Changing Jobs or Retiring? Don't Forget Your Retirement Savings!

Your retirement savings plan offers you several choices when you decide to change jobs or when you retire. This report explains some of the options you may be able to choose from in deciding how you want the money in your plan treated when one of these events occurs.

What Is a Distribution?

A distribution is simply defined as a payout of the amount of money that has accumulated in your retirement savings plan. This may include amounts you have contributed, the "vested" portion of any amounts your employer has contributed, plus any earnings on those contributions.

You will want to think carefully before making any decisions about the money in your retirement plan, as some choices may mean you have to pay more in income taxes on your distribution. It's also a good idea to talk with a tax advisor before picking a distribution election.

Some Distribution Options

Keep Money in Employer's Plan	Allows continued tax-deferral of any growth.
Make a Direct Rollover	Allows continued contributions and tax-deferral of any growth. Avoids potential taxes and penalty fees.
Take a Cash Distribution	Satisfies immediate need for cash. Substantial taxes and penalty fees may apply.

A Look at Some of Your Choices

You may be able to leave your money in the plan; move it to another retirement savings account, such as an IRA, or another employer's retirement savings plan if you're changing jobs; or take a cash distribution.

- **Keep Your Money in the Plan:** You can leave your savings in your employer's retirement savings plan if your account balance was more than $5,000 at any time, depending on your plan's rules. Minimum distributions must begin after you reach age 70 ½, however. You'll continue to enjoy tax-deferred compounding of any investment earnings and receive regular financial account statements and performance reports. Although you will no longer be allowed to contribute to the plan, you will still have control over how your money is invested among the plan's investment options. You also may still be able to obtain information from the professionals who manage and administer your account.

  When retiring, you might choose this option if your spouse is still working or if you have other sources of retirement income (such as taxable investment income). If you're starting your own business when you leave the company, keeping your retirement money in your former company's plan may help protect your retirement assets from creditors, should your new venture run into unforeseen trouble.

  Example: Sue, 58, is retiring from her full-time job. Her husband is retiring and the family receives his pension and Social Security benefits, which will cover most of their current living expenses. Sue plans to work part-time at her church after "retirement" and does not expect to need her retirement savings for several more years. After consulting with a tax advisor, Sue decided that keeping her money in the company's retirement plan at least until she turns age 59 ½ will provide her with the greatest flexibility in the future.

- **Move Your Money to Another Retirement Account:** You can move your money into another qualified retirement account, such as an Individual Retirement Account (IRA), or, if you're changing jobs, your new employer's retirement savings plan. With a "direct rollover," the money goes directly from your former employer's retirement plan to the IRA or new plan, and you never touch your money. With this method, you continue to defer taxes on the full amount of your plan savings.

  Example: Bill is taking a new job at a different company. He elects to roll over balances from his existing plan into an IRA rather than transfer his assets into his new employer's 401(k) plan. This provides Bill with a much broader choice of investment options.

- **Take a Cash Distribution:** You can choose to have your money paid to you in one lump sum, or in installments of a fixed amount or over a set number of years, depending on your plan's provisions. However, you may have to pay taxes on a cash distribution and, if you're under age 55 at the time when you leave your job, you may also have to pay a 10% penalty for early withdrawal.

Retirees Should Consider Tax Consequences

If you're retiring, you will want to take into consideration whether favorable tax rules apply to your lump-sum distribution. To qualify as a lump-sum distribution, you must receive all the amounts you have in all your retirement plans with a company (including 401(k), profit-sharing, and stock-purchase plans) within a one-year period.

Potentially favorable tax rules that may apply to a lump-sum distribution include the minimum distribution allowance and 10-year forward income averaging if you were born before 1937.

Ten-year forward income averaging: The taxable part of the distribution is taxed at special rates based on levels for single taxpayers in 1986.

Example: Ron, born in 1936, is retiring in three months. He met with a financial advisor to determine which distribution method would result in the greatest benefit after taxes. His advisor showed him that, under some assumptions about inflation and future rates of return, his best course would be to take a lump-sum distribution and use 10-year forward income averaging. Under other assumptions, he would benefit from leaving his money in the company plan or rolling it over directly into an IRA. There may be other distribution options available. Contact your plan administrator for information on all options available under your plan.

Withholding on Cash Payments

If you choose to physically receive part or all of your money (say, $10,000) when you retire or change jobs, this action is considered a cash distribution from your former employer's retirement account. The cash payment is subject to a mandatory tax withholding of 20%, which the old company must pay to the IRS, and possibly a 10% penalty if you are under age 55 at the time you left the company.

You can avoid paying taxes and any penalties on a cash distribution if you redeposit your retirement plan money within 60 days to an IRA or your new employer's qualified plan. However, you'll have to make up the 20% withholding from your own pocket in order to avoid taxes and any penalties on that amount. The 20% withholding will be recognized as taxes paid when you file your regular income tax at year end, and any excess amount will be refunded to you as an IRS refund.

The Potential Cost of a Cash Distribution

Distribution	- 20% Tax Withholding	= Amount in Your Pocket	- 10% Penalty[1]
$10,000 distribution	- $2,000 Tax Withholding	= $8,000 in Your Pocket	- $1,000 Penalty

If you are under age 55 when you separate from service with your employer, and choose to take a cash distribution, be aware of how it can immediately whittle away the money you've worked so hard to save. You can take a cash distribution and avoid the 10% penalty so long as you roll over the entire $10,000 within 60 days into an IRA or your new employer's qualified plan, even though you actually received only $8,000 after paying the 20% tax withholding. In that case, $2,000 will have to come out of your pocket.

As with all retirement and tax planning matters, be sure to consult a qualified tax and financial planning professional to ensure that your planning decisions coincide with your financial goals.

[1] *Additional taxes may be due, depending upon individual's tax bracket.*

Points to Remember

1. A distribution is a payout of realized savings and earnings from a retirement plan. In general, you must begin taking distributions from your account by April 1 of the year following the year in which you turn 70 ½, unless you are still working for your employer.
2. Your distribution options include keeping your money in your plan; enacting a direct rollover; or taking a cash distribution.
3. If you keep your money in your plan you will no longer be able to make contributions, but you still maintain control over the investments and any growth continues to be tax deferred.
4. In a direct rollover, you have your money moved directly to a qualified plan or IRA without physically receiving a cent. If you are under age 55 at the time of separation from service, a direct rollover may be a good option, as it avoids the hefty taxes and penalties associated with a cash distribution.
5. Although a cash distribution is perhaps the most enticing option available, consider that you must pay taxes on the money you receive at then-current rates. And if you are under age 55 when you leave your employer, you may have to pay Uncle Sam 10% of your savings in penalties.

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