Is an in-service distribution right for you?

What is an in-service distribution?

Some employer-sponsored qualified retirement plans allow employees to roll over all or a portion of those assets while still employed.[1] This allows employees to become more active in managing and diversifying their retirement savings, while they continue to make pre-tax contributions to their plan and possibly enjoy any available employer match. As long as the funds are rolled directly into an IRA, this distribution should not result in a tax liability[2] and the mandatory 20% withholding should not apply.

Why should you consider an in-service distribution?

- **Flexibility**: You can customize your IRA investment choices to help meet your retirement objectives and in these volatile times, can quickly and conveniently make the changes you wish.
- **Investment options:** An IRA offers you a wide range of investment options. You are no longer restricted to the limited number of investment options found in most employer-sponsored qualified retirement plans where investment choices are determined by the plan. Additionally, in some plans the investment transactions are also directed by the trustee(s).
- **Ownership issues:** An IRA holder is the owner and has full rights of access. In an employer-sponsored qualified retirement plan, the employer trust is the owner and participants are bound by the constraints of the plan.
- **Beneficiary planning:** One of the most significant reasons to consider a rollover is to keep your assets growing tax-deferred in a Traditional IRA or tax-free in a Roth IRA for your beneficiaries.[3] We will work with you to customize your beneficiary designations to help you with your legacy and estate planning goals. At your death, we will be available to meet with your heirs to offer guidance and advice.
- **Simplicity:** You will have the ability to consolidate all of your retirement and non-retirement assets with one financial professional and have all the benefits of a full-service brokerage firm.

What are the possible disadvantages of an in-service distribution?

- **Age limitations:** In an employer-sponsored qualified retirement plan, if you are age 55 or older the year you separated from service, you will avoid the 10% early distribution penalty. A similar rule applies if you are age 50 or older in the year you discontinue your service as a public safety employee and taking distributions from a governmental defined benefit pension. In an IRA the age restriction is 59½ to avoid the same penalty.
- **Net Unrealized Appreciation (NUA):** NUA tax treatment is not available for distributions from an IRA. If you hold your employer's stock that is highly appreciated in your employer-sponsored qualified retirement plan, you will want to seek advice from your tax advisor before executing the in-service distribution strategy.

- **Loan options:** Many employer-sponsored qualified retirement plans offer a loan option not available in IRAs. Also, if you currently have an outstanding loan from your qualified plan, an in-service distribution may cause the loan to be deemed a taxable distribution.
- **Expenses and fees:** Investment management and annual account fees for investment funds offered in employer-sponsored qualified retirement plans are generally lower than the investment expenses and account fees in IRAs. In addition, most IRAs require a minimum balance and charge transaction fees. There are typically no transaction fees for buying and selling funds in most employer-sponsored qualified retirement plans and no low-balance fees.
- **Unique investment options:** While IRAs may offer more investment options, employer-sponsored qualified retirement plans may offer unique investment options not available through IRAs.
- **Creditor protection:** Employer-sponsored retirement plan assets receive federal creditor protection. While IRAs are offered some protection from bankruptcy trustees, they are subject to state creditor protection laws regarding malpractice, divorce, creditor problems, or other types of lawsuits. IRA contributions and earnings are protected, from bankruptcy, up to $1 million. IRA rollovers from qualified employer-sponsored retirement plans are fully protected, from bankruptcy, with no cap.
- **Employer benefits:** Taking an in-service distribution may have an impact on your ability to make contributions to your employer-sponsored qualified retirement plan, receive bonuses, or receive a company match.

Questions to ask

- **Are in-service distributions available?** Contact your plan administrator or review your summary plan description to find out if this is an option.
- **What types of in-service distributions are available?** You may have access to only certain accounts within your plan, such as a rollover account or an after-tax account. Your plan may dictate the account order in which partial distributions occur.
- **Are you eligible to take an in-service distribution?** Many plans that allow in-service distributions have restrictions. So even if the plan allows in-service distribution, you may not be eligible due to your age or other factors.
- **Are any fees involved?** Find out if you will be charged a fee for a plan distribution.
- **What is the impact if the in-service distribution is taken?** While plans may allow you to take in-service distributions, you may be restricted from receiving a company match, making contributions for a certain period of time, or even receiving a bonus.

Talk to us

Please contact your financial professional with our firm to learn more about in-service distributions. We look forward to working with you.

[1]In-service distributions may not be suitable for all investors and may be subject to certain criteria such as minimum age or years of service requirements.

[2]Our firm is not a tax or legal advisor. Be sure to consult with your own tax and legal advisors before taking any action that may have tax or legal consequences.

[3]Traditional IRA distributions are taxed as ordinary income. Qualified Roth distributions are not subject to state and local taxation in most states and are also federally tax-free provided a Roth account has been opened for at least five years and the owner has reached age 59½ or meets other requirements. Both may be subject to a 10% federal tax penalty if distributions are taken prior to age 59½.

INVESTMENT AND INSURANCE PRODUCTS:

NOT INSURED BY FDIC	NO BANK GUARANTEE	MAY LOSE VALUE

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