WELLS FARGO ADVISORS

Options for your retirement plan savings

Are you considering the various options for the savings you have accumulated in your qualified employer-sponsored retirement plans (QRPs), such as a 401(k), 403(b), or governmental 457(b)? Know that what you choose to do with your current retirement savings can have a substantial impact on your future.

You generally have four options for your QRP distribution:

- Roll over your assets into an Individual Retirement Account (IRA)
- Leave your assets in your former employer's QRP, if allowed by the plan
- Move your assets directly to your new employer's QRP, if allowed by the plan
- Take your money out and pay the associated taxes

Each of these options has advantages and disadvantages and the one that is best depends on your individual circumstances. You should consider features, such as investment choices, fees and expenses, and services offered. Your Wells Fargo Advisors Financial Advisor can help educate you regarding your choices so you can decide which one makes the most sense for your specific situation. Before you make a decision, read the information provided in this piece to become more informed and speak with your current retirement plan administrator and tax professional before taking any action.

Option 1 — Roll your QRP savings to an IRA

Rolling your money to an IRA allows your assets to continue their tax-advantaged status and growth potential, the same as in your employer's plan. In addition, an IRA often gives you access to more investment options than are typically available in a QRP and investment advice. Your Wells Fargo Advisors Financial Advisor can support you in your retirement planning process by providing the guidance to help you make more informed decisions.

Features

- Assets retain their tax-advantaged growth potential.
- Rolling your assets into an IRA generally avoids current income taxes and early distribution penalties.
- Access to more investment choices than are typically available in employer plans, providing greater potential diversification.
- Access to investment advice and guidance.
- Additional exceptions to the 10% IRS tax penalty before age 59½ including for higher education and first-time homebuyer.[1]
- Additional contributions are allowed, if eligible.
- IRAs can be consolidated and conveniently maintained with one provider.
- Traditional and Roth IRA contributions and earnings are protected from creditors in federal bankruptcy proceedings to a maximum limit of $1,283,025, adjusted periodically for inflation.
- Rollovers from QRPs, SEP, and SIMPLE IRAs have no maximum limit for federal bankruptcy protection.

Keep in mind

- IRA fees and expenses are generally higher than those in your QRP and depend primarily on your investment choices.
- Loans from an IRA are prohibited.
- In addition to ordinary income tax, distributions prior to age 59½ may be subject to a 10% IRS tax penalty.[1]
- Required minimum distributions (RMDs) begin April 1 following the year you reach 70½, and annually thereafter. The aggregated amount of your RMDs can be taken from any of your Traditional, SEP, or SIMPLE IRAs. Roth IRA owners have no RMDs.
- IRAs are subject to state creditor laws regarding malpractice, divorce, creditors outside of bankruptcy, or other types of lawsuits.
- If you own appreciated employer securities, favorable tax treatment of the net unrealized appreciation (NUA) is lost if rolled into an IRA.

Option 2 — Leave your retirement savings in your former employer's plan

While this approach requires nothing of you in the short term, managing multiple retirement accounts can be cumbersome and confusing in the long run. And, you will continue to be subject to the QRP's rules regarding investment choices, distribution options, and loan availability. If you choose to leave your savings with your former employer, remember to periodically review your investments and carefully track associated account documents and information.

Features

- No immediate action on your part.
- Assets retain their tax-advantaged growth potential.
- Can typically keep your current investments, and you will continue to have access to those investments. Please contact your plan administrator for details.
- Fees and expenses are generally lower in a QRP.
- You avoid the 10% IRS tax penalty **if** you leave the company in the year you turn age 55 or older (age 50 or older for certain public safety employees).
- Generally, QRPs have bankruptcy and creditor protection under the Employee Retirement Income Security Act (ERISA).
- Employer securities (company stock) in your plan may have increased in value. The difference between the price you paid (cost basis) and the stock's increased price is NUA. Favorable tax treatment may be available for appreciated employer securities owned in the plan.

Keep in mind

- Your employer may not allow you to keep your assets in the plan.
- You generally are allowed to repay an outstanding loan within a short period of time.
- Additional contributions are typically not allowed.
- You must maintain a relationship with your former employer, possibly for decades.
- In addition to ordinary income tax, distributions prior to age 59½ may be subject to a 10% IRS tax penalty.
- RMDs from your former employer's plan begin April 1 following the year you reach 70½, and continue annually thereafter.
- RMDs must be taken from each QRP including designated Roth accounts; aggregation is not allowed.
- Not all employer-sponsored plans have bankruptcy and creditor protection under ERISA.

Option 3 — Move your retirement savings directly to your new employer's plan

If you are joining a new company, moving your retirement savings to your new employer's QRP may be an option. This may be appropriate if you want to keep your retirement savings in one account, and if you're satisfied with the investment choices offered by your new employer's plan. This alternative shares many of the same features and considerations of leaving your money with your former employer.

Features

- Assets retain their tax-advantaged growth potential.
- Fees and expenses are generally lower in a QRP.
- You avoid the 10% IRS tax penalty **if** you leave the company in the year you turn age 55 or older (age 50 or older for certain public safety employees).
- RMDs may be deferred beyond age 70½ if the plan allows, you are still employed and not a 5% or more owner of the company.
- Generally, QRPs have bankruptcy and creditor protection under ERISA.
- Retirement assets can be consolidated in one account.
- Loans may be allowed.

Keep in mind

- You may have a waiting period before you can enroll in your new employer's plan.
- Investment options for the plan are chosen by the plan sponsor and you choose from those options.
- You can transfer or roll over only QRP assets that your new employer permits, and you will continue to have access to those investments. Please contact your plan administrator for details.
- Your new employer will determine when and how you can take distributions from your savings.
- Favorable tax treatment of appreciated employer securities is lost if moved into another QRP.

Option 4 — Take a lump-sum distribution (taxes and penalties may apply)

You should carefully consider all of the financial consequences before cashing out your QRP savings. The impact will vary depending on your age and tax situation. If you absolutely must access the money, you may want to consider withdrawing only what you will need until you can find other sources of cash.

Features

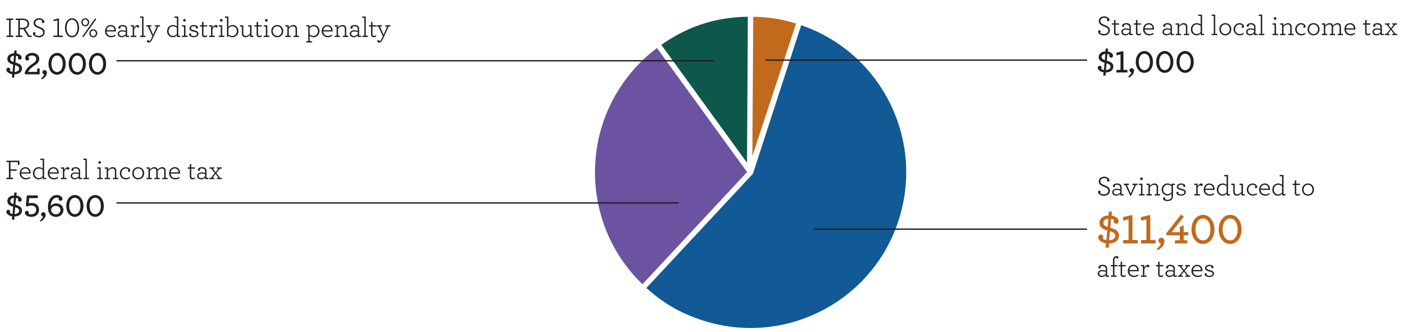
- You have immediate access to your retirement money and can use it however you wish.
- Although distributions from the plan are subject to ordinary income taxes, penalty-free distributions can be taken if you turn:
  - Age 55 or older in the year you leave your company.
  - Age 50 or older in the year you stop working as a public safety employee — such as a police officer, firefighter, or emergency medical technician — and are taking distributions from a governmental defined benefit pension or governmental defined contribution plan. Check with the plan administrator to see if you are eligible.
- Lump-sum distribution of appreciated employer securities may qualify for favorable tax treatment of NUA.

Keep in mind

- Your funds lose their tax-advantaged growth potential.
- The distribution may be subject to federal, state, and local taxes unless rolled over to an IRA or another QRP within 60 days.
- If you leave your company before the year you turn 55 (or age 50 for public service employees), you may owe a 10% IRS tax penalty on the distribution.
- Your former employer is required to withhold 20% for the IRS.
- Depending on your financial situation, you may be able to access a portion of your funds while keeping the remainder saved in a retirement account. This can help lower your tax liability while continuing to help you save for your retirement. Ask your plan administrator if partial distributions are allowed from your employer's QRP.

Taking a lump-sum distribution can be costly

Here's what's left of a $20,000 cash payout:



For illustrative purposes only. Assumes a 28% federal tax bracket and 5% state and local tax rate. Taxes may vary. The QRP is required to withhold a mandatory 20% federal income tax; taxes owed may be more or less than the 20% depending on the participant's tax bracket. The 10% IRS tax penalty may be assessed if participant is under age 59½ and no penalty exception applies. State penalty may also apply.

Evaluating your QRP distribution choices

Option that may be best for you if you want:	Choices to consider: Roll assets into an IRA	Leave assets in previous employer's QRP	Move assets to new employer's QRP	Take a lump-sum distribution
Generally lower fees and expenses		√	√	
More investment choices with broader diversification opportunities	√			
To delay RMDs after age 70½ if still employed			√	
To take advantage of potentially favorable tax treatment of appreciated employer securities		√		√
To avoid current income taxes and 10% IRS tax penalty	√	√	√	
To continue making contributions	√		√	
To maintain the account's tax-advantaged status until distributions are taken	√	√	√	
Continued protection from creditors offered by ERISA		√	√	
To consolidate your retirement account assets at one provider	√			
To avoid the 10% IRS tax penalty **if** you turn age 55 or older in the year you leave your company (age 50 or older for certain public safety employees)		√	√	√
To avoid the 10% IRS tax penalty for qualified higher education expenses or as a first-time homebuyer[1]	√			
To keep current investment choices and services offered		√		
Flexible distribution options	√			
Immediate access to your retirement money, and are willing to pay applicable taxes and penalties				√

Special considerations

As you evaluate your retirement account options and long-term plans, consider the following factors before making a final decision.

Direct versus indirect rollover

Direct rollover

This option, which is generally the preferable choice, transfers money directly from your former employer's QRP into an IRA or your new employer's plan, if allowed. There are no taxes withheld or penalties assessed when completing a direct rollover.

Indirect rollover

Your previous employer's QRP makes a check payable to you and withholds a mandatory 20% of the distribution for federal taxes. You then have 60 days to roll the eligible distribution to an IRA or new employer's plan, if allowed. Any portion not rolled over, including the 20% withholding, will be considered a distribution and you may owe income tax plus a 10% IRS tax penalty.

You can roll over more than one eligible distribution from a QRP. Unlike a 60-day IRA-to-IRA rollover, you are not limited to one rollover, per IRA owner, every 365 days.

Roth conversion

An excellent way to benefit from tax-advantaged growth potential and possible tax-free distributions may be to convert your QRP to a Roth IRA.[2] A conversion allows you to reposition your existing tax-deferred QRP assets to a potentially tax-free Roth IRA by paying federal and possibly state income tax (but without the 10% IRS tax penalty) on the taxable portion of the conversion.

The IRS has clarified the rules for allocating before-tax and after-tax eligible non-Roth 401(k), 403(b), or governmental 457(b) plan distributions made to more than one destination. This ruling allows you the option to elect a direct rollover of the before-tax amounts in your QRP to a Traditional IRA without any tax liability and also roll the after-tax amounts to a Roth IRA as a tax-free conversion. You can also convert any before-tax amounts in your QRP to a Roth IRA. Additionally, you could have the distribution made payable to you and within 60 days decide to convert some or all of the amount to your Roth IRA. A conversion of after-tax amounts will not be taxed. Any before-tax portion converted will be included in your gross income for the year.

In-service distributions

Some QRPs allow participants to roll over all or a portion of their QRP savings while still employed.[3] This allows you to become more active in managing and diversifying your retirement savings, while continuing to make contributions to the plan and possibly enjoy any available employer match. As long as the funds are rolled directly into an IRA, this distribution should not result in a tax liability and the mandatory 20% tax withholding should not apply.

In-service distributions may not be suitable for all investors and may be subject to certain eligibility requirements such as minimum age or years of service requirements. If your plan permits in-service distributions, you'll need to talk with your plan administrator to determine the rules of eligibility and any impacts that taking an in-service distribution from your QRP might have on your participation in the plan. And, review the features and things to keep in mind shown for Option 1 — Roll your QRP savings into an IRA — to understand the implications of an in-service distribution before taking action.

Net unrealized appreciation (NUA)

Net unrealized appreciation is a tax planning strategy that you should understand when facing decisions about your QRP distribution. A mistake that many participants make is rolling company stock into an IRA or a new employer's plan without considering alternatives. This decision can be costly.

NUA is defined as the difference between the value at distribution of the employer security in your plan and the stock's cost basis. The cost basis is the original purchase price paid within the plan. Assuming the security has increased in value, the difference is NUA.

NUA of employer securities received as part of an eligible lump-sum distribution from an employer retirement plan qualifies for capital gain tax. In most cases, NUA will be available only for lump-sum distributions — partial distributions do not qualify.

As a general rule, you will owe ordinary income tax on the cost basis of the employer security in the year of distribution. The appreciated value is taxed at long-term capital gains rate when the stock is sold.

This favorable tax treatment of NUA **does not** apply if the stock is rolled over to an IRA or another employer's plan. NUA and the decisions surrounding employer securities in a QRP are complex. You should analyze your individual situation with a qualified tax or legal advisor in light of the differences between your ordinary income tax rates and long-term capital gains rates before taking any distributions.

Keep in mind

- You may face an IRS 10% tax penalty in addition to ordinary income tax from your QRP.
- You will have 60 days to roll over the stock or proceeds.
- This must be a qualified lump-sum distribution.
- Know your plan and consult with your plan administrator.
- Please consult your tax advisor before taking any distributions from the plan.

Substantially Equal Periodic Payments (SEPP)

IRAs are designed to help you accumulate savings and distribute the income in retirement. However, if you think you may want to access funds prior to age 59½, it is important to remember that generally a 10% IRS tax penalty will apply.[4] One exception to the penalty is for distributions under the Substantially Equal Periodic Payment (SEPP) method.

Four conditions for SEPP distributions

To qualify for the SEPP exception the following four conditions must be met:

- The distributions taken must be substantially equal and periodic.
- These payments must be based on your life expectancy or on the joint life expectancy of you and your beneficiary.
- You must continue to receive these payments for at least five years or until you reach age 59½, whichever is longer.
- Distributions must be calculated using an interest rate that is no more than 120% of the applicable federal mid-term rate (AFR) for either of the two months immediately preceding the month in which the distribution begins.

If the SEPP is altered prior to the later of five years from the date you begin or you attain age 59½ (except in cases of death or disability), the 10% IRS tax penalty plus interest applies retroactively to all distributions taken prior to age 59½.

Retirement savings tips

Consider these tips that may help grow your retirement savings.

- It may be tempting to spend your savings, but it is important to keep these assets growing in a tax-advantaged account.
- Contribute a portion of your earnings to your employer's QRP as soon as you are eligible.
- Consider contributing up to the maximum limit to your QRP if you're not already doing so. Additionally, beginning the year you turn 50, you can make an additional "catch-up" amount to your QRP. If you're not able to do this, try to contribute at least as much as the employer match, otherwise you are leaving money on the table.
- Avoid taking a plan loan (if allowed by your plan) especially if you may be leaving that employer before the loan is repaid.
- Supplement your retirement savings by making annual IRA contributions. Catch-up contributions are available beginning the year you turn age 50.
- Traditional IRA contributions can be made until the year you turn age 70½.
- Roth IRA contributions can be made after age 70½ as long as you or your spouse if married filing jointly have earned income and are at or below modified adjusted gross income (MAGI) limits.
- Review your asset allocation at least annually.
- Create a written retirement plan.
- Beneficiary designations on any IRAs, QRPs, annuities, and life insurance policies supersede any instructions in your will or trust, so be sure they are up-to-date.
- Update your beneficiary forms when you experience any life event, such as death of a beneficiary, divorce, marriage, or the birth of a child or grandchild.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your Financial Advisor will be with you every step of the way to monitor your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that will help you live out your unique vision of retirement.

[1] IRA exceptions to the IRS 10% tax penalty include distributions after reaching age 59½, death, disability, eligible medical expenses, certain unemployed individuals' health insurance premiums, qualified first-time homebuyer ($10,000 lifetime maximum), qualified higher education expenses, Substantially Equal Periodic Payments (SEPP), Roth conversions, qualified reservist distribution, or IRS levy.

[2] Traditional IRA distributions are taxed as ordinary income. Qualified Roth IRA distributions are not subject to state and local taxation in most states. Qualified Roth IRA distributions are also federally tax-free provided a Roth account has been open for more than five years and the owner has reached age 59½ or meets other requirements. Both may be subject to a 10% IRS tax penalty if distributions are taken prior to age 59½.

[3] When considering rolling over assets from an employer plan to an IRA, factors that should be considered and compared between the employer plan and the IRA include fees and expenses, services offered, investment options, when penalty-free distributions are available, treatment of employer stock, when required minimum distributions begin, and protection of assets from creditors and bankruptcy.

[4] Investing and maintaining assets in an IRA will generally involve higher costs than those associated with employer-sponsored retirement plans. You should consult with the plan administrator and a professional tax advisor before making any decisions regarding your retirement assets.

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