Columbia Management®

Managing Assets During a Career Transition

A practical guide to leveraging and preserving your retirement assets during a layoff

CRS-32/30305-1209 09/AR100775

Managing Assets During a Career Transition

Layoffs are a part of our reality

- Job loss happens to friends, neighbors, family, and possibly you.
- According to the U.S. Bureau of Labor Statistics, 15.4 million American workers were unemployed in November 2009 (10% unemployment rate).

Managing Assets During a Career Transition

- Most of us cannot prevent a job loss.
- If it happens, we can be prepared to deal with it effectively.
- Your financial advisor can help you leverage and preserve your retirement assets following a job loss.

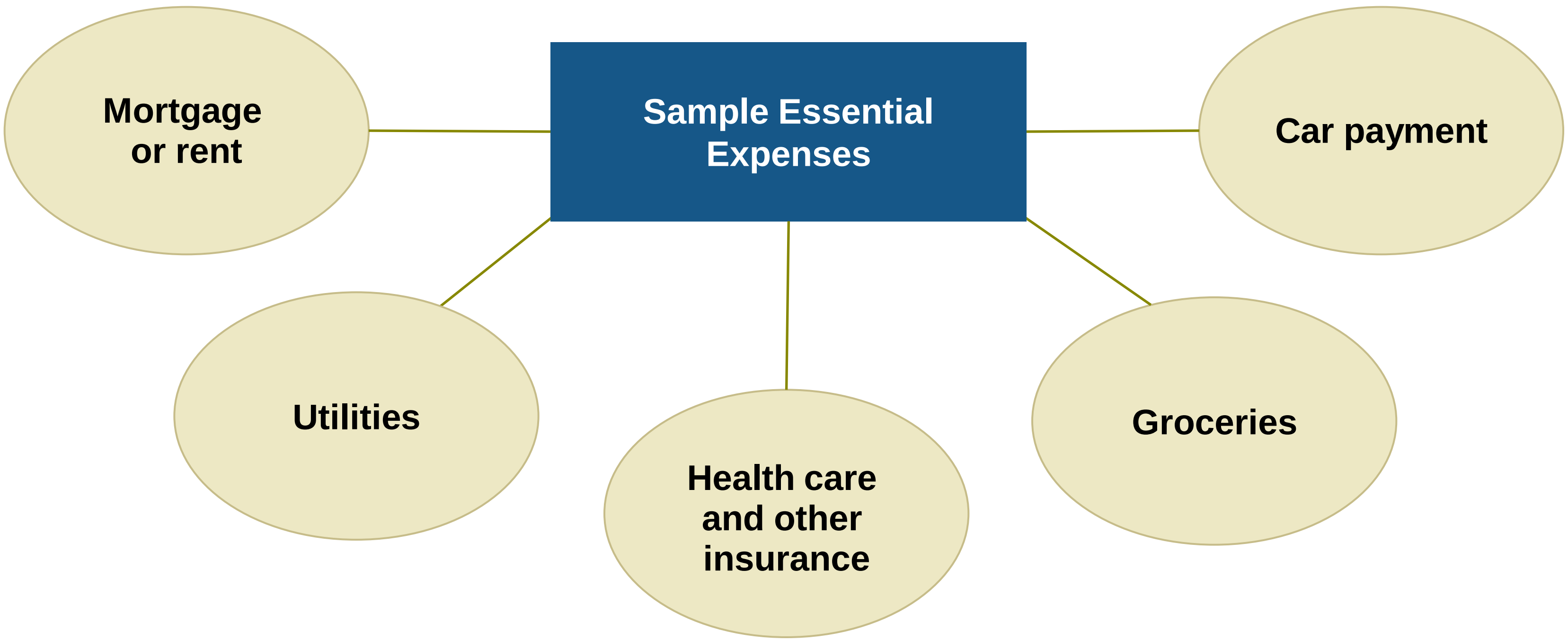
Timeline

The key to preserving retirement assets is to define your ongoing expenses and the cash flow sources to meet them.

Investor Checklist
☑ Identify core ongoing expenses.
☑ Identify sources of funding.
☑ Set a realistic timeline for your job search.
☑ Take retirement dollars last (and as part of a thoughtful plan).

Core Expenses

- Identify the essential expenses that you must meet.
- Cut or reduce any nonessential expenditures as soon as possible.
- For planning purposes, you should assume a 9- to 12-month timeline.



Sources of Funding

Where will funds come from to meet your budget?	
Part time or consulting work	Stocks or mutual fund shares held in taxable accounts
Cash savings (including money market savings, CDs and bank savings accounts)	COBRA health care benefits (the federal government could subsidize 65% of the expense)
Unemployment benefits (reach your state agency as soon as you're terminated)	Home equity
Severance benefits (the package you get from your company)	Retirement plan assets (only if unavoidable and in the context of a well-considered plan)
Cash value in life insurance	Social Security (if age 62 or above)

Take Retirement Dollars Last

- Retirement dollars are the last resort (unfortunately, they may be a necessary source).
- Work with your advisor to craft a strategy that:
  - Triggers the least penalty tax and the least income tax
  - Allows you to take the minimum needed for ongoing living expenses during the job search
  - Leaves you in the best posture for potential future growth of your retirement holdings
- Many individuals have multiple retirement accounts: IRA, SEP, SIMPLE, 401(k), 403(b), 457(b), Roth and pension.
- This may be a good time to talk with your advisor about asset consolidation.

Sell the Right Assets

This strategy minimizes the number of shares lost.

Step 1

Take distributions from stable value or money market investments first.

Step 2

Work with your advisor to assess which variable priced investments to consider.

Step 3

Based on this evaluation with your advisor, when applicable, seek to sell shares that minimize the number of shares lost.

Primary Strategy: Sell the Right Assets

After a careful analysis of holdings, consider whether to sell holdings where you will need the lowest number of shares. Why?

- Unlike bank or other cash accounts, most retirement plan assets are held in shares or units.
- You want to preserve shares and units for the future.
- A low share price requires more shares to be sold to reach a cash objective.

Sell the Right Assets

Bank accounts such as savings accounts, CDs and money market savings have a constant value of dollars.

$5,000 distribution: bank account	**Constant value of $5,000**
$5,000 distribution: mutual fund or annuity	**Dollars based on share price and number of shares sold.**

Sell the Right Assets

Example:

- Nancy has lost her job and needs to cover approximately $5,000 in expenses.
- She has 3,000 shares of ABC mutual fund in her IRA.
- Lets look at the number of shares she needs to sell to get the $5,000.

Share Price	Number of Shares Sold	Total
$10	500	$5,000
$6	833	$4,998
$4	1,240	$4,960

A $5,000 withdrawal could be subject to a 10% withdrawal penalty and will be subject to income taxes.

Limit Penalty Taxes

- Distributions from IRAs and qualified retirement plans (excluding all types of 457 plans) are subject to an IRS early distribution penalty.
- Exceptions to the penalty apply in the following circumstances:
  - Age 59½
  - Death
  - Disability
  - IRS levy
  - Qualifying medical expenses
  - Substantially equal periodic payments (qualified plan participants must have separated from service)
  - Health insurance for certain unemployed individuals (IRA only)
  - First-time home purchase expenses (IRA only, $10,000 lifetime limit)
  - Higher education expenses of qualified individuals (IRA only)
  - Separation from service in the year participant attains age 55 or thereafter (qualified plan only)
  - Employee Stock Ownership Plan (ESOP) dividends (qualified plan only)
  - Qualified domestic relations order (QDRO) payments (qualified plan only)
  - Payments to qualifying reservists who have more than 179 days of active duty
  - Payments to public safety employees who separate from service after attaining age 50 (governmental defined benefit plans only)

Limit Penalty Taxes

- Distributions from retirement plans may be structured to avoid the 10% premature distribution penalty.
- Before rolling over qualified plan assets to an IRA, assess your ability to avoid a penalty tax:
  - IRAs — 10% penalty if individual is under age 59½ and no other exception applies.
  - Qualified plans — 10% penalty is waived if age 55 or above and have left employment.
  - This means a participant age 55 or above who is a terminated employee could take a single or multiple distributions from the workplace plan without a 10% penalty and would not be able to do so with an IRA until he or she reaches 59½.
  - Qualified plans — 10% penalty is waived if separated from service and receiving a series of substantially equal periodic payments from the plan.

Limit Penalty Taxes

Age is not the only way to avoid penalty:

- Substantially equal periodic payments (SEPP) rules.
  - IRS formula allows specific amount to be distributed without penalty.
- Work with your advisor to consider whether SEPP rules — which could require years of distributions — work best for your case.

Limit Penalty Taxes

Substantially equal periodic payment concerns:

- Payments are still subject to income tax at the ordinary income tax rate.
- The distributions must follow the IRS formula.
- Must continue the distributions for multiple years.
- If distributions are disrupted or are stopped, penalty is owed on all prior amounts.

If distributions from retirement plans cannot be avoided, the SEPP rules may reduce your tax burden.

Account for Withholding Factors

Withholding required (20%)	Withholding optional
401(k)	IRA
403(b)	SEP
Pensions	SIMPLE
ESOP	
Profit sharing	

Other Considerations: Net Unrealized Appreciation (NUA)

Company stock in a defined contribution plan may be a distribution source for those 55 and above:

- Stock can be transferred in kind to a taxable brokerage account.
- The cost basis is treated as ordinary income.
- The difference between the cost basis and the current market value — the NUA — represents an immediate long-term capital gain.
- You should consult with your financial and tax advisors about an NUA analysis.
- NUA is lost if the stock is rolled over to an IRA.
- This can only be done as part of a full liquidation of the defined contribution plan.

Other Considerations: 457(b) Plans

- 457(b) plans are generally available to state, county and municipal employees.
- Distributions are not subject to the 10% premature distribution penalty tax.
- Retired public safety officers can withdraw up to $3,000 per year tax-free to cover long-term care or health insurance expenses.
- Both of these features are lost if rolled over into an IRA.

Other Issues

Got a new job?

- Use the 60-day rollover rule to start rebuilding your retirement savings.
- Amounts distributed from retirement accounts can be rolled back over within 60 days of distribution without tax implications.
- Remember that substantially equal periodic payments are not eligible for rollover.
- When you can, begin making regular contributions to your new employer’s plan.

Important Disclosure

This material is for educational purposes only. It cannot be used for the purpose of avoiding penalties and taxes. Columbia Management does not provide tax or legal advice. Please consult a tax or legal advisor for individual needs.

Columbia Management Group, LLC ("Columbia Management") is the investment management division of Bank of America Corporation. Columbia Management entities furnish investment management services and products for institutional and individual investors.

Q&A