roth 401(k) contributions?**
Roll over to a Roth IRA. Roth IRA (vs Roth 401(k)) accumulations do not have to meet required minimum distribution requirements at age 70 1/2. If you do not already have a Roth IRA, the five-year clock will start over.

## REVIEWING THE FACTS

Making an informed decision about your retirement plan assets requires careful consideration of the alternatives. Now that we've introduced several possible strategies, the following chart should help you review the benefits – as well as the possible drawbacks – of the various options you can choose.

| Distribution Options | Pros | Cons |
|---|---|---|
| 1. Roll over to an IRA | • Money continues to grow tax-deferred<br>• Investment flexibility<br>• Flexible beneficiary designations and distribution options<br>• Access to money<br>• Able to convert to a Roth IRA | • No loans or age 55 retirement-distribution provisions<br>• Outstanding loan on a plan must be repaid before rolling over to an IRA |
| 2. Conversion | • Money will grow tax-free<br>• Investment flexibility<br>• Beneficiaries will receive money tax-free | • Must pay ordinary income tax<br>• Mandatory tax withholding of 20% may be considered an early distribution and penalized 10% |
| 3. Take as cash | • Immediate access to savings<br>• Taking a distribution of shares of company stock may lower taxes, if eligible (see Net Unrealized Appreciation, page 2). | • No longer tax-deferred<br>• Penalty if under 59½<br>• Subject to 20% withholding |
| 4. Roll over to a new employer's plan | • Money continues to grow tax-deferred<br>• Ability to take loans if plan allows<br>• Account consolidation<br>• May be eligible for penalty-free withdrawals if you retire at or after age 55 | • Subject to distribution rules of the plan<br>• Plan investment limitations<br>• May have restrictions on trading and additional fees |
| 5. Leave the money in the plan | • Money continues to grow tax-deferred<br>• No decisions to make right now<br>• May be eligible for penalty-free withdrawals if you retire at or after age 55 | • Plan investment limitations<br>• Non-spouse beneficiaries generally required to take lump-sum distribution<br>• May have restrictions on trading and additional fees |

Raymond James financial advisors have the knowledge and experience to fully explain your options and help you make the best decision regarding your retirement plan assets. Please contact us if you would like more information about substantially equal payments, required minimum distributions or beneficiary options.

## THE IRA ADVANTAGE

### FLEXIBILITY

The Raymond James IRA allows many different investment options, including common and preferred stocks, corporate bonds, government securities, open- and closed-end mutual funds, variable annuities, CDs, and REITs.

### RECORDKEEPING

Raymond James, as custodian, receives the contributions, provides detailed records of transactions, prepares statements reflecting all assets, makes distributions based on your instructions and handles the tax reporting. You receive a consolidated statement reflecting all account activity during the year.

### SIMPLICITY

If you maintain IRAs at more than one institution, it may be time-consuming and difficult to gather information and maintain records. Combining your assets in one IRA has distinct advantages. Transferring IRAs held elsewhere to a Raymond James IRA can be done quickly and easily.

### COST EFFECTIVENESS

At Raymond James, you can maintain your IRA for one reasonable annual fee. In fact, IRAs with a value of $500,000 or more pay no annual fee. However, you should be aware that fees and expenses may apply to the underlying investments.

We hope you found this information useful. If you have any additional questions or want help in rolling over your IRA, your Raymond James financial advisor stands ready to assist you.

You should consider all of your available options and the applicable fees and features of each before moving your retirement assets.

Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. Raymond James financial advisors do not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

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