# Retirement plan distributions

## Your savings habit is about to pay off

It's happened every payday for years: You, your employer, or both have put money away in your company's retirement plan.

## Now you have a decision to make

You're about to gain control of your retirement plan — and you want to make sure you manage these funds wisely, so they can help you achieve a comfortable retirement. In fact, most people say they expect their retirement savings plan to be the largest source for their income in retirement.

In short, when you accept your distribution from your employer-sponsored retirement plan, you'll need to explore your options carefully. In general, you have two options for your distribution — you can keep it working tax-deferred for your retirement or you can pay taxes on the distribution now.

## Keep it working in a tax-advantaged account

The contributions in your retirement plan have been protected from current taxes and the earnings have been tax-deferred. Or, if you made Roth type deferrals you paid income tax on the contributions; but, qualifying Roth distributions are tax-free. One of the best things you can do is protect your plan's tax status and let it continue to grow for your future financial security.

If you decide to keep your money working in a tax-advantaged account toward your retirement, there are generally three ways to do so. You can:

- Leave your savings in your former employer's plan;
- Roll your distribution over to a new employer's plan; or
- Roll your distribution into an IRA.

Each choice has potential benefits, as well as issues you'll need to consider before making any decisions.

## Take a lump sum distribution

Should you decide you want the money now, you can take your retirement plan distribution as a taxable lump sum. However, if you choose this route, please understand that you will receive only 80% of the balance — because your employer must send the other 20% to the IRS to be credited against your taxes.* Also, if you receive the payment before you are 59½, you may have to pay an additional 10% penalty tax, unless the distribution is made to you after a separation from service when you are 55 or older. (When you retire, you may be able also to take your distribution as a regular income stream; this decision has tax consequences of its own.)

Should you take a lump sum distribution and change your mind, you can still roll over all or a portion of the distribution into your new employer's plan (if the new plan accepts rollovers) or into a new or existing IRA within 60 days of receiving the money. But remember that if you want to roll over the full value, you'll need to find another source of money to replace the 20% of your distribution withheld by your employer. If you only roll over the 80% you received, you'll be taxed and possibly penalized (10%) on the 20% withheld and not rolled over.*

## Retirement plan distributions

Please review the retirement plan distribution comparison chart on the reverse side to learn about the potential advantages and disadvantages of each distribution option so that you can make the right decision for you.

Each option offers advantages and disadvantages, depending on your desired investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement plans.

| | Advantages | Disadvantages |
|---|---|---|
| **Continued tax-deferred or tax-free (Roth) growth** | | |
| **1. Leave distribution in former employer's retirement plan** | • Your money can stay with familiar investment choices<br>• Avoids current taxes and a possible 10% penalty<br>• If you leave your job between age 55 and 59½, you generally can take penalty-free withdrawals from the plan<br>• Generally, plan assets are protected from creditors<br>• Fees and expenses may be lower because many plans have access to lower institutional pricing<br>• Plan may offer brokerage window (i.e., plan participants may be able to invest in a range of funds, stocks, bonds, and other investments through a designated advisor or financial institution) | • You can no longer make contributions to your plan<br>• You may no longer have access to the loan feature<br>• Plan may offer limited or less attractive investment options<br>• Plan may offer less distribution flexibility for your beneficiaries<br>• Roth 401(k) and 403(b) assets, if applicable, will be subject to Required Minimum Distributions (RMD) |
| **2. Roll distribution to your new employer's retirement plan** | • Avoids current taxes and a possible 10% penalty<br>• If you leave your job between age 55 and 59½, you generally can take penalty-free withdrawals from the plan<br>• Generally, plan assets are protected from creditors<br>• Fees and expenses may be lower because many plans have access to lower institutional pricing<br>• Helps consolidate your assets<br>• New plan may offer a loan feature<br>• Plan may offer brokerage window (i.e., plan participants may be able to invest in a range of funds, stocks, bonds, and other investments through a designated advisor or financial institution)<br>• May have access to planning tools, help lines, educational materials and workshops<br>• Generally no required minimum distributions must be taken until you retire, unless you are a 5% owner of the company | • New plan may not accept rollovers<br>• A waiting period may apply before rollover is allowed<br>• New plan may offer limited or less attractive investment choices<br>• New plan may restrict access to your assets<br>• New plan may offer less distribution flexibility for your beneficiaries<br>• Roth 401(k) and 403(b) assets, if applicable, will be subject to required minimum distributions<br>• If new plan does not allow Roth deferrals, current after-tax Roth assets cannot be rolled into the plan |

| | Advantages | Disadvantages |
|---|---|---|
| **Continued tax-deferred or tax-free (Roth) growth, *continued*** | | |
| **3. Roll your distribution into an IRA** | • Avoids current taxes and a possible 10% penalty<br>• Access to a wide variety of investment options<br>• Ability to consolidate your assets to help simplify record keeping and retirement planning<br>• Generally, IRA assets are protected from creditors in the event of bankruptcy and may be protected from creditors in non-bankruptcy situations under state law<br>• Roth 401(k) and 403(b) assets rolled into a Roth IRA are not subject to required minimum distributions until a non-spouse beneficiary inherits the assets<br>• Access to professional investment & planning guidance | • IRA does not offer loans<br>• Fees and expenses may be higher in an IRA compared to a qualified plan because of the lower institutional pricing that many plans have access to<br>• Lose the benefit of being able to delay RMDs if you are still working at 70 ½<br>• Penalty free withdrawals generally may not be made from an IRA until age 59½ (certain exceptions do apply)<br>• Generally, IRA assets have less protection from creditors than qualified plan assets |
| **Take a lump-sum distribution** | | |
| **4. Remove all funds from plan** | • May provide money for an immediate need<br>• If you were born prior to 1/1/36 you may be eligible for 10-year forward income averaging<br>• Distributions of company stock may be eligible for Net Unrealized Appreciation (balance of plan can be rolled to a new employer's plan or an IRA) | • You must pay ordinary income taxes on the distribution and potentially a penalty of 10% if you are under age 59½ or left your job prior to age 55<br>• Taxable distribution may put you in a higher tax bracket<br>• If you choose to take one lump sum, you will only receive 80% of the balance, the other 20%* goes directly to pay taxes owed<br>• Lose tax-deferred growth on traditional pre-tax savings and Roth deferrals lose tax-free growth<br>• If you spend your distribution, your retirement savings may be exhausted |

* State tax withholding, if applicable, may vary and may be in addition to the Federal tax withheld.

The material contained herein is not intended to replace the advice of a qualified tax advisor, attorney, or accountant, is for informational purposes only, and does not constitute tax advice. Investors should consult with their own tax advisor, attorney, and/or accountant with regard to their personal tax situation.

 