Benefits and insurance issues important to you – brought to you by the insurance specialists at JRG Advisors, LLC

TAKING YOUR RETIREMENT BENEFIT WITH YOU

If you leave an employer before you reach retirement age, whether or not you can take your benefits out and/or roll them into another tax-qualified plan or account will depend on what type of plan you are in.

If you leave before retirement, can you take your retirement benefit with you?
If you are in a defined benefit plan, you will most likely be required to leave the benefits with the retirement plan until you become eligible to receive them. As a result, it is very important that you update your personal information with the plan administrator regularly and keep current on any changes in your former employer’s ownership or address. If you are in a cash balance plan, you probably will have the option of transferring at least a portion of your account balance to an individual retirement account or to a new employer’s plan. If you leave your employer before retirement age and you are in a defined contribution plan (such as a 401(k) plan), in most cases you will be able to transfer your account balance out of your employer’s plan.

What choices do you have for taking your defined contribution benefits?

- A lump sum – You can choose to receive your benefits as a single payment from your plan, effectively cashing out your account. You may need to pay income taxes on the amount you receive, and possibly a penalty.
- A rollover to another retirement plan – You can ask your employer to transfer your account balance directly to your new employer’s plan if it accepts such transfers.
- A rollover to an IRA – You can ask your employer to transfer your account balance directly to an individual retirement account (IRA).
- If your account balance is less than $5,000 when you leave the employer, the plan can make an immediate distribution without your consent. If this distribution is more than $1,000, the plan must automatically roll the funds into an IRA it selects, unless you elect to receive a lump sum payment or to roll it over into an IRA you choose. The plan must first send you a notice allowing you to make other arrangements, and it must follow rules regarding what type of IRA can be used (i.e. it cannot combine the distribution with savings you have deposited directly in an IRA). Rollovers must be made to an entity that is qualified to offer individual retirement plans. Also, the rollover IRA must have investments designed to preserve principal. The IRA provider may not charge more in fees and expenses for such plans than it would to its other individual retirement plan customers.

Please note: If you elect a lump sum payment and do not transfer the money to another retirement account (employer plan or IRA other than a Roth IRA), you will owe a tax penalty if you are under age 59½ and do not meet certain exceptions. In addition, you may have less to live on during your retirement. Transferring your retirement plan account balance to another plan or an IRA when you leave your job will protect the tax advantages of your account and preserve the benefits for retirement.

What happens if you leave a job and later return?
If you leave an employer for whom you have worked for several years and later return, you may be able to count those earlier years toward vesting. Generally, a plan must preserve the service credit you have accumulated if you leave your employer and then return within five

years. Service credit refers to the years of service that count towards vesting. Because these rules are very specific, you should read your plan document carefully if you are contemplating a short-term break from your employer, and then discuss it with your plan administrator. If you left employment prior to January 1, 1985, different rules apply.

If you retire and later go back to work for a former employer, you must be allowed to continue to accrue additional benefits, subject to a plan limit on the total years of service credited under the plan.

Employee Action Items

1. If you are leaving an employer before retirement, find out whether you can roll your benefits into a new plan or into an IRA.
2. If you are leaving your benefits in your former employer's plan, be sure to keep your contact information up to date with the former employer, and keep track of the employer's contact information.
3. If you are considering taking your benefits out as a lump sum, find out what taxes and penalties you will owe, and make a plan on how you will replace that income in retirement.

Adapted in part from the Department of Labor's publication *What You Should Know About Your Retirement Plan.*