RETIREMENT SAVINGS ROLLOVER OPTIONS

Whether you are changing jobs or just a few years shy of retirement, it is always the right time to know your retirement savings rollover options. Northern Trust can help you make an informed decision based on your goals and income needs.

You worked hard for your retirement savings. Now put your savings to work for you.

TYPES OF IRA ACCOUNTS

Traditional IRA. A traditional IRA allows you to set aside money for your retirement with the potential for tax-deferred earnings growth. You pay taxes upon distribution of the funds as long as you are over age 59½. In most cases, if you withdraw the funds before age 59½ you will have to pay taxes plus early withdrawal penalties. Contributions may be fully or partially deductible, depending on the taxpayer's income, filing status and other factors. You can move tax-free money from a qualified employer-sponsored retirement plan such as a traditional 401(k) into a traditional IRA, and continue to receive tax-deferred growth on your retirement savings.

Roth IRA. Contributions to a Roth IRA are not tax-deductible like a traditional IRA. However, account assets grow tax-free and, unlike a traditional IRA, can be tax-free when you withdraw them. In addition, contributions can be withdrawn at any time without penalty. It is important to note that the taxpayer's modified adjusted gross income must be under certain limits in order to contribute to a Roth IRA, so not everyone is eligible. A Roth IRA has no age restrictions when making contributions (although there has to be earned income) and no required minimum distributions, which makes a Roth IRA a good option for people who want to maximize assets in their retirement years and eventually leave tax-free assets to their beneficiaries. A Roth IRA can receive a tax-free rollover from an employer-sponsored Roth 401(k) plan.

TYPES OF EMPLOYER-SPONSORED PLANS

Traditional 401(k). Currently the most common type of plan, contributions to a traditional 401(k) are made by the employee and often supplemented by an employer match up to a certain percent. Contributions accumulate on a tax-deferred basis and are tax deductible. However, the distributions are taxed as ordinary income.

Roth 401(k). Unlike a traditional 401(k), contributions to a Roth 401(k) are not tax-deductible, but distributions are tax-free as long as the employee is at least 59½ and has participated for at least five years. If a participant is younger than 59½ and has been in the plan for less than five years, only distributions of the participant's contributions are tax-free and without penalty. Distributions of earnings may be taxable. Unlike a Roth IRA, there are no income limitations on the Roth 401(k), so anyone is eligible to contribute as long as their employer offers the option.

403(b). Similar to a 401(k), 403(b) plans are offered by nonprofit organizations, public school systems and certain tax-exempt organizations.

457. Similar to a 401(k), 457 plans are offered by state and local government employers. One key difference is an employee can contribute up to the maximum in both a 457 plan and a 401(k).

Defined Benefit Pension. Contributions to a defined benefit pension are made by the employer, and the employee may receive a fixed monthly benefit at retirement based on income and years of service. Many plans also offer a lump sum distribution.

SIMPLE (Savings Incentive Match Plan for Employees). Offered by smaller employers (less than 100 employees), employees make tax-deductible contributions to SIMPLE plans and the employer must either match the employee's contributions (up to 3% of the employee's salary) or make non-elective contributions, which are not based on contributions made by the employee.

SEP (Simplified Employee Pension). A SEP plan allows employers to contribute to traditional IRAs for employees and can be used by a business of any size, including self-employed individuals.

RETIREMENT SAVINGS PLAN ROLLOVER OPTIONS

Before you decide which rollover option is right for you, there are many factors to consider: your age, your priorities, your investment time horizon, how much cash flow you will need to last throughout your lifetime, and more.

In addition, your considerations may vary depending on the type of retirement plan. Consider the options in the table on the right for your 401(k), 403(b) or other employer-sponsored plan account balance.

ROLLOVER OPTIONS

Considerations	Benefits
Leave it where it is	
• Unable to contribute additional funds • Plan may have limited investment options	• Simplicity • You do not have to do anything • Creditor protection
Roll it over into your new employer's 401(k) plan	
• New plan may have limited investment options	• Easier to manage by combining accounts • Simplicity • Creditor protection
Roll it over into an IRA	
• You have to initiate the process • You (or your advisor) choose the investments • Depending on where you choose to roll it over, cost may be higher or lower • Must be "like-to-like", i.e., Roth 401(k) to Roth IRA	• May have more investment options • You maintain control • May have access to professional guidance • Ability to combine several accounts in one institution
Cash out or withdraw early	
• Income taxes owed on the withdrawal • Early withdrawal penalties if under age 59 ½ • Depleting savings prior to retirement	• Fast access to cash

COMMON RETIREMENT ACCOUNT OPTIONS

	Traditional IRA	Roth IRA	Traditional 401(k)	Roth 401(k)
Who Sets It Up	You	You	Employer	Employer
Tax Treatment of Contributions	Pre-tax/After-tax	After-tax	Pre-tax	After-tax
Tax Deductible Contributions	Maybe (within income limits)	No	Yes	No
Contribution Limit (under age 50)	$5,500	$5,500	$18,500	$18,500
Contribution Limit (over age 50, with Catch-up Contributions)	$6,500	$6,500	$24,500	$24,500
Deadline for Contributions	April 15 of following year	April 15 of following year	December 31	December 31
Eligibility Based on Income Limits	No	Yes	No	No
Investment Options	Broad	Broad	Limited to plan options	Limited to plan options
Who Is Responsible for Choosing Investments	You	You	You (from menu of plan options)	You (from menu of plan options)
Potential Matching Contributions	No	No	Yes	Yes (into Traditional)
Earnings Taxed while in Account	No	No	No	No
Penalties for Early Withdrawal Before age 59 ½	Yes, with some exceptions	Withdraw contributions with no penalty, but not earnings	Depends on plan, may offer hardship withdrawals	Depends on plan, may offer hardship withdrawals
Ability to Take Loans	No, but possible hardship distributions	No, but possible hardship distributions	Maybe, with limitations per plan rules	Maybe, with limitations per plan rules
Tax Treatment of Withdrawals after age 59 ½	Pay taxes (ordinary income)	Tax free (account must be held 5 years for earnings)	Pay taxes (ordinary income)	Tax free (account must be held 5 years for earnings)
Required Minimum Distributions (RMDs) at age 70 ½	Yes	No	Yes	Yes, but can be rolled into Roth IRA (no RMDs)

401(k) rules also apply to 403(b) and 457 plans

RMDs generally begin April 1 of the year following the year you turn 70½

ROLLOVER RECOMMENDATIONS UNDER THE DOL FIDUCIARY RULE

The U.S. Department of Labor (DOL) adopted a fiduciary rule (Rule) to address conflicts of interest when providing investment advice to retirement investors and to employee benefit plans. The Rule is intended to protect investors by requiring all those who provide such investment advice to abide by a "fiduciary" standard to act in the best interest of the client.

In compliance with the Rule, we gather and document certain information from you concerning your interest in rolling over retirement plans and Individual Retirement Accounts to Northern Trust. This information will help facilitate our discussion and help guide any recommendations or advice concerning the fees, expenses and investment options available in order to discharge Northern Trust's legal and regulatory obligations under the Rule and the Best Interest Contract exemption.

If you would like to learn more about rolling over funds from your employer's retirement plan to Northern Trust, please contact:

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