

IRA Rollover Fact Sheet

Whether you are changing jobs or retiring, it's likely you've heard the terms rollover or transfer in regard to your qualified plan or IRA. This process allows you to take your retirement assets from your previous employer and move them to your IRA while the money continues to grow tax-deferred. However, the rules vary depending on which method you choose. This fact sheet is designed to help you make an informed choice that best suits your particular needs.

Direct Rollover — A non-taxable distribution from a qualified pension plan, 401(k) plan, 403(b) plan or Government 457 plan that is sent directly to the trustee, custodian or issuer of the receiving IRA and is reported to the IRS as a rollover. There is no limit to the number of direct rollovers that can occur in a year. IRA owners will receive a Form 1099R (from the qualified plan) to report the distribution and a Form 5498 (for the IRA) to report the rollover.

Indirect Rollover — The employer-sponsored plan writes a check for the distribution, less the mandatory 20 percent that is withheld for taxes, to the employee who then deposits the check in his or her own account. The employee then has 60 days to roll over all or a portion of the amount received from the distribution to an IRA. If you want to roll the total distribution amount (including withholding), you must personally deposit (out of pocket) the 20 percent tax withholding that was deducted from your distribution. (Any portion not rolled over, including the 20 percent withholding, will be considered a taxable distribution and you will owe income tax plus a 10 percent penalty, if you are under age 55.) IRA owners will receive a Form 1099R to report the distribution and a Form 5498 to report the rollover. An indirect rollover is allowed once every 365 days per IRA.

Trustee to Trustee IRA Transfers — This transfer allows you to direct the custodian of your IRA to transfer your assets directly to an IRA held at another financial institution. You are never in receipt of the funds, thus, there is no taxable event. This type of transfer doesn't count as a rollover, so you can make as many transfers as you want within a 365-day period using this method. There is no IRA reporting, so you will not receive IRS forms for your records.

IRA to IRA Rollovers — This type of rollover is often called the 60-Day Rollover because an IRA owner can receive a distribution from an IRA and must roll it over to another IRA or to the same IRA within 60 days of receipt to avoid taxes (and penalties) on the distribution. Partial rollovers are allowed. The IRA owner is limited to one indirect rollover from a particular IRA in any 365-day period. This limit is applied separately to each IRA you own. IRA owners will receive a Form 1099R to report the distribution and a Form 5498 to report the rollover. A direct rollover from a Qualified Plan to an IRA and a conversion from a Traditional IRA to a Roth IRA are exempt from the 365-day restriction.

IRA Transfers Incident Due to Divorce — If an interest in an IRA is transferred by a divorce decree or Separation Agreement, the interest in the IRA can be transferred to the former spouse's IRA. This transfer is not a taxable event to either party. This is a direct transfer so there is no tax reporting. A Qualified Domestic Relations Order (QDRO) is the document used to transfer asset from a divorcing party's qualified plan to an IRA for their former spouse.

Roth IRA Conversions — Converting your existing Traditional IRA to a Roth IRA is technically a distribution, as it is a taxable event. However, the account owner doesn't receive these funds as they are converted to a Roth IRA. An IRA owner is allowed to convert a Traditional, SEP or SIMPLE IRA (after two years from the first contribution to the SIMPLE) to a Roth IRA. IRA owners will pay ordinary income tax on the amount converted in the year of conversion. You cannot convert your Required Minimum Distribution (RMD). Beginning January 2008 you will be able to directly convert from your qualified plan to a Roth IRA as long as you qualify for the conversion. If you are over age 70 1/2, your RMDs are not included in the MAGI for purposes of qualifying for a conversion. The 10 percent penalty tax does not apply to the amount converted. A Form 1099R is used to report the conversion.

Coverdell Education Savings Account (Coverdell ESA) to a 529 Plan — You can take money out of a Coverdell ESA as a distribution and put it in a 529 plan without paying tax because a contribution to a 529 plan is considered a qualified education expense, just like money that was spent for tuition or other costs of education. If you do this, you'll have to follow the 529 plan rules if you want to withdraw earnings tax-free; you won't be able to use this money for primary or secondary education, or for computer expenses. The earnings "transfer over" to the 529 plan so they'll be treated as earnings when money comes out of the 529 plan.

Please consider the investment objectives, risk, charges and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your financial advisor. Read it carefully before you invest. Investors should consider, before investing whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 college savings plan. The availability of such tax or other benefits may be conditioned on meeting certain requirements.

We hope these facts will help you in planning your IRA distributions and rollovers. If you have questions or want to learn more, please contact your financial professional. We look forward to working with you to meet your financial goals.

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