IN-SERVICE DISTRIBUTIONS

Does your 401(k) account have a limited investment selection? Are you fully aware of all the fees associated with your employer-sponsored plan? How would you like to increase your investment options and potentially reduce account-related costs? Most people know that they can rollover their 401(k) to a Traditional IRA once they leave their employer. However, many do not know that some employer plans allow for *In-Service Distributions* in which you can roll over these retirement assets to an IRA while you are still working. This can provide many more investment choices, control, flexibility, reduce risk, and reduce overall costs.

Am I Eligible?
Every employer-sponsored retirement plan is different. Some may disallow in-service distributions entirely, while others limit them to your employee contributions, after-tax contributions, rollover contributions, or vested balance. We recommend checking with your plan sponsor to confirm eligibility. We are familiar with several large company employer plans and are happy to provide assistance as well.

Why Consider the Rollover?
Let's face it, some 401(k) plans are not great; the fees are high, the investment choices are slim, and it's difficult to customize your investment process within the plan's constraints. If this sounds like your plan, consider rolling over your plan to a Traditional IRA. By doing so, you can dramatically expand your investment selection to include stocks, bonds, mutual funds, exchange-traded funds, and more. This allows for more diversification and the ability to better adjust overall risk exposure. In addition to more options, you may reduce your administrative fees and investment-related expenses. Most employer-sponsored plans pass along administrative fees to the plan participants, which are deducted from each participant's account. Investment-related expenses are less apparent, as they are factored into each mutual fund's performance numbers. Depending on the fund, these fees can be substantial especially when assessed over many years. Some plans restrict the number of transactions in a given period or restrict re-purchasing funds that are sold for a certain period of time. This could prevent you from taking advantage of market opportunities and limit your asset allocation strategies. Traditional IRAs do not have these limitations, and you can always adjust your investment process to best position your assets. Professional Management is another advantage available outside of your employer-sponsored plan. Some plans offer investment consultants to help educate and select your investments. However, most of them do not offer proactive advice or active risk management. With a Traditional IRA, you have the ability to hire a professional advisor to actively manage your assets.

Example – PAS Company
This company allows in-service distributions of rollover and after-tax contributions. In addition, employees over 59 ½ can roll all employee pre-tax contributions.

John is age 45 and would like to increase his investment choices by taking advantage of in-service distributions. His 401(k) assets total $300,000. They consist of $150,000 pre-tax employee contributions, $70,000 after-tax contributions, $30,000 rollover contributions, and $50,000 company match. John must leave the pre-tax contributions and company match in his 401(k) plan, but he can roll the after-tax contributions to a Roth IRA and rollover contributions to a Traditional IRA. See Illustration #1.

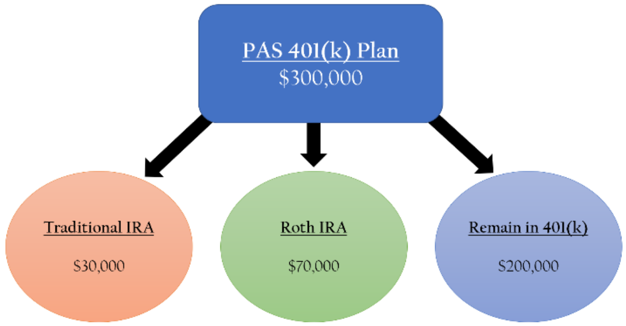

Illustration 1

Bob is age 60 and would also like to take advantage of in-service distributions. His 401(k) totals $700,000. It's made up of $400,000 pre-tax contributions, $150,000 after-tax contributions, $50,000 rollover contributions, and $100,000 company match. Bob cannot roll the company match, however he can roll the pre-tax and rollover contributions to a Traditional IRA and the after-tax contributions to a Roth IRA. See Illustration #2.

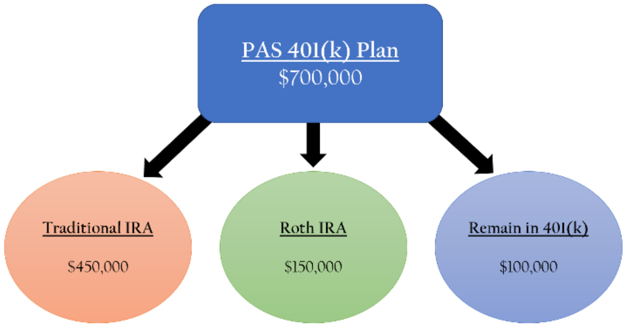

Illustration 2

Advantages

- Diversification – IRAs may provide a wider array of investment options and the ability to better manage overall investment risk.
- Control – IRAs may be less restrictive in the number and frequency of transactions.
- Professional Management – IRAs can be proactively managed by financial professionals.
- Internal Fees & Expenses – IRAs may offer investment options with lower internal expenses and administration fees.

Disadvantages

- Withdrawals - 401(k) participants are eligible to withdraw assets penalty-free starting at age 55. IRA assets are not eligible for penalty-free withdrawals until age 59 ½.
- Loans - Most 401(k) plans offer the ability to borrow against your account. IRA accounts do not offer the ability to borrow.
- Creditor Protection – While IRA assets have federal bankruptcy protection, some IRA protection is still determined by state laws. 401(k)s have broad federal creditor protection.
- Net Unrealized Appreciation (NUA) – If you hold highly appreciated company stock in your 401(k), rolling over that stock eliminates the ability to take advantage of NUA tax treatment.

Summary

By taking advantage of in-service withdrawals, you may be able to significantly increase your investment choices allowing for more control over risk management and your investment process. It's important to know the fees and expenses you are currently paying in your employer-sponsored plan, and equally important to know the potential costs of rolling to an IRA. If you are interested in proactive professional management, rolling to an IRA is an excellent option. To confirm your eligibility, consult your retirement plan sponsor to learn all of your options.

Other Factors to Consider

At Bogart Wealth, we always recommend a discussion with your advisor before choosing any financial strategy. While this document attempts to provide an accurate general overview of the strategy, there are many factors, both in your own financial situation, as well as in the tax code, stock markets and other variables, that you must consider with your advisor before you can make an informed decision.

A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Bogart Wealth recommends that a client roll over their retirement plan assets into an account to be managed by Bogart Wealth, such a recommendation creates a conflict of interest if Bogart Wealth will earn an advisory fee on the rolled over assets. No client is under any obligation to roll over retirement plan assets to an account managed by Bogart Wealth. Bogart Wealth's Chief Compliance Officer, James Bogart, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.