PACIFIC LIFE

IRA Assets and Rollovers

Unlocking Opportunities before Age 59½

Retirement

SOLUTIONS

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Using Rollovers as a Retirement Strategy

As you reflect on your retirement goals, a few questions may cross your mind:

Will I have enough income to last my entire life?

How can I minimize taxes?

Is there a simpler way to keep track of my investments?

Will I be able to leave a legacy to my children, grandchildren, or charities?

Questions like these may be reasons to consider certain strategies for rolling or converting your IRAs or employer-sponsored retirement plans. In any year a conversion takes place, you will have to report income taxes. However, the result may mean more flexibility in meeting your personal retirement goals.

Rollover Strategies

While Employed

Some employer plans allow active employees who have not reached age 59½ the opportunity to withdraw and roll a portion of their plan's account balance without demonstrating a specific financial need. This is called a *nonhardship in-service* rollover. Rolling assets to an IRA means you're no longer subject to the rules of your employer's plan regarding how you invest and withdraw the funds. To determine the portion of your retirement plan that is available for a *nonhardship in-service* rollover, check with your plan for details. If available, this option can:

- Help you implement an effective asset allocation strategy.
- Provide a means for flexible income options.

If You Retire Early

If you want to retire before age 59½, it may be in your best interest to roll some or all of the assets in your employer retirement account into an IRA because:

- It can give you a wider range of investment options, which leads to greater diversification.
- You can set up separate accounts and solve for specific payments or expenses. This can make overall money management and budgeting easier.
- If you need income, one way you can avoid the additional 10% federal tax on early distributions is to establish a substantially equal periodic payment (SEPP)/72(t) program.

Before you make any decision, you should know about other requirements when rolling some or all of your employer retirement plan assets into an IRA:

- Loan privileges offered through the employer plan are not available with an IRA and may be affected by any nonhardship in-service rollovers processed.
- There is no additional 10% federal tax on distributions from 401(k) or 403(b) plans if you separate from your employer's service on or after the year you attain age 55.
- Eligible rollover distributions from qualified plans are subject to a mandatory 20% withholding tax if not rolled directly to another qualified plan or IRA.

Note: There may be other items to consider, so discuss your options with a tax and/or financial advisor before proceeding.

Addressing Tax Consequences

Even before you retire, rolling a pretax employer-sponsored retirement plan to an IRA may be a useful retirement planning strategy. However, consider such strategies carefully. Prior to age 59½, withdrawals from retirement assets could trigger an additional 10% federal tax. Below are some exceptions to paying the additional 10% federal tax when accessing funds from retirement assets.

Most Common Exceptions

SEPP/72(t) Payments

- Distributions that are substantially equal payments over your life and must run for the longer of five years or until you reach age 59½ are one exception.

  Note: If payment amounts are changed, the IRS may impose the additional 10% federal tax on all prior payments. See your tax advisor before making a change. However, if you have an inherited IRA, you might think of withdrawing from it before using your own IRA assets.

Life Annuity Payments

- Distributions received from an annuity paid over your lifetime are another exception.

Circumstantial Exceptions

Death

- If you are a beneficiary of an IRA, inherited assets can be accessed without an additional 10% federal tax.
- If you are a spousal beneficiary of an IRA, you can elect to treat it as your own IRA. However, if you do this and are younger than age 59½, you could be subject to the additional 10% federal tax if you take an early distribution.

Separation from Service on or after Age 55

- Distributions from 401(k) and 403(b) plans upon separation from service on or after the year you attain age 55 do not incur the additional 10% federal tax. This option is not available once the assets are rolled to an IRA. In this case, consider rolling only a portion of your 401(k), leaving a balance you can draw from free of the additional 10% federal tax (assuming the plan allows for multiple distributions).

The above information does not purport to be complete. For more information about exceptions to premature distributions, visit www.irs.gov and speak with your independent tax and legal advisors.

What Should You Do Now?

Ask the Right Questions

Unlocking effective ways to use rollovers in achieving long-term retirement goals starts with asking yourself some important questions:

- Do you have any investments with prior employer 401(k) plan assets that can be consolidated into your current employer's 401(k) plan or rolled into an IRA?
- Are you still employed and, if so, looking to retire early?
- If still employed, does your current employer's retirement plan allow for nonhardship in-service rollovers?
- Do you have any inherited IRA assets that may be used before taking distributions elsewhere?

Get Started

If you feel a rollover may be beneficial, talk to your tax and/or financial professional—and be sure to take all aspects of your personal situation into account.

Talk to Your Financial Professional

Interested in this or other ideas for ensuring that your retirement income strategy is right for you? Talk to your financial professional. There are many options for creating a plan to help you achieve your financial goals, and your financial professional can explain how each fits into your specific life situation.

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IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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