401(K) & RETIREMENT PLANS IN THE U.S.

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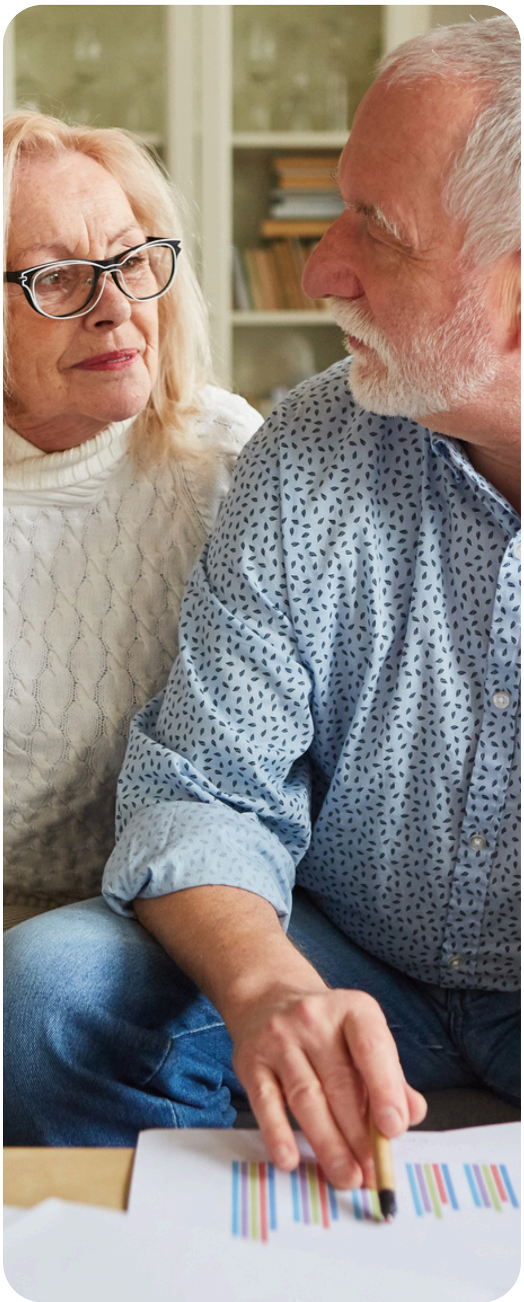
Challenges and Solutions for Managing Your 401(k) While Living Abroad

Managing a U.S.-based retirement plan from abroad can be a complex endeavor. Here are some common challenges and potential solutions:



1. Access to Qualified Advice

- **Limited Expertise:** Many financial advisors, both domestically and internationally, lack the specialised knowledge to navigate the intricacies of managing U.S. retirement accounts from abroad.
- **Solution:** Seek out advisors with expertise in both U.S. retirement planning and international tax laws. These advisors can provide tailored guidance based on your specific circumstances.

2. Beneficiary Access Issues

- **Social Security Number Requirement:** Many 401(k) providers require beneficiaries to have a U.S. Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN) to access funds.
- **Solution:** If your beneficiaries do not have a U.S. SSN or ITIN, explore alternative options such as establishing a revocable trust or consulting with a tax advisor to determine the most appropriate approach.

3. Potential for High Estate Taxes

- **U.S. Estate Tax:** U.S. citizens and residents may be subject to U.S. estate tax on their worldwide assets, including those held in retirement accounts.
  - **Solution:** Estate Planning Strategies: Consider strategies like gifting assets during your lifetime, using trusts, or selecting retirement accounts with favorable estate tax rules.
  - **Professional Advice:** Consult with a tax advisor to understand your specific estate tax implications and explore potential mitigation strategies.

Key Points to Remember:

- Estate tax rates can be substantial.
- Exemptions may be limited.
- Failure to comply with estate tax laws can result in penalties and interest.
- Proper planning is essential to minimise estate tax liabilities.

Receiving Payments to a Non-U.S. Account

Transferring funds from a U.S. retirement account, like a 401(k), to a non-U.S. account in your country of residence can be quite complex. Typically, monthly payments are sent via check, but if you've closed your U.S. bank account, accessing these funds becomes problematic.

Currency Exchange Risks

If your U.S. IRA is a significant financial asset, holding it in U.S. dollars while living abroad exposes you to currency risks. Currency fluctuations can have a major impact on the value of your investments. For example, if you're planning to retire outside the U.S., changes in exchange rates could cost you thousands.

Imagine you invested in a U.S. dollar-denominated ETF while residing in the UK. At the start of the year, your investment is worth $100,000, which converts to £78,000 (using an exchange rate of $1 = £0.78). By year's end, your investment grows to $110,000, but if the British pound strengthens and the exchange rate shifts to $1 = £0.70, your investment's value in pounds drops to £77,000, despite its growth in U.S. dollars.

Starting Investment		End of year Investment
$100,000	**10% growth**	**$110,000**
Exchange rate $1 = £0.78	›››	**Exchange rate $1 = £0.70**
£78,000	**1.28% drop**	**£77,000**

Investment Restrictions and Compliance

Many U.S.-based retirement platforms restrict investment activity for individuals living outside the U.S. This is because certain U.S. investment products may not meet regulatory requirements in foreign jurisdictions. In these cases, investing through a U.S. platform may result in regulatory conflicts and the loss of local protections.

30% Withholding Tax

When receiving 401(k) distributions as a foreign resident, a 30% federal income tax withholding (IRC Section 1441(a)) typically applies, unless you qualify for specific exemptions. On top of that, your local tax authorities may also impose taxes on these distributions, creating additional tax burdens.

Your Retirement Account Options After Leaving the U.S.

When you move abroad, you have several choices regarding your U.S. retirement funds. Generally, you can:

Keep It in Your Existing 401(k) Plan

You can leave your 401(k) with your former employer, allowing your investments to continue growing until you're ready to access them. However, it's important to regularly monitor performance and fees to ensure they align with your long-term goals. Some plans may limit new investments or offer fewer options, and as time passes, this option could present challenges for some individuals.

Withdraw Your Funds

Cashing out your 401(k) allows you to access all your funds immediately, but this option is generally discouraged due to significant tax penalties and the forfeiture of future investment growth. There are other drawdown methods, discussed later, that may offer more favorable outcomes.

Roll It Over into an IRA

Transferring your 401(k) into an IRA offers more investment choices and often lower fees. IRAs provide flexibility, enabling you to invest in a wide range of assets such as stocks, bonds, mutual funds, and ETFs. They may also offer better estate planning options. This route gives you more control over your investments and could better align with your overall retirement strategy.

Your Options for Drawing Down Retirement Savings

When it's time to start tapping into your retirement funds, you have several options to consider. The best approach depends on your individual circumstances, including your financial goals, risk tolerance, and desired income level.

Flexible Drawdown

- **Periodic Installments:** This option allows you to withdraw funds from your retirement account in regular intervals, such as monthly, quarterly, or annually. This can provide flexibility to adjust your withdrawals based on your changing needs.
- **Lump Sum:** For smaller accounts or specific needs, a lump sum withdrawal may be suitable. However, be mindful of potential tax implications.

Annuities

- **Guaranteed Income:** Annuities offer a fixed income stream for life or a specified period, providing a sense of security. They can be particularly attractive for those seeking a stable income and protection against market fluctuations.

Required Minimum Distributions (RMDs) – Start at Age 73

Certain retirement accounts, like traditional 401(k)s, require you to begin taking mandatory withdrawals, called RMDs, at a specified age.

- **Starting Age:** As of 2023, RMDs generally begin at age 73. For those born in 1960 or later, the starting age is extended to 75, as per the Secure Act 2.0.
- **Calculation:** The IRS calculates your RMD based on your account balance at the end of the year and your life expectancy. The balance is divided by a life expectancy factor, determined by IRS tables, to calculate your required withdrawal.
- **Penalties for Non-Compliance:** If you fail to take your RMD, the IRS imposes penalties. The penalty used to be 50% of the required withdrawal but has been reduced to 25% under the Secure Act 2.0. It can be further reduced to 10% if corrected promptly. Since RMDs are taxed as ordinary income, they also have important tax implications.

At **SJB US**, we can assist you in navigating your retirement strategies, especially if you now reside outside the U.S. Whether you're looking to access your funds or explore rollover options, we're here to guide you in making informed decisions to maximise your retirement savings.

What Is an IRA Rollover?

An IRA rollover involves transferring funds from a retirement account, such as a 401(k), into an Individual Retirement Account (IRA). The primary goal is to preserve the tax-deferred status of your retirement savings, allowing you to continue growing your assets without immediate tax consequences.

Why Consider an IRA Rollover?

Broader Investment Options: IRAs offer a wider range of investment choices compared to many 401(k) plans. This includes mutual funds, individual stocks, bonds, ETFs, and even real estate investment trusts (REITs). This flexibility can help you tailor your portfolio to your specific financial goals and risk tolerance.

Lower Fees: IRA providers often offer lower fees than 401(k) plans. These reduced costs can significantly impact your long-term returns.

Greater Control: With an IRA, you have more control over your investment decisions. You can choose your own investments, adjust your asset allocation as needed, and make changes to your beneficiary designations.

Inherited IRA Benefits: If you inherit an IRA, you have more flexibility in how you withdraw the funds. You can choose to take distributions over your lifetime or within a specific timeframe, potentially reducing your tax burden.

Roth IRA Conversion: If you have a traditional IRA or 401(k), you may be able to convert it to a Roth IRA. This can provide tax-free withdrawals in retirement.

Simplified Estate Planning: IRAs offer more flexibility for estate planning than 401(k) plans. You can name multiple beneficiaries, establish trusts, and even use stretch provisions to delay required minimum distributions.

Currency Flexibility: For those living outside the U.S., some IRAs allow for investments in multiple currencies, providing protection against currency fluctuations.

Note: While IRAs offer many advantages, it's important to consult with a financial advisor to determine if a rollover is right for your specific situation. Factors such as your age, income, and investment goals should be considered.

How to Complete a 401(k) Rollover

A 401(k) rollover involves transferring funds from a former employer's 401(k) plan to a new retirement account, such as an Individual Retirement Account (IRA). This process helps maintain the tax-deferred status of your retirement savings.

Steps to Complete a Rollover

1 Decide Where to Roll Over

- **Another 401(k) Plan:** If your new employer offers a 401(k) plan, you can directly transfer your funds into it.
- **IRA:** This gives you more investment options and flexibility. However, consider the fees and features of your current 401(k) before deciding.

2 Prepare Necessary Documents

- **Contact Your Former Employer:** Request the necessary paperwork to initiate the rollover, such as a rollover request form and beneficiary information.
- **Open a New Account:** If you're rolling over to an IRA, open an account with a financial institution.

3 Initiate the Transfer

- **Follow the Instructions:** Complete the required forms and submit them to your former employer.
- **Direct Rollover**: If possible, request a direct transfer from your former employer to the new account to avoid potential tax implications.

Pros

- Consolidation: Combine multiple 401(k) accounts into a single account.
- Investment Options: Access a wider range of investment choices available in IRAs.
- Flexibility: Easily move your retirement savings to different financial institutions.

Cons

- Fees: Be aware of potential fees associated with IRAs, which may be higher than those in some 401(k) plans.
- Employer Benefits: Some 401(k) plans offer unique features, such as employer matching contributions or loan options, that may not be available in IRAs.

Additional Considerations:
- Tax Implications: Direct rollovers are generally tax-free. However, if you take a distribution and don't reinvest it within 60 days, you may face tax penalties.
- Time Limits: Ensure you complete the rollover within the specified timeframe, typically 60 days from the distribution date.

Consult with a Financial Advisor: For personalised advice and to ensure you make the best decision for your retirement goals, consider consulting with a financial advisor.

Tax Implications of Retirement Asset Rollovers

When rolling over retirement assets, such as your 401(k) or IRA, understanding the tax implications is crucial to avoid unnecessary penalties and optimise your retirement savings. Here's a breakdown of the three primary rollover options:

1. Direct Rollover (Trustee-to-Trustee Transfer)

- **Process:** Funds are transferred directly from your 401(k) to an IRA without passing through your hands.
- **Tax Implications:** No immediate taxes or penalties. Taxes will only apply when you withdraw funds from the IRA.

2. Indirect Rollover (60-Day Rollover)

- **Process:** Your 401(k) plan administrator sends the funds to you, and you have 60 days to deposit them into an IRA or another eligible retirement account.
- **Tax Implications:** The plan must withhold 20% for federal taxes. To avoid taxes, you must deposit the full amount (including the withheld portion) within the 60-day window. If successful, the 20% will be refunded when you file your taxes. Failure to complete the rollover within 60 days results in taxable distribution and may incur a 10% early withdrawal penalty if you're under 59½.

3. Roth Conversion (401(k) to Roth IRA)

- **Process:** Converting pre-tax funds from a traditional 401(k) into a Roth IRA, which allows for tax-free withdrawals in the future.
- **Tax Implications:** The amount converted is taxed as income in the year of the rollover. However, future withdrawals from the Roth IRA (if you meet the qualifying conditions) are tax-free, and there's no early withdrawal penalty.

Department of Labor (DOL) Process

On December 15, 2020, the Department of Labor (DOL) released its final interpretation of fiduciary duties under ERISA and the Internal Revenue Code, along with a new class exemption known as Prohibited Transaction Exemption (PTE) 2020-02. To earn compensation that might otherwise be deemed a prohibited transaction, fiduciaries must adhere to the following impartial conduct standards outlined in PTE 2020-02:

1. The fiduciary must provide advice that is in the "Best Interest" of the Retirement Investor.
2. The fiduciary must charge "reasonable" compensation for their services.
3. The fiduciary must ensure that all statements regarding investment transactions, compensation, and conflicts of interest are "not misleading."

FEIE:
What You Need to Know

The **Foreign Earned Income Exclusion (FEIE)** allows U.S. citizens working abroad to exclude a portion of their foreign income from U.S. federal income taxes. This can be a significant benefit for American expats, reducing their taxable income. For the 2023 tax year (filed in 2024), the FEIE limit has been increased by the IRS from $112,000 to $120,000.

Current FEIE Amounts

Tax Year 2024 (File in 2025): **$126,500**	Tax Year 2022 (File in 2023): **$112,000**
Tax Year 2023 (File in 2024): **$120,000**	Tax Year 2021 (File in 2022): **$108,700**

Navigating expat tax regulations can be complex. At **SJB US**, we recommend working with a U.S. registered financial adviser to ensure you're maximising benefits like the FEIE while considering pension plans and other financial matters.

401(k) Plan

A 401(k) is an employer-sponsored retirement savings plan that allows employees to contribute a portion of their wages into an investment account, subject to annual limits. Contributions can be made on a pre-tax or Roth (after-tax) basis, depending on the plan's options. Employers often match a percentage of employee contributions, which enhances the plan's growth potential.

Pros

- Protected under the Employee Retirement Income Security Act (ERISA) of 1974, ensuring fiduciary protections
- Employer matching contributions (up to a certain percentage)
- Higher annual contribution limits compared to IRAs and other plans
- Tax-deferred growth or tax-free withdrawals with Roth 401(k)
- Free or low-cost investment advice from plan administrators

Cons

- Limited investment options, typically a selection of mutual funds
- Potentially high account fees depending on the plan provider
- Early withdrawal penalties if funds are accessed before age 59½ (10% penalty from the IRS)
- Contribution limits may be insufficient for high-net-worth individuals seeking larger tax shelters

Contribution Limits:

- Up to $22,500 per year in 2024 (regular contributions)
- Additional $7,500 catch-up contribution allowed for those aged 50 and older
- Employer and employee combined contribution limit of $66,000 (or $73,500 with catch-up contributions)
- The IRS adjusts contribution limits annually for inflation

Withdrawals:

- Penalty-free withdrawals can be made starting at age 59½
- Minimum required distributions (RMDs) must begin at age 73 (as of 2023, under the SECURE Act 2.0)
- Early withdrawals before age 59½ typically incur a 10% IRS penalty
- If you leave your job between ages 55 and 59½, you may withdraw from your most recent employer's 401(k) without penalty
- Withdrawals are taxed at your regular income tax rate

403(b) Plan

A 403(b) is a retirement savings plan designed for employees of public schools, tax-exempt organisations, and certain ministers. It operates similarly to a 401(k) but is available to a more specific group of workers, such as teachers, government employees, and non-profit staff.

Pros

- May include employer contributions in some plans
- Tax-deferred growth or Roth option for tax-free withdrawals
- Employees with 15 or more years of service may qualify for special catch-up contributions
- Lower administrative costs compared to 401(k) plans
- Some 403(b) plans are ERISA-protected, offering fiduciary oversight

Cons

- Limited to certain employees, making the plan less widely available
- Not all 403(b) plans are covered by ERISA, leading to fewer protections in some cases
- Limited investment choices compared to other plans like IRAs
- Early withdrawal penalties (10%) for accessing funds before age 59½

Contribution Limits:

- $22,500 per year in 2024 (standard contributions)
- Catch-up contributions of $7,500 for employees aged 50 or older
- Total contribution limit of $66,000 (or $73,500 with catch-up)
- Employees with 15 or more years of service may be eligible for an additional catch-up contribution of $3,000 per year, up to $15,000 lifetime

Withdrawals:

- Withdrawals without penalties allowed after age 59½
- Minimum distributions required starting at age 73 (under SECURE Act 2.0)
- Early withdrawals before age 59½ may incur a 10% penalty
- Withdrawals are taxed at the standard income tax rate
- Some plans allow for penalty-free withdrawals after leaving your employer between ages 55 and 59½

457(b) Plan

A 457(b) plan is a tax-advantaged retirement plan for state and local government employees, as well as certain non-profit workers. It's similar to a 403(b) or 401(k), but with distinct withdrawal rules.

Pros

- No 10% IRS penalty for early withdrawals, even before age 59½
- Special "double limit" catch-up provision allows participants to contribute twice the regular limit in the three years leading up to retirement
- Tax-deferred growth for traditional contributions

Cons

- Limited to certain eligible employees (government or non-profit sectors)
- Not subject to ERISA protections, leaving some plan aspects unregulated

Contribution Limits:

- $22,500 per year in 2024, with the same $7,500 catch-up for those aged 50+
- The special 457(b) "double limit" allows up to $45,000 in contributions for the three years prior to retirement, if eligible

Withdrawals:

- No 10% penalty for early withdrawals, making it more flexible than 401(k) or 403(b) plans
- Withdrawals are taxed as ordinary income
- Minimum distributions required starting at age 73 (under SECURE Act 2.0)

Thrift Savings Plan (TSP)

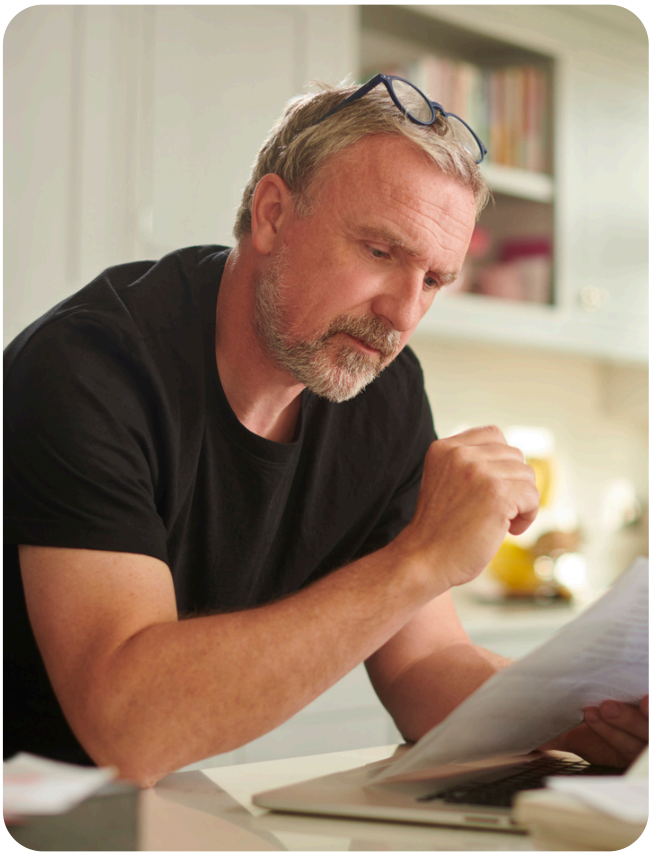
The Thrift Savings Plan (TSP) is a defined contribution retirement savings plan specifically for federal employees and uniformed service members, similar to a 401(k). It offers a range of investment funds with very low expense ratios, helping to keep costs down for participants.

Pros

- Tax-deferred growth or tax-free withdrawals with Roth TSP
- Federal employer matching contributions, up to 5%
- Extremely low administrative and investment fees
- Catch-up contributions available for employees aged 50 or older
- Offers lifecycle funds for automatic asset allocation based on retirement age

Cons

- Limited investment options (only a handful of index funds and lifecycle funds)
- Contributions must stop after leaving government service, unless rolled over into an IRA or 401(k)
- Sensitive to stock market fluctuations, as most funds are tied to market performance



Contribution Limits:

- $22,500 annual contribution limit for 2024
- Catch-up contributions of $7,500 allowed for those aged 50 and older
- Total contribution (including employer match) up to $66,000

Withdrawals:

- Penalty-free withdrawals allowed after age 59½
- Minimum distributions required starting at age 73
- Withdrawals are taxed as ordinary income (for traditional TSP)

Who Are SJB US?

There are 1.3 million Brits living in the United States and what we do at SJB US is bring together the management of UK and US assets taking into account the relevant cross-border regulatory opportunities and restrictions.

The change from UK financial services to a US equivalent can be something of a rude awakening and our job is to create a holistic plan that caters to your own personalised plan.

Whatever your financial needs and regardless of whether you are single, married, or with a family, we can cater to you to ensure you have a higher likelihood of achieving your retirement and financial planning goals.

We provide unrivaled customer service and competitive fees from qualified advisers.

SJB US provides financial planning to expatriates living in over 100 countries worldwide. We are independently owned which means we always act in the interest of the client rather than the shareholders. Our qualified and experienced advisers will help you outline a clear financial plan based on your own needs and circumstances.

Qualifications

Every adviser working for SJB US is registered with the U.S. Securities Exchange Commission (SEC) and is a Registered Investment Adviser (RIA) holding their Series 65 License. These experienced advisers bring broad knowledge sets and adhere to robust ethical practices to help you outline a clear financial plan based on your own needs and circumstances. We are a young, experienced, passionate team that strives to create a better world by trading ethically and putting clients first.

Independence

SJB Global is an independently owned company, which means we always act in the interest of the client rather than the shareholders. The institutions we choose to work with are based in some of the most highly regulated and tax-efficient jurisdictions worldwide, and with some of the highest credit ratings and reputations.

Worldwide

SJB US is a young, innovative and dynamic independent financial advice provider with a truly global outlook. As specialists in the field, we provide a unique cross border advice service between the UK and the US, enabling us to tailor your own plan to your own situation.

For top-tier advice and expertise, reach out to us today.

Our team of specialised advisors is ready to assist you on your journey to financial freedom.

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