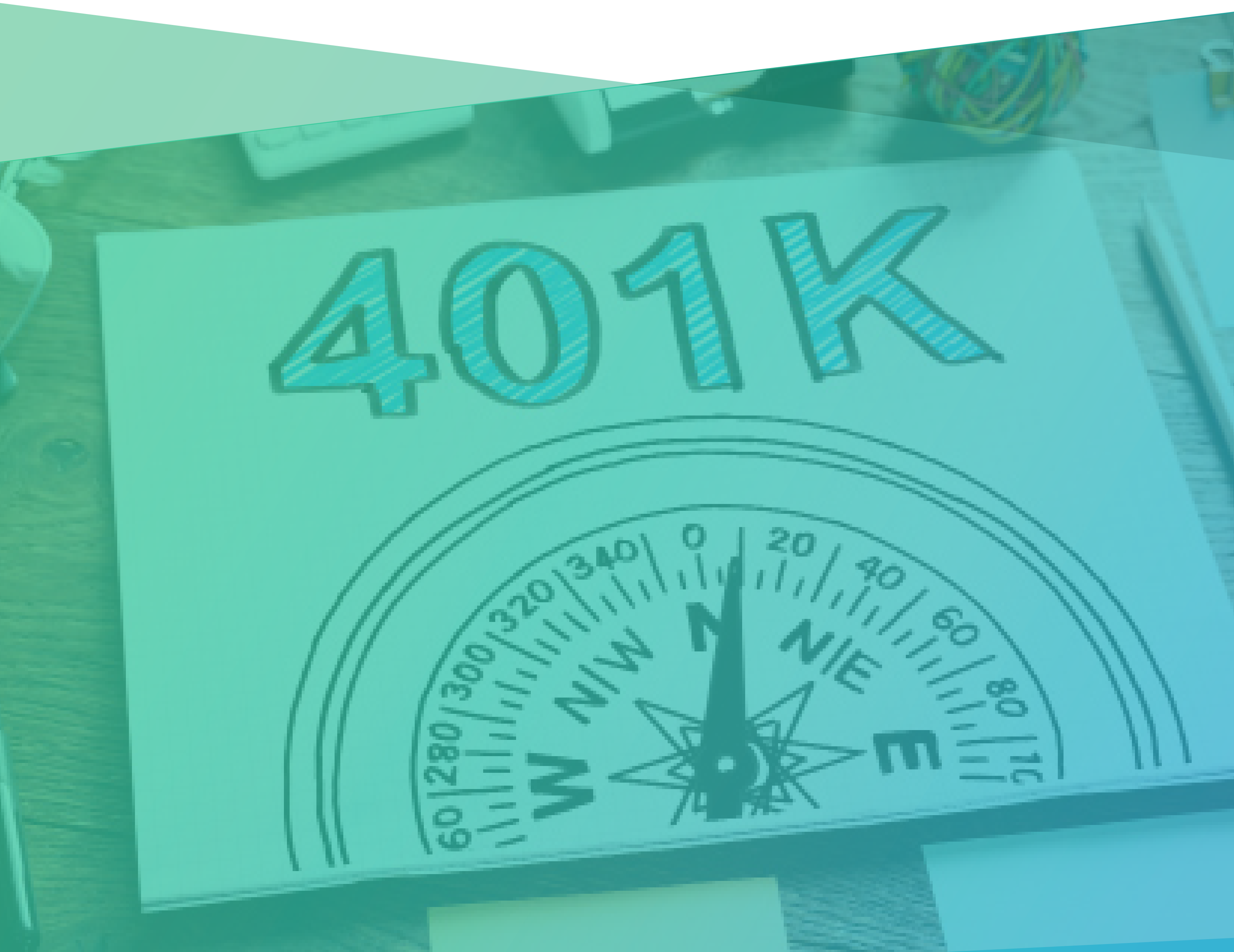
STRATA
TRUST COMPANY

# ROLLING OVER RETIREMENT SAVINGS



*The average worker today stays at a job just 4.1 years.*[1] *Chances are you've recently changed jobs or retired and left behind retirement savings in your former employer's retirement plan, such as a 401(k) plan or profit sharing plan. Did you know you're eligible to take your money out of the retirement plan when you leave? Rather than spending your savings, consider a rollover to a self-directed IRA or a new employer's retirement plan so you can keep growing your nest egg until you retire. It may be one of the smartest financial decisions you ever make. The best rollover option for you will depend on your current employment status and your savings and investment goals. A financial advisor can help you determine a path that is right for you.*

*Get a head start with this white paper from STRATA Trust Company ("STRATA"), which explains the rollover rules and introduces some of the factors you should consider before initiating a rollover of your retirement savings.*

## WHY ROLLOVER?

The tax rules for retirement plans are designed to encourage you to keep your money in a retirement savings vehicle until you retire.

**Tax Benefits -** The portion of your wages that you save in an employer-sponsored retirement plan each year reduces your taxable income for that year. Investment growth on your savings is not taxed until you take a withdrawal of your savings. Consider consulting with a tax attorney that specializes in REIT taxation to avoid unexpected UBTI exposure.

**Limited Access -** You cannot access your savings until you have a distribution triggering event, such as when you leave your employer.

Once you're eligible to take your money out of the plan, you can cash out your savings or you can preserve your retirement nest egg by rolling over your savings to another employer plan or IRA.

### IF YOU TAKE THE CASH...

**Income taxes -** You will owe tax on the entire amount distributed (except for any after-tax contributions) in the year you take the distribution.

**20% mandatory withholding -** If your assets are eligible to be rolled over, your plan administrator will withhold 20% of the taxable distribution and send it to the IRS as a pre-

[1] U.S. Bureau of Labor Statistics, U.S. Department of Labor, *The Economics Daily,* Septemember 2021, www.bls.gov

payment of the income tax you owe on the distribution. This means you will receive 20% less than the full distribution amount, but you'll be taxed on the full distribution amount.

**10% early distribution tax -** If you're younger than age 59½, you'll be subject to an additional 10% early distribution tax unless you meet an exception.

## IF YOU ROLL OVER YOUR RETIREMENT SAVINGS...

**No tax consequences -** A rollover to another retirement plan or to an IRA is generally tax free.

**Preserve your savings for retirement -** You will avoid the temptation to spend your savings that often occurs when you take the cash rather than rolling your savings into another retirement arrangement.

**Continue growing your savings -** Your current savings may continue to grow in value and you will be able to make additional retirement savings contributions.

## ROLLING OVER TO A TRADITIONAL IRA

Individual Retirement Accounts (IRAs) were created by Congress to provide individuals a vehicle to save for retirement, independent of any employer relationship and with special tax incentives. A key benefit to rolling over to an IRA is that you can consolidate savings from multiple retirement plans from prior jobs into one convenient account. Consolidating can make it easier to manage your retirement savings: you receive one account statement for all your retirement assets, you have one set of account access information to remember, and you may be able to reduce your administrative fees.

As workers change employers more frequently and millions of baby boomers retire each year, the volume of rollovers to IRAs continues to grow, especially traditional IRAs. This is, in part, because traditional IRAs and retirement plans have similar tax treatment. Most employer plan contributions are made on a tax-deferred basis. The portion of compensation you save in the plan has not yet been taxed, nor has the investment growth or any employer contributions made to your account. Traditional IRAs are also typically funded with pre-tax contributions. You take a deduction for your contributions and do not pay taxes on your savings or the investment earnings until you take a withdrawal from your IRA. (You have the option to fund a traditional IRA with non-deductible contributions, but this is less common.) If you are rolling over savings from a pre-tax retirement plan account to a traditional IRA, the rollover will be tax-free (assuming 100% of the amount is rolled over).

**62%**
**of IRA-owning households had rollover assets in their IRAs**[2]

**86%**
**rolled over their entire plan account balance to an IRA**[2]

## REASONS FOR IRA ROLLOVERS[2]

1. Do not want to leave assets with former employer
2. Preserve tax treatment of savings
3. Consolidate retirement assets
4. Want more investment options

You may make annual contributions to your rollover IRA if you choose, and you may vary both the amount and the timing of contributions from year-to-year, within certain limits. The maximum amount you may contribute to a Traditional or Roth IRA for 2024 (assuming you are eligible) is $7,000. If you reach age 50 at any point in 2024, you may contribute an additional $1,000, for a total of $8,000. Rollovers are not subject to this annual contribution limit. If you choose a self-directed IRA, you will have access to a broad range of investments to suit your investment strategy. And you may distribute your IRA assets at any time, though certain investment and early distribution penalties may apply.

# ROLLOVER RULES

If you decide you want to roll over your retirement plan assets, make sure you understand the rules to avoid delays or unintended tax consequences.

### Eligible Plans

Over the years, the rules have been relaxed to allow greater portability between different types of retirement accounts to help workers keep their money in tax-qualified savings vehicles. If you participated in one of the following employer plans, you may roll over your savings to an IRA. You may also be able to

[2] Investment Company Institute, *ICI Research Perspective*, Vol. 30, No. 1, "The Role of IRAs in US Households' Saving for Retirement, 2023" February 2024, www.ici.org.

roll your savings over to another employer plan, but each employer gets to choose whether to accept rollovers or not.

- 401(k) plan
- Profit sharing plan
- 403(b) plan (also known as a tax-sheltered annuity plan)
- Governmental 457(b) plan (also known as a deferred compensation plan)

### Eligible Assets

Some types of retirement plan distributions are not eligible to be rolled over:

- Age 73 required minimum distribution (RMD)
- Retirement plan loan that is treated as a distribution (e.g., defaulted loan)
- Hardship distribution taken because of a qualifying financial emergency
- Distributions of excess contributions and related earnings
- A payment in a series of equal periodic payments
- Distributions to pay for life insurance coverage
- Dividends on employer securities that are distributed from the plan
- S corporation allocations treated as deemed distributions

If a distribution is not eligible to be rolled over, it is subject to a lesser rate of withholding or you may elect to waive withholding (i.e., no mandatory 20% withholding).

### Rollover Paths

One of the most important decisions you will have to make, besides where you want to invest your savings, is how to move your money. Many people are not aware of how the rollover path can impact their tax liability.

### Direct Rollover

Your savings will be moved directly from your former employer's plan to an IRA or new employer's plan. To complete this transaction:

- Establish an account with an IRA custodian or enroll in your new employer's plan.
- Direct your former employer to send your savings directly to the new IRA or plan.
- You will not owe taxes on the rollover unless you make a rollover from pre-tax savings into a Roth IRA. *(See Special Rules for Roth Rollovers on page 5.)*

### Indirect Rollover (60 Day)

Your savings will be paid to you and then you have the option to roll your savings to an

IRA or new employer's plan. To complete this transaction:

- Complete the distribution request process required by your former employer.
- The plan administrator will withhold 20% of the taxable amount distributed.
- You may roll over all or a portion of the entire amount distributed from the plan. Any portion not rolled over will be taxable to you and subject to the 10% early distribution tax if you are under age 59½ and do not qualify for an exception to the early distribution tax.
- The 20% withholding amount will also be taxable unless you make an additional deposit equal to the withholding into the IRA or plan.

The complex tax withholding rules are intended to discourage people from using the 60-day rollover option because it is more likely that some or all of the distribution will not be rolled over and will not be preserved for retirement.

## LEAVING YOUR SAVINGS WITH YOUR FORMER EMPLOYER

If you like the investment options and plan services in your former employer's plan and feel the fees you pay are reasonable, you may be able to leave your savings in the plan. But know that the plan administrator may automatically distribute your savings if:

- Your vested account balance is less than $5,000 – Your account can be cashed out without your consent if you do not make a distribution election. If your balance is over $1,000, but less than $5,000, your account will be rolled over to an IRA. If the balance is $1,000 or less, some plans will send you a check rather than rolling to an IRA.
- You are age 73 or older – You must begin taking payouts from your retirement plan assets. A "required minimum distribution" will be paid to you each year until your account is depleted. You cannot roll over these required distributions.

## SPECIAL RULES FOR ROTH ROLLOVERS

You may also choose to roll over your retirement plan savings to a Roth IRA. A Roth IRA has different tax benefits than a traditional IRA:

- Funded with after-tax contributions (no deductions)
- No required distributions during your lifetime – even when you reach age 73
- Tax-free distribution of contributions at any

time

- No taxes on the growth of your investments in a Roth IRA if you meet the requirements to take a "qualified" distribution
- For "nonqualified" distributions, only the earnings portion of the distribution is taxable in the year of distribution (and subject to the 10% early distribution tax if you're under age 59½)

### Qualified Roth IRA Distribution

- You've had a Roth IRA for at least five years, and
- The distribution is taken after
  - » You reach age 59½
  - » You become disabled
  - » Your death
  - » You qualify as a first-time homebuyer (up to $10,000)

**Rolling over after-tax or Roth plan assets to Roth IRA = tax-free** – If you have made after-tax contributions to your employer-sponsored plan or have a designated Roth account in a 401(k), 403(b), or 457(b) plan, you may roll over your after-tax and Roth plan assets (and related investment earnings) tax-free to a Roth IRA. This may be done through a direct or indirect rollover. Individuals with high levels of earned income are not eligible to contribute to a Roth IRA, so rolling over Roth assets from their employer's plan is one strategy for gaining the benefits of a Roth IRA.

**Rolling over pre-tax employer plan assets to Roth IRA = taxable** – You may also roll over your pre-tax assets from an employer plan to a Roth IRA. This may be done as either a direct or indirect rollover. This transaction "converts" your pre-tax retirement savings to after-tax Roth savings, so you must include the rollover amount in taxable income for the year you take it from the employer plan and roll over to the Roth IRA. Once the assets are in the Roth IRA, the contribution dollars can be withdrawn tax-free at any time. The investment earnings portion distributed will also be tax-free if you meet the Roth IRA qualified distribution requirements.

## REASONS FOR ROLLING OVER TO A ROTH IRA

There are many reasons why retirement savers find Roth IRAs appealing:

**Tax-free investment earnings** – Individuals who have many years to grow their savings before they expect to take distributions can take full advantage of the tax-free growth.

**Potential for higher tax rates in the future** – Those who believe their earnings will put them in a higher tax rate in the future or that Congress will increase future tax rates may choose to "convert" their retirement assets at today's tax rates.

**Tax diversification** – Savers who want to create a mix of pre-tax and after-tax assets in retirement may want a Roth IRA. Tax-free Roth IRA distributions taken in retirement are not included as income when calculating whether Social Security benefits are taxable. Additionally, a Roth IRA allows individuals to access their contributions before age 59½ free from the 10% early distribution tax.

**Wealth transfer** – Roth IRAs have become a key component of wealth transfer strategies for two reasons: (i) Roth IRA assets are not subject to the age required minimum distribution rules, enabling Roth savings to continue to grow tax-free without being depleted by annual payments, and (ii) Roth IRA assets have already been taxed and will be paid out tax-free to heirs upon the IRA owner's death.

## CONSIDERATIONS WHEN ROLLING OVER RETIREMENT PLAN ASSETS

In addition to understanding the rules and potential tax impact, you may want to think about a few other considerations as you're deciding what to do with your retirement plan savings. A financial advisor will be able to help you evaluate all your options and weigh the benefits against any potential issues.

### Factors that should be considered when evaluating IRA rollovers[3]

- Investment options
- Fees and expenses
- Services (e.g., investment advice, distribution planning, online access)
- Withdrawal options
- Creditor protection
- Required minimum distributions
- Employer stock

Learn more about rolling over retirement plan assets, IRA trending topics, private market investments and legislation updates impacting retirement savings on the STRATA Insights Blog.

[3] Financial Industry Regulatory Authority (FINRA), Regulatory Notice 13-45, December 2013, www.finra.org

## ABOUT US

STRATA Trust Company is a premier national custodian for alternative assets and non-exchange traded investments in self-directed IRAs. STRATA has been helping investors use their retirement account funds to invest since 2008.

With offices in Waco and Austin, Texas, our team's vast experience in handling the details and complexities that alternative investment transactions require is unrivaled. Our seasoned team's experience in the custody of alternative assets spans over 350 years. With a well-established reputation for honesty and integrity, STRATA is committed to delivering responsive, flexible and innovative solutions.

At STRATA, we work to ensure that the highest standards for safety and soundness are met. As a subsidiary of Horizon Bank, SSB, STRATA is a Texas-chartered trust company regulated by the Texas Department of Banking, which has long set the benchmark among state banking regulators. Strict controls are in place to ensure the safety of uninvested cash, and independent auditors are retained to conduct regular audits of our operations.

**STRATA**
TRUST COMPANY

*Carve your own path to retirement.*

7901 Woodway Drive
Waco, TX 76712

**Individual Investors**
866.930.1323

**Financial Professionals**
866.461.9284

BusDev@StrataTrust.com

www.StrataTrust.com



PRWP_309_03_2024