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Consolidating Retirement Savings in an IRA?

Sometimes it makes sense to bring all your retirement savings together in one place, especially if it can simplify your financial life.

You can combine money from an IRA and from a prior employer's retirement plan (such as a 403(b), 401(k) or 457(b) supplemental plan) into one IRA. And, if your spouse dies, you can add her/his money to yours as well. But you need to know the tax rules. Make sure you understand how to combine various retirement assets, since each has its own rules. A misstep could lead to unnecessary taxes, or to the loss of important tax benefits.

In rolling over money to an IRA, for example, don't directly receive the money you want to roll over. If you do receive the money, you will have to pay a 20% withholding tax on it. If, for whatever reason, you don't get the money to the transferring financial institution within the allotted 60-day period (which begins on the date of distribution, if you're under age 59½), it will be considered a premature distribution and you'll also have to pay a 10% penalty tax on it. But it gets worse. The money will also be added to your regular income, potentially placing you in a higher income tax bracket, which of course means paying higher ordinary income taxes.

As you can see, things can go unintentionally wrong when you receive the rollover money directly. So don't. Instead, have the money wired directly to the institution you want to receive it and you'll avoid the 20% withholding and the other potential problems.

If you have even the slightest uncertainty about what you want to accomplish, call us at **800 842-2776**, or consult your tax advisor before doing anything.

General IRA Consolidation Guidelines

The rules on combining retirement savings from various types of plans can be confusing. To learn more about your own situation, speak to one of our consultants at **800 842-2776**. Here's a review of some potential tax benefits and pitfalls to be aware of:

- **Don't move pre-1987 403(b) accumulations.** Federal law generally requires you to start receiving distributions from your retirement plans at age 70½, if you're no longer working. The same is true for 403(b) plan accumulations resulting from contributions made *after* 1986.

But because pre-1987 403(b) accumulations are "grandfathered" under retirement plan laws, mandatory withdrawal of this money doesn't have to begin until age 75. However, if you move any grandfathered money into an IRA, the regular IRA

withdrawal rules will apply and you'll have to start receiving minimum distributions from all traditional IRA money at age 70½.

- **If you continue working after 70½**, consider rolling over your retirement savings from previous employers' plans into your *current* employer's plan. This will allow you to postpone taking minimum distributions on the entire amount. You can delay taking minimum payments from your current employer until April 1 following the year you retire, no matter how old you are.

Otherwise, money left in a prior employer's plan, or rolled over into an IRA, generally becomes subject to minimum distribution requirements at age 70½ — even if you're still working and don't want the money at this time.

- **Don't mix before-tax and after-tax money.** If one of your retirement plans holds money on which you've already paid taxes, be careful not to roll it over to an IRA that has untaxed money. If you do, you won't be able to move this combined IRA money to your current employer's plan, which can receive only untaxed IRA money.
- **Converting to a Roth IRA costs at first.** Savings in retirement plans and traditional IRAs are untaxed. You will owe income taxes on any portion of this money that you convert to a Roth IRA, in the year of the conversion. However, once in a Roth IRA, any earnings and withdrawal of this money will be completely tax free after the Roth account remains open for five years or more.

Note that Roth IRA savings are meant to be withdrawn *after* age 59½. Early withdrawals of earnings will be taxed as ordinary income, and a federal 10% early withdrawal penalty may apply. However, the 10% tax penalty may be avoided if you annuitize — that is, create a stream of lifetime income — earlier than age 59½, or if you take substantially equal annual distributions over your life expectancy, or over your and your designated beneficiary's joint life expectancy.

- **If you have pretax or after-tax (or both) traditional IRA money**, you can convert any of it into a Roth IRA, if you wish. At the time of conversion, you simply have to pay the ordinary income taxes due on the converted money. Note that you don't have to convert this money all at once. (With conversion of after-tax IRA money, only the tax-deferred earnings are taxed. Conversion of pretax IRA accumulations — contributions and earnings — are fully taxable.) You can convert the money in portions, some this year, some a year or two down the road, etc. It's completely up to you when and how you convert it.

Note: There may be tax consequences associated with the transfer of assets. Non-direct transfers may be subject to taxation, surrender charges, and penalties. Consult with your own tax advisor regarding your particular situation.

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