

## Beware of Retirement Sprawl

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### Do you know where all your retirement savings are?

Many of us accumulate a slew of retirement accounts as we progress in our careers: A traditional individual retirement account (IRA) here, a rollover IRA there, and two or three 401(k) accounts left in the plans of former employers.

As accounts multiply and companies change ownership, it can become difficult to get a clear picture of your overall retirement preparedness.

If this sounds familiar, you may benefit from consolidating your retirement accounts.

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, realize more investment choices.

However, consolidation is not right for everyone. You should carefully consider all your options and discuss them with your own legal and tax advisors.

### WHAT ARE YOUR OPTIONS?

Typically, if you are a plan participant who may be receiving an eligible rollover distribution from a qualified retirement plan, you have the following options. You may be able to engage in a combination of these options depending on your employment status, age and the availability of the particular option.

- Cash out the benefits and take a lump sum distribution from the current plan subject to mandatory 20% federal income tax withholding, income taxes and potentially the 10% early withdrawal penalty tax if you are under age 59½.
- Continue tax-deferred growth potential by doing one of the following:
  - Leave the assets in your former employer's plan, if permitted,
  - Roll over the retirement assets to a new plan if you have changed jobs and your new employer offers a plan that accepts rollovers, or
  - Roll over the retirement assets to a traditional IRA.<sup>1</sup>

There are advantages and disadvantages to each option, depending on your particular facts and circumstances, including your financial needs, goals and objectives. Some of the factors you should consider when making a rollover decision include (among other things) (1) your ability to leave the assets in the plan, (2) fees and expenses, (3) whether an employer or other party pays for some or all of the expenses in the plan, and (4) the different levels of services and investments available associated with each option.

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

### CONSIDER WHETHER CONSOLIDATION IS RIGHT FOR YOU

Streamlining the account structure of your retirement savings may have several potential benefits.

**Comprehensive investment strategy.** Over time, your investment objectives and risk tolerance may have changed. As a result, it may 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.

**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. 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 or your current IRA custodian.

**Simplified tracking.** It is generally easier to monitor your progress and investment results when all your retirement savings are in one place. By consolidating your accounts, you will receive fewer statements. 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 your 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, 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.

**Taking withdrawals.** Generally, distributions taken by an individual from an employer retirement plan or IRA prior to attaining age 59½ are subject to a 10% early withdrawal penalty tax, unless such distribution satisfies an eligible exemption to the early withdrawal rules. 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 depending on plan rules.

You should note that many qualified plans also allow for loans, which cannot be taken from an IRA. 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.

**Help simplify your required minimum distribution (RMD).** The age at which an individual must start staking RMDs ("RMD Age") depends on the individual's date of birth (e.g., if born after 1950, but before 1960, RMD Age is 73)<sup>2</sup>. Once you attain RMD Age having fewer retirement accounts to manage can mean having fewer RMDs.

However, you should also note that if the plan permits, qualified plan participants can generally delay taking required minimum distributions after reaching RMD age if they are still working for the employer that sponsors the plan and do not own more than 5% of the plan sponsor.

**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

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

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, locating your IRA provider to change your investment strategy or to take a distribution is generally not an issue.

If you are worried about shielding your retirement assets from creditors, you should 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 limitations, including dollar amount limits, in bankruptcy proceedings only. State laws vary in the protection of IRA assets in lawsuits.

Another consideration may be the **tax implications of appreciated company stock**. If you hold “employer securities” in your retirement plan, may be eligible for favorable tax treatment if certain conditions apply.<sup>3</sup>

#### **ROLLOVER REVIEW**

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.

You should also consider whether a Morgan Stanley Financial Advisor and our Firm offer the products and services that can assist you with your current and future needs. Please speak with one of our Financial Advisors or visit <https://www.morganstanley.com/what-we-do/wealth-management/financial-advisor> to learn more about our investment products and services. Your Morgan Stanley team can conduct a Rollover Review on your retirement plan assets.

<sup>1</sup>A plan participant receiving an eligible rollover distribution from a qualified retirement plan also has the option of rolling their retirement assets to a Roth IRA. However, the taxable portion of such a 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.

<sup>2</sup>Specifically, the RMD Age is (a) age 70 ½ for individuals born before July 1, 1949, (b) age 72 for individuals born after June 30, 1949, but before 1951, (c) age 73 for individuals born after 1950, but before 1960, and (d) age 75 for all others – note, there is an apparent drafting error in the statutory language in the SECURE 2.0 Act of 2022 (which was signed into law on December 29, 2022), which makes it unclear when age 75 starts to apply in lieu of age 73, but it appears age 75 is intended to apply if an individual is born after 1959. Individuals born before 1951 are not affected by this change because they've already reached RMD Age.

<sup>3</sup>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 they sell the stock, however, they 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).

Consolidating accounts into a single IRA may not be right for everyone. There may be a number of options available to you. Each option offers advantages and disadvantages, depending on your 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 your total financial picture. To reach an informed decision, you should carefully consider the alternatives, the related tax and legal implications, fees and expenses, and the differences in services, and discuss the matter with your 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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Diversification does not assure a profit or protect against loss in declining financial markets.

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