MFS HERITAGE PLANNING® > RETIREMENT

Consolidating Retirement Plan Assets

mfs.com

You may find that you have accumulated a number of workplace retirement accounts over the years. Consider consolidating these assets into a single rollover IRA to simplify your life and help you take better control of your financial future.

Thanks to favorable tax laws, your retirement plan assets can be as mobile as you are. If you are like most people, you have probably worked for a number of different employers. And you might not always have taken your retirement plan assets with you to your new job. Therefore, you might have several workplace retirement accounts — even different types of accounts if your previous employer was a nonprofit organization that offered a 403(b) or a government organization that offered a 457 plan.

Bringing assets together

For anyone who has worked for a variety of employers, it may make sense to consolidate retirement assets, and it is easy to do so. Consider a woman who worked as a police officer after college, then seven years later decided to become a teacher, and then five years later, decided to pursue a career as a book editor at a for-profit publishing firm. She might have retirement assets in a 457 plan from her years as a police officer, money in a 403(b) plan from her time as a teacher and investments in a 401(k) offered by her current employer, the publishing firm.

Now she might consider consolidating those assets. She can transfer the money in her 457 and 403(b) plans into a rollover IRA or into her current employer's 401(k) plan if the plan permits.

Keep in mind that each retirement plan may have its own rules concerning employees' access to money and the acceptance of assets from previous employers' retirement plans. In some cases, it may be disadvantageous from a tax perspective to commingle assets from different types of plans.

KEY POINTS

Wondering what to do with your retirement assets when you change jobs or retire? If you have multiple accounts at multiple firms, consider consolidating your retirement assets in one rollover IRA to simplify your life. Here are some major potential advantages a consolidated approach offers:

- Preservation of tax benefits
- Potentially more investment options
- An opportunity to allocate, diversify and rebalance in one portfolio
- A consolidated statement

This material should be used as helpful hints only. Each person's situation is different. You should consult your financial advisor or investment professional or other relevant professional before making any decisions.

NOT FDIC INSURED • MAY LOSE VALUE • NO BANK GUARANTEE

More decisions to make

How you choose to handle your retirement assets could have a lasting impact on the size of your nest egg and ultimately on the type of retirement you can enjoy. Because this decision is so critical, most people seek out professional advice when they are leaving a job. Your financial advisor or investment professional and accountant can help you assess your options so you make the best choice.

When you leave an employer, you generally have four options for handling the money in your retirement plan.

1. **Leave it in your former employer's plan.** If your vested plan balance is less than $5,000, this option is available only if the plan allows it. If you are between age 55 and 59½ when you leave your job, a distribution from this plan will not be subject to the early distribution penalty, while distributions from other plans generally will be. Consider talking to your tax advisor before taking any distributions.
2. **Transfer it to your new employer's plan.** Each plan has its own rules for what assets it will accept and what access you will have to your rolled over assets. You may subject your assets to possible tax penalties that would not have applied if the money had been left in your previous employer's plan.
3. **Take the money out of the plan.** Depending on the plan's options, you may be able to take installments, an annuity or a lump sum. The downside of this option is that you will pay taxes, and you may incur a 10% penalty tax, depending on when and how you take the money. This may put your future retirement needs at risk.
4. **Roll over the money into an IRA.** Money from a 401(k), 403(b), profit-sharing plan, money purchase plan or other qualified plan can be invested in a rollover IRA.

Both employer plans and rollover IRAs may involve fees and investment-related expenses. In some cases, an employer may pay for the plan's administrative expenses and provide additional levels of service when compared to an IRA. For assistance in determining which option is appropriate for you, consult your financial advisor or investment professional.

Rollover IRAs have considerable appeal

For many people, the most appealing option is to transfer retirement plan money into a rollover IRA.

This choice may make a lot of sense for a number of reasons.

- A direct rollover, similar to leaving assets in the plan, is a nontaxable event. When you transfer the money into a rollover IRA, or keep it where it is, you avoid the current tax consequences and possible penalties you would incur if you were to take a cash withdrawal.
- Tax benefits are preserved. In a retirement plan, the taxes on your potential earnings are deferred until you take withdrawals. Earnings generally can compound faster when taxes are postponed. When you transfer your retirement money to a rollover IRA, or keep it where it is, taxes on your earnings will continue to be deferred until you begin making withdrawals from your account.
- You may gain access to more investment options. Retirement plans typically offer a much narrower range of investment options than those you can choose from within an IRA.
- Your investment plan for retirement remains in place, which also occurs when leaving it where it currently is. Cashing out a lump-sum distribution can be tempting. It may be the largest sum of money you have ever been able to get your hands on. But when you use that sum — what remains after taxes — for a current expense, you could be putting your retirement at risk. That amount could potentially grow to a substantial sum that could give you extra income in retirement.
- One of the benefits of retirement accounts is creditor protection. The level of protection will vary based on account type and in some cases, state law. A qualified plan, such as a 401(k), is protected by a federal law (ERISA). This protects your 401(k) from almost all claims by creditors, bankruptcy and court judgments (the IRS and divorce proceedings are two exceptions). An IRA has similar protection if you declare bankruptcy but does not have the same federal protection from creditors or court judgments.[1] Your state may offer additional protection to an IRA.[2]

Plenty of resources to guide you

When changing jobs or retiring, you are likely to be preoccupied with plenty of concerns. In the midst of these major transitions, you will have to make a major decision about how to handle your retirement plan assets. Staying informed and turning to the support of financial advisors or investment professionals could help ensure that you make the best decision for yourself, your family and your future.

[1] The amount of money in your IRA that is protected in bankruptcy is limited to $1,362,800 (through 2022) plus any amount rolled over from a qualified plan.

[2] A non-spouse beneficiary who inherits an IRA does not get the same level of creditor protection as the original owner in most cases. The level of protection, if any, varies under state law.

Portability of retirement plan assets

- Money can be transferred between most types of plans — 457, 403(b) and 401(k).
- 457 plan investments can be transferred to a rollover IRA.
- Certain employer-related plans — 403(b), 457 and 401(k) — can accept transfers from rollover IRAs.
- Governmental 457 plans are not subject to the early distribution penalty. If you are under age 59½, talk to your investment professional, financial or tax advisor before rolling your 457 account assets into an IRA.

Key facts to remember

- In most cases, you get access to your plan assets only when you retire, change jobs or are laid off.
- Each plan has its own rules that govern current and former employees' access to plan assets.
- A Roth 401(k) and after tax contributions to a 401(k) may be rolled into a Roth IRA without paying additional taxes. Also, any nondeductible contributions you make to an IRA cannot be rolled over to a retirement plan.

If you are rolling money over to an IRA, be sure to ask your former employer to make the check payable to the institution at which you are establishing the IRA. If it is made payable to you, your retirement plan distribution will be subject to 20% withholding. When you open the rollover IRA, you must invest the full amount of your distribution and come up with the missing 20% yourself. Even if you complete the rollover within the required 60 days to avoid income and penalty taxes, you will not be credited with the amount withheld until you have filed your tax return.

Additional MFS® resources

You may access the MFS Heritage Planning® infosheet "An IRA Dilemma: To Roll or Not to Roll" on mfs.com. This infosheet details your options for handling retirement assets when you change jobs or retire.

Resources

By phone or on the Internet

IRS Publication 590-A. See specifically the section titled "Can You Move Retirement Plan Assets?" This publication can be found on the Internal Revenue Service Website at irs.gov. Or you can call the IRS at 1-800-829-1040.

There are advantages and disadvantages to rolling money out of your employer's plan and into an IRA. You will need to consider how your retirement goals may be affected by features such as investment options, services, fees and expenses, withdrawal options, required minimum distributions and tax treatment. Please be aware that rolling over retirement assets into one IRA account could potentially increase fees, as the underlying funds may be subject to sales loads, higher management fees, 12b-1 fees and IRA account fees such as custodial fees. For assistance in determining if a rollover to an IRA is appropriate for you, consult your financial advisor or investment professional.

This material is provided for general and educational purposes only and is not investment advice.
The investments you choose should correspond to your financial needs, goals, and risk tolerance. Please consult a financial advisor or investment professional before making any investment or financial decisions or purchasing any financial, securities or investment related service or product, including any investment product or service described in these materials.

Contact your financial advisor or investment professional for more information or visit mfs.com.

MFS® does not provide legal, tax, or accounting advice. Any statement contained in this communication (including any attachments) concerning U.S. tax matters was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code. This communication was written to support the promotion or marketing of the transaction(s) or matter(s) addressed. Clients of MFS should obtain their own independent tax and legal advice based on their particular circumstances.

MFS FUND DISTRIBUTORS, INC., BOSTON, MA

HP-RETA-FLY-7/21
13333.15