



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 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.
- 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 a one-time tax today? 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 distribution amount in the year of the rollover to the Roth IRA.

Your individual circumstances will determine which option is right for you. This booklet provides information on different options. Raymond James financial advisors can help you implement the appropriate strategy.

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.

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.

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.



DEFERRING ALL TAXES UNTIL LATER

EXAMPLE

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.

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.

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.

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 (\$10,000 lifetime limit)

Qualified higher education expenses

Certain medical expenses in excess of 7.5% of adjusted gross income

Certain unemployment expenses

Series of substantially equal payments under section 72(t)

Death or disability

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.
- 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.

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.

What happens to the voluntary after-tax contributions I've made to my employer's plan?

If you made voluntary after-tax contributions to your employer's retirement plan, you may roll these funds directly into your IRA or place these funds in a regular taxable account. If you take this money in cash, you will not be subject to the 10% penalty. However, rolling this money to your IRA or Roth IRA will increase your accumulation for retirement. Additionally, you will need to file the IRS Form 8606 to keep track of the cost basis, so upon distribution, you do not pay taxes on these assets again.

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?

IRA distributions will be taxed as ordinary income in the year received and may be subject to premature withdrawal penalties.

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. You can withdraw money from an IRA before age 59½ if you receive distributions as part of a series of equal payments based on your life expectancy. The payments must continue for at least five years or until you reach age 59½, whichever is longer. For example, if you are age 57, you can begin a series of annual payments but you

cannot alter or stop the payment schedule until you are 62. If you begin withdrawals at age 52, you cannot alter or stop the payment schedule until you are 59½.

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.

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. 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	<ul style="list-style-type: none"> • Money continues to grow tax-deferred • Investment flexibility • Flexible beneficiary designations and distribution options • Access to money • Able to convert to a Roth IRA 	<ul style="list-style-type: none"> • No loans or age 55 retirement-distribution provisions • Outstanding loan on a plan must be repaid before rolling over to an IRA
2. Roll over to a Roth IRA	<ul style="list-style-type: none"> • Money will grow tax-free • Investment flexibility • Beneficiaries will receive money tax-free 	<ul style="list-style-type: none"> • Must pay ordinary income tax • Tax paid with account proceeds will be deemed a distribution, therefore taxed and penalized if applicable
3. Take as cash	<ul style="list-style-type: none"> • Immediate access to savings • Taking a distribution of shares of company stock may lower taxes, if eligible (see Net Unrealized Appreciation, page 2). 	<ul style="list-style-type: none"> • No longer tax-deferred • Penalty if under 59½ • Subject to 20% withholding
4. Roll over to a new employer's plan	<ul style="list-style-type: none"> • Money continues to grow tax-deferred • Ability to take loans if plan allows • Account consolidation • May be eligible for penalty-free withdrawals if you retire at or after age 55 • Flexible beneficiary designations and distribution options 	<ul style="list-style-type: none"> • Subject to distribution rules of the plan • Plan investment limitations • May have restrictions on trading and additional fees
5. Leave the money in the plan	<ul style="list-style-type: none"> • Money continues to grow tax-deferred • No decisions to make right now • May be eligible for penalty-free withdrawals if you retire at or after age 55 	<ul style="list-style-type: none"> • Plan investment limitations • Non-spouse beneficiaries generally required to take lump-sum distribution • 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.

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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