

*Understand the options for your retirement assets*

## Changing jobs or retiring?



Each year, over 20 million people in the United States change jobs due to mergers, downsizing, and layoffs, as well as voluntary career changes, and millions more enter retirement<sup>1</sup>. Many of these people wrestle with their options regarding the retirement savings they've accumulated in their employer-sponsored retirement plans. The array of available alternatives can be difficult to sort out, and many individuals are inclined not to make a decision at all and simply leave the money in their former employers' plans.

When you change jobs or retire, you generally have four alternatives for dealing with the assets in your former employer's retirement plan:

- ▶ Roll them into an IRA
- ▶ Take a cash distribution
- ▶ Leave the assets in the plan
- ▶ Move them to your new employer's plan

Let's take a look at each of these alternatives to help you develop an effective strategy for your retirement savings.

Together we'll go far



## Rolling assets into an IRA

If you're changing jobs or retiring, you can potentially benefit from rolling money from your previous employers' retirement plans into an IRA. This choice will let you retain the funds' tax-advantaged growth potential. By maintaining all of your IRAs in one place, you should be able to manage your retirement assets more conveniently and easily analyze your overall asset allocation.

### Advantages

- ▶ A direct rollover is simple and avoids the 20% mandatory withholding for the IRS.
- ▶ Your assets retain their tax-advantaged growth potential.
- ▶ Penalty-free IRA distributions prior to age 59½ can be made by a qualified first-time homebuyer or for qualified higher education expenses. These options may not be available to participants in employer-sponsored retirement plans.
- ▶ Beneficiaries can “stretch out” an Inherited IRA after your death. The stretch IRA concept is even more powerful for your beneficiaries if they inherit a Roth IRA because the lifetime income stream can potentially be income-tax-free.
- ▶ IRAs can conveniently be maintained with one custodian.
- ▶ A non-spouse beneficiary who inherits a qualified employer-sponsored retirement plan (401(k), 403(b), governmental 457, etc.) must be permitted a direct trustee-to-trustee transfer of that plan balance to an Inherited IRA. Recent IRS rules also allow non-spouse beneficiaries of employer-sponsored retirement plans the option of converting these assets to an Inherited Roth IRA.

### Keep in mind

- ▶ Distributions prior to the age of 59½ may be subject to a 10% IRS penalty.
- ▶ Required minimum distributions (RMDs) must be taken from Traditional IRAs by April 1 following the year you reach age 70½.

## Direct versus indirect rollover

Once you've decided to roll your assets into an IRA, you'll need to choose a direct or an indirect rollover.

### Direct

- ▶ This option, which is generally the preferable choice, transfers money directly from your previous employer's retirement plan into an IRA. There are no taxes withheld or penalties assessed when completing a direct rollover.

### Indirect

- ▶ Your previous employer's retirement plan makes a check payable to you and withholds a mandatory 20% of the rollover to pay for Federal taxes. You then have 60 days to roll the distribution to an IRA. Any portion not rolled over, including the 20% withholding, will be considered a taxable distribution and you may owe income tax plus a 10% penalty, if you are under age 55.

## Cashing out

While the prospect of taking a lump-sum distribution when you change jobs or retire may sound attractive at first, you should carefully consider all of the financial consequences before you make such a decision. According to a Hewitt Associates study, more than 46% of the individuals who decide to move their retirement plan assets cash out their retirement funds and pay unnecessary income taxes.<sup>2</sup> This number has remained virtually unchanged in the past five years.

There are good reasons to avoid cashing out. Retirement income typically comes from three sources: Social Security, employer-sponsored plans, and personal savings including IRAs. Tapping into employer-sponsored plans or IRAs each time you change jobs can eventually erode your retirement savings to the point where you may jeopardize your financial security in retirement.

### Advantages

- ▶ Proceeds can be used however you wish, including reinvestment.
- ▶ Penalty-free distributions can be taken if you're:
  - ▶ Age 55 or older when you separate from service from your employer. Although distributions from the plan are included in your taxable income, the penalty will not apply to any amounts you received if you separated from service during or after the year you reached age 55.
  - ▶ Age 50 or older and a public safety worker participating in a government pension plan. Individuals who are employed in a public safety capacity — such as police officers, firefighters, and emergency medical technicians — now have the option to distribute their governmental pension plan assets without any penalties, if they are 50 or older when separating from service.

### Keep in mind

- ▶ Your financial security during retirement could be jeopardized.
- ▶ You'll owe income taxes on the pre-tax amount received. You will not owe income tax on a distribution of any after-tax contributions you may have made to the plan.
- ▶ Generally, the IRS may assess a 10% penalty if you're younger than the age of 55 when you receive distributions (see advantages above for exceptions).
- ▶ Your funds lose their tax-advantaged growth potential.
- ▶ Your former employer is required to withhold 20% for the IRS.



## Leaving assets in your former employer's plan

In today's working world, you can expect to change jobs almost 11 times by the time you reach age 42.<sup>3</sup> With each job transition, many employees leave their retirement plan assets behind in their former employer's plans. However, doing so could create complexities in managing your investments and affect your income options as you approach retirement. Even if you leave your employer on good terms, you may not want to maintain these relationships, possibly for decades, over a matter as important as your long-term retirement security.

### Advantages

- ▶ It requires no action on your part.
- ▶ Assets retain their tax-advantaged growth potential.
- ▶ Your assets are usually protected from creditors' claims. Under the Employee Retirement Income Security Act (ERISA), creditors are kept from seizing your retirement savings.<sup>4</sup>

### Keep in mind

- ▶ If you change jobs several times, leaving assets behind each time can create complexities — such as having to take separate RMDs from each employer-sponsored retirement plan. RMDs from employer-sponsored retirement plans cannot be aggregated, as they can with IRAs.
- ▶ Your relationship with your former employer must be maintained, possibly for decades.
- ▶ The plan may limit your investment alternatives and may not provide needed flexibility to execute a preferable asset allocation strategy for retirement.
- ▶ RMDs must begin at the age of 70½. Failure to take the required amount can result in substantial IRS penalties.
- ▶ Whatever your age, with an IRA, you have immediate access to your funds. While it's true that if you are under age 59½, you may still have a 10% penalty along with the taxes that are owed, you will have the ability to get to those funds quickly. Employer-sponsored retirement plans may have restrictions on distributions and administratively will often take longer to process your distribution request.
- ▶ You may have difficulty locating a former employer, or they may encounter problems locating you or your beneficiaries.

## Moving assets into a new employer's plan

If you're changing jobs, you may be able to roll your retirement plan savings into your new employer's plan. Doing so provides many of the same benefits and drawbacks of leaving the money in your former employer's retirement plan.

### Advantages

- ▶ Your assets retain their tax-advantaged growth potential.
- ▶ Your assets are usually protected from creditors' claims.
- ▶ In the past, moving retirement plan assets to a new employer was not always easy because direct transfers were only permitted between like plans [e.g., 401(k) to 401(k)]. You may now move assets between different types of plans as long as you have willing employers on both sides.

### Keep in mind

- ▶ You can transfer or roll over only plan assets that your new employer permits.
- ▶ Differences in plan designs may prove detrimental to your long-term retirement planning.
- ▶ The plan may limit investment alternatives and may not provide needed flexibility.
- ▶ Your employer will control when and how you access savings.

## Tips for designing your strategy

If you're changing jobs, keep the following points in mind when deciding what to do with the assets in your former employer's retirement plan:

- ▶ You may be tempted to spend your retirement savings. Keep these assets for retirement in a tax-advantaged account by holding them in an employer-sponsored plan or rolling them into an IRA.
- ▶ You may not want to request the rollover to an IRA on your own. Contact your Financial Advisor to open your IRA first, and then request a direct rollover.
- ▶ Think about participating in your new employer's retirement plan as soon as you are eligible.
- ▶ Consider supplementing your retirement savings by funding your IRA (Traditional or Roth) each year and maximize your annual contributions whenever possible. If you're age 50 or older, think about making catch-up contributions to your employer-sponsored plan and IRAs.
- ▶ Use asset allocation strategies to help diversify your retirement savings and coordinate those investments with your personal savings. A Financial Advisor from Wells Fargo Advisors can help you get started.<sup>5</sup>

## Our commitment to you

### We will honor our relationship with you.

When you work with a Financial Advisor from Wells Fargo Advisors, you have someone who takes the time to listen and understand your needs, helps you clarify your goals, and takes seriously the safety and security of your money and investments.

### We will be fully invested in your success.

Your Financial Advisor will help you stay on track to meet your goals through intelligent financial solutions, in-depth analysis of your investments, and regular feedback on your progress.

### We will be with you every step of the way.

Your needs and goals will change over time. That's why your Financial Advisor will be there to provide ongoing advice – along with the exceptional service you deserve – through the ups and downs of markets and economic cycles.

## Wells Fargo Advisors

- ▶ With a heritage of client service, Wells Fargo Advisors is one of the nation's premier financial services firms. Headquartered in St. Louis and represented by more than 15,000 Financial Advisors, it was born out of Wells Fargo's 2009 acquisition of Wachovia Securities.
- ▶ Wachovia Securities, which traces its roots to 1879, grew over the years by combining with some of the industry's most respected regional and national firms, including the 2007 acquisition of A.G. Edwards. Throughout their histories, Wells Fargo Advisors' predecessors were known for exceptional service based on trust and knowledge and for corporate cultures that put client needs above all else.
- ▶ Wells Fargo Advisors is a subsidiary of Wells Fargo & Company, one of the nation's largest and strongest financial institutions. In business since 1852 and named on Fortune magazine's 2009 list of the "World's Most Admired Companies," Wells Fargo is known and respected for its responsible stewardship of its clients' assets.

1 U.S. Bureau of Labor Statistics, 2/09.

2 Hewitt & Associates, 7/08.

3 U.S. Bureau of Labor Statistics, 6/08.

4 Although not covered by ERISA, IRAs have bankruptcy protection and may be protected from creditors under your state laws. A tax professional or bankruptcy attorney can provide additional information.

5 Asset allocation and diversification cannot eliminate the risk of fluctuating prices and uncertain returns.

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