A GUIDE TO ROLLOVER CONSIDERATIONS

Comparison of Features and Benefits

A GUIDE TO ROLLOVER CONSIDERATIONS (COMPARISON OF FEATURES AND BENEFITS)

If you are eligible for a rollover, you should carefully consider the features and benefits of your current retirement plan versus a rollover to an IRA. Further, if you work for a new employer with a retirement plan that will accept rollovers from your current plan, you may wish to consider the features of your new employer's plan to see if it makes sense to rollover your existing funds to that new plan. This guide examines different methods and considerations that you should be aware of when receiving or rolling over qualified retirement plan distributions.

This guide is intended to help you navigate the following features of a rollover:

OVERVIEW

Employer-sponsored retirement plans such as 401(k), profit sharing, and other types of qualified retirement plans allow the participants in the plan to recognize certain tax benefits while saving for retirement. These retirement plans are subject to laws and documents that outline plan provisions such as who is eligible and when assets may be distributed from the plan.

Plan distributions before age 59½ are generally subject to income taxes and a potential 10% early withdrawal penalty so it is often advisable to delay a distribution until 59½. A transaction called a rollover permits you to distribute your retirement plan benefits while continuing to defer income tax and the potential penalties otherwise associated with a distribution of retirement assets.

In a rollover, you transfer the proceeds of your existing retirement plan into a new retirement plan which may be either an Individual Retirement Account (IRA) maintained by you or a different retirement plan sponsored by a new employer. Funds transferred out of your existing plan in this way are not taxable or subject to the 10% penalty. You may also choose to rollover the assets to a Roth IRA, which is an account that can provide tax free income. In this case, income tax may be due on your rollover but the 10% penalty will not apply. Any Roth 401(k) balances you may have must be rolled over to a Roth IRA with no tax is due on this type of rollover. If your retirement plan balance contains any other after-tax contributions, you may also choose to roll those over to a Roth IRA and generally tax is not due unless your rollover contains earnings. Your plan administrator can provide you with details about the types of contributions of which your retirement plan balance is comprised.

CONSIDERING A ROLLOVER?

Start by asking the following:

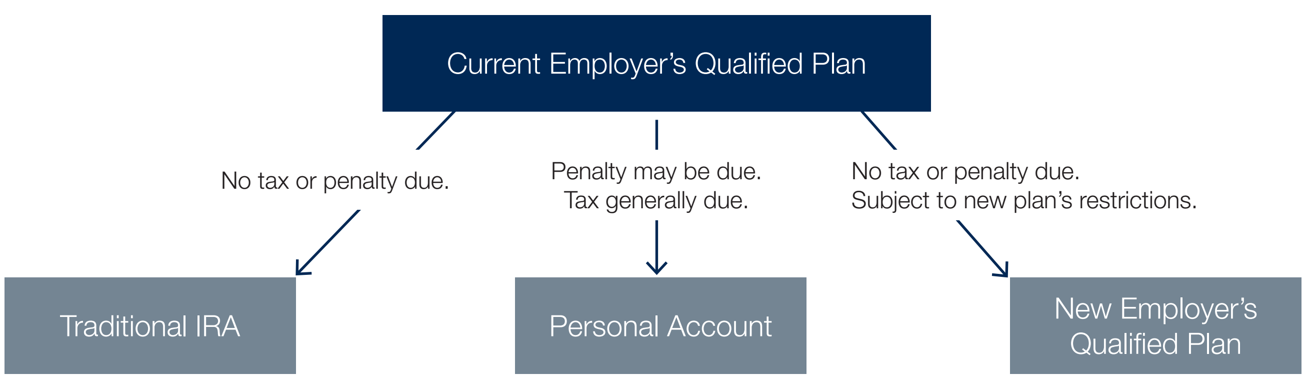
- What is my current plan providing?
- What are my options?
- How do these options differ?

ARE YOU ELIGIBLE FOR A ROLLOVER?

To distribute your benefits from a qualified retirement plan, participants generally need to have experienced a “triggering event” (such as retirement or other separation from service) or the plan needs to allow for “in-service” withdrawals. In an in-service withdrawal, you are permitted to distribute your assets even if you still work for the employer who sponsors the plan. Some specific types of withdrawals, such as loans, hardship, or corrective distributions, may be distributed to you while you are still working but are not eligible to be rolled over.

WHY CONSIDER A ROLLOVER?

There are a variety of reasons participants choose to rollover savings from an employer sponsored retirement plan. Making a rollover can provide a way to use your tax advantaged retirement savings in a more flexible way. Compared to many employer-sponsored qualified retirement plans, a self-directed IRA through an Oppenheimer Financial Advisor may invest in a large variety of investments such as thousands of stocks, bonds, annuities or mutual funds, and also offers access to investment managers that can help guide your investment portfolio.



In addition to the various investments available in your Oppenheimer retirement account, your Oppenheimer Financial Advisor can also help you prepare for your retirement years by discussing various financial goals you may have and illustrating retirement savings and spending toward those goals through a Retirement Outlook illustration or comprehensive financial planning. The advice and guidance we provide has helped thousands of people to save, invest, and plan to and through retirement.

ELIGIBILITY FOR ROLLOVER

In general, most amounts distributed to you from a qualified retirement plan will be eligible for rollover to an IRA; however, there are some exceptions. These include:

- Loans
- Hardship withdrawals
- Removals of excess contributions
- Required minimum distributions (RMDs)
- Payments issued by a plan under specific calculation methods, where the payments are expected to be issued for life or over a period of 10 or more years

The plan administrator of your retirement plan should easily be able to let you know if your retirement benefits are eligible for rollover.

REQUESTING YOUR RETIREMENT PLAN DISTRIBUTION

To request a distribution from your retirement plan, you will initiate a request with the plan administrator who holds your plan account. For a payment that is eligible for rollover, you will generally be given the option to have a your assets transferred directly from the plan into an IRA in your name (a "direct" rollover) or to a different (non-IRA) account, for example a direct deposit to a personal bank account or a check payable to you or someone else. This second rollover option allows you a period of up to 60 calendar days to deposit the funds as a rollover to your IRA[1] (a "60-day rollover").

If you do not request a direct rollover to an IRA but your payment is eligible to be rolled over, the plan administrator is generally required to withhold 20% for federal income tax purposes even if you intend to rollover the funds to an IRA later. By requesting a direct rollover from your current retirement plan to an IRA, you avoid the mandatory 20% withholding requirement. The example later in this guide illustrates the options available to you when your distribution is subject to 20% mandatory withholding.

No matter which method of rollover you pick, the amount paid from your employer's plan will be reported on Internal Revenue Service (IRS) Form 1099-R. However, how the amount is reported on this form and whether it is taxable will depend on which option you select. For distributions that are rolled over as either a direct or 60-day rollover, you should expect to receive IRS Form 5498 from your IRA custodian in the year after the rollover is complete.

TRANSFERRING FUNDS DIRECTLY TO YOUR IRA ("DIRECT" ROLLOVER)

With a direct rollover, you do not take possession of the funds and your withdrawal is not subject to mandatory 20% tax withholding. The full amount of your retirement plan withdrawal will be paid directly to your IRA either through a check payable directly to your IRA custodian or through a direct electronic transfer initiated by your current plan administrator. Often, the plan administrator will send a direct rollover check to you, but it will be payable to your IRA and IRA custodian.

When you complete a direct rollover, the IRS Form 1099-R you receive from your plan administrator will note that the withdrawn amount was issued as a payment directly to an IRA, and the IRS will know that tax and penalties are not due and to expect a Form 5498.

IF YOU RECEIVED FUNDS BUT DID NOT REQUEST A DIRECT ROLLOVER

If your distribution is eligible for rollover but the payment you receive is not a direct rollover, your withdrawal is generally subject to mandatory 20% withholding. This means you will receive only 80% of your withdrawal amount, with the remaining 20% credited to your federal income tax return. You then have 60 calendar days (unless you qualify for an extension) to deposit up to 100% of your withdrawal amount to your IRA in order to avoid taxes and potential penalties.

If your intent is to rollover 100% of your distribution to an IRA, you will need to replace the 20% withheld amount out of pocket since you will not receive it back from the IRS until you file your taxes. Any amounts that you do not rollover, including the 20% that was withheld for taxes, will generally be subject to taxes and possibly a 10% premature withdrawal penalty.

If a distribution to you is not subject to 20% withholding, unless it is a distribution of after-tax contributions or is a qualified Roth 401(k) distribution, it is likely ineligible for rollover to an IRA or other employer retirement plan.

If you intend to rollover your retirement plan benefits, you should consider requesting your distribution as a direct rollover in order to avoid the 20% mandatory withholding.

IF YOUR RETIREMENT PLAN IS MORE THAN JUST CASH

Many participants have mutual funds or other types of securities in their employer's retirement plan. If your retirement plan is invested, most plan administrators require liquidation of these investments before completing a rollover, although some do not. For this reason, rollovers are generally completed by check or electronic transfer of cash.

If your plan investments include any employer securities (such as a stock or other security issued by your employer), you should review the *Rollover Considerations* covered later in this guide on a strategy utilizing the net unrealized appreciation (NUA) of the security.

THINGS YOU SHOULD CONSIDER ABOUT A ROLLOVER

Whether or not you should complete a rollover may be affected by factors that should be considered. These potential issues are described below.

Age 55 provision
Most distributions from your employer's retirement plan are subject to a 10% penalty in addition to being subject to ordinary income tax if they are received prior to when you turn age 59½. There is an important exception to this penalty. If you separate from service with an employer during or after the calendar year in which you reach age 55, you can take distributions from that employer's qualified retirement plan before age 59½ without incurring the 10% penalty.

If you rollover your plan to an IRA, this special provision does not carry over to the IRA. Thus, participants in retirement plans who meet this condition for the age 55 exception may wish to wait until age 59½ to rollover their plan to an IRA.

[1]The IRS permits some extensions to the 60-day period. Some recipients, such as non-spouse beneficiaries, may be ineligible and required to complete a direct rollover as opposed to a 60-day rollover.

If you separate from service before reaching age 55 you are also not eligible for this exception even once you reach age 55. In this case, you will need to wait until age 59½ to receive penalty-free distributions from your employer's retirement plan unless you qualify for a different exception.

Attainment of Age 72

Many types of retirement plans require the participant to begin receiving minimum amounts from those plans upon reaching age 72. These payments are known as Required Minimum Distributions (RMDs). However, if you have reached age 72 and are still working for the employer that sponsors the retirement plan you may receive an advantage by leaving your retirement assets in your employer's retirement plan, since a plan may permit participants who are age 72, less than a 5% owner in the company that sponsors the plan, and still working to postpone receiving RMDs until April 1 following the year they retire.

Traditional IRAs that receive rollover assets do not permit this postponement. Once assets are rolled over to an IRA, RMDs must begin in the following year based on fair market value of the IRA on December 31 of the year the rollover is complete. Only assets that remain in the plan can continue to qualify for the postponement. However, if you rollover a Roth 401(k) balance, RMDs are not required until your beneficiaries inherit your Roth IRA.

When considering a rollover to an IRA, you may want to consider the RMD implications.

Participants in governmental 457(b) plans

If you are under age 59½ and participate in a 457(b) plan sponsored by a governmental entity, you should consider your expected use of your retirement assets before completing a rollover. Participants in governmental 457(b) plans are generally eligible to receive penalty-free distributions beginning at age 50. Once these assets are rolled over into an IRA, penalty-free distributions based on age will not be available until you turn 59½.

If you have employer securities in your retirement plan (NUA)

Participants that hold investments of securities issued by their employer, such as the employer's stocks or bonds, in their qualified retirement plan might want to take advantage of a "net unrealized appreciation" (NUA) strategy. Using this strategy may reduce your tax bill, potentially by a significant amount.

Under the NUA strategy:

- You take a **lump sum distribution** from the plan (meaning that the full balance is removed from that plan within a single calendar year).
- The employer securities are distributed from the retirement plan to a regular investment account and are not rolled over to an IRA.
- Your remaining retirement plan balance may be issued as a rollover to another retirement plan or IRA.

Typically, the full value of assets distributed from your retirement plan into a regular investment account would be subject to income tax and potentially a 10% penalty (unless they are later rolled over to another retirement account). However, under NUA, only the total **cost basis** (the price paid for the security) of the distributed employer securities is subject to income tax. (If you do not qualify for a penalty exception, a 10% penalty will also apply.) The appreciation (in other words, the market value of the security minus the cost basis, or NUA) is not taxed until the employer securities are sold in the investment account and the appreciation becomes realized.

Generally, the appreciation will be taxed at the long term capital gains rate (0%, 15%, or 20% depending on your overall income level) if the investments are sold upon distribution. If they are not sold upon distribution, any additional appreciation above the distributed market value of the securities will be taxed at a long or short term capital gains rate depending on how long the securities have been held in the taxable account (if more than 1 year, the long term capital gains rate).

The advisability of using the NUA strategy is generally dependent on a number of different factors, such as the amount of the appreciation, the length of time until the investment is used for expenses, your tax rate, and more. If your qualified retirement plan assets include securities of your employer, you should request Oppenheimer's guide *Net Unrealized Appreciation: A Brief Overview* which contains more information and examples, and also discuss with your tax advisor. You will have to notify your plan administrator if you wish to distribute employer securities under the NUA option.

If your plan contains after-tax contributions

If your employer retirement plan savings contain after-tax contributions, you have the opportunity to receive these funds separately from any pretax funds. You may either request a tax-free distribution of these proceeds, which you can then invest in a taxable account, roll into a traditional IRA, or perform a tax-free rollover of these funds to a Roth IRA. If you choose to rollover your after-tax balance to a traditional IRA, you will no longer be able to distribute the after-tax funds separately.

If you have after-tax amounts in any non-Roth IRA, distributions from any of your non-Roth IRAs are taxed on a pro-rata basis taking into consideration all your non-Roth IRAs. For example, if the total balance in these IRAs is $100,000 including an after-tax portion of $25,000, a distribution of $10,000 would be considered as $7,500 of taxable income and $2,500 of tax-free income. After the distribution, your remaining balances would be $67,500 pretax and $22,500 after-tax. Future earnings would accumulate towards the pretax balance, altering the proportion of your taxable distributions each year. For this reason, it is often advisable to consider a rollover of your after-tax contribution amounts to a Roth IRA for future tax free growth of qualified distributions.

Rollover/conversion of pretax amounts to a Roth IRA

You are also able to rollover your pretax qualified retirement plan funds to a Roth IRA. By performing a direct rollover conversion to a Roth IRA, you will not be subject to mandatory 20% withholding. However, any pretax funds directly converted will be subject to ordinary income tax but not subject to a 10% penalty. If you subsequently take a distribution from the Roth IRA within 5 years of the conversion, you will be subject to a 10% penalty on pre-age 59½ withdrawals of the converted amounts from the Roth IRA unless you qualify for an exception.

Rollovers from Roth 401(k) accounts

Funds in a Roth 401(k), known as a "designated Roth account," can be rolled over directly into a Roth IRA. However, you must have held your designated Roth account or Roth IRA for at least 5 years in order to receive qualified distributions that are eligible for certain tax benefits. If your Roth IRA was already in existence when the Roth 401(k) rollover was received, your original Roth IRA contribution date will determine the 5-year period. However, if you established the Roth IRA in order to receive the Roth 401(k) rollover, the determination of the 5-year period will be based on the establishment of the Roth IRA.

60-day rollover extensions

Generally, rollovers other than direct rollovers must be completed within 60 calendar days to be valid. This 60-day period may be extended in limited circumstances as prescribed by the IRS. Your tax advisor can provide more information regarding eligible extensions.

While IRA account holders are generally limited to one 60-day rollover per 12 month period, that limitation does not apply to 60-day rollovers initiated from an employer-sponsored qualified retirement plan.

Comparison of an IRA vs. an employer's qualified retirement plan

There are many attractive features and benefits of an IRA, and many reasons a rollover from your employer's qualified retirement plan may make sense. There are also some reasons you may wish to leave your retirement savings in the plan. The following chart compares some features and benefits of each to help you make your decision.

	Oppenheimer IRA Rollover	Employer Qualified Retirement Plan
Fees	• May be higher or lower – depends on investments and strategies employed • Custodial fees may apply	• May be higher or lower – larger employer plans may have lower investment-related fees while smaller employer plans may have higher fees • Plan administration fees may apply
Investment Advice	• Comprehensive, personalized strategies and one-on-one advice	• Comprehensive or limited advice may be available depending on the plan
Investment Options	• Virtually unlimited – generally any stock, bond, or mutual fund, as well as professional investment management programs and annuities	• Limited to a short list of funds, unless a brokerage account is available
Tax-Free Qualified Charitable Distributions at age 70 ½	• Permitted	• Not permitted
Distributions	• Flexible, can occur upon request through a variety of methods • Unless an exception applies, penalty-free withdrawals are not available until age 59½ • Required distributions at age 72 (applies to traditional IRA rollovers) • No loans available, but may complete a single 60-day rollover every 12-month period • Distributions do not require spousal consent	• May be limited in timing options • Penalty-free withdrawals may be available immediately if you separated from service during or after the year your attain age 55 • Required distributions at age 72 or retirement, whichever is later (requirements apply) • Loans may be available, and eligible rollover distributions may be completed as 60-day rollovers to another eligible retirement account • Distributions generally require spousal consent
Designating Beneficiaries	• Designation of a non-spouse beneficiary generally does not require spousal consent (special rules may apply for residents of community property states) • Customized beneficiary designations permitted	• Designation of a non-spouse beneficiary option requires spousal consent • Customization is generally limited
Options for your Beneficiaries	• Beneficiaries may not convert an inherited traditional or rollover IRA to an inherited Roth IRA • Beneficiaries may select from IRS-allowable distribution options • Beneficiary stretch permitted	• Your non-spouse beneficiary can rollover/convert to an inherited Roth IRA (tax consequences may apply) • Your beneficiaries may face limited distribution options unless they transfer the inheritance to a beneficiary IRA
Creditor Protection	• When you rollover your employer-sponsored retirement plan assets, you retain unlimited bankruptcy protection • State law determines the protection from creditors outside of bankruptcy	• Creditors cannot access qualified plan assets, with limited exceptions
Tax Treatment of Distributions of Employer Securities (Net Unrealized Appreciation)	• There is no NUA treatment available	• Preferential tax treatment is available on the amount of the NUA
Federal Tax Withholding	• You may opt out of federal withholding or withhold at your desired percentage	• In general, federal withholding is set at a mandatory 20%, unless you distribute as a direct rollover
Distribution Penalty Exceptions Specific to Each	• Qualified higher education expenses • First time homebuyers ($10,000 lifetime limit) • Health insurance premiums paid while unemployed	• Pass through of dividend on employer securities • Separation from service during or after the year you turn 55 (age 50 for public safety employees of a state, or political subdivision of a state, in a governmental defined benefit plan) • For participants in a governmental 457(b) plan, attainment of age 50 (except for balances funded through a rollover from another type of plan or IRA)

Comparison of IRA and qualified plan penalty exceptions
Distributions of pretax amounts from IRAs and qualified plans are generally subject to tax and may be subject to a 10% penalty. However, some exceptions to the 10% penalty differ based on whether the funds are being distributed from your qualified plan versus from your IRA after you complete a rollover.

Apply to IRA and qualified plan

- Attainment of age 59½
- Death of IRA owner/participant
- Substantial disability of IRA owner/participant
- Substantially equal periodic payments
- Unreimbursed medical expenses greater than 10% of adjusted gross income
- 60-day or direct rollover to an IRA or eligible retirement plan

Apply to IRA owners only

- Qualified higher education expenses
- First time homebuyers ($10,000 lifetime limit)
- Health insurance premiums paid while unemployed

Apply to qualified retirement plan participants only

- Pass through of dividend on employer securities
- Separation from service during or after the year you turn 55 (age 50 for public safety employees of a state, or political subdivision of a state, in a governmental defined benefit plan)
- For participants in a governmental 457(b) plan, attainment of age 50 (except for balances funded through a rollover from another type of plan or IRA)

If you receive assets through divorce or as an alternate payee
If you receive retirement plan assets through a divorce or as an alternate payee, they must be awarded under what is known as a Qualified Domestic Relations Order (QDRO).

If you are the spouse or former spouse of a plan participant, you will generally have the option to rollover the funds in the manner described in this brochure. If you choose to receive the assets from the plan as payable to you personally, you will not be subject to the 10% penalty even if you choose not to rollover the assets. However, the distribution must still generally be included in your income for the year and subject to applicable income tax. Should you choose to rollover your distribution to an IRA, you will not owe income tax until you distribute the funds from your IRA, but if you are under age 59½ you will not be able to receive penalty-free distributions unless you qualify for an exception.

If you are not the participant's former spouse but receive retirement plan assets through a QDRO, such as a child of a participant, you are not eligible to rollover the assets to an IRA. However, a distribution to you as a non-spouse payee under the QDRO will be taxable to the plan participant.

If you are a beneficiary
If you are a beneficiary of a qualified retirement plan, you have the option to rollover the proceeds to what is known as an "inherited" or "beneficiary" IRA or Roth IRA after the death of the plan participant. If you are a spouse, you have the additional option to rollover the proceeds to either your own or a beneficiary IRA or Roth IRA either as an indirect rollover within the 60-day period or as a direct rollover. Non-spouse beneficiaries do not have the indirect 60-day rollover option. If you are a non-spouse beneficiary and wish to establish an inherited IRA or Roth IRA, you will need to inform the plan administrator of the current plan and you must transfer the funds directly between the plan and IRA as a direct rollover.

If you receive distributions as a beneficiary from a qualified retirement plan or from an inherited IRA, you are not subject to the 10% early withdrawal penalty regardless of your age. In addition, while owners of inherited IRAs cannot convert the assets to a Roth or inherited Roth IRA, a special provision allows beneficiaries of an inherited employer qualified retirement plan to convert the pretax money in a direct rollover conversion to an inherited Roth IRA (paying any applicable taxes). Keep in mind however that inherited Roth IRAs for a non-spouse are subject to distribution requirements for any beneficiaries.

For more information on receiving payments from beneficiary IRAs, ask for Oppenheimer's guide titled *IRA Beneficiary Distribution Options.*

Every individual will have different needs and goals depending on his or her particular circumstances. It is essential to consult with qualified tax and legal advisors to formulate an effective strategy for you. Oppenheimer is well positioned to help. Contact your Oppenheimer Financial Advisor for more information!

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