



At some point you may be advised, “Rolling over your NPERS retirement account to an IRA is in your best interest.” For individuals participating in the Nebraska State & County Retirement plans, there are four reasons why rolling funds to an IRA after terminating employment may NOT be “in your best interest.”

CASH BALANCE ANNUITY RATE

One of the primary benefits of participation in the Cash Balance plan is an annuity rate that is generally higher than rates offered in the private sector. The pooled assets in the Cash Balance Trust allow the plan to pay a higher annuity rate to participants who opt to purchase an annuity. The current Cash Balance annuity rate is 7.75% for Tier 1 members, and 7.5% for Tier 2 members. Cash Balance members may purchase an annuity using all or part of their account at this rate, and in return are guaranteed a stable, monthly benefit.

An individual who rolls their Cash Balance account into an IRA is no longer eligible for the Cash Balance annuity. In addition, Cash Balance provides a guaranteed minimum 5% rate of return to individuals who defer their accounts after termination.

NOTE: Cash Balance Tier 2 rates may fluctuate over time. The Cash Balance annuity rate is locked in at the time of purchase. Annual annuity rates are published in the January State & County newsletter.

FEES

All IRA's will have some form of fees. The scope and amount depends upon the vendor and the account balance. Many individuals who rollover funds to an IRA are not aware of or do not understand the fees associated with their account. Those who take the time to research these fees often discover they are paying more and significantly higher fees than they were as participants in the state or county retirement plans.

Large entities such as the State of Nebraska have access to institutional pricing, which results in very low investment management fees. Due to the state's negotiating power, current investment fees for Defined Contribution members range from 0.01% up to 0.38%. Investment fees for the Cash Balance Plan are 0.28% as of the date of this publication. In contrast, investment management fees assessed for private sector mutual funds can often be as high as 1.5% to 2.00%, and additional IRA fees such as sales charges, transaction fees, set-up fees, custodial fees, may also apply. While an IRA will offer more investment options, in most circumstances the driving factor behind poor returns is inappropriate investment decisions – not the lack of investment options.

NOTE: Fees are subject to fluctuations. Investment fees for individual funds are listed in NPERS' Annual Investment Report.

EARLY WITHDRAWAL PENALTIES

In an IRA, participants must wait until age 59½ to avoid federal and state early withdrawal penalties. For Nebraska residents, this can result in a total tax penalty of 13% for distributions taken from an IRA prior to 59½. In contrast, individuals participating in the state or county retirement plans may begin taking distributions without early withdrawal penalties if they terminated their state or county employment during the year they turn 55.

Funds rolled into an IRA are subject to the tax regulations established for IRA accounts. Distributions taken prior to age 59½ may be subject to early withdrawal penalties regardless of when the member terminated state or county employment.

In addition, after termination of employment, distributions taken from the voluntary Deferred Compensation plan are not subject to early withdrawal penalties regardless of age. Once rolled into an IRA, participants must wait until age 59½ to avoid these penalties.

PROTECTION FROM CREDITORS

State laws determine if an IRA is protected from creditors. The amount of protection varies from state to state. Currently, many states do not provide IRA accounts the same level of protection from civil lawsuits found in the state and county retirement plans. Depending on the state of residency, rolling retirement funds into an IRA could result in the garnishment of some or all of the account in the event of a lawsuit.

There may be valid reasons for an individual to rollover funds to a private sector IRA, but this is an important financial decision that should not be made lightly. NPERS strongly recommends our plan members carefully research and fully understand the impact of rolling over their accounts in order to ensure this action is actually "in their best interests."