Distribution options from your retirement plan

WADDELL & REED
Financial Advisors™

Options for your assets

Now that you've changed jobs, retired, or are getting ready to retire, it's time to make a decision about the assets in your former employer's retirement plan. A variety of distribution options are available to you, and the one you choose will depend on your previous employer's plan document, your specific needs and your tax advisor's guidance. Distribution options available under current regulations include:

OPTION	OUTCOMES
Leave assets in your former employer's plan	If your balance meets current governmental limits and the employer's plan document provisions, you may be able to leave the assets in the current plan. The sponsoring employer retains responsibility for selecting investments available to you. The plan document controls distribution and beneficiary options.
Transfer your distribution directly to your new employer's plan or into an IRA rollover	You can transfer your distribution directly to either: • Your new employer's retirement plan, if it allows roll-ins • An IRA rollover A transfer allows you to avoid the mandatory 20% tax withholding and potential early withdrawal penalties, and you will defer income taxes on the distribution until you make withdrawals from the employer's plan or the IRA.
Keep/spend your distribution from the qualified employer plan	If you choose to keep or spend your distribution, 20% of the taxable portion will be withheld immediately and paid to the IRS at the time of withdrawal. You will be subject to federal (and state) income taxes on the taxable portion of the amount distributed, plus a 10% penalty for early withdrawal may apply if you are under age 55 when you retire or terminate service.* The amount of the distribution may increase your modified adjusted gross income (MAGI) to a threshold that imposes an additional 3.8% Medicare tax on certain investment income. Penalty exceptions may apply.
Receive your distribution and deposit it into an IRA rollover	You may deposit a lump-sum distribution into an IRA rollover account within 60 days of distribution. Expect an immediate 20% tax withholding paid to the IRS on the taxable portion of the amount. Then, you must make up the 20% shortfall to fulfill the entire rollover amount. Otherwise, the 20% withholding will be subject to income taxes and possible penalty taxes.*

* If you terminate employment on or after age 55 from the company that sponsors the 401(k), Money Purchase, Profit Sharing, Defined Benefit or 403(b) Plan, you will not incur a 10% penalty on cash distributions from your company sponsored plan.

DEFINITIONS

EARLY WITHDRAWAL PENALTY — Assets distributed in cash from a retirement plan before reaching age 59½ may incur a 10% penalty, unless an exception applies.

PENALTY EXCEPTION — The IRS will waive the 10% early withdrawal penalty if the distribution qualifies for one of the multiple exceptions allowed by current regulations.

TAX DEFERRED — Growth and earnings are not taxed until withdrawn from the retirement plan account.

DIRECT TRANSFER — Transfer of eligible plan assets to another qualified retirement account such as a new employer's plan or an IRA. Investor does not take physical custody of the plan assets.

ROLLOVER — Investor receives a check for the retirement plan assets and deposits the proceeds into an IRA rollover within 60 days from date of distribution.

Make an informed decision for your future

It can be tempting to receive a distribution from your retirement plan, and what you choose to do with it can have a significant impact on your retirement savings. Reinvest it and you'll continue consistent progress toward your retirement goal. Spend it and be subject to immediate taxes and potential penalties that will decrease the value of your retirement savings.

CONSIDER THIS EXAMPLE

By age 45, Tom had accumulated $50,000 (pretax) in his company's retirement plan. That same year he changed jobs. Instead of reinvesting his retirement plan distribution into his new employer's plan or an IRA Rollover, he used the funds to buy a new car.

THE CONSEQUENCES

Due to taxes and penalties applied to his distribution, Tom lost $17,500 of his retirement savings. His $50,000 was reduced to $32,500 in current spendable income. And, this amount does not yet account for state or local income taxes that may apply. Here's the breakdown:

Original Distribution	$50,000
10% penalty tax	($5,000)
20% income tax withholding	($10,000)
Additional 5% tax (assuming you are in the 25% tax bracket)	($2,500)
Net distribution	$32,500

A MORE STRATEGIC APPROACH

Instead of spending his distribution, Tom could have transferred the $50,000 into an IRA rollover account. With an assumed average annual return of 8% tax deferred, his assets could potentially grow to $233,048 (before taxes) by the time he retires at age 65. At retirement, if he withdrew 8% per year, he'd receive roughly $18,644 annual retirement income.

IMPORTANT FACTORS TO CONSIDER BEFORE CHOOSING AN IRA ROLLOVER

A decision to roll over plan assets to an IRA rather than keeping assets in a previous employer's plan or rolling over to a new employer's plan should reflect in-depth consideration of various factors, the importance of which will depend on a client's individual needs and circumstances, such as:

- Special employer plan payments may be available if assets remain in the qualified plan after attainment of normal retirement age or termination of service, depending upon the type of employer plan and the Plan Document features.
- Penalty-free withdrawal options at attainment of a specific age from qualified employer plan assets compared to IRA assets.
- The start date for Required Minimum Distributions from IRAs compared to an employer's qualified plan when still active with that employer.
- The effect of Net Unrealized Appreciation (NUA), growth in value of the stock which has occurred from the time the employer's retirement plan placed the securities in the participant's account and the time the stock is distributed from the plan by the participant.
- ERISA employer plan assets have unlimited protection from bankruptcy and creditors under federal law, while IRA assets are protected by federal law in bankruptcy proceedings only. State laws vary in the protection of IRA assets from creditors' claims.
- Array of investment options available in an IRA compared to the investment options chosen by the plan sponsor for the former or new employer's plan.
- Employer plans and IRAs typically involve investment-related expenses, which may include: sales loads, commissions, expenses of any mutual funds in which assets are invested, or investment advisory fees.
- Different levels of service may be available in the former employer's plan, the new employer's plan and the IRA.

RESOURCES

- IRS Publications 575 and 590 – www.irs.gov/publications
- IRS Notice 2009-68 Safe Harbor Explanation Eligible Rollover Distributions – www.irs.gov
- FINRA Regulatory Notice 13-45 Rollovers to Individual Retirement Accounts – www.finra.org/industry
- FINRA Alert – The IRA Rollover: 10 Tips to Making a Sound Decision – www.finra.org/industry