

Rollovers: Stashing Your Retirement Nest Egg

YOU'RE RETIRING OR PERHAPS MOVING FROM ONE JOB TO ANOTHER.

Whether you are a Boomer saying goodbye to the daily grind or a Gen-Xer moving onto the next level of your career, there is no cookie-cutter answer to the question of what to do with your accumulated retirement funds.



LIKE IT OR NOT: These retirement funds come with strings attached. You will need to consider the specific distribution options that are available to you, and decide which ones will help you accomplish your goals for this nest egg. But we would advise that you not make this decision in a vacuum without taking a step back to look at your bigger financial picture.

Retirement or a change in employer is always a suitable time to evaluate your situation. Your Financial Advisor may recommend a Comprehensive Planner that will address your immediate decision plus other life events that you are planning for such as education funding for children or grandchildren or an Asset Allocation Plan so that your decision on how to deal with your retirement account is informed by an overall portfolio investment strategy.

That's why your Financial Advisor has provided this report to you: Morgan Stanley Smith Barney wants to help you consider the possibilities, weigh the outcomes, and provoke meaningful discussions and well-informed decisions.

Rollover from Qualified Plan to IRA

WHY DO IT?

- Retain tax-deferred status of your retirement investments.
- Wider investment choices in a self-directed IRA.
- Ability to craft a more appropriate portfolio design for retirement income.
- Consolidation of retirement accounts will help improve and simplify your recordkeeping and your ability to monitor your investments effectively.
- Ability to structure a payout plan at any age that avoids the usual early withdrawal penalty tax.
- An IRA Rollover accommodates more customized beneficiary designations than most retirement plans.
- An IRA Rollover may position nonspouse beneficiaries to stretch the payouts of your retirement assets over their life expectancies.

BENEFICIARY IMPACT:

For Your Spouse:

- An IRA Rollover allows a surviving spouse to seamlessly continue your account with the advice of your Financial Advisor.
- Your spouse also has the ability to consolidate the account into his or her own IRA.

For Your Non-Spouse Beneficiaries:

- Other beneficiaries, such as your children or grandchildren have the ability to receive payments annually from an inherited IRA over their calculated life expectancy. This “Stretch IRA” strategy allows the beneficiary to take advantage of tax-deferred compounding, and also permits the beneficiary to spread the income tax liability over many years.

DIRECT IRA ROLLOVER OF A \$100,000 LUMP SUM DISTRIBUTION

If you directly roll over your distribution to an IRA, your entire distribution will continue to grow tax-deferred.

\$100,000 Plan Distribution

0 Taxes Withheld

0 Taxes Owed Upon Rollover

\$100,000 Total IRA Rollover

Distributions of cash or stock will be taxed at ordinary income tax rates. Any after-tax amounts rolled into your IRA Rollover will reduce the taxable amount of each withdrawal.
For illustrative purposes only.

All IRA beneficiaries will be able to invest their self-directed IRA portfolios according to their individual needs.

To learn more: Request a copy of *The IRA Rollover Guide to Lump Sum Distributions* (PS2026).

Does It Make Sense to Leave Your Retirement Nest Egg Behind?

WHY DO IT?

- Seamlessly continues the tax-deferred status of your retirement investments.
- If you retire between age 55 and 59½ and need income from this asset, you may want to leave some or all of your retirement account with your former employer in order to receive penalty-free distributions. Income taxes are due on withdrawals.
- You were born before January 1, 1936 and want to elect ten-year averaging tax treatment for your distribution from the employer plan. Ten-year averaging is not available if you roll over to an IRA. (Ten-year averaging is also available to the beneficiary of someone born before January 1, 1936.)
- You may be able to transfer from one employer’s plan to another.
- You like the investment choices offered by your former or new employer’s 401(k).
- If your balance is less than \$5,000, this option may not be available to you.

RETIREMENT ASSET REMAINS IN EMPLOYER-SPONSORED PLAN

If you leave your accumulated retirement assets in your former employer’s plan, or transfer it to your new employer’s 401(k), your entire distribution will continue to grow tax-deferred.

\$100,000 Retirement Plan Account Value

0 Taxes Withheld

0 Taxes Owed

\$100,000 Total Retirement Plan Account Value

Withdrawals from your retirement plan will be taxed as ordinary income, unless you are eligible and elect a special tax treatment, such as ten-year averaging or net unrealized appreciation on employer stock (both of which require a total distribution within one calendar year).

For illustrative purposes only.

BENEFICIARY IMPACT:

For Your Spouse:

- Spouse beneficiary will need to deal with former employer plan representatives at a difficult time and make quick decisions—especially if immediate income is needed.

- Your spouse can roll over to an IRA in his or her own name, but if under age 59½ will be at a disadvantage if income is needed. A spouse who inherits an established IRA can receive penalty-free withdrawals from that account at any age. Taxes are due on withdrawals.

For Your Non-Spouse Beneficiaries:

- While a non-spouse beneficiary is permitted to roll over inherited qualified plan assets directly to a properly titled inherited IRA, your company’s qualified plan may not offer this option in 2009. However, all qualified plans will be obligated to permit non-spouse beneficiaries to roll over distributions effective for plan years beginning after December 31, 2009. A non-spouse beneficiary rollover of qualified plan funds to an inherited IRA will allow heirs to shield these assets from immediate taxation and to take advantage of the “stretch IRA” strategy.

Net Unrealized Appreciation (NUA) Tax Treatment on Employer Stock

WHY DO IT?

- You have highly appreciated or low-cost company stock and would benefit from the current low long-term capital gains tax rates.
- The stock still has up-side potential.
- You can accept the higher risk of a concentrated stock position.
- This stock pays a good dividend that can provide needed cash flow.
- You wish to hold the stock and pass it to your heirs who will receive an adjusted step-up in cost basis.

BENEFICIARY IMPACT:

- In the example at right, your beneficiary will owe capital gains tax on the NUA portion (\$40) but the additional appreciation (\$50) if sold at your death at \$100 will not be taxed. The beneficiary may continue to hold the stock. There are no required distributions.
- Beneficiary benefits from a partial step-up in cost basis. In the example above the beneficiary would assign a cost basis of \$60 to the shares. (\$100 – \$40).

POINT OF CONSIDERATION

Won’t I have to sell my company stock if I roll over to an IRA? I think this stock is a good long-term investment.

No, if your retirement plan account holds company stock, you can roll these shares into an IRA. You do not have to sell and repurchase the shares in your IRA. Inside the IRA, you will have the ability to diversify your investments without paying current income tax. Remember though, when you do withdraw the shares from the IRA, their value will be taxed at ordinary income tax rates—not capital gains rates, which may be lower. Consider the Net Unrealized Appreciation tax treatment described below.

Diversification does not ensure against loss.

NET UNREALIZED APPRECIATION TAX TREATMENT ON EMPLOYER STOCK

If a portion of your retirement plan consists of employer stock, net unrealized appreciation allows you to take a distribution of your shares and pay income taxes based upon the cost basis, rather than the market value. When you sell the shares, any appreciation between the cost basis and the market value at distribution will be taxed at the long term capital gains rates (currently, 0% for taxpayers in a marginal tax bracket of 15% or less or 15% for higher tax brackets). Also consider the Net Unrealized Appreciation tax treatment described below. Subsequent appreciation is also taxed at the long-term rate if held for more than one year.

HERE’S A COMPARISON BETWEEN NUA AND AN IRA ROLLOVER:

	NUA	IRA Rollover
Value at time of retirement (per share)	\$50	\$50
Original cost basis	\$10	\$10
Taxes owed (assumes 35% tax Bracket)	\$3.50	\$0
Value at time of sale (after 1 year)	\$100	\$100
Taxes owed on sale/distribution	\$13.50	\$35
Total taxes paid	\$17	\$35

In this case, all appreciation is taxed at the favorable long-term capital gains rate of 15%. All IRA distributions are taxed at ordinary income tax rates.

For illustrative purposes only.

RETIREMENT PLAN PORTABILITY GUIDE

Today, you can transfer your retirement assets between many different types of plans. You can also roll both before-tax and after-tax money between plans to further boost your ultimate retirement nest egg.

ROLLOVER CHART

To From	Traditional IRA	Qualified Plan ⁶	403(b) Plan	457(b) Plan (governmental plans only)	Roth IRA	SEP IRA	SIMPLE IRA
Traditional IRA	All before and after tax amounts are eligible for a transfer to an IRA ¹	Only before tax amounts are eligible for a rollover to a Qualified Plan ^{1,4}	Only before tax amounts are eligible for a rollover to a 403(b) plan ^{1,4}	Only before tax amounts are eligible for a rollover to a 457(b) plan ^{1,4}	Ordinary income taxes are due on the taxable portion of a Roth conversion ¹	All before and after tax amounts are eligible for a rollover to a SEP IRA ¹	Not allowed
Qualified Plan ⁶	All before and after tax amounts are eligible for a rollover to an IRA ^{3,5}	All before and after tax amounts are eligible for a rollover to a Qualified Plan ^{3,4,5}	All before and after tax amounts are eligible for a rollover to a 403(b) plan ^{3,4}	Only before tax amounts are eligible for a rollover to a 457(b) plan ^{3,4}	Ordinary income taxes are due on the taxable portion of a Roth conversion ^{1,3}	All before and after tax amounts are eligible for a rollover to a SEP IRA ^{3,5}	Not allowed
403(b) Plan	All before and after tax amounts are eligible for a rollover to an IRA ^{3,5}	All before and after tax amounts are eligible for a rollover to a Qualified Plan ^{3,4,5}	All before and after tax amounts are eligible for a rollover to a 403(b) plan ^{3,4}	Only before tax amounts are eligible for a rollover to a 457(b) plan ^{3,4}	Ordinary income taxes are due on the taxable portion of a Roth conversion ^{1,3}	All before and after tax amounts are eligible for a rollover to a SEP IRA ^{3,5}	Not allowed
457(b) Plan (governmental plans only)	Only before tax amounts are eligible for a rollover to an IRA ¹	Only before tax amounts are eligible for a rollover to a Qualified Plan ^{3,4}	Only before tax amounts are eligible for a rollover to a 403(b) plan ^{3,4}	Only before tax amounts are eligible for a rollover to a 457(b) plan ^{3,4}	Ordinary income taxes are due on the taxable portion of a Roth conversion ^{1,3}	Only before tax amounts are eligible for a rollover to a SEP IRA ³	Not allowed
Roth IRA	Not allowed	Not allowed	Not allowed	Not allowed	Allowed. May be transferred anytime, or rolled over once every 12 months ²	Not allowed	Not allowed
SEP IRA	All before and after tax amounts are eligible for a rollover to an IRA ¹	Only before tax amounts are eligible for a rollover to a Qualified Plan ^{1,4}	Only before tax amounts are eligible for a rollover to a 403(b) plan ^{1,4}	Only before tax amounts are eligible for a rollover to a 457(b) plan ^{3,4}	Ordinary income taxes are due on the taxable portion of a Roth conversion ¹	All before and after tax amounts are eligible for a transfer to a SEP IRA ¹	Not allowed
SIMPLE IRA	Only before tax amounts are eligible for a rollover after two years of participation ¹	Only before tax amounts are eligible for a rollover after two years of participation ^{1,4}	Only before tax amounts are eligible for a rollover after two years of participation ^{1,4}	Only before tax amounts are eligible for a rollover after two years of participation ^{1,4}	Only before tax amounts are eligible for a rollover after two years of participation. Ordinary income taxes are due upon the conversion of a SIMPLE IRA ¹	Only before tax amounts are eligible for a rollover after two years of participation ¹	Allowed. May be transferred anytime, or rolled over once every 12 months ¹
Designated Roth Account ⁷	No	No	No	No	Yes ³	No	No

¹Distributions for a) required distributions, b) substantially equal periodic payments and c) distributions to nonspouse beneficiaries are not eligible to be rolled over or converted.

²Roth IRA distributions that are a) substantially equal periodic payments and b) distributions to nonspouse beneficiaries are not eligible to be rolled over.

³Company retirement plan distributions that are a) required distributions, b) substantially equal periodic payments or distributions over another specified period of ten years or more and c) hardship distributions are not eligible to be rolled over. Distributions to nonspouse beneficiaries, if permitted by the company plan, may be directly rolled to an inherited IRA.

⁴Retirement plan sponsors are not required to accept rollover contributions.

⁵After-tax amounts must be moved via a direct rollover. 60-day rollovers are not permitted.

⁶Qualified plans consist of profit sharing, employee stock ownership, money purchase and 401(k) plans.

⁷Designated Roth accounts consist of salary deferrals under Roth 401(k) and Roth 403(b) arrangements. Rollovers into Designated Roth accounts are not permitted.

Tax laws are complex and subject to change. This information is based on current federal tax laws in effect at the time this was written.

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