

## Retirement Plan Distributions

With the average life expectancy increasing, individuals today are living longer and spending more years in retirement. Financial experts estimate that to live comfortably throughout retirement you will need to save as much as 70-90% of your pre-retirement income. Therefore, you will need to put aside more money today to maintain your current lifestyle in retirement. Relying solely on Social Security benefits and traditional employer pension plans to provide for your future retirement income needs is no longer an option. Today there is a greater need to accumulate your retirement wealth by participating in your employer-sponsored retirement plan and through personal savings, such as individual retirement accounts (IRAs).

By participating in your company-sponsored retirement plan, you have taken that first step towards achieving financial freedom. In addition to getting the maximum benefits out of your retirement plan, funding a Traditional or Roth IRA is also another way to help build your nest egg. Whether you make annual contributions to an IRA or roll money from your employer-sponsored retirement plans into an IRA, at retirement your IRA may become the single largest source of retirement income during your retirement years.

### Choosing the Option that is Best for You

If you are changing jobs, retiring soon or already retired, deciding what to do with your retirement plan account may be one of the most important financial events in your life. Since the consequences of your decision can make a significant difference to your tax situation and your future retirement, what you choose to do today with your retirement plan assets may affect your financial well-being. Generally, you have four distribution options:

#### Option 1: Direct rollover to a Baird IRA

By rolling over to a Baird IRA, you will be able to gain greater control over your money while keeping your hard-earned retirement nest egg growing tax-deferred. Other advantages include:

- *More investment options.* This will enable you, along with your Baird Financial Advisor, to design an investment strategy that will help meet your retirement goals.
- *Greater control.* With a rollover IRA you will have easier access to your retirement assets and you can control when you take the distributions, which will determine how much you pay in taxes.
- *Consolidation of retirement accounts.* With one account to maintain, you have the convenience of being able to easily track your investments. Should you change jobs again, you can roll those retirement dollars into your IRA.

## Retirement Plan Distributions, *continued.*

- *Access to full-service investment resources.* You will receive on-going investment advice and guidance from your Baird Financial Advisor, who is supported by the full-service investment resources of Robert W. Baird & Co.
- *Stretch IRA concept.* With a rollover IRA you can incorporate estate planning into your overall retirement plan distribution strategy. With a little planning, you may be able to generate retirement income during your lifetime as well as “stretch” your IRA distributions to your heirs over their lifetime, thus leaving a retirement legacy.

### Option 2: Move money to new employer’s plan

If your new plan accepts retirement assets from previous plan(s), you may be able to rollover your existing retirement money to your new employer’s qualified retirement plan. However, by moving your assets to another qualified plan your investment options will be limited to those offered by the new employer’s plan. In addition, this may also limit your ability to access your money with ease and flexibility as the future withdrawals are subject to the rules under the new plan.

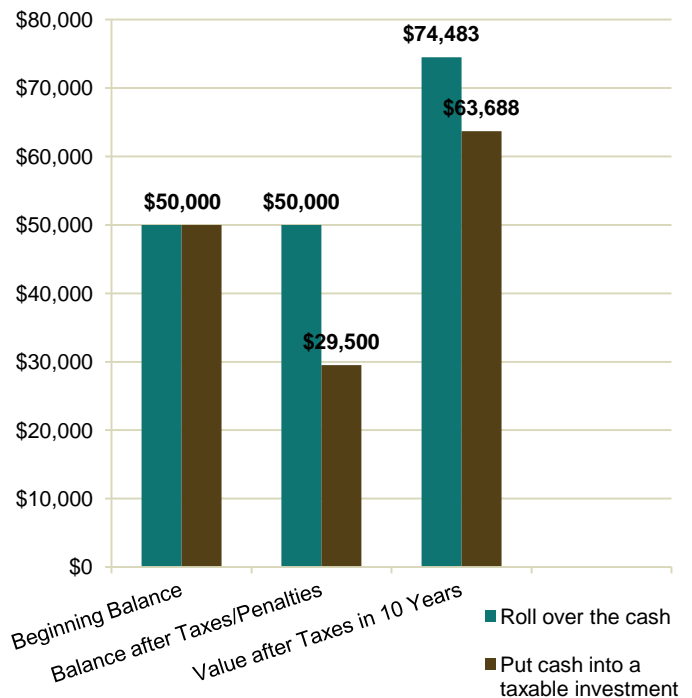
### Option 3: Stay invested in former employer’s plan

When leaving your job you may be given the option of leaving your money in the company plan if your retirement balance is greater than \$5,000. Although this may be the easiest course of action to take, by staying invested in your former employer’s plan you will not be able to make any additional contributions. Your investment choices are limited to what is available in your old plan and you may not have as much flexibility in taking distributions when you want from your retirement plan.

### Option 4: Receive a cash distribution

For many individuals leaving a job the thought of receiving a lump-sum distribution from their employer-sponsored retirement plan may be very appealing. However, receiving a cash distribution can have adverse tax consequences such as:

- The distribution will be immediately taxed, subject to ordinary income tax rates.
- You lose the opportunity of your money growing tax-deferred.
- A 10% penalty will be assessed on the distribution if you are under age 59½.
- Your distribution will also be subject to the mandatory 20% withholding.



Note: Chart assumes a hypothetical 8% fixed, compounded rate of return, 31% income tax rate plus a 10% early withdrawal penalty for taking the cash. This chart is hypothetical for illustrative purposes only and is not used to imply or assure the performance of any investment.

## Retirement Plan Distributions, *continued.*

### Other Special Considerations

As you review and assess each of the four retirement plan distribution options available, following are additional considerations to discuss with your tax advisor and/or plan administrator:

- **Distribution of Employer Stock from Qualified Plans.** If your company-sponsored retirement plan contains employer securities and the stock has appreciated substantially over the years, you may be able to take advantage of a special tax treatment available for lump sum distributions, called Net Unrealized Appreciation (NUA).
- **Generating Future Income Stream.** If you are retiring and under age 59½, you may need to generate a future income stream from your retirement account.
- **Outstanding Loan Balance.** If you have an outstanding loan balance you are required to repay the loan balance immediately before rolling over your money to the IRA. If you do not repay your loan the outstanding balance may be treated as a distribution subject to current income taxes and possible penalties.
- **Converting to a Roth IRA.** You can now convert the assets from an employer sponsored retirement plan directly to a Roth IRA. Speak with your Financial Advisor to discuss the advantages of a Roth IRA.

### Which Distribution Option is Best for You?

To decide which retirement plan distribution option makes the most sense for you, begin with identifying your priorities: What are your goals for this retirement money? Do you want to continue saving this money for your retirement? How much more money do you need to save to reach your retirement objectives? How long will your retirement savings need to last you? While evaluating each distribution option you will also want to weigh the value of preserving the continued tax-deferred growth on your retirement assets versus taking a lump-sum distribution and being subject to immediate income tax and possible penalty consequences.

Before you make any distribution decisions make sure to verify with your benefits representative the amount you are eligible to roll over and to determine what paperwork is required. Also, you should consult with both a Financial Advisor and a qualified tax advisor to ensure that your decision supports your financial goals.

### Managing and Diversifying Your Retirement Portfolio

Once you decide what to do with your retirement savings, you will need to decide how to invest your money. When considering your investment strategy, a Baird Financial Advisor can help you manage your investment expectations, from understanding your risk tolerance and time horizon to reviewing the importance of diversification through asset allocation.

Together, you and your Baird Financial Advisor can review how you are currently invested and determine the most appropriate asset allocation mix for your retirement portfolio based on your needs, objectives and tolerance for investment risk.



## Retirement Plan Distributions, *continued.*

### **Building a Sound Financial Plan with Robert W. Baird & Co.**

Investing wisely is one key to pursuing a secure retirement. At Robert W. Baird & Co., we have the experience to help you make the right decision when it comes to your company-sponsored retirement plan. As part of our comprehensive Baird Wealth Management planning process, we take the time to learn each client's individual retirement and financial planning goals and then provide high-quality, individually tailored advice. Contact a Baird Financial Advisor to see if a rollover to a Baird IRA is right for you.

Robert W. Baird & Co. does not provide tax or legal advice. You are encouraged to speak with a tax or legal professional in considering any of these options.