

Important Information About IRA Rollovers: Education on the Potential Benefits and Disadvantages of an IRA Rollover

Whether or not to roll over your 401(k) account to an IRA is a personal choice. Baird does not provide any advice or recommendations as to whether a rolling out of a workplace retirement plan is appropriate for you. However, Baird can provide some information to you about rollovers to educate you on the common matters plan participants often consider in making a rollover decision.

An IRA rollover offers the ability to continue tax-deferred growth of your retirement savings after you have left your place of employment where you have a 401(k) account (other types of retirement savings plan), but remaining in the plan or rolling over to another employer plan are also options. Below is an overview of rollover options along with a description of the possible benefits and possible disadvantages of a rollover for you to consider before making a decision.

Overview of Your Options

Depending upon your particular circumstance (and the terms of your plan), you may have the following options available with respect to the assets in your workplace retirement plan account:

- 1. Leave assets in your existing plan;
- 2. Move the plan assets to another plan, such as a new employer's plan;
- 3. Move your plan assets to an IRA held at a financial institution, such as Baird; or
- 4. Receive a taxable distribution from the plan (which may also be subject to penalties).

Possible Benefits of a Rollover

- Additional investment choices or options Many 401(k) plans limit the investment options available to participants to mutual funds and/or ETFs. More options may be available in a rollover IRA, such as individual stocks and bonds in addition to funds and ETFs.
- Personalized investment advice Many 401(k) participants can receive education about how to allocate their assets in the plan or about the investment options in the plan but often they do not receive individualized investment advice. Personalized investment advice is available with an IRA.
- Consolidation of Retirement Assets IRA rollovers allow you to combine and consolidate all of your 401(k) account assets from multiple plans into one IRA and to manage a single income stream in retirement. Trying to manage multiple 401(k) accounts at different employers can be time-consuming.
- Consolidation of Multiple Accounts By having an IRA at the same firm as your other accounts, you can often receive a consolidated statement showing the holdings and transactions across those accounts, thus allowing you and your financial professional to evaluate the proper diversification of your holdings and risks and make more holistic decisions about your investments and retirement needs.

Important Information about IRA Rollovers continued.

- More flexible income and distribution options An IRA may provide more flexible distribution options than the plan terms.
- Convertibility to a Roth IRA Some plans do not allow for Roth deferral contributions, which can
 later be distributed without tax. Assets in your 401(k) account can be rolled over and converted to a
 Roth IRA if that is desirable for you. Although you will have to pay taxes when you convert your
 401(k) assets to a Roth IRA, you will not be taxed on distributions you later take out of your Roth IRA
 (provided you meet certain requirements), and a Roth IRA does not have required minimum
 distributions.
- You will be able to make additional contributions to your rollover IRA You will not be able to make more contributions to a 401(k) account if you are no longer employed at the company with the plan.
- If your 401(k) account is small, the plan may require you to move your 401(k) account out of the plan.
- Your former employer may be sold or go out of business This may make it more difficult to receive information and keep track of your 401(k) account. In addition, some services you previously received as a participant in the plan may change.
- If you own employer stock in your 401(k) account, you may be able to take advantage of special tax treatment on distributions of the employer stock from your 401(k) account. This so-called net unrealized appreciation (NUA) strategy is beneficial for stock that has appreciated or is expected to appreciate in value because it allows the gains realized upon a future sale of the stock to be taxed as long-term capital gain. By contrast, a sale of employer stock and distribution of the proceeds out of your 401(k) plan or IRA would be taxed as ordinary income. Although this strategy requires you to distribute the employer stock from the 401(k) account to a taxable account and to pay ordinary income taxes on the cost basis of the stock, it allows you to sell the stock and pay taxes on the gain at the lower capital gain tax rate. This strategy requires that all assets (not just the employer stock) be distributed from your 401(k) account, with the employer stock distributed to a taxable account and the remaining assets distributed to an IRA. If it is distributed to the IRA, the NUA strategy will not work, and when the stock is later sold out of the IRA the proceeds will be taxed as ordinary income. Similarly, if, instead of using the NUA strategy, you elect to keep the employer stock in your 401(k) account and then sell the stock in your 401(k) account and take a distribution of the proceeds, the proceeds will be taxed as ordinary income.

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Important Information about IRA Rollovers continued.

Possible Disadvantages of a Rollover

- You will likely pay more in terms of commissions, fees and costs in having a rollover IRA You may be paying little by being a participant in a plan. These commissions and fees will accumulate over time.
- Your investment options may be sufficiently broad in your plan Your plan may offer a wide variety of low-cost institutional funds and/or ETFs they are not available to the general public. Your plan may also offer the opportunity to invest in individual securities through a brokerage window.
- The plan may be well-managed by investment professionals and overseen by a plan fiduciary Many plans are administered and managed by investment professionals who review and carefully consider the types of funds and other investments to make available in the plan, based on the quality of their investment process, key personnel, reputation and performance. Unlike 401(k) plans, IRAs are generally not overseen by a plan fiduciary unless you engage one.
- You may have employer stock in the plan If you own employer stock in your plan, you may not be able to retain that stock if you roll over your plan assets to an IRA particularly if the stock is held in a pool. Even if you can transfer employer stock out of the account, it would not be advantageous to transfer the stock to an IRA because you may lose the capital gains tax treatment when you ultimately sell the stock held in the IRA.
- The investment education (or advice) you can receive as a plan participant may be adequate Many plans offer high-quality education (and advice) to plan participants, through regular meetings and events or through standardized questionnaires and computer models, to help you determine the appropriate asset allocation for you and select the investments to meet your needs.
- Some plans allow for distributions prior to age 59-1/2 If you participate in a plan, you may be eligible to taking distributions out of the plan prior to age 59-1/2 without a penalty. That option is not available in an IRA.
- Right to borrow money from your account Many plans allow participants to borrow money from their accounts. That option is not available in an IRA.
- Creditor Protection Assets in a plan are broadly protected from creditors in the event of bankruptcy. IRA assets have bankruptcy protection as well but the protection is limited under state law. Depending on the state, IRA assets may not be protected from general creditors in the event of a judgment, tax levy or other non-bankruptcy claim.

Important Information about IRA Rollovers continued.

Factors a Person Should Consider Before Rolling Over Plan Assets to IRA

Persons with a plan account at a former employer's plan should consider their options before rolling their plan benefits to an IRA. Those options may include remaining in the plan, rolling their plan assets to their current employer's plan, taking taxable distributions from their plan account (which may be subject to penalties). Common considerations for persons thinking about a rollover IRA are these:

- Compare the costs of having a rollover IRA to the costs of remaining in the plan or transferring to another plan.
- Compare the services you will receive on your rollover IRA to the services you receive as a plan participant.
- Consider whether you want or need access investment options not available in your plan.
- Consider whether some benefits of remaining in the plan are important to you, such as the ability to borrow money from the plan, to invest in company stock or creditor protections.
- Consider whether you want or need individualized investment advice and whether you can receive advice by remaining in the plan or from someone you choose as opposed to the plan's choice.
- Consider whether you would like to make additional contributions to your account, where eligible.
- Consider whether you desire your accounts to be consolidated and held at a single firm.

FINRA provides information to investors about 401(k) rollovers at <u>https://www.finra.org/investors/learn-to-invest/types-investments/retirement/401k-investing/401k-rollovers</u>.

It is important that you have enough information in order to decide whether or not to roll over your plan assets to an IRA. There are both advantages and disadvantages to rollovers. Baird does not provide advice or recommendations regarding rollovers; it merely provides information and education.

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