

MFS HERITAGE PLANNING®

Helping Yourself. Helping Your Parents. Helping Your Children.®

"Courtesy Of"

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An IRA dilemma: to roll or not to roll

When you take a distribution from your company's retirement plan — at retirement or when you change jobs — you may find yourself with a sizable sum of money. This windfall is often referred to as a lump-sum distribution. In addition to wondering what you should do with this money, you also may have concerns about taxes and investing issues that you never had to think about before, such as early withdrawal penalties and a 20% mandatory withholding

By the numbers

- **40%** of U.S. households own IRAs.¹
- **60%** of traditional IRAs include rollover assets from employersponsored plans.¹
- From ages 18 to 40, the average baby boomer held **10.5** jobs.²

¹ Investment Company Institute "Research Fundamentals," January 2008

² U.S. Bureau of Labor Statistics, August 2006

Because this money will play such a large part in helping to ensure that your years in retirement are comfortable, it is important for you to understand your options and make decisions that will serve your needs now and in the future.

The following are answers to some of the most commonly asked questions about lump-sum distributions. Among the answers, you will find information on rollover IRAs, which may be your best option for helping to preserve your retirement funds while offering flexible investment and distribution options.

What are the potential drawbacks involved with taking a lump-sum distribution?

As more employers allow lump-sum distributions, people who might have had fairly modest incomes suddenly find themselves having to decide what to do with what may be several hundred thousand dollars. Such a windfall can tempt people to do things they may regret later. For example, having worked hard for the past five years without a vacation, you may be tempted to take a once-in-a-lifetime trip. Even if you have always been financially disciplined, the temptation might still seem too great to resist.

Key points

(When changing jobs or getting ready to retire, you will need to decide what to do with the assets in your employer-sponsored retirement plan account. A rollover IRA may be right for you.

Consider these benefits:

- tax-deferred investing
- an income stream during retirement
- easy access to your assets in an emergency*

- a broad range of investment choices
 - a convenient vehicle for consolidating retirement assets
- *Current income taxes and a possible 10% tax penalty often apply when you take your money prior to age 59 ½

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Can I use part of a distribution for important current expenses?

Although you may think it makes sense to use part of a lump-sum payment to eliminate large outstanding debts or pay off mortgages, a secure retirement can be jeopardized if this money is not used wisely. It may look like a lot of money now, but as people retire earlier and live longer, estimates of how much an individual will need for a comfortable retirement are continually revised upward. Your nest egg may have to be a source of income for 20 or 30 years, or more. So, if you spend even a little of your lump sum prematurely — even to pay down your debts — you will have a smaller nest egg and less income during retirement. Keep in mind you will have to pay income taxes on any money you withdraw now. In addition, you may be subject to an early withdrawal penalty tax of 10% unless you meet one of the age or systematic payout method exemptions provided in the Internal Revenue Code.

What if I am leaving my job and am offered a lump-sum distribution?

The best first step might be to do nothing. In most cases, you will not be forced to take your money out of the company retirement plan immediately, which gives you time to make careful decisions. If you have also been participating in the company's 401(k) plan, you may be able to keep your money in that plan and put any lump-sum

payments into the 401(k) by way of a rollover. Your other options include rolling your retirement money into an IRA or into another retirement plan offered by your new employer.

What exactly is a rollover?

A rollover is a transfer of money from one employer's qualified retirement plan or IRA to another employer plan or IRA. Rollovers keep retirement money tax deferred until withdrawals begin.

How does a rollover IRA work?

One of the most popular choices for rollovers is a transfer of the assets from a retirement plan into an IRA, perhaps with a mutual fund company, which may offer more investment choices than are available in a 401(k).

Rollovers that are not made directly from one plan to another are subject to strict time frames, and missing the deadline can result in a tax liability and a possible penalty. An investment professional can help guide you through the process. To avoid potential complications, a rollover should be a direct, trustee-to-trustee transfer. In a direct rollover, no check will be made out.

But what if I need the money in an emergency?

There are many reasons why you may need income, whether it is to take an early retirement, start a business, or sustain yourself while you are between jobs. If you need to

generate income from your retirement plan distribution right away, one solution may be to roll it over into a traditional IRA and elect to receive regular payments.

Under Internal Revenue Code Section 72(t), your payments will not be subject to a 10% early withdrawal penalty as long as you take your money out in "substantially equal payments" based on life expectancy tables. There are several methods of calculating the level of payments to meet a variety of needs. However, a tax penalty will apply if you change the amount or stop payments before the greater of five years or before you turn age 59½. In other words, you must continue the payments for the longer of the two periods.

How much do I really save by rolling over the money versus taking it now?

You might be surprised. By removing even what seems like a small amount from your nest egg, you are opening yourself up to tax liability and, therefore, reducing the amount of money that can remain working for you. The table on page 3 is a hypothetical example of the choices available to a person changing jobs who is 34 years old, in the 25% tax bracket, and whose investment earns a hypothetical 6% annual return.

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Cost breakdown of distribution options

Based on annual growth rate of 6%

	Taking Money now	Directly rolling over distribution
Distribution	\$20,000	\$20,000
20% withholding tax	(\$4,000)	0
10% early w/d penalty	(\$2,000)	0
5% additional current tax owed	(\$1,000)	0
Available for reinvestment	\$13,000	\$20,000
Net value in 10 years*	\$21,378	\$23,281
Net value in 20 years*	\$35,156	\$41,693
Net value in 30 years*	\$57,813	\$86,152

* All gains in the "Taking money now" example are adjusted for a 15% tax rate in the year the gains are earned, representing the current federal tax rate on long-term capital gains and dividends. The values in the "Directly rolling over distribution" example assume the taxpayer is in the 25% tax bracket (the 10- and 20-year examples also include a 10% penalty for early distribution) and takes a full distribution at either 10, 20, or 30 years. Hypothetical examples are for illustrative purposes only and are not intended to represent the future performance of any MFS product.

Rolling over assets can help you retain more of your retirement income

Okay, you have convinced me. What should I do now?

If you decide to roll over your distribution, you will need to determine how to invest your money. Among the most popular choices for IRAs are mutual funds, which offer professional, full-time management, diversification (to help reduce risk), and the flexibility to move from

one fund to another as your needs change. Keep in mind, however, that the principal value and return of mutual funds will fluctuate with changes in market conditions, and shares, when redeemed, may be worth more or less than their original cost. Also, diversification does not guarantee a profit or protect against loss.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus containing this and other information, contact your investment professional or view online at mfs.com. Read it carefully.

Resource

www.irs.gov
Internal Revenue Service, "Retirement Plans Community" tab, IRA Online Resource Guide and Retirement Plans FAQs regarding IRAs.

Contact your investment professional For more information, or visit mfs.com

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