# A guide to understanding your distribution options

Many experts suggest that to have financial security in retirement you will need to replace 80% of your pre-retirement income. What you choose to do with your current retirement savings can have a substantial impact on your future retirement lifestyle. You have an important decision to make about your retirement savings.

## Option 1 — Roll over your retirement savings to an IRA

If you are changing jobs or retiring, moving your retirement savings from your previous employer's plan into an Individual Retirement Account (IRA) may be an option. A direct rollover to a Traditional IRA preserves your retirement savings from current taxes and tax penalties. You could elect a direct rollover to a Roth IRA, however the conversion generally triggers current income tax. Investing in an IRA can potentially help your retirement assets grow faster than they would in a taxable account. Contact us for assistance in rolling over assets into an IRA with our firm.

**Benefits**

- Continued tax-advantaged growth potential
- Consolidation of retirement savings
- Wide range of investment choices
- Flexible distribution options
- Avoids current income taxes and early distribution penalties
- Can be converted to a Roth IRA for potentially greater tax benefits
- The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA) clarified the federal bankruptcy code by explicitly protecting Traditional and Roth IRA contributions and earnings from creditors in bankruptcy proceedings to a maximum limit of $1 million. Rollovers from qualified plans have no dollar limit for bankruptcy protection.

**Keep in mind**

- Transaction and maintenance fees may apply
- In addition to ordinary income tax, IRA withdrawals prior to age 59½ may also be subject to a 10% IRS early distribution penalty
- Required minimum distributions (RMDs) must be taken from Traditional IRAs by April 1 following the year you reach age 70½
- Generally, employer-sponsored retirement plans have bankruptcy and creditor protection under the Employee Retirement Income Security Act (ERISA)
- IRAs are still subject to state creditor laws regarding malpractice, divorce, creditors, or other types of lawsuits

## Option 2 — Leave your retirement savings in your former employer's retirement plan

If the plan allows this option, you do not need to make an immediate decision on where to move your savings. However, you will be subject to the plan's rules regarding investment choices, distribution options, and loan availability.

**Benefits**

- Savings continue tax-advantaged growth potential
- Can typically keep current investments
- Withdrawals avoid the 10% IRS early distribution penalty if you are age 55 or older (age 50 or older for certain public safety employees) in the year when you separate from service

**Keep in mind**
- Not available if a plan is being terminated
- Investment options limited to those offered in the plan
- Distribution options may be limited by plan rules
- Account subject to the rules and rule changes of the employer's plan
- Additional contributions typically not allowed
- In addition to ordinary income tax, withdrawals prior to age 59½ may be subject to a 10% IRS early distribution penalty
- RMDs may be required from each employer-sponsored retirement plan by April 1 following the year you reach age 70½

## Option 3 — Move your retirement savings to your new employer's retirement plan

If you are joining a new company, rolling your retirement savings to your new employer's plan may be an option. Review the investment choices and plan features under the new plan to determine if they meet your needs.

**Benefits**
- Continued tax-advantaged growth potential
- Consolidation of retirement savings
- Withdrawals from your new plan avoid 10% IRS early distribution penalty if you are age 55 or older (age 50 or older for certain public safety employees) in the year when you separate from service from your new employer
- May be able to roll over outstanding loan from previous plan and avoid tax and perhaps penalty

**Keep in mind**
- Your new employer plan's rules may not allow this option
- Investment options limited to those offered in the new plan
- Distribution options may be limited by the new plan's rules
- Account subject to the rules and rule changes of the new employer's plan
- In addition to ordinary income tax, withdrawals prior to age 59½ may be subject to a 10% IRS early distribution penalty
- RMDs may be required from each employer-sponsored retirement plan by April 1 following the year you reach age 70½

## Option 4 — Take a distribution

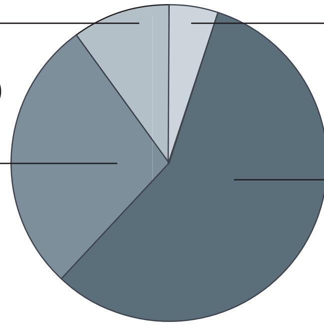
You should carefully consider all of the financial consequences before taking a lump-sum. Distributing money from your employer-sponsored plan can erode your retirement savings to the point where you may jeopardize your financial security in retirement.

**Benefits**
- Immediate availability of your money (after taxes and potential penalties)
- Lump sum distribution of employer's stock may qualify for special tax strategy

**Keep in mind**
- 20% mandatory withholding for federal tax
- Withdrawals prior to age 59½ may be subject to a 10% IRS early distribution penalty, unless you are age 55 or older (age 50 or older for certain public safety employees) in the year separated from service
- Taxable distribution amount is considered current income, unless rolled over within 60 days (additional taxes may apply)
- Loss of retirement savings and future potential growth

## Cashing out can be costly

Here's what's left of a $20,000 distribution*:




**Does not reflect the lost potential for continued tax-deferred growth. For example, if that $20,000 was to continue to grow at an average annual interest rate of 7% for 20 additional years it would be worth $77,394, before taxes and penalties.

**Federal penalty applies if under age 59½ and no penalty exception applies. State penalty may also apply.

For illustrative purposes only. Assumes a 28% federal tax bracket and 5% state and local tax rate. Taxes may vary. Depending on tax bracket, the taxes owed at the end of the year may be higher or lower.

## Retirement savings tips

Consider these tips that may help grow your retirement savings.

- Contribute a portion of your compensation to your employer plan as soon as you are eligible
- Avoid taking a plan loan (if allowed by your plan) if you may be leaving that employer before the loan is repaid
- Supplement your retirement savings by making annual IRA contributions. Catch-up contributions are available beginning the year you turn age 50
- Traditional IRA contributions can be made until the year you turn age 70½. Roth IRA contributions can be made after age 70½ as long as you qualify
- Review your asset allocation at least annually
- Create a written income plan
- Update your beneficiary forms when you experience any life event such as marriage, divorce, births, or death

## Talk to us

We hope these facts will help you in thinking about your retirement plan distributions. Speak with a financial professional at our firm to discuss your options and take action.