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FINANCIAL PLANNING & CAPITAL MANAGEMENT INC.

Rollovers

In general, a rollover is the movement of funds from one retirement savings vehicle to another. You may want, or need, to make a rollover for any number of reasons--your employment situation has changed, you want to switch investments, or you've received death benefits from your spouse's retirement plan. There are two possible ways that retirement funds can be rolled over--the 60-day rollover and the trustee-to-trustee transfer.

The 60-day, or indirect, rollover

With this method, you actually receive a distribution from your retirement plan and then, to complete the rollover transaction, you make a deposit into the new retirement plan that you want to receive the funds. You can make a rollover at any age, but there are specific rules that must be followed. Most importantly, you must generally complete the rollover within 60 days of the date the funds are paid from the distributing plan.

If properly completed, rollovers aren't subject to income tax. But if you fail to complete the rollover or miss the 60-day deadline, all or part of your distribution may be taxed, and subject to a 10% early distribution penalty (unless you're age 59½ or another exception applies).

Further, if you receive a distribution from an employer retirement plan, your employer must withhold 20% of the payment for taxes. This means that if you want to roll over your entire distribution, you'll need to come up with that extra 20% from your other funds (you'll be able to recover the withheld taxes when you file your tax return).

Some distributions can't be rolled over, including:

- *Required minimum distributions (to be taken after you reach age 70½ or, in some cases, after you retire)*
- *Certain annuity or installment payments*
- *Hardship withdrawals*
- *Corrective distributions of excess contributions and deferrals*

The trustee-to-trustee transfer, or direct rollover

The second type of rollover transaction occurs directly between the trustee or custodian of your old retirement plan, and the trustee or custodian of your new plan. You never actually receive the funds or have control of them, so a trustee-to-trustee transfer is not treated as a distribution. Trustee-to-trustee transfers avoid both the danger of missing the 60-day deadline and, for employer plans, the 20% withholding problem.

With employer retirement plans, a trustee-to-trustee transfer is usually referred to as a direct rollover. If you receive a distribution from your employer's plan that's eligible for rollover, your employer must give you the option of making a direct rollover to another employer plan or IRA.

A trustee-to-trustee transfer (direct rollover) is generally the safest, most efficient way to move retirement funds. Taking a distribution yourself and rolling it over only makes sense if you need to use the funds temporarily, and are certain you can roll over the full amount within 60 days.

Should you roll over money from an employer plan to an IRA?

In general, you can keep your money in an employer's plan until you reach the plan's normal retirement age (typically age 65). But if you terminate employment before then, should you keep your money in the plan or instead make a direct rollover to an IRA?

There are several reasons to consider making a rollover. In contrast to an employer plan, where your investment options are limited to those selected by your employer, the universe of IRA investments is almost unlimited. Similarly, the distribution options in an IRA (especially for your beneficiary following your death) may be more flexible than the options available in your employer's plan.

On the other hand, your employer's plan may offer better protection from your creditors. In general, federal law protects your total IRA assets up to $1,000,000 if you declare bankruptcy. (The laws in your state may provide additional protection.) In contrast, protection from your creditors in an employer retirement plan is generally unlimited.

Use the Rollover Guide on the opposite page to help you decide where you can move your retirement dollars. A financial professional can also help you navigate the rollover waters.

Rollover Guide

Rollover from:	Rollover to: Traditional /SEP IRA	SIMPLE IRA	Roth IRA	Qualified Plan (incl. 401(k))	Roth 401(k) /403(b) Acct	403(b) Plan	Government 457(b) Plan
Traditional/SEP IRA - taxable dollars [1, 2]	Yes	No	Yes [3]	Yes [7]	No	Yes	Yes [9]
Traditional IRA - nontaxable dollars [1, 2]	Yes	No	Yes [4]	No	No	No	No
SIMPLE IRA	Yes [5]	Yes	Yes [3, 5]	Yes [5, 7]	No	Yes [5]	Yes [5, 9]
Roth IRA	No	No	Yes	No	No	No	No
Qualified Plan - taxable dollars (incl. 401(k)) [6, 7]	Yes	No	No [11]	Yes	No	Yes	Yes [9]
Qualified Plan - nontaxable dollars (incl. 401(k)) [6, 7]	Yes	No	No [11]	Yes [8]	No	Yes [8]	No
Roth 401(k) Account [7]	No	No	Yes	No	Yes [10]	No	No
Roth 403(b) Account	No	No	Yes	No	Yes [10]	No	No
403(b) Plan - taxable dollars [6]	Yes	No	No [11]	Yes [7]	No	Yes	Yes [9]
403(b) Plan - nontaxable dollars [6]	Yes	No	No [11]	Yes [8]	No	Yes [8]	No
Government 457(b) Plan [6]	Yes	No	No [11]	Yes [7]	No	Yes	Yes

[1] Required distributions and nonspousal death benefits can't be rolled over.

[2] In general, if you make a tax-free rollover from a traditional IRA, you can't make another tax-free rollover from that same IRA for one year. This does not apply to direct (trustee-to-trustee) rollovers.

[3] Taxable conversion. Income limits apply.

[4] Nontaxable conversion. Income limits apply.

[5] Only after employee has participated in SIMPLE IRA plan for two years.

[6] Required distributions, certain periodic payments, hardship distributions, corrective distributions, and certain other payments cannot be rolled over.

[7] May result in loss of qualified plan lump-sum averaging and capital gain treatment.

[8] Direct (trustee-to-trustee) rollover only; receiving plan must separately account for the after-tax contributions and earnings.

[9] 457(b) plan must separately account for rollover--10% penalty on payout may apply.

[10] Nontaxable dollars may be transferred only in a direct (trustee-to-trustee) rollover.

[11] Yes, beginning in 2008 (subject to income limits in 2008 and 2009).

NOTE: Plans are not legally required to accept rollovers. Review your plan document.

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