A RETIREMENT TRANSITION GUIDE

Six Best and Worst IRA Rollover Decisions

What to do — and what to avoid — when you retire or change jobs and roll over a company plan

PROVIDED TO YOU BY

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What's Inside

This booklet is for general educational purposes only and is not intended as personalized tax, legal, or investment advice. Hypothetical examples are illustrative only — actual results will vary based on your age, plan provisions, state of residence, and the specific tax law in effect at the time. Please consult a qualified tax professional or estate planning attorney before implementing any strategy discussed here.

INTRODUCTION

Why Rollover Mistakes Are So Costly

IRA owners and their advisors can make expensive mistakes handling IRA rollovers. These mistakes range from the simple to the complex. A simple mistake occurs when an employee takes a check at retirement and the employer is required to withhold 20%. To complete a tax-free rollover, the IRA owner must replace that 20% out of pocket within 60 days — or owe tax (and possibly penalties) on the shortfall.

Retiring or changing jobs starts the rollover clock

Then there's the more complex mistake: an advisor who doesn't realize a client may come out ahead by distributing employer stock and paying tax now — often at a 22% federal rate — rather than rolling the stock over and paying tax later at rates as high as 37%.

> **Bottom line:** Read on for the dos and don'ts of handling a rollover — three of the best decisions retirees make, and three of the costliest mistakes to avoid.

Two Ways to Move Your Money — Choose Wisely

✓ Direct (Trustee-to-Trustee) Transfer		⚠ Indirect (60-Day) Rollover
Funds move straight from the plan to the IRA custodian. No withholding, no deadline risk, no taxable event.	VS	Check is made out to you; 20% is withheld automatically. You must deposit the full amount within 60 days.

The direct transfer route avoids the costly mistakes covered in this booklet entirely.

IRS: Rollovers of Retirement Plan and IRA Distributions, irs.gov, visited 12/15/25. IRS Publication 575 discusses taxation on distributions of employer stock. For 2026, married couples filing jointly are taxed at 10–12% on the first $100,800 of taxable income and 22% on income $100,801–$211,389 (IRS Rev. Proc. 2025-32).

BEST DECISION #1 · TIMING

Leave Money in the Plan if Retiring Between 55 and 59½

Withdrawals from a qualified company plan — a 401(k) or profit-sharing plan — are penalty-free after age 55 and separation from service (age 50 for qualified public safety employees). Once funds are rolled into an IRA, however, withdrawals before age 59½ generally trigger a 10% penalty. If you need income from your retirement account in this age window, it's often best to simply leave the money in the company plan rather than rolling it over.

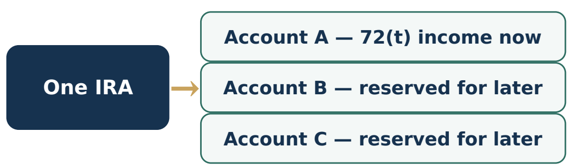
> **Already rolled over?** If you're under 59½ and need income, IRS Rule 72(t) allows penalty-free distributions from an IRA — but once started, distributions must continue for at least five years or until age 59½, whichever is later.

A smarter way to use 72(t)

Each IRA stands on its own — taking 72(t) distributions from one account has no effect on others. That means you can split an IRA into multiple accounts and draw 72(t) distributions from just one smaller account. If you need more income later, you can start a separate 72(t) schedule from another account, giving you far more flexibility to meet both immediate and future income needs.

55	59½	10%
PENALTY-FREE AGE IN A QUALIFIED PLAN	PENALTY-FREE AGE IN AN IRA	EARLY WITHDRAWAL PENALTY

Splitting One IRA Into Several for 72(t) Flexibility



Each account's 72(t) schedule is independent, so you can phase in additional income streams over time.

Once Rule 72(t) is selected, distributions must continue for at least five years on that schedule or until age 59½, whichever is later; failing to complete the schedule triggers a 10% penalty on prior withdrawals. IRS Publication 590-B. Pension and Annuity Income, IRS Publication 575.

BEST DECISION #2 · ASSET PROTECTION

Make Optimal Use of Creditor Protection

Not all retirement dollars are protected equally

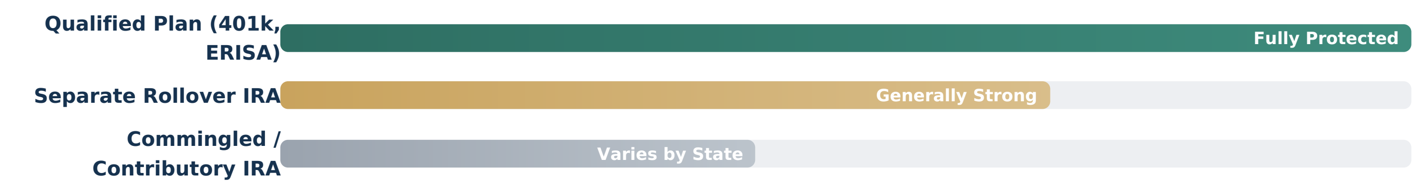
Many IRA owners assume federal bankruptcy rules automatically protect their IRA. That's not quite true. ERISA gives qualified company plans complete creditor protection (note: one-person qualified plans don't qualify — the plan needs at least one "real" employee). If you do roll a qualified plan into an IRA, keeping those funds in a separate rollover IRA — rather than commingling with contributory IRA funds — helps preserve that ERISA-style protection as it follows the money into the rollover account.

The Supreme Court has held that IRAs are creditor-protected "to the extent reasonably necessary for your support" — a standard that's far less certain than ERISA's blanket protection, especially for people who have other assets to rely on.

> **State rules vary:** Not every state uses the federal bankruptcy exemptions. In some states the federal exemptions are mandatory, in others you can choose between state and federal rules, and in others state rules apply exclusively. The Supreme Court's IRA protection standard only controls where federal exemptions apply.

It's also unclear whether that Supreme Court standard extends to Roth IRAs, which allow penalty-free withdrawal of contributions at any time and carry no lifetime required minimum distributions — meaning a Roth may not satisfy the three-prong test courts have used to evaluate IRA protection. Because rolling a company plan into an IRA can mean trading airtight ERISA protection for a murkier, state-dependent standard, it's wise to check with legal counsel before you roll over.

Relative Creditor Protection Strength



Illustrative comparison only — actual protection depends on your state's exemption rules.

Rousey v. Jacoway (03-1407); see en.wikipedia.org/wiki/Rousey_v._Jacoway, visited 12/15/25. ERISA protection for qualified plans (401(k), etc.) preempts state law.

Re-Check Your Beneficiaries

Your beneficiary form — not your will — controls your IRA

Company retirement plans are governed by ERISA, which requires you to name your spouse as beneficiary (or obtain spousal consent to name someone else). IRAs aren't bound by that rule — once your account becomes a rollover IRA, you have full flexibility to name whomever you choose as primary and contingent beneficiaries.

A few common approaches

— **Spouse primary, children contingent** — your spouse inherits if living; children inherit only if your spouse predeceases you. Consider whether beneficiaries can responsibly manage a large inheritance, or whether an IRA trust or asset will makes more sense.

— **Children as primary beneficiaries** — if there's tension among your children, consider splitting the IRA into separate accounts so each child inherits their own account rather than sharing one.

— **Anyone you choose** — beneficiaries don't need to be relatives at all.

> **The rule that matters most:** Whoever is named on your IRA beneficiary form inherits the account — full stop. Your will or living trust has no authority over IRA assets. Review your beneficiary designations any time your family situation changes, and always name contingent beneficiaries in case a primary beneficiary predeceases you.

What Actually Controls Who Inherits Your IRA?

Your Will / Living Trust
Has no authority over IRA assets

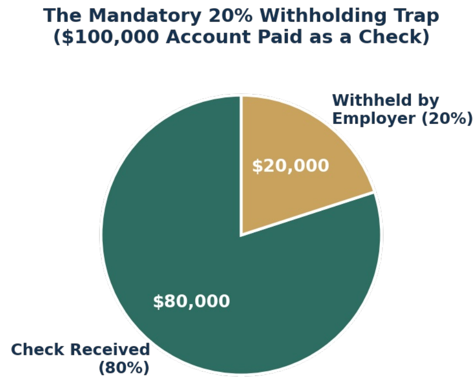
✗

IRA Beneficiary Form
Controls 100% of who inherits — every time

Always confirm beneficiary designations directly with your IRA custodian, and consider working with an estate planning attorney to align your beneficiary choices with your broader estate plan.

Taking a Check from the Company

This one is simply costly. When a distribution is paid directly to you, the company must withhold 20% — so a $100,000 account produces a check for just $80,000. To complete a fully tax-free rollover, you must deposit the full $100,000 into an IRA within 60 days, which means coming up with the missing $20,000 out of your own pocket.



Hypothetical $100,000 distribution paid directly to the employee.

You may eventually recover the $20,000 withheld as a tax refund the following year — but that does nothing for your cash flow today, since the 60-day rollover deadline doesn't wait for tax season.

> **The fix is simple:** Never let qualified plan money pass through your hands. The only reliable way to move funds is a direct (trustee-to-trustee) transfer from the qualified plan straight to the IRA custodian — which avoids the 20% withholding requirement entirely.

The 60-Day Rollover Clock

IRS: Rollovers of Retirement Plan and IRA Distributions, irs.gov, visited 12/15/25.

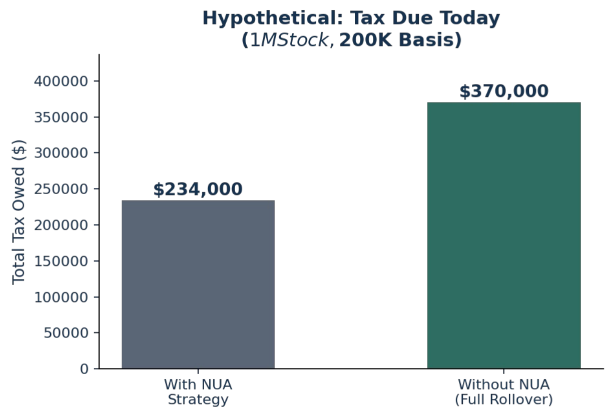
Rolling Over Company Stock Without Checking NUA

Employer stock held in a qualified plan gets special tax treatment. If the stock position is small, or your cost basis is high relative to current value, it may be fine to simply roll it into an IRA along with everything else. But for large positions with low basis, skipping the Net Unrealized Appreciation (NUA) rules can be a very costly mistake.

Highly appreciated company stock deserves a second look

Under the NUA strategy, you withdraw the stock from the plan, pay ordinary income tax now — but only on the original cost basis — and roll the rest of the plan into an IRA. The appreciation (the NUA) escapes ordinary income tax entirely; when you eventually sell the shares, that gain is taxed at the lower long-term capital gains rate instead. (Note: withdrawing the stock before age 55 triggers a 10% penalty on the taxable portion.)

> **Hypothetical — Jackie:** Company stock with a $200,000 basis is now worth $1 million. Using the NUA strategy, she pays ordinary tax only on the $200,000 basis; the $800,000 of appreciation is taxed later at capital gains rates when sold.



Hypothetical comparison assuming 37% ordinary and 20% capital gains rates.

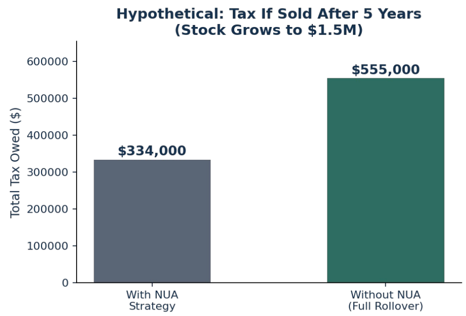
	With NUA	Without NUA
37% Tax on $200,000 Basis	$74,000	—
20% Tax on $800,000 Appreciation	$160,000	—
37% Tax on Full $1,000,000	—	$370,000
Total Tax	**$234,000**	**$370,000**

Pension and Annuity Income, IRS Publication 575. Maximum 2026 rates used: 37% ordinary, 20% capital gains (a small number of very high earners may also owe an additional 3.8% net investment income tax).

The NUA Advantage Compounds Over Time

The NUA strategy's benefit doesn't stop at the initial distribution — it continues to pay off whether Jackie later sells the stock herself or passes it on to her heirs.

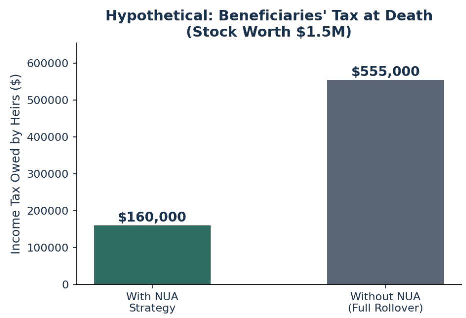
If the stock grows to $1.5 million and she sells in 5 years



Includes $74,000 already paid on the basis under the NUA strategy.

	With NUA	Without NUA
Taxable Amount	$1.3 million	$1.5 million
Tax Rate	20%	37%
Total Tax	**$334,000**	**$555,000**

If Jackie instead passes away with the stock at $1.5 million



Appreciation after distribution may receive a step-up in basis at death.

	With NUA	Without NUA
Taxable Amount to Heirs	$800,000	$1.5 million
Tax Rate	20%	37%
Income Tax Owed	**$160,000**	**$555,000**
Amount Receiving Step-Up in Basis	$500,000	$0

Under NUA, Jackie's heirs don't receive a step-up in basis on the original NUA amount — but post-distribution appreciation can still receive a step-up at death, and the NUA itself is taxed only at capital gains rates rather than as ordinary income.

Hypothetical example for illustration only; based on 2026 tax rules. Individual results depend on plan provisions, holding period, and tax law at the time of distribution. To qualify for NUA tax deferral, the distribution must be a lump-sum distribution of the entire plan balance, including all employer stock.

Rolling Over After-Tax Dollars

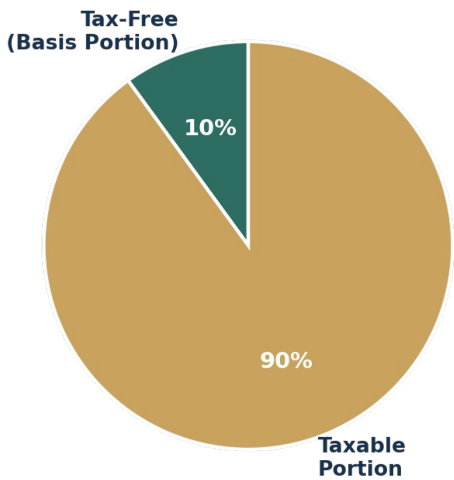
Qualified plan accounts sometimes include after-tax dollars. At rollover time, it's often preferable to withdraw those after-tax dollars directly — tax-free — rather than rolling them into an IRA, preserving full liquidity to use that money if needed. You can also choose to roll both pre-tax and after-tax dollars into an IRA together and let everything continue growing tax-deferred — but that choice comes with a catch.

After-tax contributions deserve special handling

> **The catch — the Pro Rata Rule:** Once after-tax money joins an IRA, you can no longer withdraw it tax-free on its own. Every withdrawal from the IRA must include a proportionate mix of taxable and non-taxable ("basis") dollars.

Example — Paula: She has $100,000 in an IRA, $20,000 of which is basis from non-deductible contributions. She rolls over $200,000 from a former employer's plan, $10,000 of which is after-tax. Her IRA is now $300,000, with $30,000 of total basis — 10% of the account.

The Pro Rata Rule in Action
(30, 000*Basisona***300,000 IRA)**



Every withdrawal — not just the first $30,000 — follows this same 10/90 split.

When Paula withdraws $10,000 hoping it's tax-free, only $1,000 (10%) is actually tax-free; the remaining $9,000 is taxable. One alternative: convert the full $300,000 IRA to a Roth (if she otherwise qualifies). She'd pay tax on $270,000 today, but the $30,000 of basis transfers tax-free — and a partial conversion would still be subject to the same Pro Rata Rule.

Hypothetical example for illustration only. The Pro Rata Rule applies across all of a taxpayer's traditional IRAs in aggregate, not on an account-by-account basis.

ABOUT YOUR ADVISOR

David Peters

Starting in 1994, David built his foundational experience helping clients invest and manage portfolios while working at a Wall Street firm. He works with a diverse clientele, ranging from private individuals and families to business and retirement plans. Demonstrating his entrepreneurial spirit, David founded Alliance Advisors Financial Services in November 1999, and ultimately the Registered Investment Adviser, Alliance Advisors Wealth Management. A graduate of the University of North Carolina with a degree in Economics, David maintains his comprehensive credentials, including a Series 65 securities license, as well as Life, Health, Accident, Property, and Casualty insurance licenses.

About Alliance Advisors Wealth Management

We are committed to helping individuals and families take control of their financial future with customized strategies and clear guidance. Our services span advanced tax planning, financial planning, long-term care solutions, and retirement planning — designed to simplify the complex and provide clarity at every life stage. We journey with our client families through their retirement years, offering the insights, resources, and tools needed for confident decisions and lasting peace of mind.

Alliance Advisors Wealth Management

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Planning a Rollover? Don't Go It Alone.

There is no charge for an initial meeting. Call, email, or schedule a short Zoom consultation before you move a single dollar — the right sequence of decisions can make a meaningful difference in your lifetime tax bill.

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