MFS Investment Management®

IRA Rollover

Ready for what's next

MFS INVESTMENT MANAGEMENT

The human side of money management

For nearly 80 years MFS has been offering investors clear paths to pursuing specific investment objectives. Today, millions of individuals and thousands of institutions all over the world look to MFS to manage their assets with insight and care. Our success, we believe, has to do with the fact that we see investors as people with plans, not just money to invest.

Investors choose MFS for our

- global asset management expertise across all asset classes
- time-tested money management process for pursuing consistent results
- full spectrum of investment products backed by MFS Original Research®
- resources and services that match real-life needs

If you would like to discuss ways to take advantage of these opportunities, please talk to your investment professional or call the MFS hotline at 1-877-MFS-4IRA (1-877-637-4472).

IRA Rollover

Ready for what's next

Whether you are changing jobs, retiring, or are recently unemployed due to a lay-off, you have an important decision to make: what to do with your retirement savings. There are several options available to you. You can cash it in and take it with you. You can leave it where it is, or you can roll it over into a new account. There are advantages and disadvantages to each scenario, which we will discuss in this piece.

The good news is that one of the major provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) is the enhancement of the portability of retirement money. This provision allows the rollover of money from any type of retirement plan (401(k), 403(b), 457 plans, etc.) to any type of retirement plan without restriction. For an employee changing jobs, retiring, or finding him or herself recently unemployed due to a lay-off, this provision provides more flexibility in consolidating retirement plan assets into one account, such as an Individual Retirement Account (IRA), than ever before. And by using an IRA for consolidation of retirement plan assets, a person can (1) use the IRA as a "conduit IRA" for purposes of holding retirement plan assets until he or she can roll over such assets into another retirement plan, or (2) more effectively plan for lifetime and post-death distributions by using the distribution rules associated with IRAs to minimize taxes on such payments. The enhanced rollover provisions of EGTRRA permit the following types of rollover transactions:

From	To
401(k)	401(k), 403(b), 457, 401(a)*, IRA
403(b)	403(b), 457, 401(k), 401(a), IRA
457	457, 403(b), 401(k), 401(a), IRA
IRA	IRA, 401(k), 403(b), 401(a), 457

* Includes profit sharing and money purchase retirement plans.

NOT FDIC INSURED	MAY LOSE VALUE	NO BANK GUARANTEE
NOT A DEPOSIT	NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY	

Unrestricted Control and Access

When your money is in your former employer's plan, you have no say in which investment options will be offered under the plan, who will be the plan's service provider, what the plan expenses will be, or what the plan terms will be with regard to distributions, frequency of investment changes, etc. A participant rolling retirement plan assets over to an IRA can shop for the IRA and the IRA provider that best suits his or her needs, taking into considerations such things as the specific terms of the IRA document, the fees charged, the services provided, and the investment options offered. Plus, with the money in an IRA, there is unrestricted access to the assets. Although any premature distributions will be subject to penalty taxes unless an exception applies, an IRA owner can nevertheless take a distribution of any amount for any reason at any time. If the money is left in an employer plan, a partial distribution of the account may not be permitted and the former participant may be forced to withdraw the entire balance or to elect an irrevocable distribution option, such as an annuity or installment payments. Additionally, IRA owners can access their accounts before age 59 ½ without penalty to pay for:

- Qualified higher education expenses for owner, spouse, children, and grandchildren
- Up to $10,000 for a first home purchase
- Payments while suffering a disability
- Un-reimbursed medical expenses exceeding 7.5% of Adjusted Gross Income
- Health insurance premiums during certain periods of unemployment
- IRA accounts also allow for individuals to receive penalty free annual payments from their accounts based on what is referred to as the "Substantially Equal Periodic Payments" exception. This exception allows IRA owners to receive penalty-free distributions calculated under one of three standard IRS formulas, however these distributions must continue unaltered until they have been received for five years or until the IRA owner reaches age 59½, whichever is longer.

Beneficiary Management

Perhaps the most compelling reason for many people to get their money out of an employer plan and into an IRA is the ability to make plans for the assets that may remain after they have died. The terms of an employer plan may restrict the types of beneficiaries that can be named and may require an immediate lump-sum distribution to the beneficiary upon the participant's death. For some beneficiaries, being forced to receive the money all at once would not be a good thing.

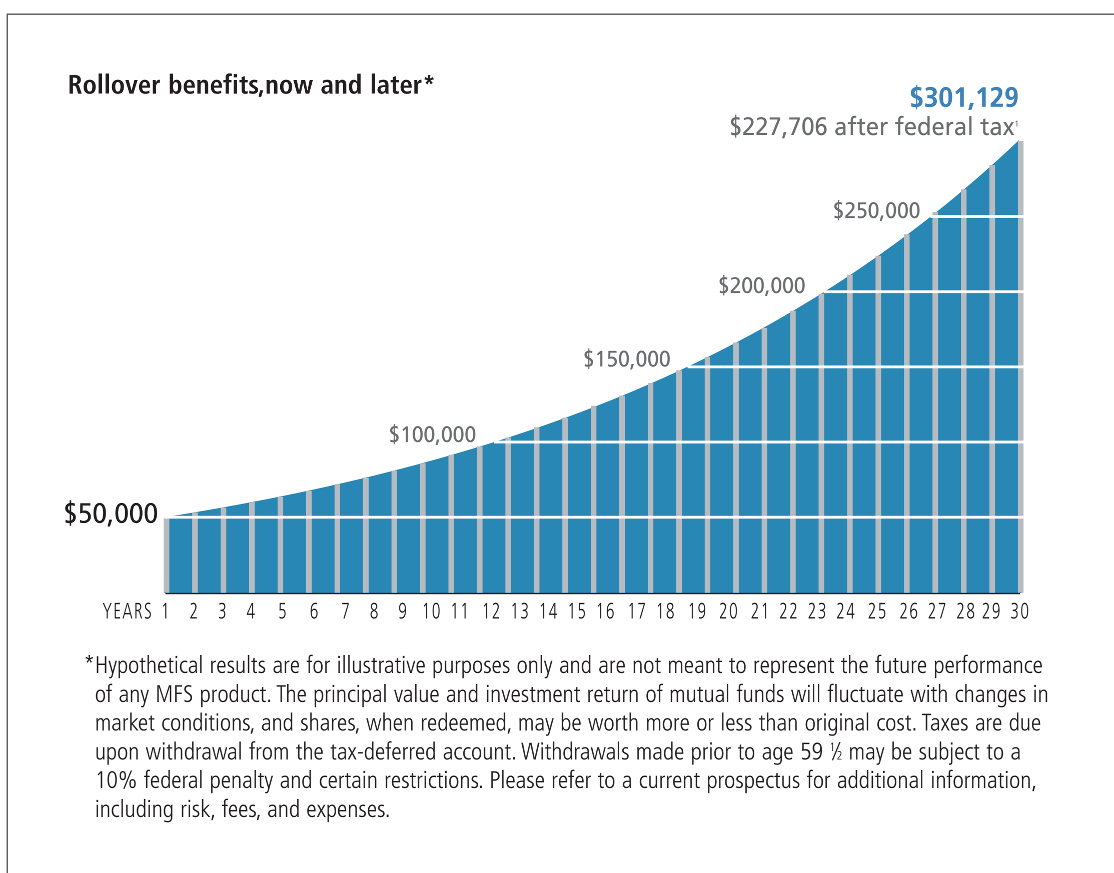
Besides the temptation some beneficiaries may have to squander a big payout, there's also the issue of immediate taxability of the entire amount. A large lump-sum distribution could also push a beneficiary into a higher income tax bracket. A spouse beneficiary will have the option of making an IRA rollover of any plan death benefits, but any other beneficiary (child, grandchild, charity, estate, trust, etc.) is not eligible for a rollover, so their distribution options will be restricted to whatever the plan provides.

The advantages of an IRA

There are many advantages to using an IRA as a conduit account while you are between jobs or as an account in which you can consolidate all of your retirement plans once you are eligible to take distributions from your retirement accounts.

Continued tax-deferred compounding

An IRA can be a good way to keep track of all your retirement money. As you change jobs, you can keep rolling that retirement money into your IRA, which means you will continue to enjoy tax-deferred compounding.



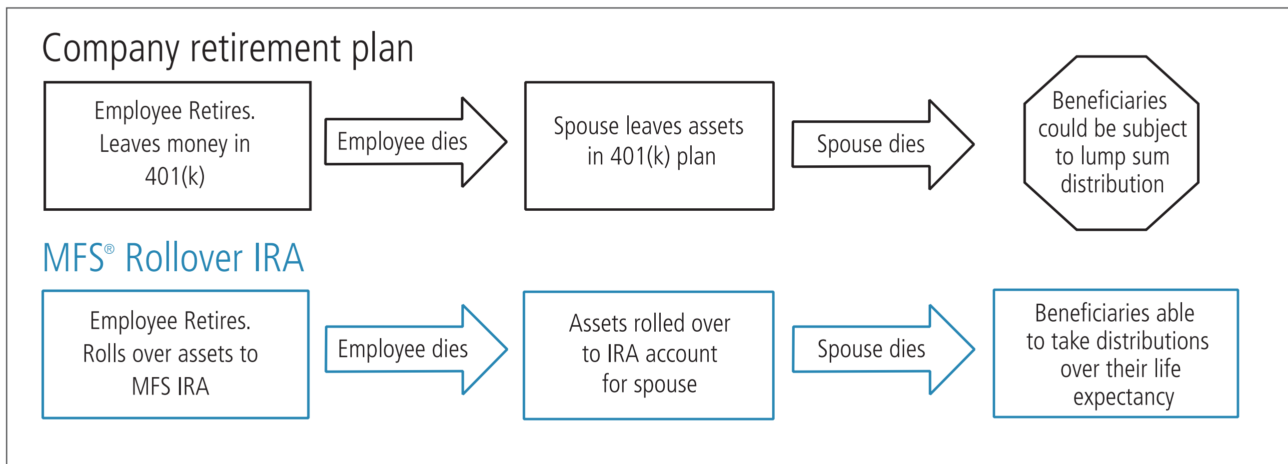
*Hypothetical results are for illustrative purposes only and are not meant to represent the future performance of any MFS product. The principal value and investment return of mutual funds will fluctuate with changes in market conditions, and shares, when redeemed, may be worth more or less than original cost. Taxes are due upon withdrawal from the tax-deferred account. Withdrawals made prior to age 59 ½ may be subject to a 10% federal penalty and certain restrictions. Please refer to a current prospectus for additional information, including risk, fees, and expenses.

Assumptions:

- You're changing jobs and choosing an IRA rollover
- You're 35
- You've accumulated $50,000 over 10 years
- You intend to retire at 65
- Your investment earns 6% per year, compounded monthly, until you turn 65

[1]Result based on single taxpayer, standard deduction, one exemption, and 2003 federal income tax rate of 35%.

Employer retirement plans may limit beneficiary distribution options



Even some IRAs may restrict who can be named as a beneficiary and how the money may be distributed upon the owner's death. Fortunately, as mentioned, the owner is free to shop for an IRA that contains the terms that meet his or her needs. With the right IRA chosen, an owner can set up beneficiary designations that can carry out his or her wishes and allow assets to remain tax-deferred for, in some cases, generations.

Generally, distributions from an IRA upon the owner's death are made according to the "Required Minimum Distributions" rules. A beneficiary may elect an immediate payout, or he or she can elect a stream of payments based on his or her life expectancy, and name another beneficiary to receive any payments remaining upon the first beneficiary's death. The taxation of the assets is then spread out of the payout period instead of being due all at once. A spouse beneficiary can "step into the shoes" of the deceased owner and take distributions based on his or her own life expectancy and name a younger beneficiary who, upon the spouse's death, could receive any remaining assets over his or her own, longer, life expectancy. This could result in the IRA assets remaining tax-deferred and continuing to grow for decades.

While there are many positive reasons for using an IRA, some issues may compel you to use a retirement plan instead of an IRA for your retirement plan assets. Here are two issues to consider:

ERISA protection from creditors

As long as the money remains in an employer plan covered by ERISA, your retirement money is generally out of reach of creditors (except the IRS). Once you roll the money over to an IRA, any protection it may have from creditors will be determined based on state, rather than federal, law. Some states protect a certain portion of an IRA from attachment, but if your IRA is large, some of your money could be at risk. Obviously, if you have concerns about the possibility that your IRA could be attached by creditors, you should consult your tax adviser before you move your money and find out what the law in your state provides with regard to protection of IRA assets.

Special tax treatment

Qualifying plan participants born before 1936 have the opportunity to use special plan distribution tax rules. This special tax treatment is available for lump-sum distributions from 401(a) plans — pension, 401(k), etc — but is not available for distributions from 403(b) or 457 plans. An eligible participant who has been in the plan for at least five years and who receives plan benefits in a "lump-sum distribution" may elect ten-year averaging, which allows for taxes on the lump sum to be calculated, using 1986 tax rates, as if the amount had been paid over ten years. Long-term capital gains treatment allows eligible participants to figure the taxes on amounts that accumulated in their retirement plans prior to 1974 at a flat 20% rate rather than at the participant's income tax rate. There may also be preferential tax treatment available to participants who receive lump-sum distributions that include employer stock (regardless of birth year). The right to use the special tax provisions is lost if any money from the distributing plan is or ever was rolled out of the plan into another plan or IRA. If you may be eligible for any of these tax treatments, you should consult your tax adviser before you roll over any of your money, because once any of it has been rolled over, it is too late to elect any of the special provisions.

Of course, the decision to consolidate all of your retirement plan assets into one IRA is a personal one. We recommend that you consult with your legal and tax advisors before you transfer any monies to an IRA. ■

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