Morgan Stanley

Do You Know Where All Your Retirement Savings Are?

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Consider consolidating your retirement accounts.

Many of us find ourselves with a traditional individual retirement account (IRA) here, a rollover IRA there, four job changes (so far!), and three retirement plan account balances left in the plans of former employers.

Over the years, people may accumulate a significant sum in retirement savings, often spread across various accounts. As accounts multiply and companies change ownership, it can become difficult to keep track of exactly how much you have saved toward retirement and how those funds are invested. You may also find it challenging to determine your distribution requirements on various accounts once you turn 70½.

Consolidating accounts can help you make sure your savings are invested appropriately for your overall goals, track the performance of your holdings and, in some cases, discover more investment choices and incur lower fees.

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WHAT ARE YOUR OPTIONS?

Typically, if you are a plan participant leaving an employer you will have the following four options with respect to your vested qualified retirement plan benefits which constitute "an eligible rollover distribution." You may engage in a combination of these, depending on your employment status, age and the availability of the particular option.

1. Cash out the benefits and take a lump sum distribution from the current plan subject to mandatory 20% federal income tax withholding, as well as income taxes and the 10% early withdrawal penalty tax, **OR** continue tax-deferred growth potential by doing one of the following:
2. Leave the assets in the former employer's plan (if permitted)
3. Roll over the retirement assets into a new employer's qualified plan, if one is available and rollovers are permitted or
4. Roll over the retirement assets into a traditional IRA

Note: A plan participant receiving an eligible rollover distribution from a qualified retirement plan also has the option of rolling his or her retirement assets to a Roth IRA. However, the taxable portion of such rollover is includable in the participant's income for the year of the qualified plan distribution. The tax rules that apply to a Roth IRA (e.g., required minimum distribution rules, taxation of distributions, etc.) differ from the rules that apply to a traditional IRA and are beyond the scope of this brochure.

With retirement savings in just a few accounts, it becomes simpler to execute your strategy and to measure your progress.

WHY CONSOLIDATE?

Streamlining the account structure of your retirement savings has many potential benefits.

Comprehensive investment strategy. Over time, your investment objectives and risk tolerance may have changed. Thus, it can be difficult to maintain an effective retirement investment strategy—one that accurately reflects your current goals, timing and risk tolerance—when your savings are spread over multiple accounts. Once you begin the consolidation process, you can strategize investments to match your current goals and objectives.

Potentially greater investment flexibility. Often, 401(k) plans, other employer-sponsored retirement programs and even some IRAs have limited investment menus. Some IRAs may offer greater control, more options or expanded diversification when compared to employer plans and other IRAs, but on the other hand they might not offer the same options. Whether a particular IRA's options are attractive will depend, in part, on how satisfied you are with the options offered by your former or new employer's plan.

Simplified tracking. It is easier to monitor your progress and investment results when all your retirement savings are in one place. By consolidating your accounts, you will receive one statement instead of several. That simplifies your life while protecting the environment.

Customized service levels. Some employer plans also provide access to investment advice, planning tools, telephone help lines, educational materials and workshops. Similarly, IRA providers including Morgan Stanley offer different levels of service, which may include full brokerage service, investment advice and distribution planning.

Monitoring costs. Reducing the number of accounts may impact account fees and other investment charges. Generally speaking, both employer-sponsored qualified plans and IRAs have plan or account fees and investment-related expenses. However, in some cases, employer-sponsored qualified plans may offer lower cost institutional funds, and in some cases may pay for some or all of a plan's administrative expenses. Generally, fees associated with an IRA will likely be higher than those associated with a plan, but consolidating multiple IRAs may reduce your overall expenses.

Penalty tax-free withdrawals. Generally, IRA owners can take distributions penalty tax-free once they attain age 59½. Qualified plan participants between the ages of 55 and 59½, once separated from service, may be able to take penalty tax-free withdrawals from the qualified plan.

Help simplify your required minimum distribution (RMD) obligation Once you reach age 70½, having fewer retirement accounts to manage can mean having fewer RMD requirements to follow.

Comprehensive knowledge of your assets. If your employer-sponsored retirement plan is terminated or abandoned (an "orphan plan") or is merged with or transferred to a retirement plan of another corporation after you leave, it may be difficult to locate the plan administrator to request a distribution of your benefits or to change investments. By contrast, assets in an IRA are always accessible if you want to change your investment strategy or need to take a distribution.

WHEN YOU MIGHT NOT WANT TO CONSOLIDATE

Notwithstanding the many benefits to consolidating your retirement accounts, there are some cautions to keep in mind. For example, while **many qualified plans allow for loans,** you cannot take a loan from an IRA. Thus, once you roll over a qualified plan into an IRA, the ability to take a loan is no longer available. However, once you leave the company sponsoring the employer plan, you may not be able to take a loan out anyway, since few qualified plans allow loans to be taken out by former employees.

Another consideration is RMDs. Upon reaching age 70½, owners of a traditional IRA must begin taking required minimum distributions or face stiff IRS excise tax penalties. If the plan permits, qualified plan participants can generally delay taking required minimum distributions after attaining age 70½ if they are still working for the employer which sponsors the plan and do not own more than 5% of the plan sponsor.

If you are worried about shielding your retirement assets from creditors, you should also note that generally under federal law, qualified plans such as 401(k) plans have protection from creditors. Under federal law, IRA assets are given protection subject to certain

A Morgan Stanley self-directed IRA can offer you the ability to choose from a wide range of investments, including stocks, bonds, mutual funds, managed accounts and more.

limitations, including dollar amount limits, in bankruptcy proceedings only. State laws vary in the protection of IRA assets in lawsuits.

A final concern may be the **tax implications of appreciated company stock.** If you hold significantly appreciated employer stock in a plan, you should consider the negative tax consequences of rolling the stock to an IRA. If employer stock is transferred in-kind to an IRA, stock appreciation will be taxed as ordinary income upon distribution.* However, the tax advantages of retaining employer stock in a non-qualified account should be balanced with the possibility that you may be too concentrated in your employer's stock. It can be risky to have too much employer stock in one's retirement account; for some investors, it may be advisable to liquidate the holdings and roll over the value to an IRA, even if it means losing long-term capital gains treatment on the stock's appreciation. Again, it's best to discuss these issues with your tax advisor.

WHAT CAN BE CONSOLIDATED?

Listed below are types of retirement accounts that are potentially eligible for consolidation.

- IRAs held at financial institutions (banks, credit unions, mutual fund companies, etc.)
- Retirement plan assets held at former employers including:
  - 401(k) plans
  - profit-sharing plans
  - money purchase plans
  - defined benefit plans
  - Keogh plans
  - ESOPs
  - government 457(b) plans
  - 403(b) plans

HOW IT WORKS.

There are several ways to combine retirement assets into a single account. Knowing how transfers and rollovers work can help you make a decision about whether or not to consolidate.

IRA-to-IRA transfers. Ask the IRA custodian where you will be establishing your account to help you complete their IRA transfer paperwork. Once you've set up your IRA, the custodian will do the rest, including contacting your previous IRA custodian(s) to get your assets moved over. There's no limit on the number of IRA-to-IRA transfers that you can complete in any given year. (However, please note that a Roth IRA can be consolidated only with another Roth IRA.)

IRA-to-IRA rollovers. You can ask your current IRA custodian to send you a check for the amount held in your IRA. You will then have 60 days to deposit the funds into another IRA without incurring any current tax liability. Note that your former IRA custodian will report the amount as a distribution on IRS Tax Form 1099-R; your new IRA custodian will report the rollover contribution on IRS Tax Form 5498. If you miss the 60-day time period, taxes and penalty taxes may apply. You may only make one IRA-to-IRA rollover** in any 12-month period, no matter how many IRAs you own.

Direct rollover from qualified plan to an IRA or qualified plan. Ask your previous employer(s) about the paperwork needed to complete a direct rollover of your qualified retirement plan assets to your IRA or new employer's qualified plan. The assets will be transferred after you complete the paperwork. Note that your former employer's plan will report the amount as a direct rollover distribution on IRS Tax Form 1099-R; the IRA custodian will report the rollover contribution on IRS Tax Form 5498. There are special rules involved in transferring a retirement plan balance to a Roth IRA, including, for example, special tax considerations for pre-tax balances and special procedural considerations for after-tax contributions — talk with your tax advisor and plan administrator about the impact this may have on you.

Indirect rollover from qualified plan to an IRA or qualified plan. Like the IRA-to-IRA rollover, you can ask your previous employer(s) to send you a check for your vested plan balance and then redeposit those funds into an IRA or other qualified retirement plan within 60 days. However, the plan trustee will be required to withhold 20% of the taxable portion of the eligible rollover distribution as mandatory federal withholding. You will need to make up the withheld 20% when you redeposit the funds or the amount withheld will be subject to taxes and possibly penalty taxes. If you miss the 60-day time period, taxes and penalty taxes may apply.

Speak with your tax and legal advisor about these and other rules that may apply when consolidating retirement plan assets.

NEXT STEPS

Simplifying your retirement account structure can be an important step to help you take control of your financial future. Your tax, legal and financial advisors will be able to assist you in determining if consolidation makes sense given your specific circumstances and goals.

You should consider the various factors listed above in your decision-making process. Please note, however, that they are just examples of the factors that may be relevant when analyzing your available options; other considerations may apply to your specific situation, and the importance of any particular factor will depend upon your needs and circumstances.

Don't wait, call your Financial Advisor or Private Wealth Advisor and start the conversation today. Your actions now can greatly affect your quality of life in retirement, whether it is years away or just around the corner.

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[2] Excluding Inherited IRA and SIMPLE IRA.

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*Generally, to obtain favorable tax treatment, an investor must (i) take a qualifying lump-sum distribution of all of his assets in the plan; (ii) request an in-kind distribution of the employer stock; and (iii) place the employer stock into a non-retirement account. Upon doing so, the investor will pay ordinary income tax on his cost basis (and may be subject to a 10% penalty tax if under age 59½); when he sells the stock, however, he will pay long-term capital gain tax, not ordinary income tax, on the stock's unrealized appreciation (i.e., the difference between the cost basis and the value of the stock at the time of distribution from the plan).

**If an individual makes a tax-free rollover of any part of a distribution ("first distribution") from an IRA to the same or another IRA, the individual cannot make another tax-free rollover to an IRA of any subsequent IRA distribution the individual receives during the 12 month period beginning on the date the individual received the first distribution, no matter how many IRAs or the types of IRAs (i.e., Traditional, Roth, SIMPLE or SEP IRAs) the individual owns. Roth IRA conversions, trustee-to-trustee transfers between IRAs, IRA recharacterizations, and rollovers to or from eligible retirement plans (other than IRA-based plans) are not subject to this limitation.

Diversification does not guarantee a profit or protect against a loss.

By law, some IRAs may not be consolidated. Clients should consult their personal legal advisor.

Consolidating accounts into a single IRA may not be right for everyone. There may be a number of options available to your client. Each option offers advantages and disadvantages, depending on the client's particular facts and circumstances (including your financial needs and particular goals and objectives). The decision of what option to select is a complicated one and must take into consideration the client's total financial picture. To reach an informed decision, the client should carefully consider the alternatives, the related tax and legal implications, fees and expenses, and the differences in services, and discuss the matter with their own independent legal and tax advisors.

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This article does not address state and local income taxes. The state and local income tax treatment of your retirement account, as well as the contributions to it and the distributions from it may vary based on your state of residence. You should consult with and rely on your own independent tax advisor with respect to such.

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