Making Informed Rollover Decisions

WHAT TO DO WITH YOUR EMPLOYER-SPONSORED RETIREMENT PLAN ASSETS

UNDERSTANDING ROLLOVERS

Retiring, changing jobs, or otherwise terminating employment presents many decisions that you should consider, one of which is what to do with the assets in your former employer’s 401(k), 403(b) or other employer-sponsored qualified retirement plan. Deciding what to do with those assets could be one of the most important financial decisions you will make. In particular, you may be able to:

1. Take a lump-sum distribution
2. Stay in your former employer’s plan
3. Roll over to your new employer’s plan
4. Directly roll over to an Individual Retirement Account (IRA)\(^1\)

TAKING A LUMP-SUM DISTRIBUTION

Unless you have an immediate financial need, taking a lump-sum distribution from your employer’s plan may not be the best option for you. You will be subject to ordinary income tax—including a 20% mandatory federal income tax withholding—in the year in which you receive the distribution, and if you are under age 59½ a 10% penalty tax may also apply. Additionally, your retirement assets will no longer continue to grow on a tax-deferred basis, unless you elect to roll them over within 60 days (also known as an indirect rollover\(^1\)). Speak with your tax advisor if you are considering an indirect rollover.
UNDERSTANDING YOUR OTHER OPTIONS

There are many factors that could influence which of the other three options may be best for you and it is important to understand the advantages and disadvantages involved with each choice. The decision you make today can have long-term implications. Here are some of the factors you should consider.

▶ Investment Choices

If the investment choices offered in your current or future employer plan meet your needs, then you should consider staying in your current employer’s plan or rolling over the balance to your future employer’s plan. Some employer plans may also offer access to managed accounts or self-directed brokerage accounts that provide the opportunity for broader diversification.

If having access to a wider range of investments—including individual stocks and bonds, mutual funds and managed accounts—is important to you and such investments are not available in your current or future employer’s plan, an IRA may be a better option.

Questions to consider:

▶ Are I satisfied with the investment options available in my current or future employer’s plan?
▶ Does my plan allow for easy reallocation as I near retirement and/or my goals change?
▶ Would an IRA offer additional investment options that are important to me?

▶ Access to Additional Financial Services

Some employer plans offer access to varying levels of investment advice, planning tools, telephone help lines, educational materials and workshops. Similarly, IRA providers may also offer various financial services, including investment advice from a Financial Advisor, distribution planning and goals-based financial planning.

Questions to consider:

▶ What financial services are available in my employer’s plan and how satisfied am I with them?
▶ Is the convenience of having all of my retirement savings consolidated at one financial institution important to me?
▶ Is having a Financial Advisor who can provide advice with regard to my retirement investments important to me?
Knowing that you can take advantage of the loan provision in your new employer’s plan (if available) may be important to you.

Ability to Take Loans and Withdrawals

Many employer-sponsored qualified retirement plans allow for loans to be taken against your vested account balance at a modest interest rate. In contrast, taking loans from an IRA is not allowed. Knowing that you can take advantage of the loan provision in your new employer’s plan (if available) may be important to you. If so, you should think about rolling over to your new employer’s plan. Remember to first ask your new employer if future contributions will be restricted if you take a loan. Also keep in mind that all outstanding loan balances not repaid when you ultimately leave your employer will likely be treated as a taxable distribution and may also be subject to the 10% penalty tax.

Instead of taking a loan, you may find the financial need to withdraw funds directly from your employer plan or IRA. When it comes to withdrawals, please note the following significant differences between an employer's plan and an IRA:

TREATMENT OF WITHDRAWALS FROM AN EMPLOYER PLAN VS. AN IRA

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<td>Taxation of withdrawals</td>
<td>Withdrawals will generally be subject to taxation at ordinary income rates.</td>
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<td>Early withdrawal penalties</td>
<td>Withdrawals before age 59½ may be subject to a 10% penalty tax (unless you terminate employment with the plan sponsor on or after age 55 or another exception applies)</td>
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<td>Distribution options</td>
<td>Employer plans may offer more limited distribution options</td>
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<td>IRAs offer flexible distribution options, including the ability to request withdrawals at any time and to establish regularly scheduled systematic payments</td>
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Taking Required Minimum Distributions

When you turn age 70½, you must begin taking Required Minimum Distributions (RMDs) from employer plans and IRAs, subject to the following exceptions:

- If you are working and participating in the qualified retirement plan where you work, you do not have to take any RMD from that plan until the year after you retire (unless you are a “5% owner” of the business or the plan otherwise requires)
- Roth IRA owners are not required to take RMDs (but, after the account owner’s death, beneficiaries may be subject to required minimum distribution rules).^4

Fees and Expenses

Questions to consider:

- Is it important to have the ability to borrow from my retirement assets?
- Did I terminate (or do I expect to terminate) employment between ages 55 and 59½?
- When do I plan to begin taking withdrawals?
- What amount do I plan to take?
- Will I require systematic retirement distributions and, if so, at what frequency?
  Is a specific payment date important to me?
- Do I want the ability to access my retirement assets if an unexpected need arises?

Fees and expenses can erode the value of your retirement savings over time. It is important for you to carefully review and compare the fees and expenses associated with your available options.

Employer plans typically include administrative fees (e.g., recordkeeping, compliance, trustee fees) and fees for services such as access to a customer service representative. In some cases, employers pay some or all of the plan’s administrative fees and plans may have lower fees and expenses than are available in an IRA. The plan may also offer no-load mutual funds and institutional share classes that have lower investment-related expenses than similar investments available in an IRA.

IRA providers may charge annual account fees or other fees for maintaining your IRA, and the investments offered may include a sales charge at purchase and may have higher internal expenses than the investments in an employer plan.

Questions to consider:

- How do the fees and expenses associated with my employer’s plan compare with IRA fees and expenses?
- Am I getting a good value for the services that matter to me?
Protection from Creditors and Legal Judgments

If you currently have, or anticipate having, a need to protect your retirement assets from creditors or legal judgments, you need to know what protection is afforded to employer plans and IRAs. Generally, assets held in your employer’s plan will have unlimited protection from creditors while IRAs are protected in bankruptcy proceedings only and, even then, only up to a certain dollar amount. State laws vary regarding the protection of IRA assets in lawsuits. Be sure you consult with an attorney for more information on protecting your retirement assets from creditors or legal judgments.

Questions to consider:
- Will I need to protect my retirement assets from creditors or legal judgments?

Taxes

Whether you keep your retirement assets in an employer-sponsored qualified retirement plan or roll them over to an IRA, they will continue to grow on a tax-deferred basis until they are withdrawn. If your employer’s plan allowed after tax contributions, they may be eligible for rollover to a Roth IRA. You may want to discuss the nuances of this strategy further with your tax or legal advisor.

If your employer plan includes appreciated employer stock, you should consider Net Unrealized Appreciation (NUA) tax treatment. With NUA tax treatment, any gains on your employer stock holdings may be taxable at the long-term capital gains tax rate (which is generally lower than ordinary income tax rates). However, if you roll employer stock over to an IRA, it is no longer eligible for NUA tax treatment and any gains will be taxed at ordinary income tax rates when distributions are taken from the IRA.

The ability to use NUA tax treatment upon future sale of the employer stock should be balanced with the risks of holding too much of one stock (i.e., a concentrated position). Speak with your tax advisor about NUA if you have employer stock.

Questions to consider:
- Do I make after-tax contributions to my employer’s plan?
- Do I have appreciated employer stock in my employer’s plan?
1 Under a direct rollover, assets distributed from an employer-sponsored qualified retirement plan (e.g., 401(k), 403(b) or 457(b) account) are payable directly to the receiving IRA custodian/trustee, for the benefit of the participant. With an indirect rollover, the assets are distributed to the participant/employee, who has 60 days after the date of receipt to roll over the distributed funds to an IRA or eligible retirement plan. Rollovers of assets from an employer-sponsored qualified retirement plan are not subject to the same restrictions as IRA-to-IRA rollovers (i.e., IRA-to-IRA rollovers are limited to one every 12 months).

2 Loans, if available from your current or future employer’s plan, are limited to 50% of your vested account balance up to a maximum of $50,000.


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