

## Consolidating retirement plan assets

Over the years, you may find that you've accumulated a number of workplace retirement accounts. Consolidating these assets with a single rollover IRA can simplify your life and help you take better control of your financial future.

### By the numbers

- **8** is the number of times an average American changes jobs during the course of a 30-year career.<sup>1</sup>
- **45% of U.S. workers** cashed out of their 401(k) plans when they switched jobs in 2004.<sup>2</sup>
- **65% of IRA rollovers** are due to job changes.<sup>3</sup>

<sup>1</sup>Source: U.S. Department of Labor

<sup>2</sup>Source: Hewitt Associates

<sup>3</sup>Source: Citizens National Bank  
*Wealth Management Newsletter*,  
January 2004.

Thanks to favorable tax laws your retirement plan assets can now be as mobile as you are. If you're like most people, you've probably worked for a number of different employers. Until recently, though, you couldn't always take your retirement plan assets with you to your new job. If your new employer offered a 401(k) plan, for example, you couldn't transfer in assets if your previous employer was a non profit organization that offered a 403(b) or a government organization that offered a 457 plan. Firefighters, police officers, and other municipal workers who have 457 plans couldn't even transfer their retirement money into a rollover IRA when they left their jobs.

All that changed with the major tax legislation passed in 2001 — the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Now, money in a 403(b) plan or a 457 plan can be transferred into a 401(k)

plan and vice versa. Municipal workers now have the option of transferring their retirement money to a rollover IRA. Money in a rollover IRA can even be transferred into your current employer's plan, regardless of whether it's a 403(b), a 457, or a 401(k) plan.

### Bring assets together

For anyone who has worked for a variety of employers, EGTRRA makes it easy to consolidate retirement assets. Consider a woman who worked as a police officer after college, then seven years later decided to become a teacher, only to change her mind again five years later as she pursued a career at a publishing firm as a textbook editor. She might have retirement assets in a 457 plan from her years as a police officer, money in a 403(b) plan from her days as a teacher, and investments in a 401(k) offered by her current employer, the publishing firm.

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### Key points

Wondering what to do with your retirement assets when you change jobs or retire? If you have multiple accounts at multiple firms,

- consider consolidating your retirement assets in one rollover IRA and simplify your life

Here are some major potential advantages a consolidated approach offers:

- avoid substantial taxes
- preserve tax benefits
- potentially more investment options

- gain an opportunity to allocate, diversify, and rebalance in one portfolio
- potentially lower fees
- receive a consolidated statement

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In the past, she would have had to keep all that money separate, but now she can consolidate those assets. She could transfer the money in her 457 and 403(b) plans into a rollover IRA or into her current employer's 401(k) plan, if the plan would accept them.

While EGTRRA changed the federal rules governing retirement plans, keep in mind that each retirement plan may still have its own rules concerning employees' access to money and the acceptance of assets from previous employers' retirement plans.

### More decisions to make

The good news for investors is that today's tax laws give them more freedom to determine for themselves how to handle their retirement assets. But, as is usually the case, with more freedom comes more responsibility. Now that you have more options, you'll want to be certain you make decisions that will best serve your long-term needs. How you choose to handle your retirement assets will have a lasting impact on the size of your nest egg and ultimately on the type of retirement you can enjoy. Because this decision is so critical, most people seek out professional advice when they're leaving a job. Your investment professional and accountant can help you assess your options and help you make the best possible choice.

### When you leave an employer, you generally have four options for handling the money in your retirement plan.

1. Leave it in your former employer's plan. If your plan balance is less than \$5,000, this option is available only if the plan allows it.
2. Transfer it to your new employer's plan. Current tax laws make this easier to do, but each plan still has its own rules for what assets it will accept.
3. Take the money as cash. The downside of this option is that you'll pay substantial taxes, including a 10% penalty tax if you're under age 59½, and you'll put your future retirement needs at risk.
4. Roll over the money into an IRA. Money from a 401(k), 403(b), a profit-sharing plan, money purchase plan, and even a 457 plan can all be invested in a rollover IRA.

### Rollover IRAs have considerable appeal

For most people, the most appealing option is to transfer retirement plan money into a rollover IRA.

This choice makes a lot of sense for a number of reasons.

- Substantial taxes are avoided. When you transfer the money into a rollover IRA, you avoid all the tax consequences you would incur if you took a cash withdrawal. You don't have to pay ordinary income taxes on the amount of the distribution, and you don't have to worry about the 10% tax penalty you would incur if you were under age 59½.

- Tax benefits are preserved. In a retirement plan, the taxes on your earnings are deferred until you take withdrawals in retirement. Earnings generally can compound faster when taxes are postponed. When you transfer your retirement money to a rollover IRA, taxes on your earnings will continue to be deferred until you begin making withdrawals from your account.
- You gain access to more investment options. Retirement plans typically offer a much narrower range of investment options than those you can choose from within an IRA.
- Your retirement isn't put at risk. Cashing out a lump-sum distribution can be tempting. It may be the largest sum of money you've ever been able to get your hands on. But when you use that sum — or little more than half of it after taxes — for a current expense, you're putting your retirement at risk. That amount could grow to a substantial sum that could give you considerable extra income in retirement. Without it, you might have to spend your retirement years on a severely reduced budget.

### Plenty of resources to guide you

When changing jobs or retiring, you're likely to be preoccupied with plenty of concerns as you prepare for this new stage of your life. In the midst of these major transitions, you'll have to make a major decision about how to handle your retirement plan assets. Staying informed and turning to the support of professional advisers can help ensure that you make the best decision for yourself, your family, and your future. *(continued on page 3)*

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### Benefits of EGGTRA

Retirement plan assets are now more portable.

- Money can be transferred between any type of plan — 457, 403(b), and 401(k).
- 457 plan investments can now be transferred to a rollover IRA.
- All types of employer-related plans — 403(b), 457, and 401(k) — can now accept transfers from rollover IRAs.

### Key facts to remember

- In most cases, you get access to your plan assets only when you terminate employment — when you retire, change jobs, or are laid off.
- Each plan can still have its own rules that govern current and terminated employees' access to plan assets.
- Any after-tax contributions you made to a retirement plan cannot be rolled over to another retirement plan. Also, any nondeductible contributions you made to an IRA cannot be rolled over to a retirement plan.
- If you're rolling money over to an IRA, be sure to ask your former employer to have the money transferred directly to the institution where you're establishing the IRA. If you take the money yourself, your retirement plan distribution will be subject to 20% withholding. When you open the rollover IRA, you would have to invest the full amount of your distribution and come up with the missing 20%

yourself. Even if you completed the rollover within the required 60 days to avoid income and penalty taxes, you wouldn't get the amount withheld back until you filed your tax returns.

### Additional MFS resources

MFS Heritage Planning® infosheet on [mfs.com](http://mfs.com): *An IRA dilemma: to roll or not to roll*. This infosheet details your options for handling retirement assets when you change jobs or retire.

#### MFS® IRA Rollover Kit:

Your investment professional can give you this kit to help explain your four options for handling a retirement plan distribution. It also includes the forms you'll need to open an MFS IRA Rollover.

#### The Rollover Planner on [mfs.com](http://mfs.com):

This interactive online calculator will help you assess the financial and tax consequences of each of your options for handling a retirement plan distribution. You can find the Rollover Planner in the "Retirement calculators" section of the Retirement Center on [mfs.com](http://mfs.com).

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus containing this and other information, contact your investment professional or view online at [mfs.com](http://mfs.com). Read it carefully.

### Resources

*IRS Publication 590, Individual Retirement Arrangements (IRAs)*.

See specifically the sections titled, "Important Changes for 2004" and "Can You Move Retirement Plan Assets?" This publication can be found on the Internal Revenue Service Web site at [www.irs.gov](http://www.irs.gov).

Downing, Neil, *The New IRAs and How to Make Them Work for You*. (Dearborn Trade Publishing, 2002) This book explores how to incorporate recent tax law changes at each stage of your investing life: getting started, preparing for retirement at mid-career, transitioning into retirement, and managing your finances in retirement.

Contact your investment professional for more information or visit [mfs.com](http://mfs.com).

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