

**SEPARATING FROM YOUR EMPLOYER?
HERE'S A HANDY PARTICIPANT CHECKLIST**
By Phil Zimmerman, CFP®

- Keep a file of your benefits information in the same area as your will or other estate planning documents. Don't have a will? You're not alone—a staggering percentage of the population doesn't either. Not having a will means your probate assets (basically anything that is not a retirement account or insurance policy) will only be able to be passed on to your beneficiaries through a messy and complicated process administered by the state. In other words, please have a will done! Keeping the information together with your estate planning documents makes it easier to update beneficiaries when things change, and makes it infinitely easier for the executor of your estate to track everything down later.
- Check your beneficiary designations to make sure they reflect your current wishes. The assets in your 401(k), IRAs, and the proceeds of your insurance policies pass by the beneficiaries on file at the respective providers, **not by your will**. If your will says something other than what the beneficiary designations say, the beneficiary designations win. Take the time to name individuals as beneficiaries. If you name your estate, it will take much longer for your beneficiaries to receive the assets. If non-spouses are the beneficiaries of your retirement accounts, be certain they are aware they should establish a beneficiary IRA for those assets. If they bring the assets into their own IRA, the money will be subjected to taxes and penalties that could be as high as 50%. Spouses who are under 59½ and younger than the retirement account holder should also use the beneficiary IRA. Mistakes in this arena are generally **not fixable**, so having the right beneficiary designations and properly handling these assets when they are passed on to beneficiaries is critical.
- Examine the holdings in your 401(k) in relation to the rest of your portfolio to make sure you are adequately diversified. Investing in several funds does not insure you are diversified; i.e. owning an S&P 500 Index Fund, a large-cap growth fund, and a large-cap value fund is redundant. Consider international, small-cap, bonds, etc. Consolidating prior employer 401(k)s into one IRA makes keeping track of your investment allocation and beneficiary designations easier. In some cases, having a larger amount of assets concentrated in one account reduces fees. If you go to work for another employer, you may also be able to roll the assets from your prior employer's plan into your new employer's plan.
- If you have shares of stock in your plan, consider Net Unrealized Appreciation (NUA). You can withdraw shares from the plan and pay ordinary income tax on your cost basis in the stock. If you hold it for 1 year + 1 day after withdrawing, the value above your cost basis is subject to long-term capital gains rates which are generally much lower than ordinary income tax rates. If your cost basis is low and the stock has appreciated or you anticipate that it will, this may be an attractive strategy.
- Evaluate converting to a Roth IRA. Income limits for eligibility to convert to a Roth IRA were eliminated beginning 1/1/2010. Conversion is not beneficial for

everyone, but can be for those who are not going to need to draw on the assets for 10-15 years or more and those who have enough assets beyond their retirement accounts and ultimately want to pass their retirement accounts down to the next generation. If the retirement account holder has the liquid assets to pay the taxes on the conversion, this is generally more favorable.

- If you have employer stock options, keep a schedule of expirations so options that are in the money don't fall through the cracks.
- Check your health plan provisions to make sure you understand how long you are covered after separating from your employer and what your options are in terms of COBRA.
- Check your flexible spending account balances to make sure you don't lose money you have deferred into those plans.

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