



Understanding your employer retirement plan distribution options

Know the facts. Make informed decisions.





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You're leaving your job. What's next for your retirement plan savings?

If you've recently changed jobs, left a position or retired, you now have new opportunities regarding your 401(k) or other employer-sponsored retirement plan account.¹ Since these accounts often represent a significant portion of your retirement savings, it is important to understand your available options in order to make informed, tax-efficient decisions. Similar considerations apply if your employer terminates its retirement plan or if you inherit an employer-sponsored plan account from a loved one.

1. You can leave the funds in the current plan²

Keeping your money within the existing plan maintains its tax-deferred status and allows continued access to the plan's investment selections.³ Your former employer is generally required by law to let you leave a balance of over \$7,000. With this option, one advantage is that penalty-free withdrawals may be available to you if you leave your job in the year you turn 55 or later.⁴

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.

2. You can roll over the funds into an IRA (traditional or Roth)

Rolling your 401(k) balance into an IRA provides greater flexibility and investment choices. A rollover IRA typically offers a more extensive selection of mutual funds, individual stocks, bonds, certificates of deposit, alternative investments and US Treasury securities compared to most 401(k) plans, along with the potential for personalized financial guidance. Rollover IRAs are not subject to plan-specific restrictions and may also present estate planning advantages for beneficiaries.

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.

Rolling over a traditional 401(k) into a Roth IRA, known as a "Roth conversion," results in a tax liability on all pre-tax contributions and on earnings. Roth IRA distributions are tax free if the account is at least five years old and you are 59½ or older, buying your first home (lifetime limit \$10,000 per taxpayer), disabled or deceased.

3. You can roll over funds into a new 401(k) plan

If you move to a new job and are eligible for your new employer's 401(k) plan, you may be able to roll your existing account into the 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 on all pre-tax contributions and on earnings. Be sure to review the plan features and provisions when deciding.

Keep in mind

In addition to preserving your fund'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.

4. You can withdraw the money as a lump sum

It's almost always a bad idea to cash out of a 401(k) plan. Withdrawing funds from a 401(k) plan as a lump sum may result in significant taxes and penalties. Most distributions are subject to a 20% withholding as a prepayment of federal income tax, and individuals under age 55 at job separation may face a 10% early distribution penalty.⁴ Additional federal and state income taxes might also apply when filing annual taxes, depending on individual circumstances.

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 plan² until you retire.

It gets tricky when 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. See page 9, *Know the options for company stock in your employer plan*, to learn more.



Explore your distribution options

Here's a quick snapshot of your choices 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.

Leave the money in your existing plan

Potential benefits

- Continued tax-deferred growth
- No immediate taxes or penalties
- Familiarity with investment choices
- May offer unique plan-specific investment options
- Potential penalty-free withdrawals at age 55 if separated from service³
- May have the ability to delay RMDs past age 73 (age 75 for those born in 1960 or later) if still employed and not a 5% owner of the business maintaining the plan
- Creditor protection under federal law

Potential considerations

- Potentially limited investment menu
- No access to loans in most cases
- Limited distribution options, particularly for non-spouse beneficiaries
- Beneficiary designations and payout options may be limited
- General asset allocation recommendations are often available, though no specific investment recommendations
- No additional contributions can be made if you're no longer employed by the employer
- Possible administrative fees and investment fees. Refer to employer's plan fee disclosure document and investment prospectuses to understand fee structure

Roll the money into a traditional IRA

Potential benefits

- Easy to set up
- No taxes or penalties for direct rollover
- Continued tax-deferred growth
- Can continue contributions, if eligible
- Access to a broad range of investment choices and investment advisory services depending on selected arrangement
- Flexibility in beneficiary designations and potential estate planning benefits; beneficiaries usually have full control of payouts
- Consolidation of accounts for easier management

Potential considerations

- Limited creditor protection in some states
- Cannot take advantage of plan-specific investment options or loans
- RMDs required at age 73 (age 75 for those born in 1960 or later).
- Must generally wait until age 59½ for penalty-free withdrawals⁵
- No special tax treatment available for company stock
- Investment fees are associated with the services and products selected. In addition, administrative fees may apply

Roll the money into a Roth IRA

Potential benefits

- Potential for tax-free qualified withdrawals
- Continued growth potential
- Access to a broad range of investment choices and investment advisory services on selected arrangements
- Flexibility in beneficiary designations and potential estate planning benefits; beneficiaries usually have full control of payouts
- No required minimum distributions (RMDs) during owner's lifetime
- Consolidation of accounts
- Penalty-free withdrawals at age 59½ (if Roth IRA established for 5+ years)

Potential considerations

- Taxes must be paid at time of conversion if assets are rolled directly into a Roth IRA or if rolled into a traditional IRA then converted into a Roth IRA
- Must generally wait until age 59½ for penalty-free withdrawals⁵
- Cannot take advantage of plan-specific investment options or loans
- No special tax treatment available for company stock
- Creditor protection may have limitations based on state law
- Investment fees are associated

Roll the money into a new 401(k) plan

Potential benefits

- No immediate taxes or penalties
- Continued tax-deferred growth
- Depending on employer's plan, penalty-free withdrawals may be possible while still employed
- Potential access to loans
- Ability to continue contributions
- Consolidation of assets
- Creditor protection
- Possible unique employer specific investment options
- Ability to delay RMDs past age 73 (age 75 for those born in 1960 or later) if still employed

Potential considerations

- Subject to new plan provisions and restrictions
- Potentially limited investment menu
- The new plan will likely not accept the company stock from the prior plan (unlike an IRA, which will accept publicly traded stock)
- No special tax treatment available for company stock
- Beneficiary designations may be limited, as well as their payout options
- General asset allocation recommendations are often available, though no specific investment recommendations
- Possible administrative and investment fees. Refer to employer's plan fee disclosure document and investment prospectuses to understand fee structure

Withdraw the money as a lump sum

Potential benefits

- Immediate access to funds
- Special tax treatment may apply to employer stock if placed in a taxable account

Potential considerations

- Subject to immediate 20% withholding as a prepayment of federal tax, potential state tax and potential 10% early withdrawal penalty (if taken before age 59½ or before age 55 if separated from service)
- Loss of tax-deferred growth
- No creditor protection

Make informed distribution decisions

These key factors can help you shape your financial future as you decide how to access and invest your retirement assets.

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 associated costs, 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 investment 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.
- You can access IRA assets 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 you 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 you separate from service during or after the calendar year in which you attain 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 73 (age 75 for those born in 1960 or later). Generally, unless you are a 5% or greater owner, RMDs do not need to be taken from qualified plans until age 73 (age 75 for those born in 1960 or later) 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, user names and passwords to remember.
- Simpler to calculate and take annual RMDs once required.
- Easier to keep track of all your retirement assets.

And, if you consolidate into an IRA:

- It's 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 employer retirement plans.
- 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

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

Know the options for company stock in your employer plan

A little-known tax break for appreciated shares

What happens if you hold appreciated company stock in your former employer's 401(k) or other employer-sponsored retirement plan account? You may be able to take advantage of special tax treatment. Instead of leaving the company stock in the plan or rolling it over to an IRA or new employer plan, if you take it as part of a lump-sum distribution, you could qualify for favorable treatment on the stock's Net Unrealized Appreciation (NUA). The remainder of your lump-sum distribution (non-company stock) can still be rolled over into an IRA.

When dealing with retirement funds, it's important to balance the advantages of this special tax treatment for employer stock with the risks of maintaining an overly concentrated position in one stock.

How it works

Net unrealized appreciation is the difference between the price you originally paid for the stock (known as its cost basis) and its current market value. Say you bought a share of company stock for \$10 through your 401(k) plan. If the share is now worth \$25, the appreciation is \$15 per share. Since you have not yet sold the share, however, the appreciation has not been realized—thus, "net unrealized appreciation." Here's how the NUA strategy works.

- **Ordinary income tax only on the cost basis of the stock.** Only the cost basis of the stock is taxable as ordinary income at the time of distribution, while the tax on the appreciation is deferred until you sell the stock.
- **Long-term capital gains versus ordinary income tax rates.** The tax on net unrealized appreciation is not due until you sell the stock, and then at long-term capital gain rates rather than ordinary income tax rates. Since the maximum federal capital gains tax rate is currently 20%, far lower than the 37% top income tax rate, your potential tax savings could be substantial.
- **Ability to deduct your losses.** If the value of your employer stock declines below your original cost basis while you hold it outside an IRA, you may be able to sell it and deduct the loss against realized gains you have that year. This is not possible inside an IRA or 401(k).
- **Preserving your estate.** Tax on the NUA portion of stock held outside an IRA is deferred until the stock is ultimately sold. If the stock isn't sold, your beneficiaries would be responsible for capital gains taxes on accumulation that occurred inside your 401(k) plan. Any further accumulation that occurs after distribution and up until the time of your death may receive a stepped-up cost basis, meaning it would pass to your beneficiaries free from federal income or capital gains tax.

If you held \$100,000 of company stock in your 401(k), with a cost basis of \$10,000, you could save over \$15,000 in taxes

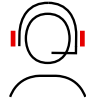
Method	Tax paid	After-tax value	Tax rate applied
Cash out 401(k)	\$32,000	\$68,000	32% ordinary income
NUA treatment*	\$16,700	\$83,300	32% on cost basis + 15% on appreciation

- NUA (Net Unrealized Appreciation) allows you to pay lower long-term capital gains tax (15%) on the appreciation portion (\$90,000), while only paying ordinary income tax (32%) on the cost basis (\$10,000).
- This results in tax savings of \$15,300 compared to the cash out 401(k) withdrawal.

*Distribute stock in-kind; then sell stocks.

Consider the NUA treatment if you

- Have highly appreciated employer stock
- Are in a high tax bracket
- Can afford to pay current taxes
- Have a diversified portfolio
- Will avoid the 10% penalty on the cost basis of the distribution. Specifically, if you separate from service during or after the year in which you turn age 55 and subsequently receive a distribution from your former employer's retirement plan, you will not be subject to this 10% penalty.



Let's have a conversation

If you have left or will leave your employer, it's a great idea to think through how you'll handle your employer-sponsored 401(k) funds. Talking with a UBS Financial Advisor can make it easier—they'll walk you through your options and help you decide what works best for you. You can also learn more about the retirement planning process at ubs.com/us/en/wealth-management/our-solutions/planning/retire-planning.html



- 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 other type of employer-sponsored retirement plan.
- ² Not applicable for plan terminations.
- ³ If you have inherited a retirement account held in an employer retirement plan, you are generally able to continue holding the account in the plan. However, you should be aware that as the beneficiary, you are subject to specific rules regarding when you must fully distribute the account and if you must take annual required minimum distributions. These rules can be quite complex so we recommend you consult with your personal tax-advisor to see how they may impact you.
- ⁴ 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.
- 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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