Important Information About IRA Rollovers:

Education on the Potential Benefits and Disadvantages of an IRA Rollover

Whether or not to roll over your retirement plan account (e.g. 401(k)) to an IRA is a personal choice. Baird does not provide any advice or recommendations as to whether a rollover is appropriate for you. However, Baird can provide some information to you about rollovers to educate you on the common matters persons 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 your retirement plan account, but remaining in the plan is another option. Below is an overview of rollover options along with a description of the possible benefits and possible disadvantages of a rollover.

Overview of Your Options

Depending upon your particular circumstance, you may have the following options available with respect to the assets in your 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 another custodian, such as Baird; or
4. Receive a distribution from the plan (which may be subject to taxes and/or penalties)

Possible Benefits of a Rollover

- Additional investment choices or options – Many retirement plans limit the investment options available 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 retirement plan 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 retirement plan account assets from multiple plans into one IRA and to manage a single income stream in retirement. Trying to manage multiple retirement plan 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 Advisor to evaluate the proper diversification of your holdings and risks and make more holistic decisions about your investments and retirement needs.

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- More flexible income and distribution options – An IRA is an efficient means of creating a retirement income stream by offering more flexible distribution options than many plans.
- Convertibility to a Roth IRA – Some plans do not allow for Roth deferral contributions, which can later be distributed without tax. Assets in your retirement plan account can be rolled over to a Roth IRA if that is desirable for you. Although you will have to pay taxes when you convert your retirement plan assets to a Roth IRA, you will not be taxed on distributions you later make out of your Roth IRA (provided you meet certain requirements), and a Roth IRA does not have required minimum distributions.
- Many plans have confusing rules and are not standardized – Plans can have rules and restrictions that vary dramatically from company to company. Rules for IRAs are standardized, less complicated and easier to understand. You will have more control over an IRA.
- An IRA offers more estate planning options – Upon the death of a participant, most plans will provide that the participant's account in the plan will be liquidated and paid within five years or in a lump sum to the beneficiary. Conversely, an IRA can be "stretched" so that the distributions can be paid over the life expectancy of the beneficiary and future generations of beneficiaries.
- You will be able to make additional contributions to your rollover IRA – You may not be able to make more contributions to a retirement plan account if you are no longer employed at the company with the plan.
- If your retirement plan account is small, the plan may require you to move your 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 retirement plan account. In addition, some services you previously received as a participant in the plan may change.
- If you own employer stock in your retirement plan account, you may be able to take advantage of special tax treatment on distributions of the employer stock from your retirement plan 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 retirement plan or IRA would be taxed as ordinary income. Although this strategy requires you to distribute the employer stock from the retirement plan 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 retirement plan 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 and sell the employer stock in your retirement plan account and take a distribution of the proceeds, the proceeds will be taxed as ordinary income.

Possible Disadvantages of a Rollover

- You will likely be paying more in terms of commissions, fees and costs in a rollover IRA – You may be paying little by being a participant in a retirement plan. On the other hand, you may be paying significant commissions and fees for receiving advice or buying or selling securities in your rollover IRA. These commissions and fees can accumulate over time.
- Your investment options may be sufficiently broad in your retirement plan – Your plan may offer a wide variety of funds and/or ETFs that are sufficient to meet your needs. Your plan may also offer the opportunity to invest in individual securities.
- The plan may be well-managed by investment professionals – Many retirement 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.
- You may have employer stock in the retirement plan – If you own employer stock in your retirement 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 retirement 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 you can receive as a plan participant may be adequate – Many plans offer high-quality education 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 ½ – If you participate in a retirement plan, you may be eligible to take distributions out of the plan prior to age 59 ½ without a penalty. That option is not available in an IRA.
- Right to borrow money from your retirement plan account – Many plans allow participants to borrow money from their retirement plan accounts. That option is not available in an IRA.
- Creditor Protection – Assets in a retirement plan are generally protected from creditors in the event of bankruptcy. IRA assets have bankruptcy protection as well but the protection is limited. Although IRA assets transferred from a retirement plan are fully protected, other assets contributed to an IRA may not be. The current limit is about $1.2 million. Depending on the state, IRA assets may not be subject to protection from general creditors in the event of a judgment, tax levy or other non-bankruptcy claim.

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

- Persons with a retirement plan account at a former employer's plan should consider their options before rolling their retirement plan account to an IRA. Those options may include remaining in the plan, rolling their retirement plan assets to their current employer's plan, taking distributions from their retirement plan account (which may be subject to penalties and taxes) or rolling the plan over to an IRA. 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.
- Compare the services you will receive on your rollover IRA to the services you receive as a plan participant.

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- Consider whether there are more investment options available for your rollover IRA than in your plan, and whether having more options is something you want or need.
- Consider whether some benefits of remaining in the plan are important to you, such as the ability to borrow money from the plan or to invest in company stock.
- Consider whether you want or need individualized investment advice and whether you can receive advice by remaining in the plan.
- Consider whether you would like to make additional contributions to your retirement plan or IRA.
- Consider whether you desire your accounts to be consolidated and held at a single firm.

60-Day IRA Rollover Rule

An IRA owner may complete one IRA rollover in any 12-month period. This applies to all IRAs regardless of the type (Traditional, Rollover, Roth, or Simple).
A rollover takes place when cash or other assets are distributed from a retirement plan or an IRA, paid directly to the account owner, and is then contributed to another retirement plan or IRA within 60 days. There is no limit on direct transfers of retirement assets from one trustee to another. In addition, Roth conversions and rollovers to/from a qualified plan are not limited by the one-per-year rollover rule. Before taking a distribution from a retirement account, be sure to consult your tax professional.

FINRA has published an Investor Alert entitled "The IRA Rollover: 10 Tips to Making a Sound Decision." That document is available at http://www.finra.org/investors/alerts/ira-rollover-10-tips-making-sound-decision.

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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