Managing the Unexpected

Employment Transition Booklet

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LIFE EVENTS

MANAGING A JOB LAYOFF

Facing a layoff is a nerve-wracking event that leaves many reeling. How long will I be out of work? Do I have a savings cushion that can last until I find a new job? Will I be able to make the payments on my house? Working with your financial advisor, you can begin to take stock of your situation, methodically address your priorities and try to weather this setback without radically restructuring your finances.

Step 1. File for unemployment

Filing has become a lot easier in many states now that you can apply for benefits over the phone or online. Deadlines for filing after a layoff are often strict, so contact your local unemployment office as soon as possible. Standard unemployment benefits, which are based on your previous income, last for 26 weeks, while extended unemployment benefits could give you an extra 13 weeks. Check with your local unemployment office for details on eligibility amounts, which vary from state to state. Keep in mind that these benefits are treated as income by the IRS and are subject to taxation.

Step 2. Create a budget

Once you've established what your monthly unemployment benefits will be, pare your expenses to the bone. For now, consider budgeting only for the essentials and review your spending patterns to pinpoint areas where you can cut back. Premium cable, dinners out, theater tickets — these are discretionary expenses you may want to eliminate to ensure you have enough money to cover the basics. Use the worksheet provided and work with your financial advisor to get started.

Step 3. Shop for health insurance

Factor health insurance into your budget if at all possible — it shouldn't be considered a discretionary cost. A health crisis can be financially devastating when you don't have insurance. If your spouse or partner already has health insurance through an employer, enroll in that plan. If not, consider taking advantage of the Consolidated Omnibus Budget Reconciliation Act (COBRA).

Key points

- Work closely with your financial advisor to establish spending priorities and determine the best options for managing retirement assets.
- Apply for unemployment benefits immediately. There are strict deadlines that can't be missed.
- If possible, don't let health insurance lapse. Otherwise, a health crisis could seriously jeopardize your financial stability.
- Consider deferring debt payments until your situation stabilizes. Many creditors are willing to revise or suspend payment plans temporarily while you look for work.

COBRA allows workers to continue their health benefits after they've ended their employment. Normally, you are responsible for 100% of your coverage during this period, so consider choosing an option with a high deductible to keep down monthly costs.

Step 4. Contact your creditors

As soon as you learn that you're getting laid off, contact your creditors (mortgage lender, auto lender, bank, etc.) to let them know your situation. It may be a good idea to tell them that you will attempt to make your payments, but that your finances may become constrained. Consider doing this while you are still a borrower in good standing and before you are in danger of missing payments. If you wait until you are in arrears, you may lose your negotiating power. In many cases, you may be able to work out a deal to decrease or stop payments temporarily. If you have credit card debt, you may want to choose to pay only the minimum due each month. You can think about making larger payments later when you land a job. Right now, you'll probably need to focus on covering your essential expenses.

Step 5. Manage your retirement assets

Unless your financial situation is dire, you may not want to touch any assets in a retirement plan. Early withdrawals are considered taxable income, plus, you'll incur a 10% IRS tax penalty for early withdrawal before age 59½.

However, consider working with your financial advisor to decide whether to roll over any 401(k) assets from your former employer directly into an individual retirement account (IRA). A direct rollover into an IRA will not trigger penalties or taxes and allows you more discretion on where and how to allocate retirement assets. You can certainly leave your 401(k) with your employer, but your investment options will be limited to the choices available through that plan.

If you decide to roll over your distribution, you will need to determine how to invest your money. Among the most popular choices for IRAs are mutual funds, which offer professional, full-time management, diversification (to help reduce risk) and the flexibility to move from one fund to another as your needs change. Keep in mind that all investments, including mutual funds, carry a certain amount of risk, including the possible loss of the principal amount invested. The principal value and return of mutual funds will fluctuate with changes in market conditions, and shares, when redeemed, may be worth more or less than their original cost. Also, diversification does not guarantee a profit or protect against loss.

There are advantages and disadvantages to an IRA rollover depending on investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment and your unique financial needs and retirement goals. Please be aware that rolling over retirement assets into an IRA account could potentially increase fees as the underlying funds may be subject to sales loads, higher management fees, 12b-1 fees and IRA account fees such as custodial fees. For assistance in determining if a rollover to an IRA is appropriate for you, consult your investment professional.

Step 6. Prepare to job-hunt

There may be some costs associated with job hunting, from transportation to printing resumes and business cards to networking events such as business lunches. Keep receipts for these expenses. They may be tax-deductible.

Many job search resources are free, so be sure to take advantage of them. Resume-building and interviewing tips and even employment leads can be obtained at state unemployment offices, public libraries and even through your former employer's human resources department. Networking is free on LinkedIn and many online job search sites. You can post your resume on these sites as well. Consider part-time work while you're looking for something longer term. Extra income may lower the amount of unemployment you can collect, but such positions can lead to full-time employment.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, contact your investment professional or view online at mfs.com. Please read it carefully.

Resources

MakingHomeAffordable.gov: The US Department of the Treasury offers this program for individuals and families struggling with mortgage payments. The site contains instructions and forms to help renegotiate a home loan.

Healthinsurance.org: This online resource offers free tools and information to help you research health insurance options, including COBRA coverage and private insurance choices.

Life Events

Income (monthly)	
severance	
unemployment insurance	
spouse's salary	
rental income	
investment income	
Social Security payments	
pensions	
child support	
other	
Monthly total	$

Assets	
529 plans	
lines of credit	
checking accounts	
savings accounts	
certificates of deposit	
retirement plans	
401(k)	
403(b)	
457	
Roth IRA	
traditional IRA	
rollover IRA	
inherited IRA	
SEP IRA	
SIMPLE IRA	
other	
Total assets	$

Expenses (monthly)

Housing	
mortgage payments	
real estate taxes	
rent payments	
line of credit payments	
other home loan payments	
home/rental insurance	
condo fees	
home improvement	
landscaping expenses	
other municipal fees	

Utilities	
electricity	
heating	
water/sewer	
telephone	
cell phone	
Internet access	
cable TV	

Household consumables	
groceries	
takeout food	
health products	
cleaning products	
beauty aids	
dry cleaning	

Transportation	
car payments	
car insurance	
car maintenance	
gas	
public transportation	
commuting costs	
other	

Health fees and/or expenses	
medical plan	
dental plan	
vision plan	

Household finance contributions	
savings	
mutual fund account	
investment account	
529 savings plan	

Entertainment	
dinners out	
club memberships	
movie and theater tickets	
tickets to sporting events	
vacation expenses	

Child care	
daycare	
tuition	
music lessons	
babysitting	
student loans	
school pictures	
school activity fees	

Gift and charity	
birthdays	
holidays	
graduations	
showers, weddings, etc.	
charitable donations	

INCOME TOTAL	$
EXPENSES TOTAL	$
SURPLUS/SHORTFALL	$

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FINANCIAL BASICS

CREATING A HOUSEHOLD BUDGET

Budget planning

- Retirement accounts may be a good place to consider putting any surplus income.
- It is a good idea to review your budget once a year and see if you need to make any significant changes.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

Statistics tell us that the leading cause of household stress is money. Yet many people do not have a system for knowing where their money goes once it comes in the door.

Keeping track of spending — so you can understand your habits and spend more wisely — is an important reason for creating a household budget.

This infosheet can be a starting place for those creating a household budget for the first time and is intended to provide helpful hints. It is based on the same principles as many popular personal finance programs. Therefore, following these guidelines should be a complement to any interactive budgeting program you may want to use.

Budgeting basics

- Know what you earn.
- Know where you spend it.
- Separate essential from nonessential expenses.
- Calculate the difference between what you earn and what you spend.
- Get your spending in line with your earnings.

After you collect the information suggested here, you may use a ledger, spreadsheet or personal finance program to create your budget.

Know what you earn

List your take-home income. Any income that you could reasonably expect to earn in the current year should be included. Most often this includes salary, rental income, investment income, tips, pensions, royalties and child support payments. Gifts or bonuses may be included, but only if you are certain you will receive them in the coming year.

Key points

- Most financial experts recommend that you set aside an emergency fund with enough money to cover six months of expenses in case you become disabled or are laid off.
- You do not have to create an emergency fund all at once or panic if you do not have one in place. But you could designate an account that will serve as an emergency fund and begin to put money in it. Even if you only add $10 per month, it is a good way to start.

Make sure you deduct all applicable taxes and prepaycheck contributions so your income total represents money you actually have to spend.

Know where you spend it
Create a monthly list of your expenses. Start with your essentials — shelter, food, clothing — and then move on to nonessential expenses.

Hint: Credit card bills and bank statements are great places to start creating a budget, especially if you use these cards predictably.

For example, if you use a debit card every time you shop for groceries, this will appear as a separate line item on your bank statements, so it is easy to keep track of. Since most people shop for the same types of items at the same stores, you can organize your budget the same way.

If you buy groceries at Food Mart, beauty supplies at Beauty Mart and visit Wholesale Mart once a month for items that you buy in bulk, these can all be line items on your budget.

Hint: Record all of your expenses as a monthly amount.

You may need to divide annual expenses (such as property taxes) by 12 or spread quarterly payments out over a year. The following list is a suggested starting point for categorizing your expenses.

Items to include in a household budget

Housing

Mortgage payment
Rent payment
Line-of-credit payments
Other home loan payments
Home or rental insurance
Real estate taxes (if paid separately from your mortgage)
Condo fees
Home improvement expenses
Landscaping expenses
Other municipal fees or expenses (landscaping, trash removal, etc.)
Home decorating expenses

Utilities

Electricity
Heating
Water and sewer
Telephone
Cell phone
Internet access
Long-distance telephone
Cable TV

Household consumables

Groceries
Takeout food
Health products and medicines
Cleaning products
Beauty aids
Dry cleaning

Transportation

Car payments
Car insurance
Car maintenance
Gas
Rental cars
Public transportation
Commuting costs
Predictable travel expenses (for annual family trips, vacations, etc.)

Essentials

Health care expenses
Pension contributions
Savings contributions
Mutual fund account contributions
Investment account contributions
Emergency fund (See first page for information on keeping an emergency fund.)

Entertainment

Dinners out

Club memberships

Movie and theater tickets

Video rentals and streaming

Tickets to sporting events

Vacation expenses

Child care

Daycare

Tuition

Music lessons

Babysitters

Birthday party gifts

Student loans

School pictures

School activity fees

College savings accounts

Other

Charitable donations

Gift expenses for

- birthdays
- holidays
- graduations
- showers, weddings, etc.

Hair care

Hobby expenses

Separate essential from nonessential expenses
Before you compare your income to your expenses, use a highlighter to mark the items you consider essential. This quick step will be helpful when you are looking for places to trim expenses.

Calculate the difference between what you earn and what you spend
Add up your monthly expenses and compare them to your monthly income.

Get your spending in line with your earnings
After you have added up your monthly expenses and compared them to your monthly income, you will be left with two possible courses of action, depending on the results.

If your expenses are greater than your income, it is time to get serious. Next to the column in which you recorded last year's expenses, make a new column for your current year's budget. Those costs that cannot be changed should be written in the new column as is. (Of course, if you pay real estate taxes with your mortgage and those taxes are expected to increase, you should try to reflect this increase.)

Then you may want to take a serious look at those items that you have decided are nonessential to see where you can make cuts. The goal is to create a realistic idea of how you can get your expenses in line with your income.

If your expenses are less than your income, you may want to consider an emergency fund, investments, retirement accounts and college planning accounts as options. You may also want to look at nonessential items and cut where you can to provide for these other accounts. And you may want to build in an inflationary increase in certain items.

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RETIREMENT

AN IRA DILEMMA: TO ROLL OR NOT TO ROLL

When you take a distribution from your company's retirement plan — at retirement or when you change jobs — you may find yourself with a sizable sum of money. This windfall is often referred to as a lump-sum distribution. In addition to wondering what you should do with this money, you also may have concerns about taxes and investing issues that you never had to think about before, such as early withdrawal penalties and a 20% mandatory withholding.

Because this money could play such a large part in helping to ensure that your years in retirement are comfortable, it is important for you to understand your options and make decisions that will serve your needs now and in the future.

The following are answers to some of the most commonly asked questions about lump-sum distributions. Among the answers, you will find information on rollover IRAs, which may be your best option to consider for working toward your goals with your retirement funds while offering flexible investment and distribution options.

What are the potential drawbacks involved in taking a lump-sum distribution?

You run the risk of jeopardizing the quality of your future retirement. As more employers allow lump-sum distributions, people who might have had fairly modest incomes suddenly find themselves having to decide what to do with what may be thousands to hundreds of thousands of dollars. Such a large sum of money can tempt people to do things they may regret later. For example, having worked hard for the past five years without a vacation, you may be tempted to take a once-in-a-lifetime trip. Even if you have always been financially disciplined, the temptation might still seem too great to resist.

Key points

When changing jobs or getting ready to retire, you will need to decide what to do with the assets in your employer-sponsored retirement plan account. A rollover IRA may be right for you. Consider these features and benefits:

- Tax-deferred investing
- A potential income stream during retirement
- Easy access to your assets in an emergency*
- A broad range of investment choices
- A convenient vehicle for consolidating retirement assets

* Current income taxes and a possible 10% tax penalty apply when you take your retirement money prior to age 59½.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

Can I use part of a distribution for important current expenses?

Although you may think it makes sense to use part of a lump-sum payment to eliminate large outstanding debts or pay off mortgages, a sound retirement can be jeopardized if this money is not used wisely. It may look like a lot of money now, but as people retire earlier and live longer, estimates of how much an individual will need for a comfortable retirement are continually revised upward. Your nest egg may have to be a source of income for 20 or 30 years or more. So, if you spend even a little of your lump sum prematurely — even to pay down your debts — you may have a smaller nest egg and less income during retirement. Keep in mind that you will have to pay income taxes on any money you withdraw now.

In addition, you may be subject to an early withdrawal penalty tax of 10%, unless you meet one of the age or other exemptions provided in the Internal Revenue Code.

What if I am leaving my job and am offered a lump-sum distribution?

One best first step might be to do nothing. In most cases, you will not be forced to take your money out of the company retirement plan immediately, which gives you time to make careful decisions.

If you have been participating in the company's 401(k) plan, you may be able to keep your money in that plan. Your other options include rolling your retirement money into an IRA or into another retirement plan offered by your new employer.

What exactly is a rollover?

A rollover is a transfer of money from one employer's qualified retirement plan or IRA to another employer plan or IRA. Rollovers keep retirement money tax deferred until withdrawals begin.

How does a rollover IRA work?

One of the most popular choices for rollovers is a transfer of the assets from a retirement plan into an IRA, perhaps with a mutual fund company, which may offer more investment choices than are available in a 401(k). However you may be OK with the options and enjoy lower costs in the employer plan.

Rollovers that are not made directly from one plan to another are subject to strict time frames, and missing the deadline can result in a tax liability and a possible penalty. A financial advisor can help guide you through the process. To avoid potential complications, a rollover should be a direct, trustee-to-trustee transfer. In a direct rollover, no check will be made out to you.

But what if I need the money before I'm 59½?

There are many reasons why you may need income, whether it is to take an early retirement, start a business or sustain yourself while you are between jobs. How you take the distribution and which account you withdraw it from can have an impact on whether you pay any penalties. As an example, if you separated from service after January 1 of the year you turned 55, distributions from your old employer's plan are no longer subject to an early distribution penalty. So if you are between 55 and 59½, moving that money into your new employer's plan or an IRA could eliminate potentially favorable tax treatment. If you need to generate income from your retirement plan distribution right away, talk to your financial or tax advisor before you take any action.

Under Internal Revenue Code Section 72(t), your payments will not be subject to a 10% early withdrawal penalty as long as you take your money out in "substantially equal payments" based on life expectancy tables. The IRS has approved three different calculation methods, which results in varying levels of payments. However, a tax penalty will apply if you change the amount or stop payments before the greater of five years or the amount of time before you turn age 59½. In other words, you must continue the payments for the longer of the two periods.

Is an IRA cheaper than my employer's plan?

Both employer plans and IRAs may involve fees and investment-related expenses. Since your employer may pay some of the plan's expenses, you may find your 401(k) is cheaper than the IRA you are considering. Or you may find the IRA to be the cheaper option. The key is to do a side-by-side comparison of the investment options, fees, expenses and services to find the option that best fits your individual needs.

How much will it cost in taxes if I take the money now?

You might be surprised. By removing even what seems like a small amount from your nest egg, you are opening yourself up to tax liability and therefore reducing the amount of money that can remain working for you. The table on page 3 shows two of the choices available to a person changing jobs who is 34 years old and in the 22% tax bracket and whose investment earns a hypothetical 6% annual return.

Cost breakdown of distribution options

Based on annual growth rate of 6%

	Taking money now	Directly rolling over distribution
Distribution	$20,000	$20,000
20% withholding tax	($4,000)	$0
10% early withdrawal penalty	($2,000)	$0
2% additional current tax owed	($400)	$0
Available for reinvestment	$13,600	$20,000
Net value in 10 years*	$22,365	$24,356
Net value in 20 years*	$36,778	$43,617
Net value in 30 years*	$60,481	$89,598

*All gains in the "Taking money now" example are adjusted for a 15% tax rate in the year the gains are earned, representing the current federal tax rate on long-term capital gains and dividends. The rate can vary at different income levels. The values in the "Directly rolling over distribution" example assume the taxpayer is in the 22% federal tax bracket (the 10- and 20-year examples also include a 10% penalty for early distribution) and takes a full distribution at 10, 20 or 30 years. State taxes may also apply to distributions.

These examples are for illustrative purposes only and are not intended to predict the returns of any investment choices. Rates of return will vary over time, particularly for long-term investments. There is no guarantee the selected rate of return can be achieved. The performance of the investments will fluctuate with market conditions.

Source: MFS calculation.

A rollover might be right for me. What should I do now?

If you decide to roll over your distribution, you will need to determine how to invest your money. Among the most popular choices for IRAs are mutual funds, which offer professional, full-time management, diversification (to help reduce risk) and the flexibility to move from one fund to another as your needs change. Keep in mind that all investments, including mutual funds, carry a certain amount of risk, including the possible loss of the principal amount invested. The principal value and return of mutual funds will fluctuate with changes in market conditions, and shares, when redeemed, may be worth more or less than their original cost. Also, diversification does not guarantee a profit or protect against loss.

There are advantages and disadvantages to rolling money out of your employer's plan and into an IRA. You will need to compare such features as investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment and your unique financial needs and retirement goals. Please be aware that rolling over retirement assets into one IRA account could potentially increase fees as the underlying funds may be subject to sales loads, higher management fees, 12b-1 fees, and IRA account fees such as custodial fees. For assistance in determining if a rollover to an IRA is appropriate for you, consult your investment professional.

This material is provided for general and educational purposes only and is not investment advice. The investments you choose should correspond to your financial needs, goals and risk tolerance. Please consult an investment professional before making any investment or financial decisions or purchasing any financial, securities or investment related service or product, including any investment product or service described in these materials.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, contact your investment professional or view online at mfs.com. Read it carefully.

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401(K) PLAN CHOICES FOR JOB CHANGERS

LIFE EVENTS

By the numbers

- The IRS requires an employer to withhold **20%** for federal tax purposes when an employee takes a 401(k) distribution in cash.
- Employees younger than **59½** may be penalized an additional 10% by the IRS. If you separate from service after **age 55**, this penalty does not apply.
- When employees roll their assets into other qualified plans or IRAs, they are not subject to current taxes or penalties.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

When you change jobs, it can be for any number of reasons. Regardless of what triggers a job change, such an event creates a perfect opportunity to reevaluate your long-term financial plan. After all, this is one of the few times — aside from actual retirement — that you will be faced with making decisions about what to do with the money you have been saving in your 401(k) plan. Reviewing your situation at this transitional time can not only help you feel better about your new job, it can get you refocused on your long-term savings plan.

When you leave an employer, you are likely to have several options. You may

- stay invested in your previous employer's plan if your balance meets the plan's minimum
- invest your assets in the new employer's plan
- take your distribution in cash
- roll over assets to an IRA

First and foremost, you should know that by taking a cash distribution from your 401(k) plan, you will incur a tax liability and possible penalties that will significantly lessen your after-tax payout. Although taking that distribution in cash to pay off bills or to start a new business venture may seem like a good idea, it will ultimately leave you with a smaller nest egg. On the other hand, leaving your investments in your old employer's plan may limit your investment choices and distribution options.

As you can see, there are many pros and cons associated with each option. Following is just a summary of those options. Your financial advisor will be able to help you make the right decisions based on your individual situation.

Key points

When you leave a job, you can

- stay invested in your current plan
- roll assets into another qualified plan with your new employer or an IRA
- take a 401(k) distribution in cash

While making choices,

- look at the whole picture of your current plan
- understand all the requirements of a new plan
- be aware of any financial penalties in taking a cash distribution
- make sure the new plan or IRA offers investment and distribution options that fit your needs
- compare the fees, expenses and services of your old employer's plan, with that of your new employer's plan and a rollover IRA

If you do a direct rollover,

- you will have no current exposure to taxes or penalties
- assets can remain invested and can potentially continue to grow tax deferred

Choice 1 — Stay invested in your previous employer's plan

Unless your balance is less than the plan's cash-out minimum, you generally will be able to leave the money right where it is. You should ask yourself the following questions:

- Am I happy with my investment choices?
- Am I limiting my access to these assets now that I am no longer with the company?
- Do I have any after-tax contributions in this plan?

On the plus side, the existence of after-tax contributions may be the most compelling reason to stay in your previous employer's plan because it is an easy way to maintain tax deferral of earnings on those contributions. Although after-tax contributions can be rolled over to an IRA, this creates recordkeeping and reporting complications you may not want. You might also be satisfied with the performance of the investments within your previous employer's plan — investments that may not be available to you in a new plan. In addition, your employer may pay some of the fees involved in having an account, so an employer plan may be cheaper than other options.

Before you decide to move your nest egg, it is important to look at the entire picture, including any changes you might have made to your financial strategy. It is quite possible that, despite there being several advantages to leaving the money where it is, your previous employer's plan may not be in line with your revamped financial plan.

Choice 2 — Invest your assets in your new employer's plan

Let's say you have looked over your new employer's retirement plan and, having decided it does fit your long-term strategy, you choose to move your assets. Doing so will ensure that your retirement assets remain tax deferred. It also will keep your assets in a centralized location.

That is the good news. The bad news is that your new company may not allow you to participate in its plan right away, as some companies require new employees to complete a minimum of six months of service before enrolling. Some plans do allow new employees to make rollover contributions to the plan even though they have not met the eligibility requirements for starting to make salary deferral contributions. But if the plan does not allow immediate rollovers and you are looking to transfer assets immediately upon leaving your previous employer, this may pose a problem.

Therefore, while you are waiting out the time requirement to place pretax assets into your employer's new plan, you might consider converting your money into a rollover IRA (see Choice 4).

Choice 3 — Take your distribution in cash

Let's assume you have saved diligently and are well on your way to establishing a nice nest egg for retirement. However, the possibility of taking that money in cash when you change jobs is enticing. The new kitchen, along with the luxury import car, would be an excellent addition to your everyday life. But before you have a check for the entire distribution (or even part of it) made out to you, there are a few things you should keep in mind.

By having the check made out in your name, you could be handing over almost one-third of your account to the government. When a distribution is not directly rolled over into an IRA or another qualified plan — as is the case when it is taken in cash — the employer automatically withholds 20% of the money for federal taxes.

If you are younger than age 59½, you may be hit with an additional 10% federal tax penalty. However, this penalty tax does not apply if you separate from your service after age 55. To make matters worse, taxpayers in the 22% bracket or above will have at least another 2% taken from the now-dwindling nest egg. In short, you may compromise your strategy of building for a comfortable retirement.

If, after taking the distribution in cash, you decide you would like to roll it into another plan or IRA, you can still do so. However, you must reinvest 100% of the amount distributed, including the amount withheld for taxes, within 60 days of the date you received the distribution to avoid taxation.

The bottom line is that, before taking the cash, you should think long and hard about all the hard work and sacrificing you have done only to now be penalized and taxed. And if you are still tempted, a meeting with your financial advisor will likely quell any remaining doubts you might have about the effect even a small cash distribution can have on your retirement income.

Choice 4 — Roll your assets into an IRA

Of the four distribution choices discussed here, rolling over assets to an IRA may offer the most investment flexibility and less exposure to taxes and penalties than taking cash.

A direct rollover is a lump-sum distribution that is transferred into an IRA or other qualified plan. When changing jobs, you should request a check for the amount you wish to roll over from your 401(k) and have it made out to the trustee of the new plan or IRA (qualified plans include 401(k), 403(b), pension and profit sharing plans). Please note that unless you are taking the distribution in cash, the check should never be made out to you.

Once you have completed the rollover, you can leave your money in the IRA or you can decide later to roll it over to a new employer's plan when you are eligible to participate in it. Keep in mind, however, that there may be fees associated with establishing and closing the IRA and that indirect IRA rollovers (where an IRA is distributed payable to you and redeposited in a plan or IRA within 60 days) are allowed only once in a 12-month period.

The key is to roll your assets into a vehicle that offers a wide variety of investment choices that meet your financial objectives. Among the most popular choices for traditional IRAs, for example, are mutual funds. Allocating IRA assets among mutual funds offers investors professional, full-time management, diversification (to help reduce risk) and the flexibility to move from one fund to another as investment needs change. Keep in mind, however, that the principal value and return of mutual funds will fluctuate with changes in market conditions and your investment may be worth more or less than you originally paid upon withdrawal.

Take your time and invest wisely

What you do with your 401(k) assets when you change jobs is an important financial decision. The best thing you can do when faced with these four choices is to think things over carefully. In most cases, you will not be required to make a decision immediately, which leaves you plenty of time to meet with your financial advisor. He or she can help you decide the best way to invest those assets to try and help maximize your income at retirement.

There are advantages and disadvantages to an IRA rollover depending on investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement goals. Please be aware that rolling over retirement assets into one IRA account could potentially increase fees, as the underlying funds may be subject to sales loads, higher management fees, 12b-1 fees, and IRA account fees such as custodial fees. For assistance in determining if a rollover to an IRA is appropriate for you, consult your investment professional.

Contact your financial advisor for more information or visit mfs.com.

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