DAVENPORT & COMPANY
SINCE 1863

GUIDE TO RETIREMENT PLAN DECISIONS

Retirement Plan Distribution
IRA Rollover

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Why are these decisions so important?

While these are not easy decisions, determining the right answers for you may mean the difference between simply meeting your basic retirement needs or enjoying the comfortable retirement you desire.

Due to the increasing strain that will be placed on Social Security by the large number of aging baby boomers, some experts have questioned the ability of the Social Security system to provide benefits to retirees in the future at a level comparable to that provided today. Since its inception, Social Security was never intended to be the sole source of financial support for people in retirement, but rather a supplement to other retirement income. In addition, Social Security income is based on pre-defined formulas so individuals have little control over the level of benefits they receive.

That's why making the right decisions with your retirement investments is so important. By deciding how to properly invest your retirement plan distribution today, you may have a major impact on the quality of life you enjoy in retirement.

What Options Are Available To Me?

If you are retiring or leaving your employer, you generally have four options:

1. Lump-sum withdrawal in cash or in employer securities
2. Keep your balances in your previous employer's retirement plan (if allowed)
3. Move your balances into your new employer's retirement plan (if allowed)
4. Transfer your balances into an IRA Rollover

What should I do with my retirement plan distribution?

When you retire or switch jobs, you may face some of the most important and difficult decisions of your life, such as:

- Should I withdraw my retirement plan balances, pay income taxes and penalties, and then reinvest the funds?...or,
- Would it be better to roll my retirement plan distribution into an IRA Rollover?...or,
- Would it be better to accept an early retirement offer and invest the money?...or,
- Should I work additional years for an increased retirement benefit?

Assistance from Davenport's Financial Planning Group

While each option has its inherent advantages and disadvantages, selecting the most appropriate one for you can be complicated and depends on a number of factors. That's why Davenport has a dedicated staff of financial planners that work as a team with our Financial Advisors to help our clients make these critical retirement decisions.

If you desire, your Financial Advisor can team up with Davenport's Financial Planning group to develop a customized analysis of your retirement options. Their assistance can be as simple as sharing some general advice and guidance, or they can provide you a written analysis of your options to help you decide which one may be best for you. This retirement planning service can simplify an otherwise complicated and confusing decision-making process. Many Davenport clients have found this special retirement planning service to be extremely useful in helping them answer the questions on the following pages.

Which option is best for me?

There is no universal answer. To determine the best option for you, a good place to start is to consider the advantages and disadvantages of each option and then relate them to your specific situation, needs, and goals. A summary of the four options is shown below.

1. Lump Sum Withdrawal in Cash or in Employer Securities

Advantages

- Cash is immediately available for your use
- Special tax treatment may be available for employer securities
- If certain conditions are met, a special provision in the tax law (Net Unrealized Appreciation or NUA) provides capital gains tax treatment for employer securities which are received in a lump-sum distribution and subsequently sold. If you are considering withdrawing your employer securities in kind, please consult your tax advisor to determine if this special tax treatment would apply to your situation.

Disadvantages

- Significant reduction in the amount received due to taxes and possible penalties
- You will owe income taxes on the amount withdrawn
- IRS requires 20% of your balance to be withheld for tax purposes (possible State tax withholding as well)
- 10% early withdrawal penalty may apply if you are under 59 1/2
- Dollars spent now will reduce the amount available for your retirement

2. Keep your Balances in Your Previous Employer's Plan

Depending on the specific plan provisions and the size of your retirement plan balances, you may be given the option to keep your existing balances invested in your previous employer's plan. As most plans require a balance of $5,000 or more, you need to check with your previous employer to determine if this option is available to you.

Advantages

- Retirement savings continue to grow tax-deferred
- There are no taxes or penalties while assets are left in the plan
- You continue to have ERISA protection from creditors

Disadvantages

- Access to your funds are sometimes limited; special withdrawal restrictions may apply
- Your investment choices may be limited to those offered by the plan
- Additional contributions to the plan cannot be made
- Investment options that you like in the plan today may not be offered in the future

3. Move Your Balances Into Your New Employer's Retirement Plan

Many plans offer this option for new employees. If available, be sure to ask your new employer for a plan description that outlines specific details about this option and describes the investment, withdrawal, and loan provisions of the plan. In considering this alternative, it is important to compare the flexibility of the plan's features to your specific needs.

Advantages

- Retirement savings continue to grow tax-deferred
- There are no taxes or penalties when assets are transferred to a new employer's plan
- You continue to have ERISA protection from creditors

Disadvantages

- Access to your funds may be limited; you may not be able to withdraw funds when desired
- Your investment choices may be limited to those offered by the plan
- New plan provisions may not offer investment, withdrawal, or loan flexibility you need
- Investment options that you like in the plan today may not be offered in the future

4. Transfer Your Balances to an IRA Rollover

Balances from a qualified retirement plan can be transferred to an IRA Rollover in two ways. With a Rollover, your previous employer provides your retirement plan balances directly to you. Then, you have 60 days to roll these funds into an IRA Rollover in order to avoid income taxes and early withdrawal penalties. A Rollover of the same balances can be done only once in every 365 day period. With a Direct Transfer, your previous employer transfers your balances directly to the new custodian. Since you do not take physical possession of the funds, you are allowed an unlimited number of direct transfers.

Advantages

- Significantly expands your investment options and your control over your investments
- Retirement savings continue to grow tax-deferred
- Avoids current taxes and potential penalties on a premature distribution
- You may be able to roll these funds into another employer's plan in the future

Disadvantages

- Could incur annual fees at some financial institutions
- May no longer be protected from creditors under ERISA rules

The Benefits of Investing in Davenport IRA Rollovers

For many people, the benefits of transferring their retirement plan balances into an IRA Rollover far outweigh the benefits of the alternatives. When you keep your retirement balances in an employer's retirement plan, you are restricted, in many cases, to a limited number of investment options. This can be a significant disadvantage if compelling investment opportunities present themselves in another area or sector of the market not covered by the investment options available in your employer's plans.

With a Davenport IRA Rollover, you have the freedom to invest in a wide range of investments such as stocks, bonds, and mutual funds. In addition, your Davenport Investment Executive can help you develop specific investment strategies based on your needs and objectives. Using the high quality investment research available through Davenport's experienced team of research analysts, your Investment Executive can assist you in sorting through the thousands of investment options available in order to identify appropriate investment opportunities for you.

As illustrated below, you may have a much larger amount of money left to invest for your retirement goals if you transfer your balances into an IRA Rollover or keep them in a qualified retirement plan versus withdrawing them in cash before 59½. The following example assumes an individual is eligible to receive a $200,000 distribution from a retirement plan, is under 59½, and is in the 28% federal tax bracket.

	Withdraw in cash before 59½	Transfer to IRA Rollover or keep in qualified plan
Total amount distributed	$200,000	$200,000
Minus 10% penalty before 59½	$20,000	0
Income tax due 28%	$56,000	0
Left to invest for retirement	$124,000	$200,000

Davenport & Company is a financial services firm and does not provide tax or legal advice. Please consult your professional accounting or legal advisors prior to acting on any information provided by us that may have an effect in these areas.

About Davenport & Company LLC

Established in 1863, Davenport & Company LLC is Virginia's first investment firm. Today, Davenport offers a complete range of financial services including comprehensive stock and bond brokerage, investment management, research, financial planning, insurance, corporate finance, and public finance services. Davenport offers a wider selection of investment services to meet the needs of both individuals and organizations.

LET US HELP

Making the right decisions with your retirement plan may make a significant difference in the assets you have available to meet your retirement goals. If you would like assistance with these important decisions, or would like guidance on how to invest these funds, please contact a Financial Advisor at the Davenport office nearest you.

Please visit our website at: www.investdavenport.com

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