UBS

IRA rollover guide

A new job, retirement and other events could provide you with new 401(k) options

Table of contents

Exploring your options 3

Your options at a glance 5

Evaluating your options: a side-by-side comparison 6

Key considerations 8

Flowchart of distribution options 10

Exploring your options

If you've changed jobs or recently retired, you've opened the door to new opportunities for you—and your 401(k) or other employer-sponsored retirement plan[1] account. What you do with this money is an important decision, and the account in question may represent a good portion of your retirement savings. It's best to understand your options, so you can make the most of this opportunity and avoid taxes and penalties. Often events like a termination of employment, a termination of your employer's plan or an inheritance of someone else's employer's plan can present similar opportunities.

Generally, you have four options:

Option 1: Leave the money in the existing plan
If you keep your money in the current plan, it will stay tax deferred and you can remain invested in the plan's investment options. Your former employer is generally required by law to let you leave a balance of over $5,000. With this option, penalty-free withdrawals may be available to you if you leave your job in the year you turn age 55 or later, if certain conditions are met.[2]

Keep in mind
You can no longer make contributions to a former 401(k) account, and you are subject to any plan restrictions or possible fees for maintaining a terminated employee account. You've moved on. Should your account too?

Option 2: Roll the money into an IRA (traditional or Roth)
If you roll your 401(k) money into an IRA, you have increased flexibility and control. A "rollover" IRA may open up a much broader range of investment options than those available through most 401(k) plans, along with access to advice you may welcome at this point. With a rollover IRA, you can typically choose from a wide variety of mutual funds, as well as individual stocks, bonds, certificates of deposit and U.S. Treasury securities.

Rollover IRAs are also free of plan-related restrictions and offer certain estate planning benefits for your loved ones, such as the ability to stretch an inherited IRA across generations, potentially reducing their tax burden.

If you roll over a traditional 401(k) into a Roth IRA, however, this is considered a "Roth conversion," so you'd owe taxes on all or a portion of the money. Any distributions taken from the Roth IRA are tax free if the account was held for at least five years and you are age 59½ or older, making a first-time home purchase (lifetime limit of $10,000 per taxpayer), are disabled or pass away.

Keep in mind
You have the option of a traditional or Roth IRA for your rollover. The difference between the two is primarily how they are taxed. You can roll over a traditional 401(k) into a traditional IRA tax free, deferring taxes until you take a distribution, typically at retirement. You can roll over a Roth 401(k) into a Roth IRA tax free.

[1] For simplicity, this guide will refer to 401(k)s, but the same applies to most types of employer-sponsored retirement plans whether defined benefit or defined contribution. For example, your employer may have a 403(b) or 457 plan instead of a 401(k), or you may be covered by a pension or profit sharing plan.

Option 3: Roll the money into a new 401(k) plan

If you move to a new job and are eligible for the 401(k) plan, you may be able to roll your existing account into a new plan. You must roll the money directly over into the new plan to avoid the 20% mandatory withholding and keep your money tax deferred. You can roll over your entire distribution or a portion of it, although any money not rolled into the plan would be subject to the 20% withholding and potential additional income taxes and penalties. Be sure to review the plan features and provisions when deciding.

Keep in mind

In addition to preserving your money's tax-deferred status, rolling all of it into your new plan consolidates your funds into one 401(k) account versus two, making things easier to track.

Option 4: Withdraw the money as a lump sum

It's almost always a bad idea to cash out of a 401(k) plan. If you take a 401(k) distribution early, taxes and penalties can take a big bite out of your retirement savings. First, you will pay 20% in withholding that your employer is required to take as a prepayment of federal income taxes. And, if you haven't reached at least age 55[2] when you leave your job, you may pay a 10% early distribution penalty. What's more, depending on your circumstances, you may still owe additional federal and state income taxes when you file your taxes for the year.

It gets tricky if you own company stock. If you meet the requirements for a lump-sum distribution and all or part of it is in employer stock, you may be eligible to defer taxes on the portion considered net unrealized appreciation (NUA); that is, the gain on the shares while they were held in the plan. Your UBS Financial Advisor can provide you with more information on this special treatment, can outline the risks associated with overconcentration in one stock, and if appropriate, can recommend ways you can avoid the risks of overconcentration.

Keep in mind

Unless you are facing financial hardship, it's wise to keep your money invested and taxes deferred—by rolling it into a traditional IRA, a new plan or leaving it in your existing plan until you retire.

Your options at a glance

Options	Benefits	Considerations
1. Leave the money in your existing plan	– No taxes or penalties – Continued tax deferral – Familiarity with investment choices – May offer unique investment options unavailable in an IRA or a new plan – May be able to take penalty-free withdrawals at age 55[2] if you are no longer employed – May be able to delay required minimum distributions (RMDs) past age 70½ if you are still employed by the employer – Creditor protection	– Can no longer make contributions if no longer employed by the employer – No access to loans in most cases – Potentially limited investment menu – Possible administrative fees for terminated employees – Limited distribution options, particularly for non-spouse beneficiaries – May limit custom beneficiary designations such as a trust
2. Roll the money into an IRA (Traditional or Roth)	– Easy to set up – No taxes or penalties when rolled over to a traditional IRA – Continued tax-deferred growth – Can continue contributions, if eligible – Broad array of investment choices – Access to advice – Consolidation of assets; fewer websites and passwords to remember – Potential estate planning benefits and ability to customize beneficiary designations – Not subject to change in your employer's plan or policies	– Can't take advantage of plan-specific investment options – No access to loans – Typically must be age 59½ before taking penalty-free withdrawals – Administrative fees – Possible limitations on creditor protection due to state laws
3. Roll the money into a new 401(k) plan	– No taxes or penalties – Continued tax-deferred growth – Potential access to loans – Can continue contributions – May offer unique investment options unavailable in an IRA – Consolidation of assets; fewer websites and passwords to remember – May be able to delay RMDs past age 70½ if you are still employed – Creditor protection	– Subject to new plan provisions, restrictions or fees – Potentially limited investment menu – May limit custom beneficiary designations such as a trust
4. Withdraw the money as a lump sum	– Access to the funds – Special treatment for company stock if it is placed in a taxable account	– Potential taxes and penalties – Liquidating your 401(k) leaves you with less for retirement and forfeits tax-deferred growth – No creditor protection

Evaluating your options

A side-by-side comparison

This side-by-side comparison chart is designed to help you make an educated decision about your account assets in your employer's retirement plan. You should consider your choices carefully because many transactions, once completed, cannot be reversed.

		Option 1	Option 2		Option 3	Option 4
		Leave the money in your existing plan	Roll the money into Traditional IRA	Roll the money into Roth IRA	Roll the money into a new 401(k) plan	Withdraw the money as a lump sum
Tax treatment	**Is this a taxable event?**	No	No[3]	Yes. Taxes must be paid if assets are rolled directly into a Roth IRA or if rolled into a traditional IRA then converted into a Roth IRA. Distribution amounts are taxed at ordinary income tax rates.	No[3]	Yes. Distribution amounts are taxed at ordinary income tax rates. An additional 10% penalty may apply if the distribution is taken before age 59½.
Tax treatment	**Is there special tax treatment available for company stock?[4]**	No	No	No	No	Yes, if stock is placed in a taxable account.
Investments	**Am I satisfied with the investment options?**	Investment options limited to those offered in employer plan. Employer plan may offer unique investment options.	Many IRA custodians including UBS offer a wide range of investment options and offer investment advisory services.	Many IRA custodians including UBS offer a wide range of investment options and offer investment advisory services.	Investment options limited to those offered in employer plan. Employer plan may offer unique investment options.	Many investment firms including UBS offer a wide range of investment options and offer investment advisory services.
Investments	**Will I receive advice on how to allocate my assets?**	General asset allocation recommendations are often available.	Generally available depending on your IRA provider, including UBS.	Generally available depending on your IRA provider, including UBS.	General asset allocation recommendations are often available.	Generally available depending on your investment provider, including UBS.
Investments	**Will I receive specific investment recommendations?**	Generally no.	Depending on the arrangement you select, many IRA custodians, including UBS, provide investment advice.	Depending on the arrangement you select, many IRA custodians, including UBS, provide investment advice.	Generally no.	Depending on the arrangement you select many investment firms, including UBS, provide investment advice.
Estate planning	**Are beneficiary designations flexible?**	May be limited. Account owner must obtain spousal consent to designate a non-spouse beneficiary, and plan may not be as flexible in permitted beneficiary designations.	Typically very flexible. Account owner may designate a spouse or non-spouse individuals, trusts, estates and charities as beneficiaries.	Typically very flexible. Account owner may designate a spouse or non-spouse individuals, trusts, estates and charities as beneficiaries.	May be limited. Account owner must obtain spousal consent to designate a non-spouse beneficiary and plan may not be as flexible in permitted beneficiary designations.	N/A
Estate planning	**Is there flexibility in the beneficiary payout?**	Beneficiaries may be limited in their payout options based on plan provisions. On-demand payouts and flexible schedules may not be available.	Beneficiary typically has full control over payouts.	Beneficiary typically has full control over payouts.	Beneficiaries may be limited in their payout options based on plan provisions. On-demand payouts and flexible schedules may not be available.	N/A

		Option 1	Option 2		Option 3	Option 4
		Leave the money in your existing plan	Roll the money into Traditional IRA	Roll the money into Roth IRA	Roll the money into a new 401(k) plan	Withdraw the money as a lump sum
Access to assets	**Are there loan options?**	You may be able to pay back an existing loan or borrow in the future, but this is generally limited when an employee leaves the company.	No	No	Yes, but contingent on new employer's plan provisions.	N/A
Access to assets	**Are there early distribution options?**	You may receive penalty-free distributions at age 55 if you are no longer employed.[2]	Penalty-free withdrawals from your IRA may begin at age 59½ or if you take substantially equal periodic payments or qualify for an exception under Internal Revenue Code Section 72(t).[5]	Penalty-free withdrawals from your Roth IRA may begin at age 59½ or if you take substantially equal periodic payments or qualify for an exception under Internal Revenue Code Section 72(t).[5]	Your employer's plan may have provisions permitting penalty-free withdrawals while you are still employed.	N/A
Other considerations	**Are there Required Minimum Distributions at age 70½?**	Yes, but may be delayed past age 70½ if still employed.	Yes	No	Yes, but may be delayed past age 70½ if still employed.	No
Other considerations	**Will I have creditor protection?**	Yes	May have limitations based on state law.	May have limitations based on state law.	Yes	No
Other considerations	**What are the fees for this type of account?**	Refer to employer's plan fee disclosure documents and investment prospectuses to understand investment and administrative fees associated with the plan. Note that some plans charge additional fees to terminated employees.	Investment fees are associated with the services and products selected. In addition, there are often administrative fees ($100 annual fee for a UBS IRA, waived for IRAs enrolled in a managed account program). Please refer to our Understanding our fees, charges and other compensation booklet available at *ubs.com/understandingourfees* for complete information on how UBS is compensated.	Investment fees are associated with the services and products selected. In addition, there are often administrative fees ($100 annual fee for a UBS IRA, waived for IRAs enrolled in a managed account program). Please refer to our Understanding our fees, charges and other compensation booklet available at *ubs.com/understandingourfees* for complete information on how UBS is compensated.	Refer to new employer's fee disclosure documents and investment prospectus to understand investment and administrative fees associated with the new plan.	Investment and administrative fees will depend on the types of services and investment products selected. ($175 annual fee for a UBS Resource Management Account (RMA), waived for RMAs enrolled in a managed account program). Please refer to our Understanding our fees, charges and other compensation booklet available at *ubs.com/understandingourfees* for complete information on how UBS is compensated.

Key considerations

Here are some key considerations when determining what distribution option is best for you.

Investment considerations

Maximizing your investment options
Determine whether the investment options in your employer's retirement plan address your needs or whether you might want to consider other types of investments.

- Employer retirement plans generally have a more limited investment menu than IRAs which, depending on your IRA provider, may have very few investment limitations.
- Employer retirement plans may have unique investment options not available to the public such as previously closed funds, employer securities or stable value investment funds.
- Because of the buying power of the pooled assets in your employer's retirement plan, you may have access to investment options that might otherwise be inaccessible because of high minimum investment requirements.

Managing your investment costs
All investments have costs associated with them whether in an IRA or your employer's retirement plan.

- If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
- You should determine whether you can continue to invest in the same mutual fund share classes in an IRA as you did in your employer's plan and whether there are any other special programs or benefits available to you as a result of your investments in the plan.
- If your employer's retirement plan has a brokerage "window," you should compare the administrative costs and per trade costs applicable in the window to those available in an IRA.
- Depending on the type of investment structure available in an IRA, you may be able to pay an annual asset-based fee rather than transactional fees on each investment.
- You should understand the various products and services you might take advantage of at an IRA provider and the potential costs of those products and services.

Availability of advice
An IRA may offer you access to advice and services that may not be available in your employer's retirement plan.

- If you are not comfortable making investment decisions without professional assistance, you should consider whether your employer's retirement plan offers enough assistance for your needs.
- If you want a professional to be able to consider all of your assets including those from the plan holistically, in a financial planning context, you may want to consider an IRA provider.
- If you want a professional to manage your assets on a discretionary basis, you may want to consider an IRA provider.
- Note that the investment options in your employer's retirement plan are required to be selected and monitored by a plan fiduciary. If you want to obtain fiduciary investment advice on the IRA assets, you should consider IRA providers that offer those services.

Non-investment considerations

Accessing your assets
Withdrawals

- It may be easier to access assets in an IRA than in your employer's plan, which may have restrictions on your ability to access assets before retirement age.
- IRA assets can be accessed any time; however, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty if taken before age 59½ unless they qualify for an exception such as disability, higher education expenses or, in limited circumstances, the purchase of a home.
- Another exception to the 10% early distribution penalty is "72(t) payments," which permit annual distributions based on life expectancy. Employer plans may not always provide for 72(t) payments.
- If an individual separates from service during or after the calendar year in which he/she attains age 55, distributions from the employer's plans (but not from IRAs) are exempt from the 10% early distribution penalty.
- Required Minimum Distributions (RMDs) must be taken from traditional IRAs beginning at age 70½. RMDs do not need to be taken from qualified plans until the later of age 70½ or retirement.

Loans

- Once you terminate employment, you may not be able to take a loan from your employer's retirement plan since most do not permit loans to inactive employees.
- Loans are not available from IRAs.

Managing administrative fees

Both IRAs and employer retirement plans have administrative costs associated with them. You may need to do some research to compare them:

IRAs

- Many IRA providers charge an annual account fee to cover tax reporting, RMD calculations and other account services.
- You can usually pay IRA administrative fees with non-retirement assets to maximize the amounts that can continue to grow in the IRA.

Employer plans

- Your employer may be paying the administrative expenses for its retirement plan. If not, you are paying for employer retirement plan administrative fees that may include recordkeeping for the plan, legal fees, accounting fees, plan communications and other miscellaneous expenses either through deductions from your account or higher investment costs.
- You should determine whether your employer's plan imposes different fees on terminated employees that you are not used to paying. For example, some companies pay administrative expenses only for active employees, meaning once you terminate employment, you may be charged with these expenses.

Simplifying your accounts

Combining all your retirement assets into one account can be beneficial in a number of ways:

- Fewer websites, passwords and PIN numbers to remember.
- Simpler to calculate and take your annual required minimum distribution.
- Easier to keep track of all your retirement assets.
- And, if you consolidate into an IRA:
  - Easier to build and view an overall investment portfolio in combination with your non-retirement assets.
  - You won't be subject to changes in your employer's retirement plan or policies.

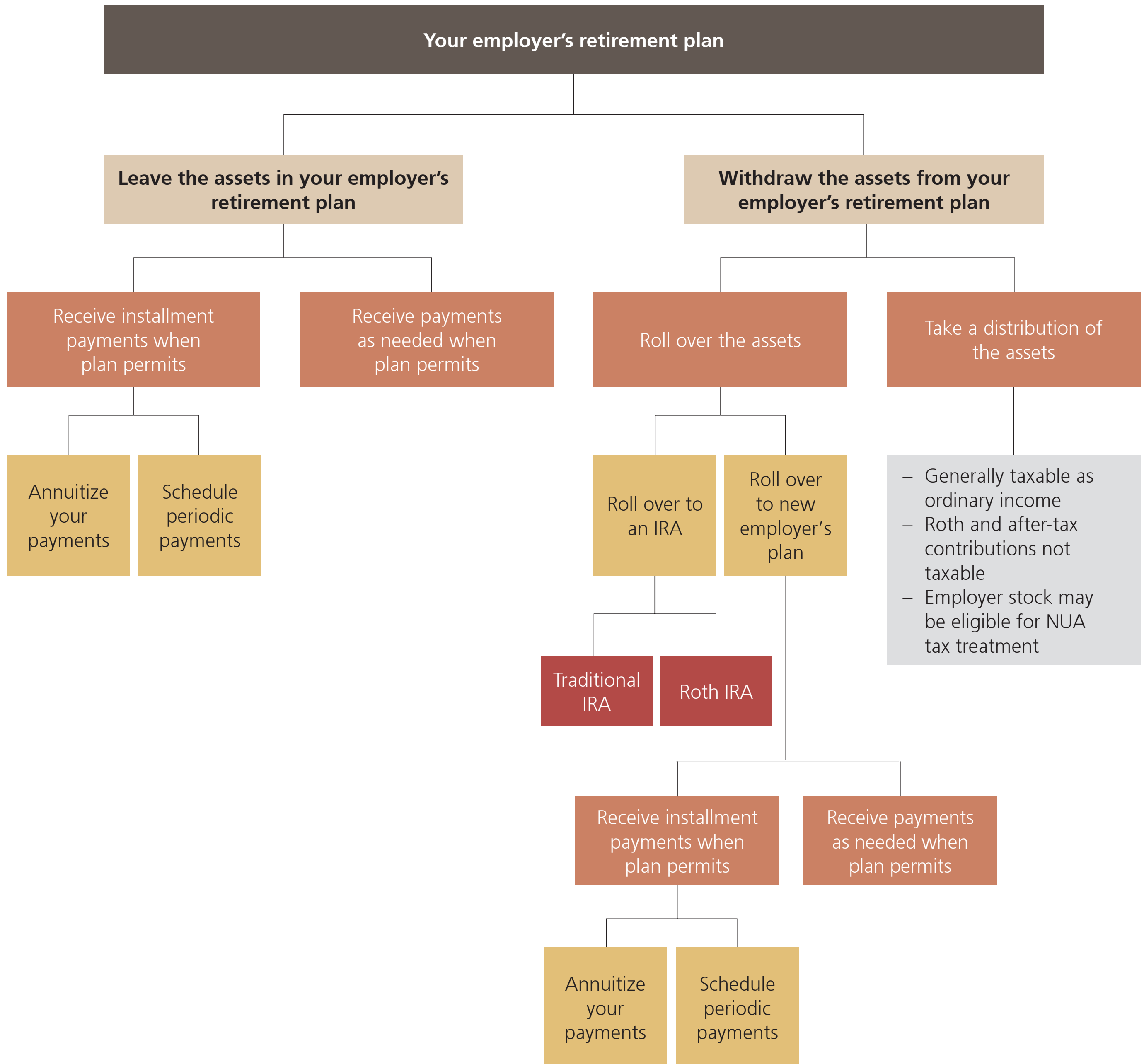
Planning for wealth transfer (estate planning)

- IRAs often permit more customization of beneficiary designations than an employer retirement plan.
- You can convert to a Roth IRA if you want to avoid taking RMDs and paying taxes on distributions. Your employer retirement plan may not have a Roth option.

Protecting assets from creditors

- Generally, federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies. However, there can be some exceptions to the general rules, so you should consult with an attorney if you are concerned about protecting your retirement plan assets from creditors.

Flowchart of distribution options



[2] If an individual separates from service during or after the calendar year in which he/she attains age 55, distributions from the employer's plans (but not IRAs) are exempt from the 10% early distribution penalty. In order to maintain this penalty-free distribution, the funds cannot be rolled over into an IRA.
[3] If you do not do a direct rollover, your employer will withhold 20% of the distribution as a pre-payment of federal income taxes due, for which a refund may be due to you if you complete the rollover within 60 days.
[4] NUA treatment may be available for the company stock, if applicable, only if that portion is placed immediately into a taxable account, not an IRA.
[5] Withdrawals at such an early stage generally aren't recommended unless there's an urgent need for income. First, doing so can deplete your retirement savings more quickly. And second, the income you withdraw is taxed at your current income tax rate, which may be higher in your working years.

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